

Chapter-IV

Processing of refund claims under Goods and Services Tax

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EXCISE AND TAXATION DEPARTMENT

Processing of refund claims under Goods and Services Tax

4.1 Introduction

There are various situations when refund of Goods and Services Tax (GST) may arise. These situations include export, accumulation of tax credit due to output being tax exempted or nil-rated, excess payment of tax due to mistake or omission or other reasons as provided in the Central Goods and Services Tax (CGST), Integrated Goods and Services Tax (IGST) and Punjab Goods and Services Tax (PGST) Acts. Timely refund mechanism constitutes a crucial component of tax administration, as it facilitates trade through release of blocked funds for working capital, expansion and modernization of existing business. The provisions pertaining to refund contained in the GST laws aim to streamline and standardise the refund procedures under GST regime. GST laws envisaged that the claim and sanction procedure would be completely online. However, due to unavailability of electronic refund module on the common portal¹, a temporary mechanism was devised and implemented. In this mechanism, the applicants were required to file the refund applications in Form GST RFD-01A on the common portal, take a print out of the same and submit it physically to the jurisdictional tax office along with all supporting documents. Further processing of these refund applications, i.e. issuance of acknowledgement, issuance of deficiency memo, passing of provisional/final refund orders, payment advice etc. was being done manually. In order to make the process of submission of the refund application electronic, a circular² was issued wherein it was specified that the refund applications in Form GST RFD-01A, along with all supporting documents, had to be submitted electronically. However, necessary features for making the refund procedure fully electronic, wherein all the steps from submission of application to processing thereof could be undertaken electronically, could be deployed on the common portal with effect from 26 September 2019.

4.2 Organizational set up

The Additional Chief Secretary (Taxation) is the administrative head of the Department. The functional head of the department is the Commissioner of State Tax. The Commissioner of State Tax is assisted by Additional Excise and Taxation Commissioner cum Chief Executive Officer (Excise and Taxation Technical Services Agency), Director (GST), Additional Excise and Taxation Commissioner (Administration), Additional Excise and Taxation

¹ The GST Common Portal known as GST Network (GSTN) has been made available to enable taxpayers enroll/register with GST, to meet the GST compliance requirements like filing return, making tax payment and also offers services for claiming refund and other relevant services.

² No. 79/53/2018-GST dated 31 December 2018.

Commissioner (Audit) and other staff members. The district offices are headed by Assistant Commissioner of State Tax (ACST).

4.3 Audit Objectives

Audit of refund cases under GST regime was conducted to assess

- The adequacy of Act, Rules, notifications, circulars etc. issued in relation to grant of refund.
- The compliance of extant provisions by the tax authorities and the efficacy of the systems in place to ensure compliance by taxpayers.
- Whether effective internal control mechanism exists to check the performance of the departmental officials in disposing the refund applications.

4.4 Scope of Audit

Pan-India GST refund data was obtained from GSTN and through risk-based data analysis, a sample of refund cases was extracted for detailed examination. Refund cases processed in the selected district/ACST³ offices of Department of State Tax, Punjab (Department) from July 2017 to July 2020 were examined.

Audit observations were issued to the Department from time to time between November 2020 and March 2021. The replies furnished by the Department have been suitably incorporated in the relevant paragraphs.

4.5 Sample selection and audit

GSTN provided pan-India refund data for the period from July 2017 to July 2020. For the period prior to 26 September 2019, i.e., pre-automation period, the refund applications under each category were sorted in descending order of refund amount claimed by taxpayers. The sorted refund applications were divided into four quartiles for drawing the sample.

For selecting refund applications filed after 26 September 2019, a composite risk score was devised using risk parameters such as refund amount claimed (60 *per cent* weightage), delay in sanctioning refund (15 *per cent*), refund sanctioned to refund amount claimed ratio (10 *per cent*) and issue of deficiency memo issued. Based on the risk score arrived as per this process, refund applications were selected.

Based on the above procedure, 1,048 cases of refunds claimed prior to 26 September 2019 pertaining to 25 ACST offices were selected (pre-automation cases), out of which 704 cases involving money value of ₹ 193.01 crore belonging to six ACST⁴ offices could be covered due to

³ Office of the Assistant Commissioner of State Tax.

