GOVERNMENT OF KARNATAKA
(DEPARTMENT OF COMMERCIAL TAXES)

No. CTO(Audit)-6.3/GST/AUD-111/2017-18

Office of the Commercial Tax Officer
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Date: 14-08-2023

PRESENT: MAHESH. M
COMMERCIAL TAX OFFICER
(AUDIT)-6.3, DGSTO-6, BANGALORE-58.

Name & Address of the Registered Taxable Person	Sri. N. C. Mohankumar, Managing Director **M/s. Aadhya Chits Karnataka Private Ltd** 01, Padmasree Complex, M G Road, Tumkur- 572101.
GSTIN / LGSTO	29AAMCA1317M1ZF/ LGSTO 170 - Tumakuru
Status of the Taxable Person	Private Limited Company
Nature of the business	Supply of Financial Services- Chit Fund Services
Period of Audit	2017-18 (July-2017 Up to March-2018)
Assignment No. and Date	GSTA-06-582 / 03-06-2023
Books of account verified	Outward supply Statements, Balance sheet with Schedules., IT Returns with FORM 26AS, ST-2 Returns, Chit Income statement etc.,
Represented by	Sri. Krishnegowda C R, Director & DAR

OBSERVATIONS UNDER SECTION 65(6) OF THE KARNATAKA GOODS AND SERVICE TAX ACT, 2017 READ WITH RULE 101(4) OF THE KARNATAKA GOODS AND SERVICE TAX RULES, 2017

1. As per the Registration Records available in the GST Prime System, M/s. Aadhya Chits Karnataka Private Ltd is a Private Limited Company registered under the Karnataka Goods and Services Tax Act, 2017 (referred as 'Act' hereafter) with GSTIN-29AAMCA1317M1ZF and is borne on the files of LGSTO-170, Tumakuru under the 'STATE' Jurisdiction. The Registered Taxable Person (referred as 'RTP' hereafter) is a Supplier of Financial Services- providing Chit Fund services and paying the taxes on commission charged by the foreman to operating this Chit Fund.
2. The Commissioner of Commercial Taxes (Karnataka) has issued an Authorization vide Assignment No. GSTA-06-582 Dt.03-06-2023 U/Sec.65 of the Act to conduct an Audit of the Books of Account, Documents, Records maintained & also the Returns furnished under the Act by the RTP for the year 2017-18.

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3. In pursuance of the same, this Office has issued a Notice in Form GST ADT-01 Dt.12-06-2023 informing the RTP for conducting the Audit on 05-07-2023 and asked to produce all the Books of Account maintained as per the provisions of Sec.35 of the Act and any Documents, Records & Information relied upon to furnish the returns.

4. Accordingly, RTP has produced the following books of accounts/documents for Audit:
   a. Audited Financial Statements with schedules
   b. ST-2 Returns for the period (Apr-17 To Jun-17)
   c. IT Returns with FORM 26AS for the FY 2017-18
   d. Chit Service Incomes Line Items for the period 01-04-2017 To 31-03-2018
   e. Chit Service Incomes Monthly Extract
   f. Rent Ledger Statement (RCM Paid) for the period (Jul17 To Mar18)

5. As per data available on the Departmental portal, the RTP declared turnover in GSTR-3B is as under:

Month	(a) Outward Taxable Supplies	Tax			(d) Inward Supplies (RCM)	Tax			(e) Non-GST outward supplies	Total Supply	Total output		
		Integrated Tax	Central Tax	State/UT TAX		Integrated Tax	Central Tax	State/UT TAX			Integrated Tax	Central Tax	State/UT TAX
Jul-17	105268	0	6316	6316	11500	0	1035	1035	0	116768	0	7351	7351
Aug-17	105179	0	6311	6311	11500	0	1035	1035	0	116679	0	7346	7346
Sep-17	50000	0	3000	3000	11500	0	1035	1035	0	61500	0	4035	4035
Oct-17	100000	0	6000	6000	0	0	0	0	0	100000	0	6000	6000
Nov-17	100000	0	6000	6000	0	0	0	0	0	100000	0	6000	6000
Dec-17	105000	0	6300	6300	0	0	0	0	0	105000	0	6300	6300
Jan-18	100000	0	6000	6000	0	0	0	0	0	100000	0	6000	6000
Feb-18	100000	0	6000	6000	0	0	0	0	0	100000	0	6000	6000
Mar-18	80000	0	4800	4800	0	0	0	0	0	80000	0	4800	4800
Total	**845447**	**0**	**50727**	**50727**	**34500**	**0**	**3105**	**3105**	**0**	**879947**	**0**	**53832**	**53832**

6. The books of accounts, Documents, Records, Information produced by the RTP have been examined by this office vis-à-vis returns filed by the RTP. On examination, the following observations are made:

Observation No.1 MISCLASSIFICATION OF RATE OF TAX

The RTP has provided the Chit Fund Services which comes under Financial Services with SAC Code 9971 on which GST is appliable at 18% . The commission charged by the foreman to operating the Chit Fund is taxable at 18% under GST Act,2017. But, RTP has admitted the tax at 12% instead of 18% which results in short payment of output tax at 6% on entire outward supply turnover. Hence, the RTP is required and liable to discharge the differential output tax at 6% on the entire outward supply turnover declared for the period under audit along with interest at 18% as per section 50 of the Act.

