# DAIM
ACCOUNTANTS . ADVISORS

# GST, TDS & IT for SMEs

A Practical Compliance Survival Playbook

By DAIM

Disclaimer: This playbook is for general guidance for Indian SMEs. Laws, thresholds,

and due dates change. Kindly use this as only an operating guide and validate specifics

for your business before filing.

# Contents

# 1. How to Use This Playbook

This playbook is designed to help you avoid the three things that hurt SMEs most:

- Notices and penalties (avoidable 80% of the time)
- Cash-flow shocks (tax liabilities arriving late, all at once)
- Decision-making in the dark (numbers not matching returns and bank)

## Who this is for

- Founders and decision-makers
- Accounts and finance teams
- Operations teams who raise POs, bills, and invoices
- Anyone who deals with vendors, clients, or payments

## How to read it

- If you're new: Read GST → TDS → Income Tax in order
- If you're stuck right now: Jump to the Checklists + Fixes + Notices sections
- If you want a system: Implement Chapter 3 first (operating system)

# 2. The SME Compliance Mindset

Compliance isn't "a filing task." It's a proof system.

If you can't prove it, you can't defend it.

The 3-Layer Risk Model (Use this to diagnose problems)

**1. Documentation Risk: missing invoices, missing contracts, unclear nature of expense**

**2. Reporting Risk: books don't match GST/TDS/IT filings**

**3. Payment Risk: tax paid late or underpaid (interest + penalties)**

Most SMEs try to fix Layer 3 at the last moment.

Smart SMEs control Layer 1 and Layer 2 throughout the year.

# 3. Your Compliance Operating System (Simple Setup)

This is the backbone. Without it, every month becomes firefighting.

### 3.1 The Minimum System You Need

### A. One master folder structure (digital)

### Create these folders for every FY:

- 01 Sales Invoices
- 02 Purchase Bills
- 03 Bank Statements
- 04 Payroll
- 05 GST (returns, challans, reconciliations)
- 06 TDS (challans, returns, certificates)
- 07 Income Tax (advance tax, ITR workings, notices)
- 08 Contracts & Agreements
- 09 Fixed Assets (purchase + depreciation workings)

### B. One tracking sheet (even if basic)

### Maintain:

- Sales register
- Purchase register
- Vendor master (GSTIN, PAN, filing status check date)
- TDS tracker (deducted, deposited, reported)
- GST ITC tracker (claimed vs 2B vs pending)

### C. One simple monthly close rule

Close your numbers within 7-10 days after month end.

Don't let entries "spill over" forever.

## 4. GST MODULE

GST done right = Clean invoicing + ITC control + reconciliations

### 4.1 GST Basics That Matter (No jargon)

### What GST impacts daily

- Your invoice format
- Your pricing and cash flow (tax collected and tax paid)
- Your vendor selection (your ITC depends on them)
- Your reconciliations (books must match return data)

### GST is not just "file and forget"

### For SMEs, GST risk usually comes from:

- Wrong invoice classification/rate
- ITC claimed without support
- GSTR mismatches (GSTR-1 vs 3B vs books)
- Vendor not filing → ITC blocked

### 4.2 Invoicing Hygiene (This prevents 60% of GST issues)

### Make sure every sales invoice has:

- Correct buyer details (name, address, GSTIN if registered)
- Invoice number series (no gaps without explanation)
- Date of invoice
- Place of supply (important for IGST vs CGST/SGST)
- HSN/SAC (reasonable accuracy)
- Tax rate and breakup

- Description clear enough to defend classification
- Terms: discounts, delivery, payment, timelines

## Credit notes and discounts

## If you offer post-invoice discounts or rate changes:

- Use credit notes properly
- Maintain proof: email approvals, agreement clause, or policy document

Reverse Charge (RCM) - treat as a red flag zone

RCM errors are common because they feel "invisible."

## Control method:

- Maintain an RCM checklist for vendor bills
- Tag those entries early
- Ensure payment + reporting discipline

## 4.3 ITC (Input Tax Credit) - The Control Chapter

ITC is where SMEs lose money and get notices.