⁴ Fatehgarh Sahib (6), Ludhiana-I (200), Ludhiana-II (130), Ludhiana-III (261), Mohali (62) and Patiala (45).

constraints on physical movement as a result of COVID-19 pandemic. For the post 26 September 2019 period, 1,002 refund cases involving money value ₹ 201.04 crore of 23 ACST⁵ offices (post automation cases) were selected and examined using the login ID based access to State GST portal⁶. Thus, out of 10,002 refund cases⁷ processed in the selected ACST offices, a total of 1,706 cases⁸ (17.06 per cent) were examined by Audit for this Subject Specific Compliance Audit (SSCA). Category-wise audit universe and sample selection are given in the *Appendix 4.1*.

4.6 Audit Criteria

The following sections/rules/notifications provide the guidelines/procedure for claiming refunds:

- Sections 54 to 58 and Section 77 of Central Goods and Services Tax Act 2017.
- Rule 89 to 97A of Central Goods and Services Tax Rules 2017.
- Section 15, 16 and 19 of Integrated Goods and Services Tax Act 2017.
- Section 54 to 58 and Section 77 of Punjab Goods & Services Tax Act 2017.
- Punjab Goods & Service Tax (PGST) Rules 2017.

4.7 Audit findings

Table 4.1 brings out the extent of deficiencies noted during the audit of refund cases, selected for detailed audit.

Table 4.1: Nature of Audit Findings

Nature of Audit Findings	Audit Sample				Number of deficiencies noticed				Deficiencies as percentage of sample
	Number		Amount (₹ in crore)		Number		Amount (₹ in crore)		
	Pre Post	Total	Pre Post	Total	Pre Post	Total	Pre Post	Total	
Delay in issue of acknowledgment	380	1,382	145.63	346.67	85	417	17.26	93.92	30.17
	1,002		201.04		332		76.66		
Delay in issue of Refund orders	619	1,621	179.45	380.49	258	610	66.27	117.55	37.63
	1,002		201.04		352		51.28		
Delay in sanction of Provisional refunds on account of zero-rated supply	81	211	25.94	62.87	4	10	2.02	5.25	4.74
	130		36.93		6		3.23		

⁵ Amritsar-I (25), Amritsar-II (37), Barnala (13), Bathinda (13), Faridkot (2), Fatehgarh Sahib (15), Fazilka (2), Ferozepur (2), Hoshiarpur (3), Jalandhar-I (19), Jalandhar-II (117), Kapurthala (4), Ludhiana-I (129), Ludhiana-II (155), Ludhiana-III (304), Mansa (8), Moga (14), Mohali (37), Muktsar (12), Patiala (43), Ropar (1), Sangrur (45) and Tarn Taran (2).

⁶ BOWEB portal.

⁷ 5,750 pre-automation cases and 4,252 post-automation cases.

⁸ 704 pre-automation cases and 1,002 post-automation cases.

Nature of Audit Findings	Audit Sample				Number of deficiencies noticed				Deficiencies as percentage of sample
	Number		Amount (₹ in crore)		Number		Amount (₹ in crore)		
	Pre Post	Total	Pre Post	Total	Pre Post	Total	Pre Post	Total	
Delay in communicating refund orders to counterpart tax authority	282	282	66.20	66.20	75	75	12.21	12.21	26.60
	0		0.00		0		0.00		
Sanction of excess refund	619	1,621	179.45	380.49	6	7	0.15	0.15	0.43
	1,002		201.04		1		0.004		
Delayed/non-credit of SGST refund to taxpayer's account	507	507	93.35	93.35	94	94	11.27	11.27	18.54
	0		0.00		0		0.00		
Non-compliance of GST refund procedure	35	35	2.77	2.77	8	8	0.09	0.09	22.86
	0		0.00		0		0.00		
Absence of supporting documents in GST refund cases	619	1,621	179.45	380.49	242	535	60.22	134.76	33.00
	1,002		201.04		293		74.54		

As evident from the table above, Audit noticed significant delay in issuance of acknowledgment in 30.17 per cent cases, in issuance of refund orders in 37.63 per cent cases, in sanction of Provisional Refunds in zero-rated supplies in 4.74 per cent cases, in communicating refund orders to counterpart tax authorities in 26.60 per cent cases and in credit of SGST refund to taxpayer's account in 18.54 per cent cases.