Observation No.2 SHORT DECLARED OUTWARD SUPPLY TURNOVER AND OUT PUT TAX

Comparison of the total outward supply turnover accounted in the books of account and the outward supply turnover declared in the GSTR-3B, it is observed that, the RTP has short declared the taxable outward supply turnover of Rs.25000-00 for the year 2017-18 as detailed below:

Taxable Turnover as per Books of accounts Rs.870447-00
Taxable Turnover as per GSTR-3B Rs.845447-00
Difference(Short Declared) Rs.25000-00

From the above, it is observed that the RTP has short declared the taxable outward supply turnover and hence required and liable to pay the taxes at 18% along with interest at 18% as per section 50 of the Act.

Observation No.3 INTEREST NOT PAID ON BELATED PAYMENT OF TAX

On verification of the details of filing the monthly returns in GSTR-3B, it is observed that the RTP has filed the monthly returns belatedly for the entire year except for the months of Aug-2017 and March-2018. But it is observed that the RTP had not discharged the interest on belated payment of net taxes. As this is the contravention of section 39(1) of CGST / KGST Act-2017, the RTP is liable to discharge the Interest at 18% on net tax liability. The details are as follows:

Return Period	Due date	Date of Filing	No. of days delayed	Rate of Intrest	Net tax paid		Interest to be paid	
					CGST Tax	KGST TAX	CGST Tax	KGST TAX
Jul-17	20-08-2017	08-09-2017	19	18%	6316	6316	59	59
Sep-17	20-10-2017	21-10-2017	1	18%	3000	3000	1	1
Oct-17	20-11-2017	06-12-2017	16	18%	6000	6000	47	47
Nov-17	20-12-2017	04-01-2018	15	18%	6000	6000	44	44
Dec-17	20-01-2018	06-02-2018	17	18%	6300	6300	53	53
Jan-18	20-02-2018	02-03-2018	10	18%	6000	6000	30	30
Feb-18	20-03-2018	06-04-2018	17	18%	6000	6000	50	50
Total					**39616**	**39616**	**285**	**285**

Total Interest payable is at Rs.570-00

Observation No.4 NO TAX PAID UNDER REVERSE CHARGES MECHANISM U/S 9(3) and 9(4) OF THE KGST ACT, 2017:

On verification of the Notes forming part of the Financial statements, it is noticed that the RTP has received services of Rs.735750-00 from unregistered dealers as detailed below:

Particulars	Taxable value
Rent paid	141000
Office Expenses	17415
Chit Filing Fees	23515
Vehicle Maintenance	8240
Software Expenses	23000

Printing & Stationery	14180
Travel & Conveyance Expenditure	142300
Director Remuneration	312000
Statutory Audit Fees	54100
Total	**735750**

On verification, it is observed that the RTP has discharged the taxes under RCM only on the rental services received, but not paid GST @18% through RCM as per section 9(3) and 9(4) of the KGST Act, 2017.

Hence, the RTP is required and liable to pay GST along with interest @18% u/s 50 (1) of the CGST/KGST Act 2017 on the above said Turnover on which tax has not been paid under RCM.

Observation No.4 EXCESS CLAIM OF ITC ON TAX PAID UNDER RCM

Under the GST regime, a banking company or a financial institution including a non-banking financial company shall have following two options to avail ITC in terms of Section 17(4) of the CGST Act.

Option-I

Reverse the credit pertaining to exempted services as per the method stated in Section 17(2) of the CGST Act read with the relevant State Act and Rules thereof. OR

Option-II

Avail 50% of the eligible ITC on inputs, capital goods and input services in that month and the rest shall lapse.

Apportionment of credit

Section 17(2) of the CGST Act stipulates that, where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the IGST Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies. Credit attributable to exempt supplies is not available to a registered person. Exempt Supplies' for this purpose mean all supplies other than taxable and zero-rated supplies and specifically include the Supplies liable to tax under RCM.

From the above, it is cleared that the RTP has to reverse the credit pertaining to exempted services as per the method stated in Section 17(2) of the CGST Act or has to avail 50% of the eligible ITC on inputs, capital goods and input services in that month.

But, on verification, it is observed that the RTP has claimed the entire ITC of Rs.6210-00 on rental service received for the period from July-2017 to Sep-2017 which has to be restricted to 50% of the ITC claimed. Hence, the RTP is required and liable to reverse the ITC of Rs.3105-00 along with Interest at 18% under section 50 of the Act.

Further, the above said liability is recoverable along with penalty as per section 73 or 74 of CGST/KGST Act, 2017 as the case may be in terms of the said observations or to file Objections, Clarification, Explanation if any to the said Audit observations.

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Objections if any may be filed before this authority within Seven days of time from the date of receipt of this observations along with evidences in support of such objections for the consideration in this audit. If no objections are filed, it shall be presumed that you don't have any objections to offer and the above observations shall be incorporated in the audit report in FORM GST ADT-02, which may please be noted.

14/08/2023

(Mahesh. M)
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