## What ITC really means in practice

## You can claim input credit only when:

- You have a valid tax invoice / document
- The supply is used for business
- Your vendor has reported it
- It reflects in your system-generated purchase eligibility data (commonly reconciled via

statement-based tools)

## Blocked / risky ITC (common SME zones)

- Personal use or mixed use without clear allocation
- Certain employee/perquisite expenses without clarity
- Poorly documented reimbursements
- Vague vendor invoices ("services" without description)
- Vendor is non-compliant / not filing

The ITC survival method (simple and effective)

> Rule 1: Don't claim what you can't prove.

> Rule 2: Don't depend on one person's memory. Track it.

> Rule 3: Reconcile every month.

## Monthly ITC workflow

## 1. Collect all purchase bills

## 2. Verify GSTIN + invoice format

## 3. Match purchase register with eligibility data (commonly via system statement)

## 4. Categorise ITC:

- Claim now (matched and eligible)
- Hold (vendor missing / mismatch)
- Disallow (blocked/risky)

## 5. Follow up with vendors for missing reporting

## Vendor discipline that protects your ITC

- Vendor onboarding checklist (GSTIN, PAN, filing behaviour)

- Monthly "Top 10 vendors by ITC value" review
- Payment linkage: hold a portion if repeated non-compliance (commercial decision)

## 4.4 Return Filing Flow (Practical, not technical)

### Your goal is simple:

- Sales reported correctly
- ITC claimed correctly
- Payment correct
- Books match returns

### Monthly GST filing checklist (high level)

- Finalise sales invoices and credit notes
- Finalise purchase bills and expense bills
- Reconcile:
  – Books sales vs sales reported
  – Books ITC vs eligible ITC
- Prepare payment workings (cash vs credit utilisation)
- File returns
- Save:
  – Return acknowledgements
  – Payment challans
  – Reconciliation workings

## 4.5 GST Reconciliations (This is where SMEs win)

Reconciliation 1: Sales (Books vs Sales Reporting)

### Common mismatch reasons:

- Invoice date vs booking date mismatch

- Credit note not considered
- Invoice cancelled but entry remains
- Wrong GSTIN or place of supply issues

## Fix method:

- Create a "Mismatch list"
- Fix in books OR in return data with documented reason
- Don't carry mismatches month-to-month blindly

Reconciliation 2: ITC (Books vs Eligibility Data)

## Common mismatch reasons:

- Vendor didn't file or filed late
- Wrong invoice number/date
- Wrong GSTIN
- Duplicate booking in books
- RCM or blocked ITC wrongly included

## Fix method:

- Maintain a Pending ITC tracker with:
-     Vendor, invoice, amount, reason, follow-up owner, expected resolution month

## 4.6 Common GST Mistakes & Quick Fixes

## 1. Wrong GST rate

- Fix: review classification; issue credit/debit note if needed; keep supporting logic

## 2. ITC claimed but not supported

- Fix: reverse where required; track re-claim if eligible later (with proof)

### 3. Sales mismatch between monthly reporting

- Fix: implement "invoice list lock" for the month

### 4. Vendor non-compliance

- Fix: vendor segmentation + payment/PO control policy

### 4.7 GST Notices: What to Do (Don't panic)

A notice is often a mismatch + request for explanation.

### Your response workflow

### 1. Identify the exact issue (what mismatch is being alleged?)

### 2. Pull proofs (invoice, ledger extract, bank proof, contract, delivery proof)

### 3. Reconcile (books vs reported)

### 4. Draft a clear reply:

- Facts
- Reason for the mismatch
- Corrective action (if any)
- Attachments list

### 5. Keep an "audit trail folder" for that notice

### What makes notices worse

- Unstructured replies
- No evidence
- Contradictory numbers
- Missing timelines

## 5. TDS MODULE

TDS done right = Correct deduction + timely deposit + accurate reporting

### 5.1 TDS Basics (SME version)

### TDS is simple in concept:

You are collecting tax on behalf of the government at the time you pay certain parties.