Further, Audit also noticed deviations from the provisions of Acts and Rules which resulted in excess refunds in 0.43 per cent cases and issue of refunds in absence of supporting documents in 33.00 per cent cases; the deviation ranges from 0.43 per cent to 37.63 per cent.

Audit findings noticed and the lapses identified based on these cases are included in the subsequent paragraphs.

4.7.1 Delay in issue of acknowledgement

Rule 90(1) and (2) of Punjab GST Rules 2017 stipulate that the acknowledgment shall be issued within fifteen days of filing of refund claim by the proper officer, if the application is found complete in all respects. In case of pre-automation cases, the stipulated period of 15 days will be counted from the date of manual submission of refund application along with all supporting documents.

During the audit period, 5,750 pre-automation and 4,252 post-automation refund cases were processed in the selected ACST offices, out of which 380 pre-automation⁹ and 1,002 post-automation refund cases were examined and it

⁹ Out of total selected sample of 704 pre-automation refund cases, 50 cases were not produced to audit. 35 cases were either rejected by the Department or taxpayers did not submit documents. Acknowledgement information in respect of 239 cases was not available. Remaining 380 sample cases were examined by audit.

was noticed that there was delay in issue of acknowledgement in 417 cases¹⁰ (30.17 per cent) involving refund of ₹ 93.92 crore from 1 to 245 days with the average delay being 30 days in these cases. Of these, 391 cases involving refund of ₹ 88.09 crore were delayed by 1 day to 3 months, 24 cases involving refund of ₹ 5.15 crore were delayed by 3 to 6 months and two cases involving refund of ₹ 0.68 crore were delayed by more than six months, respectively. Thus, the department failed to adhere to the timelines for issuing acknowledgements as prescribed in the rules *ibid*.

The matter was reported to the Department and the State Government (between November 2020 and May 2021). Nine ACSTs accepted the audit observation (January and April 2021), out of which, seven ACSTs¹¹ stated that the delay in 116 cases was due to technical problems on the GST portal and two ACSTs¹² attributed delay in five cases to imposition of lockdown due to COVID-19 pandemic.

Reply in respect of 296 cases pertaining to 12 ACSTs was awaited (November 2022).

4.7.2 Delay in issue of refund orders

Section 54(7) of Punjab GST Act 2017 specifies that if the proper officer, on receipt of any refund claim, is satisfied that the whole or part of the amount claimed as refund is refundable, he shall issue the order within sixty days from the date of receipt of application complete in all respects. Section 56 of the Punjab GST Act states that if any tax ordered to be refunded is not refunded within 60 days of the date of receipt of application, interest at the rate of six per cent per annum on the refund amount starting from the date immediately after the expiry of sixty days from the date of receipt of application till the date of refund of such tax shall have to be paid to the claimant.

During the audit period, 619 pre-automation¹³ and 1,002 post-automation refund cases were examined and it was noticed that there was delay in issue of refund orders in 610 cases¹⁴ (37.63 per cent) involving refund of ₹ 117.54 crore from 1 to 635 days with the average delay being 45 days in

¹⁰ Amritsar-I (19), Amritsar-II (27), Barnala (7), Bathinda (8), Faridkot (1), Fatehgarh Sahib (13), Fazilka (2), Ferozepur (2), Hoshiarpur (3), Jalandhar-I (9), Jalandhar-II (28), Kapurthala (2), Ludhiana-I (121), Ludhiana-II (28), Ludhiana-III (67), Mansa (3), Moga (3), Mohali (22), Muktsar (9), Patiala (18) and Sangrur (25).

¹¹ Barnala (7), Faridkot (1), Fazilka (2), Jalandhar-I (9), Kapurthala (2), Ludhiana-II (28) and Ludhiana-III (67)

¹² Ferozepur (2) and Moga (3).

¹³ Out of total selected sample of 704 pre-automation refund cases, 50 cases were not produced to Audit and 35 cases were either rejected by the Department or taxpayer did not submit documents. Remaining 619 cases were examined by audit.

