

# Fake GST invoices

December 26, 2020

In news

Directorate General of Goods and Services Tax Intelligence (DGGSTI) across the country has arrested over 100 people for illegally availing or passing on input tax credit (ITC) by using fake GST invoices, and causing loss to the exchequer.

What is the Input tax credit system?

- It is the tax paid by the buyer on the purchase of goods or services.
- Such tax which is paid at the purchase when reduced from liability payable on outward supplies is known as an input tax credit.
- In simple terms, the input tax credit is tax reduced from output tax payable on account of sales.

Tax evasion Vs Tax avoidance

Tax evasion means concealing income or information from tax authorities and it's illegal. Tax avoidance means legally reducing your taxable income (using legal measures to use the tax regime to find ways to pay the lowest rate of tax).

What is the major concern?

- According to tax officials, the use of fake invoices to wrongfully avail ITC credit has been gradually increasing and has become a concern for the government, especially at a time when revenue collection is depressed.
- According to official data, in 2018-19, the central GST authorities registered 1,602 cases of fake ITC involving an amount of Rs 11,251 crore and arrested 154 people.
- Between April and November 2019, the authorities booked over 6,000 such cases.

## How did fraudsters cheat the government?

**By floating multiple dummy firms:** As per the cases booked by tax authorities, fraudsters have been found to have floated multiple dummy firms, obtained GST registrations, issued fake GST invoices of goods and services without actual supply of services, and passed on ineligible ITC accrued from the bogus invoices to clients for a commission, who subsequently used it to make GST payments, causing losses to the government

**Series of shell companies:** In other cases, the tax department has found that promoters of certain companies have routed fake invoices through a series of shell companies and transferred input tax credit from one company to another in circular transactions to increase the turnover of the company. This helped them not only evade GST but also avail higher bank loans and credit facilities due to increased turnover.

## What encourages fraudsters to use fake invoices?

Fake invoices are used because it not only helps evade GST on taxable output supplies by availing undue ITC and converting excess ITC into cash but also helps in inflating turnover using these invoices, booking fake purchases to evade income tax, diversion of funds and money laundering.

## Reasons for surge in such cases

- As per tax officials, one of the primary reasons for an increase in companies availing ITC fraudulently is the lack of due diligence during the GST registration.
- The process of registration was made easy and hassle free by the government so that businesses could be easily on-boarded to the system.
- However, this meant that a number of dummy companies too obtained the GST registration in the absence of scrutiny or physical verification of the registered address of the companies.
- Lack of data exchange among the enforcement agencies and

banks have also led to increase in fraud cases

### Recovery of money from fraudsters

In these cases, recovery of money is unlikely as the money has already been siphoned and the companies involved in the fraud are only on paper with very little or no assets.

### Government's plan to curb such cases

- It is planning to tighten the GST registration process and legal measures to deal with the rising cases of fake invoicing.
- In November, the legal committee of the GST Council met to discuss the tightening of the GST registration process and work out other legal measures including necessary law amendments required in the GST Act