### Your responsibility as deductor:

### 1. Deduct correctly

### 2. Deposit on time

### 3. Report correctly (return filing)

### 4. Issue certificates to vendors/employees

### 5.2 Most Common TDS Payments in SMEs (Practical buckets)

(Exact applicability and rates vary. Use this as a working map.)

### A) Contractors / service providers

Risk: wrong section, missed deduction, wrong PAN, split invoices to avoid TDS

### B) Professionals / consultants

Risk: reimbursement vs fee confusion, no agreement, vague invoices

### C) Rent

Risk: threshold crossing mid-year; agreements missing

### D) Commission / referral payouts

Risk: informal payments without documentation

## E) Salary

Risk: declarations not collected; proofs not verified; year-end shock for employees

## F) Non-resident payments (high risk)

If you pay outside India, treat as red flag. Get professional review early.

## 5.3 TDS End-to-End Workflow (The only way to avoid chaos)

Step 1: At the time of booking or payment (set a rule)

## Choose one internal rule:

- Deduct at booking, or
- Deduct at payment

But be consistent and compliant.

## Step 2: Deposit tax

- Prepare challan
- Ensure correct mapping (PAN, section, amount)

## Step 3: File TDS return

## Your TDS return must match:

- your ledger entries
- your challans
- your vendor PAN data

## Step 4: Issue certificates

- Vendors care because it impacts their tax credit/reflection
- Timely certificates reduce vendor disputes

## 5.4 TDS Reconciliation (Don't let it accumulate)

### Reconcile monthly (simple)

- TDS deducted as per ledger
- TDS deposited challans
- Unpaid items (if deducted at booking)

### Reconcile quarterly (must)

- Ledger vs return data
- Challan vs return data
- Vendor PAN errors and correction needs

## 5.5 Common TDS Mistakes & Fixes

### 1. PAN missing / incorrect

- Fix: collect PAN at onboarding; validate before payment

### 2. Wrong section used

- Fix: map vendor type to default section; review exceptions

### 3. Short deduction

- Fix: adjust in next payment + document it

### 4. TDS deducted but not deposited

- Fix: deposit immediately; track interest/late implications

### 5. Vendor disputes due to missing certificates

- Fix: schedule certificate release date after filing

## 5.6 High-Risk TDS Scenarios (Treat as red flags)

- "No TDS please" requests without legal basis
- Cash payments without agreements
- Reimbursements billed as lump-sum fees without proof
- Large one-time commission payouts
- Foreign payments without tax review

## 6. INCOME TAX MODULE

Income tax done right = clean books + proof + advance planning

## 6.1 What SMEs need to understand

## Income tax problems often start with:

- Weak bookkeeping
- Expense proofs missing
- Cash/bank mismatch
- Large year-end adjustments
- No advance tax planning

The goal is to make your year-end filing a formality, not a crisis.

## 6.2 Books of Accounts & Proof Discipline

## Minimum proof discipline (non-negotiable)

## For every significant expense, maintain:

- Invoice/bill
- Business purpose (note/email/approval)
- Payment proof (bank reference)
- Agreement / PO where relevant

## Common expenses that attract questions

- Travel and hospitality without purpose notes
- Marketing/advertising without vendor support
- Consultant fees without agreement or deliverables
- Repairs/maintenance with vague invoices
- Cash withdrawals without clear trail

## 6.3 Advance Tax (Avoid the "interest shock")

Advance tax is not just for big companies.

## A simple SME estimation method (quarterly)

## 1. Calculate year-to-date profit from books

## 2. Adjust for known one-offs

## 3. Estimate annual profit (trend-based)

## 4. Compute expected tax (with your consultant)

## 5. Pay in planned instalments

Even if not perfect, this avoids large interest exposure.