¹⁴ Amritsar-I (14), Amritsar-II (14), Barnala (3), Bathinda (12), Faridkot (2), Fatehgarh Sahib (3), Fazilka (1), Ferozepur (2), Jalandhar-I (3), Jalandhar-II (75), Kapurthala (1), Ludhiana-I (162), Ludhiana-II (92), Ludhiana-III (164), Mansa (1), Mohali (42), Muktsar (5), Patiala (6), Ropar (1) and Sangrur (7).

these cases. Of these, 538 cases involving refund of ₹ 104.33 crore were delayed by 1 day to 3 months, 57 cases involving refund of ₹ 12.38 crore were delayed by 3 to 6 months and 15 cases involving refund of ₹ 0.83 crore were delayed by more than six months, respectively. Thus, the department failed to adhere to the timelines for issuing refund orders as prescribed in the rules *ibid*.

The matter was reported to the Department and the State Government (between November 2020 and May 2021). Six ACSTs accepted the audit observation (January and April 2021), out of which, five ACSTs¹⁵ stated that the delay in nine cases was due to technical problems on the GST portal and imposition of lockdown due to COVID-19 pandemic, and one¹⁶ ACST stated in three cases that GST portal was new and it took time to understand and implement the system.

For 34 pre-automation cases, one ACST¹⁷ stated that delay was due to more time requested by dealers for submission of pending documents. The reply of department was not acceptable as neither correspondence regarding submission of pending documents nor deficiency memos were found issued to dealers concerned as per records made available to Audit. However, the ACST did not reply in respect of 58 post-automation cases.

Reply in respect of 506 cases¹⁸ pertaining to 13 ACSTs was awaited (November 2022).

4.7.3 Delay in sanction of Provisional refunds on account of zero-rated supply

Section 54(6) of Punjab GST Act 2017 specifies that the proper officer in the case of any claim for refund on account of zero-rated supply of goods or services or both made by registered persons, may refund on a provisional basis, ninety *per cent* of the total amount so claimed, excluding the amount of input tax credit provisionally accepted, in such manner and subject to such conditions, limitations and safeguards as may be prescribed and thereafter make an order for final settlement of the refund claim after due verification of documents furnished by the applicant. Further, Rule 91 of Punjab GST Rules 2017 provides that provisional refund on account of zero-rated supply shall be granted subject to the condition that the person claiming refund has, during any period of five years immediately preceding the tax period to which the claim for refund relates, not been prosecuted for any offence under the Act or under an existing law where the amount of tax evaded exceeds ₹ 2.5 crore. Thereafter, the proper officer will scrutinize the application and the evidences submitted. On being *prima facie* satisfied, he shall make a provisional refund

¹⁵ Barnala (3), Faridkot (2), Fazilka (1), Ferozepur (2) and Ropar (1).

¹⁶ Jalandhar-I (3).

¹⁷ Ludhiana-II (Replied: 34 pre-automation cases, Not replied: 58 post-automation cases).

¹⁸ 58 cases of Ludhiana-II not included in this number being already mentioned separately.

order in Form GST RFD-04 sanctioning the amount of refund due to the said applicant on provisional basis within a period of seven days from the date of acknowledgement.

During the audit period, 81 pre-automation¹⁹ and 130 post-automation²⁰ refund cases were examined where refunds were issued on account of 'zero-rated supply of goods or services or both' and it was noticed that there was delay in issue of provisional refund orders in 10 cases²¹ (4.74 per cent) involving refund of ₹ 5.05 crore from 2 to 24 days with the average delay being seven days in these cases. It was further noticed that provisional refunds were not sanctioned in 63 post-automation²² refund claims (29.86 per cent). In these cases, there was nothing on record to show that these tax-payers had violated Rule 91 of Punjab GST Rules 2017.

The matter was reported to the Department and the State Government (March and May 2021). One ACST²³ accepted the audit observation of delay in issue of provisional refund (March 2021) in two cases and stated that provisional refund order will be issued in future within the prescribed period.

Four ACSTs²⁴ in 23 cases of non-issue of provisional refund replied (April 2021) that 90 per cent provisional refunds were not sanctioned in seven days in hurry to safeguard the revenue. In some cases, inward supply chain of the taxpayers had to be verified to ensure that claims were genuine, which was time consuming process. Hence, complete refunds were sanctioned after proper verification. Further, if the proper officer is fully satisfied about the eligibility of a refund claim on account of zero-rated supplies and is of the opinion that no further scrutiny is required, the proper officer may issue final order in Form GST RFD-06. In such cases, the issuance of provisional refund in Form GST RFD-04 will not be necessary. Since the form GST RFD-06 was issued within 60 days, there was no delay. The reply of the ACSTs was not in harmony with the provisions of Punjab GST Rules. Department is supposed to observe the timelines of refund process, while safeguarding the revenue. Further, provisional refunds were not required to be made in cases where final refund orders were issued within seven days of issuance of acknowledgement. In the pointed-out cases, final refund orders were not issued within seven days of the issuance of acknowledgment.

