

## **GST UPDATES – JAN 2021**

### **Standard Operating Procedure (SOP) for verification of tax payers granted deemed registration in GST - Instruction No. 4/3/2020-GST and CBEC-20/13/06/2020-GST dated 27<sup>th</sup> November, 2020**

#### **Need for SOP**

First proviso to Rule 9 of CGST Rules, has been introduced with effect from 21.08.2020. As per the said proviso, in case a person applying for the registration fails to undertake Aadhaar authentication or does not opt for authentication of aadhar then the registration shall be granted only after physical verification of the place of business. In case physical verification is difficult, then the proper officer may call for additional documents for verification before grant of registration. Further, the present provisions allow for deemed registration upon completion of 21 days of application in such cases if the proper officer has not issued any notice within the said 21 days.

Data suggests that during the period from 21st August, 2020 to 16th November, 2020 deemed registration has been granted in many cases where Aadhaar authentication has not been opted for or has failed. These registrations granted on deemed basis require verifications to ascertain that they have genuine business or intends to carry out so. In order to

complete the verification of such registrants, SOPs are issued through this circular.

**Legal provisions on physical verification:**

1. The list of registrations granted on deemed approval basis, zone wise, during the period from 21st August, 2020 to 16th November, 2020 have been circulated to the field formations by the DG, Systems.
2. Rule 25 of the CGST Rules provide for physical verification of business premises in certain cases and include such verification after grant of registration. All such deemed registrations would be subjected to compulsory post registration verification. On completion of verification, if the proper officer has reasons to believe that the registration is liable for cancellation, he shall initiate the proceedings under rule 22 of the CGST Rules.
3. Pending physical verification, notice in FORM REG-17 may be issued in specific cases based on following risk parameters seeking explanation from the registered person regarding the differences and anomalies noticed:

- a. Where FORM GSTR-1 is filed and FORM GSTR-3B is not filed either for August or September, 2020 tax period;
- b. The difference in tax amount, as reported in FORM GSTR-1 and FORM GSTR-3B is more than ₹ 1 lakh (R1>R3B).

On receipt of the reply to the notice, the proper officer would complete the proceedings under rule 22 of the CGST Rules.

4. All the verifications must be completed in a time bound manner, within 3 weeks of these instructions. Zonal Chief commissioners already have the freedom to divert the staff from one formation to another within the Zone to complete the task. A weekly status report to be submitted to the Board in the format enclosed to this instruction.

#### **Standard Operating Procedures (SOP)**

The proper officer shall conduct physical verification of the principal place of business and wherever possible, additional place of business, indicated in GST registration FORM REG-01 of the concerned registrant. During the physical verification, the officer, among other things, would also verify the following details:

- i. In case the applicant intends to carry out manufacturing activity, whether capital goods, if required for the said manufacturing activity, have been installed.
- ii. Electricity connection, bills paid in the relevant period.
- iii. Size of the premises – whether it is commensurate with the activity to be carried out by the applicant.
- iv. Whether premises is self-owned or is rented and documents relating ownership/ registered lease of the said property. In case of doubt, enquiry may also be made from the landlord/ owner of the property in case of rented / leased premises.
- v. No of employees already employed and record of their employment
- vi. Aadhaar and PAN of the applicant and its proprietor, partners, Karta, Directors as the case may be and the authorised signatories.
- vii. Bank's letter for up to date KYC.

In addition to the physical verification conducted, the proper officer, in the interest of revenue, would carry out the preliminary financial verification of the registrants by seeking the following documents and carrying out its scrutiny.

a. ITRs of the company / LLP from the date of incorporation or for last three financial years, whichever is less. ITRs of proprietor, partners, Karta, etc. may be taken in other cases.

b. The status of activity from the date of registration of all the bank account(s) linked to registration; the same may be taken through a letter / undertaking from the applicant. Phone number declared / linked to each of the bank accounts may also be obtained.

c. Quantum of capital employed/proposed to be employed.

d. Out of the amount mentioned at (c) above:

(i) Own Funds:

(ii) Loan Funds: (indicate the names, complete address, PAN and amount borrowed from each such lender separately):

e. In case of own funds, also check the audited balance sheet for previous financial year, where available, in addition to the Income Tax Returns mentioned in (a) above.

f. In case of loan funds check the proposal submitted to the Bank/FI for approval of the loan and the maximum permissible bank finance as per such proposal, where the amount is proposed to be borrowed from a Bank and/or FI.