



How Companies Can Avoid Unnecessary GST Frauds

The Goods and Services Tax (GST) regime was implemented with the primary aim of simplifying the taxation system. However, despite concerted efforts by authorities to achieve this goal, the GST framework remains inherently complex. This complexity not only poses challenges for taxpayers but also creates loopholes that can be exploited by fraudulent entities, leading to significant revenue losses for the government.

During a special drive spanning from May 2023 to December 2023, the government identified a concerning number of 29,273 fraudulent entities suspected of evading Input Tax Credit (ITC) to the tune of INR 440.15 billion. Similarly, between the fiscal years 2020-21 and May 2023, authorities unearthed a staggering 43,516 instances of GST fraud, involving a substantial INR 2685.37 billion. These figures may be the tip of the iceberg and indicate a possibility of numerous undetected cases. Moreover, fraudsters have exploited the system's complexity, impersonating the tax authorities and sending fake summons or notices to unsuspecting taxpayers.

While these fraudsters are constantly veiled by the tricks they have mastered, innocent taxpayers often bear the brunt and end up facing financial losses such as credit blockages, interest, penalties, and legal disputes. GST authorities have undoubtedly ramped up detection through audits and notices. However, there have been cases where an inadvertent mistake of innocent taxpayers has been painted as fraudulent.

The Central and State governments have implemented various measures to counteract these challenges. These include assigning risk ratings during GST registration, leveraging analytical tools, establishing Cyber Forensic Laboratories, utilizing GST Seva Kendras and implementing Document Identification Number (DIN). Additionally, tax authorities now have access to fraud detection tools and analytics via dashboards, enabling proactive action against suspected fraudulent entities.



Despite these efforts, the possibility of numerous undetected instances of fraud persists. Even with the increasing use of technology, it is seldom possible to segregate innocent people from the fraudulent, as it is always about the intent and culpable mindset, which, under the GST law, has to be proven by the taxpayer. Therefore, it is imperative for taxpayers to adopt preventive measures to safeguard themselves from falling victim to GST fraud.

Ensure vendor or customer due diligence

Performing due diligence on new suppliers or customers is crucial, especially for high-value transactions. This ensures that the potential customers and vendors have a genuine business and are not engaged in fraudulent activities. The taxpayer must utilize checks such as verifying the GST registration, the period for which such registration is active, GST compliance status, comparing tax liability reported to tax liability discharged, and any news available in the public domain that may critically hamper the image of the said customer/vendor, etc. These details can be conveniently accessed through the GSTN portal. Taxpayers can also verify information on other government websites to ascertain if the vendor/customer or its directors are involved in any ongoing legal disputes.

Verify necessary documentation against inward supply

Taxpayers must ensure they receive all necessary documentation when procuring goods and services. This includes verifying the authenticity of invoices and confirming they contain essential details such as the GSTIN, tax rates, taxable value, e-invoice QR codes, and IRN. Cross-checking this information with the actual goods or services received is crucial to avoiding discrepancies. Additionally, ensuring the supplier generates an e-way bill for the movement of the goods is vital.

Implement strong internal controls

It is essential to establish robust internal controls to safeguard against fraudulent activities. These include implementing clear SOPs for onboarding employees, vendors, and customers, employing advanced accounting systems for accurate monitoring, and conducting regular internal audits.

Ensuring the security of sensitive data and maintaining strict controls over the inward and outward movement of goods, with proper documentation and verification, is also crucial. Regular fraud risk assessments and employee awareness programs about fraud schemes are essential for maintaining a vigilant and proactive stance against potential risks in GST processes.

Use of technology and analytical tools

Utilizing technology and analytical tools is another effective strategy. Taxpayer may use advanced analytics to monitor GST-related data for unusual patterns or inconsistencies while implementing predictive models to identify potential fraud risks. Digital verification methods, such as e-signatures and digital certificates, reduce the risk of forged documents and ensure the authenticity of records.

Data sharing platforms

Participating in industry-wide data-sharing platforms allows businesses to share information about known fraudsters and fraudulent practices, aiding in identifying and preventing GST fraud across the industry.

Verification of DIN

Taxpayer must verify the DIN of correspondence(s) received from tax authorities to check their authenticity.

By incorporating a proactive approach and integrating multiple checks and verifications into their due diligence process, taxpayers can accurately evaluate the credibility and reliability of their business counterparts. This method not only reduces the risk of dealing with fraudulent entities but also nurtures trust and confidence in business relationships. In turn, it would help in coherent administration by the tax authorities, thereby reducing the risk of undue investigations and inquiries, and enhancing the transparency and efficiency within the tax ecosystem.



About Nexdigm

Nexdigm is an employee-owned, privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

We provide integrated, digitally driven solutions encompassing Business and Professional Services, that help companies navigate challenges across all stages of their life-cycle. Through our direct operations in the USA, Poland, UAE, and India, we serve a diverse range of clients, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries.

Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management.

We have been recognized over the years by global organizations, like the International Accounting Bulletin and Euro Money Publications, World Commerce and Contracting, Everest Group Peak Matrix® Assessment 2022, for Procurement Outsourcing (PO) and Finance and Accounting Outsourcing (FAO), ISG Provider Lens™ Quadrant 2023 for Procurement BPO and Transformation Services and Global Sourcing Association (GSA) UK.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to **Think Next**.

USA Canada Poland UAE India Hong Kong Japan

www.nexdigm.com

Reach out to us at ThinkNext@nexdigm.com

Follow us on



Listen to our podcasts on all major platforms

This document contains proprietary information of Nexdigm and cannot be reproduced or further disclosed to others without prior written permission from Nexdigm unless reproduced or disclosed in its entirety without modification.

Whilst every effort has been made to ensure the accuracy of the information contained in this document, the same cannot be guaranteed. We accept no liability or responsibility to any person for any loss or damage incurred by relying on the information contained in this document.