¹⁹ Ludhiana-I (19), Ludhiana-II (13), Ludhiana-III (12), Mohali (25) and Patiala (12).

²⁰ Amritsar-II (7), Faridkot (1), Fatehgarh Sahib (2), Hoshiarpur (2), Jalandhar-I (6), Jalandhar-II (27), Ludhiana-I (19), Ludhiana-II (18), Ludhiana-III (22), Mansa (1), Moga (8), Mohali (11), Patiala (4) and Sangrur (2).

²¹ Jalandhar-II (4) Ludhiana-I (4) and Patiala (2).

²² Amritsar-II (3), Faridkot (1), Hoshiarpur (2), Jalandhar-I (2), Jalandhar-II (9), Ludhiana-I (14), Ludhiana-II (9), Ludhiana-III (17), Moga (3), Mohali (2) and Patiala (1).

²³ Patiala (2).

²⁴ Faridkot (1), Ludhiana-III (17), Jalandhar-I (2) and Moga (3).

Replies, in respect of 48 cases of delay/non-issue of provisional refunds pertaining to seven ACSTs were awaited (November 2022).

4.7.4 Delay in communicating refund orders to counterpart tax authority

As per circular No. 24/24/2017 GST dated 21 December 2017, refund orders issued either by Central tax authority or State tax/UT tax authority shall be communicated to the counterpart tax authority concerned within seven working days for the purpose of payment of relevant sanctioned refund amount of tax or cess as the case may be. It was also reiterated therein to ensure adherence to timeline specified under Section 54(7) and Rule 91(2) of Punjab GST Act and Rules respectively for sanction of refund orders.

During the audit period, 282 pre-automation²⁵ refund cases were examined where refund of CGST/IGST was sanctioned and communication was required to be sent by the State tax authority to the counterpart Central tax authority for issue of refund. It was noticed that there were delays in issue of communication in 75 cases²⁶ (26.60 per cent) involving refund of ₹ 12.21 crore from 2 to 275 days with the average delay being 26 days in these cases. Of these, 71 cases involving refund of ₹ 11.88 crore were delayed by 1 day to 3 months, two cases involving refund of ₹ 0.07 crore were delayed by 3 to 6 months and two cases involving refund of ₹ 0.26 crore were delayed by more than six months, respectively. Thus, the department failed to adhere to the timelines for issuing communication as prescribed in the rules *ibid*.

The matter was reported to the Department and the State Government (between January 2021 and May 2021). One ACST²⁷ accepted the audit observation (January 2021) in 29 cases and stated that the delay was due to discrepancies intimated by the counterpart tax authority after the dealers concerned approached them for processing of the refund.

The reply was not acceptable as Audit had worked out the delay after the date of sanction of final refund order (RFD-06).

Reply in respect of 46 cases pertaining to one ACST was awaited (November 2022).

4.7.5 Sanction of excess refund

During the audit period, 619 pre-automation and 1,002 post-automation refund cases were examined in audit and it was noticed that there was excess refund

²⁵ In 466 out of 619 cases, refund of CGST/IGST was sanctioned and communication was required to be sent by State tax authority to counterpart Central tax authority. The information regarding communication was not found on records in 184 cases. Remaining 282 cases were examined in audit.

²⁶ Ludhiana-I (46), Ludhiana-II (29).

²⁷ Ludhiana-II (29).

of ₹ 15.28 lakh in seven cases (0.43 per cent) as detailed in Sub-Para A to C below:

(A) As per Circular No. 59/33/2018-GST dated 4 September 2018, refund claim shall be accompanied by Form GSTR-2A for the relevant period for which the refund was claimed by claimant. The proper officer shall rely upon Form GSTR-2A as evidence of the account of the supply by the corresponding supplier in relation to which the input tax credit has been availed by the claimant. Further, as per circular No. 79/53/2018-GST dated 31 December 2018, it was clarified that the said statement supported with invoices is not required to be submitted physically in the office of the jurisdictional proper officer but shall only be electronically uploaded on the common portal at the time of filing the refund in prescribed Form 'GST RFD-01A'.