## 6.4 Return Filing Readiness (What to keep ready)

- Finalised financials (P&L;, balance sheet)
- Fixed asset register + depreciation workings
- Party ledgers clean (no unexplained suspense)
- GST & TDS reconciliations completed
- Loan schedules + interest certificates
- Related party transactions documented

## Audit triggers (conceptual)

**Audit applicability depends on factors like:**

• turnover/receipts,
• profit declarations,
• business type and scheme used

(Confirm annually-don't assume.)

## 6.5 Income Tax Notices: What to Do

**Most notices are:**

• mismatch between reported income and information available in systems
• unusual spikes in expenses or receipts
• missing explanation / missing proof

**Your response workflow**

**1. Read the notice carefully: what exactly is asked?**

**2. Pull system reports + ledger extracts**

**3. Prepare a clean reconciliation note**

**4. Attach supporting documents**

**5. Keep a "Notice Response Pack" folder**

## 7. The Compliance Calendar (Rhythm That Works)

Instead of memorising dates, run a rhythm.

**Monthly (non-negotiable)**

• Close books
• Sales vs reporting reconciliation
• ITC reconciliation and vendor follow-ups

- TDS deduction/deposit discipline (as applicable)
- Save acknowledgements and challans in folders

## Quarterly

- TDS return cycle + certificate cycle
- Deep vendor review (top ITC vendors)
- Profit trend review + advance tax estimate update

## Annual

- Year-end finalisation
- Audit readiness pack (if applicable)
- Income tax return readiness
- Clean-up of old mismatches and pending items

# 8. Checklists (Ready-to-Use)

## 8.1 Vendor Onboarding Checklist (GST + TDS + Proof)

- Vendor name as per PAN
- PAN copy collected
- GSTIN collected (if registered)
- Bank details collected
- Agreement/PO template used
- Nature of service clearly defined
- TDS section mapping defined
- First invoice reviewed for compliance

## 8.2 Monthly GST Checklist

- Sales invoices finalised
- Credit notes documented
- Purchase bills captured
- ITC eligibility review completed
- Sales reconciliation completed
- ITC reconciliation completed
- Payment workings prepared
- Filing proof saved

## 8.3 Monthly TDS Checklist

- TDS applicable payments identified
- PAN verified
- Deduction entries passed
- Deposit challans paid
- Challans saved
- Ledger tallies reviewed

## 8.4 Year-End Tax Readiness Checklist

- Bank reconciliations done
- Debtors/creditors confirmed
- Fixed asset register updated
- Loan interest certificates obtained
- GST and TDS reconciled year-to-date
- Expense proofs organised
- Agreements folder updated

## 9. Mini Case Studies (SME situations)

## Case 1: "ITC not reflecting"

Problem: ITC booked in purchases but not showing in eligibility statement.

Root cause: Vendor filed late / wrong invoice details.

Fix: Put the invoice in the pending tracker, follow up, and claim only when reflected or defensible,

document trail.

## Case 2: "Vendor dispute on TDS"

Problem: Vendor says TDS not reflected.

Root cause: Wrong PAN / wrong section/return not filed correctly.

Fix: Validate PAN, reconcile challan vs return, file correction if needed, issue certificate.

## Case 3: "Year-end tax shock"

Problem: Large interest/penalty due to no advance tax planning.

Fix: Quarterly trend-based estimate + planned payments + profit review.

# 10. Glossary (SME-friendly)

- GST: Tax on supply of goods/services collected and paid through returns
- ITC: Credit of GST paid on business purchases (subject to conditions)
- RCM: Tax payable by the recipient in specific cases
- TDS: Tax deducted at source while paying certain parties
- Challan: Proof of tax payment
- Advance Tax: Tax paid during the year based on estimated income
- Notice: Communication asking for clarification/proof or highlighting a mismatch
- Reconciliation: Matching books with return/system data and explaining differences

Compliance doesn't have to be stressful.

It just has to be systematic.

Clean books. Clean proofs. Clean filings.

**DAIM**

**Phone: +91 7356 018 444**

**Email: info@trustdaim.com**

**Website: www.trustdaim.com**