It was noticed in three pre-automation²⁸ cases that input tax credit as per GSTR 2A was ₹ 1.14 crore, whereas the dealers had shown input tax credit as ₹ 1.29 crore in refund application (RFD 01A). Invoices were not found uploaded electronically and mismatch report of input tax credit was not available on record. As per input tax credit available in GSTR 2A, the dealers were eligible for refund of ₹ 26.70 lakh, whereas refund of ₹ 41.15 lakh was allowed, resulting in excess refund of ₹ 14.45 lakh as given in **Table 4.2**.

Table 4.2: Sanction of excess refund amount

(₹ in lakh)

ARN No. & date	ITC as per RFD-01A	ITC as per GSTR 2A	Refund permissible ²⁹	Refund allowed	Excess refund allowed
AA0307190190397 Dated 27.07.2019	57.93	55.48	9.95	12.27	2.32
AA030819007272F Dated 10.08.2019	12.11	11.23	4.18	5.05	0.87
AA030719000229F Dated 01.07.2019	58.94	47.68	12.57	23.83	11.26
Total	128.98	114.39	26.70	41.15	14.45

(B) Central Board of Indirect Taxes and Customs (CBIC) clarified vide circular No. 37/11/2018-GST dated 15 March 2018 on export related refund issues that, where the refund of unutilized ITC on account of export of goods is claimed and the value declared in the tax invoice is different from the export value declared in the corresponding shipping bill, then refund of lower of these two values should be sanctioned.

²⁸ Ludhiana-II (3).

²⁹ $\frac{\text{Turnover of inverted rated supply} \times \text{Net Input Tax Credit}}{\text{Adjusted turnover}}$ (-) Tax payable on inverted rated supply

It was noticed that 130 post-automation refund cases were against unutilised ITC on account of export of goods. On examination of these cases, it was noticed in three³⁰ post-automation refund cases that refunds were issued on the higher values of goods declared in the GST invoices and corresponding shipping bills, whereas refunds were required to be allowed on lower of these two values. The omission resulted in grant of excess refund of ₹ 0.37 lakh³¹.

(C) As per Section 54(3) of the Punjab GST Act 2017, a registered person may claim refund of any unutilised Input Tax Credit (ITC) at the end of any tax period where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (i.e., Inverted Duty Structure). Further, Rule 89(5) of the Punjab GST Rules 2017 prescribes the formula for maximum refund of unutilized ITC on account of inverted duty structure. As per the Rule, net ITC includes the input tax credit availed only on inputs during the relevant period and does not include credit availed on input services or capital goods. Circular No.125/44/2019-GST dated 18 November 2019 also clarifies that the intent of the law is not to allow refund of tax paid on input services or capital goods as part of refund of unutilized input tax credit in case of inverted duty structure. Further for refund of ITC unutilized on account of accumulation due to inverted tax structure, a statement of invoices is submitted along with the application. In this statement the taxpayer declares whether ITC was eligible on inputs or otherwise.

It was noticed that 811 post-automation refund cases were due to inverted duty structure. On examination of these cases, it was noticed in one case³² that refund of ₹ 22.93 lakh was allowed which included ITC of ₹ 0.63 lakh on input services. The ITC of input services was not admissible for refund and was required to be disallowed. However, this amount was not excluded by the department before allowing refund resulting in excess grant of refund of ₹ 0.46 lakh³³.

Reply in respect of all seven cases pertaining to three ACSTs was awaited (November 2022).

4.7.6 Delayed/non-credit of SGST refund to taxpayer's account

As per Section 54(7) of Punjab GST Act 2017, GST refund has to be sanctioned within a period of 60 days from the date of receipt of the application of claim complete in all respect. Further, Section 56 of the said Act provides that if any tax order to be refunded to the applicant is not refunded within 60 days from the date of receipt of application, interest at the rate of

³⁰ Amritsar-II (1), Ludhiana-II (1) and Mohali (1).

³¹ ARN: AA0301200029333 (IGST: ₹ 10,516, CGST: ₹ 5,132, SGST: ₹ 5,132), ARN: AA031119004790N (SGST: ₹ 8,082), ARN: AA0301200018990 (CGST: ₹ 3,972, SGST: ₹ 3,972).

³² Ludhiana-II (1).

³³ ARN: AA031119006049M (IGST: ₹ 20,048, CGST: ₹ 12,964, SGST: ₹ 12,964).

six *per cent* will be payable. Further, it was clarified that any tax shall be considered to have been refunded only when the amount has been credited to the bank account of the claimant.

During the audit period, 619 pre-automation refund cases were examined out of which 507 cases involved refund of SGST. It was noticed in 94 cases³⁴ (18.54 *per cent*) involving refund of ₹ 11.27 crore that although the refunds were processed within 60 days, there were delays in credit of refunds to the taxpayer's accounts ranging from 2 to 257 days with the average delay being 74 days. Of these, 59 cases involving refund of ₹ 6.61 crore were delayed by 1 day to 3 months, 31 cases involving refund of ₹ 4.47 crore were delayed by 3 to 6 months and four cases involving refund of ₹ 0.19 crore were delayed by more than six months, respectively. Thus, the Department failed to adhere to the timelines for crediting refund to the taxpayer's accounts as prescribed in the rules *ibid*. It was further noticed in six cases³⁵ involving refund of ₹ 0.27 crore that credits were not made in taxpayer's accounts even up to date (August 2021) as verified from treasury data, although, refund orders in these cases had been issued between January 2019 and October 2020.

The matter was reported to the Department and the State Government (between November 2020 and May 2021). One ACST³⁶ accepted the audit observation (January 2021) and stated in 42 cases that the delay in processing of refund was due to delay in providing documents by the dealers. The dealers had requested more time for submission of pending documents. Hence, there was delay in such cases for credit of GST refund in tax-payer's account.

The reply was not acceptable because final refunds were not supposed to be sanctioned unless complete documents were submitted by tax-payers. Further, Audit neither noticed any correspondence regarding submission of pending documents nor found any deficiency memo issued in this regard.

Reply in respect of 52 cases of delayed credit pertaining to three ACSTs and six cases of non-credit pertaining to two ACSTs was awaited (November 2022).

4.7.7 Non-compliance of GST refund procedure

As per circular no. 79/53/2018-GST dated 31 December 2018, in case of GST refund cases, wherein an amount greater than ₹ 1,000 has been claimed, a list of applications which have not been received in the jurisdictional tax office within a period of 60 days starting from the date of generation of ARN was to be compiled. A communication was to be sent to all such claimants on their registered emails, informing them that the application needs to be physically

³⁴ Ludhiana-I (32), Ludhiana-II (42), Patiala (17) and Mohali (3).

³⁵ Ludhiana-I (4) and Ludhiana-II (2).

³⁶ Ludhiana-II (42).

submitted to the jurisdictional tax office within 15 days of the date of the email. In case the claimant fails to physically submit the application within 15 days of the date of the email, the application shall be summarily rejected and the debited amount, if any, shall be re-credited to the electronic credit ledger.

During the audit period, 35 pre-automation refund cases which were rejected by the Department were examined and it was noticed in eight cases³⁷ (22.86 per cent) involving refund of ₹ 0.09 crore that application of refund was not received even after lapse of 60 days from the date of generation of ARN but the communication required to be sent to the claimants in these cases as per laid procedure, was not sent by the Department.

Reply of the department in these cases was awaited (November 2022).

4.7.8 Absence of supporting documents in GST refund cases

Rule 89 of Punjab GST Rules 2017 prescribes documentary evidences, as applicable, to be furnished with refund application, to establish that refund is due to the applicant. Circular No. 59/33/2018-GST dated 4 September 2018 provided for submission of details of invoices in Annexure-A and Circular No. 125/44/2019-GST dated 18 November 2019 provided for uploading of the details of invoices in Annexure-B on common portal, depicting invoice wise details of inputs, input services and capital goods.

During the audit period, 619 pre-automation and 1,002 post-automation refund cases were examined and it was noticed in 535 cases³⁸ (33 per cent) that required documents in Annexure-A/Annexure-B were not submitted/uploaded on GSTN portal. These documents were important for determination of eligible ITC for refund.

Three ACSTs³⁹ replied (December 2020 and April 2021) that in 72 cases where submission of Annexure-A was required, the documents were submitted online and the same were processed through GSTN portal. In four cases where Annexure-B was required to be uploaded on common portal, the taxpayer had submitted the hard copy of refund application with all supporting documents/annexures like invoices, Annexure-B, etc. In two cases, refunds were applied prior to the date of applicability of the above circular dated 18 November 2019. Hence, there was no need of Annexure-B in these cases.

Reply of the Department was not acceptable as documents in Annexure-A were not available on GSTN portal as verified by Audit in 72 cases. In four cases, the statement of invoices submitted manually with application of refund

³⁷ Ludhiana-II (8).

³⁸ Amritsar-I (3), Amritsar-II (19), Barnala (2), Bathinda (11), Faridkot (1), Fatehgarh Sahib (12), Hoshiarpur (1), Jalandhar-II (25), Ludhiana-I (235), Ludhiana-II (107), Ludhiana-III (61), Mansa (4), Moga (4), Mohali (11), Muktsar (6), Patiala (10), Ropar (1), Sangrur (20) and Tarn Taran (2).

³⁹ Barnala (2), Ludhiana-II (72) and Moga (4).

was not as per prescribed format of Annexure-A or Annexure-B as applicable. Further, in all the above cases, the details did not contain necessary information regarding eligibility of input tax credit (full, partial or not eligible) and category of input purchases (inputs, input services or capital goods). In the remaining two cases, Annexure-A containing the details of invoices for inputs, input services and capital goods was applicable, which was not submitted.

Reply in respect of 170 cases pertaining to one ACST where Annexure-A was required to be submitted and 287 cases pertaining to 17 ACSTs where Annexure-B was required to be uploaded, was awaited (November 2022).

4.7.9 Non-production of records

Out of selected 704 refund cases in six ACST offices for the pre-automation period, files and records related to 50 refund cases involving money value of ₹ 10.79 crore were not made available to Audit by three ACST⁴⁰ offices.

4.8 Internal Control Mechanism

4.8.1 Improper maintenance of refund register

Due to the non-availability of the refund module on the common portal, it was decided by the competent authority, on the recommendations of the Council, vide circular No. 17/17/2017-GST dated 15 November 2017 that the applications/documents/forms pertaining to refund claims on account of zero-rated supplies shall be filed and processed manually. Further, vide circular No. 24/24/2017-GST dated 21 December 2017, provisions of the said circulars were also made applicable to other types of refunds viz. refunds in case of Inverted Duty Structure, refund of tax on the supply of goods regarded as deemed exports etc. As per provisions of the said circular, refund registers in prescribed proforma were to be maintained to record therein certain details viz. period of refund, date of receipt of application, date of issuing acknowledgement, date of issue of provisional/final refund etc.

Audit examination of GST refund records for the pre-automation period (April 2017 and September 2019) in six ACST offices revealed that prescribed registers with required details were not maintained by four ACST⁴¹ offices. Therefore, details like date of issue of acknowledgement, date of issue of refund, etc. were not found recorded.

ACST Ludhiana-II replied (January 2021) that the refund register was maintained as per the prescribed proforma but some entries were incomplete due to discrepancies in MIS reports extracted from the GSTN portal and also

⁴⁰ Fatehgarh Sahib (3), Ludhiana-I (10) and Ludhiana-III (37).

⁴¹ Fatehgarh Sahib, Mohali, Ludhiana-II and Ludhiana-III.

due to some other technical issues. Remaining ACSTs did not furnish reply (November 2022).

4.9 Conclusion

There were delays at every stage of refund processing, viz. issue of acknowledgement, grant of provisional refund and issue of final refund order. Such delays were noticed during pre-automation as well as post-automation period. After the final refund orders were issued, further delays were observed in communication to counterpart tax authorities and making credits of refunded amounts in the tax-payer's accounts. Some instances of excess refunds and non-submission of mandatory documents were also noticed.

The above matters were reported to the Government/Department in April and May 2021. Replies received from the Department have been incorporated in the report. Reply of the Government was awaited (November 2022).

4.10 Recommendation

The Department needs to adhere to the prescribed provisions for GST refunds to ensure timely processing of refund claims so that traders are not unduly inconvenienced.