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GST in India: Issues and Challenges

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Abstract:

The introduction of the Goods and Services Tax is going to be a very noteworthy step in the field of indirect tax reforms in India. By merging a large number of Central and a State tax into a single tax, GST is expected to ease double taxation and make taxation overall easy for the industries. Even for the customers there will be overall reduction of tax burden. Due to GST Indian products will become more competitive in the domestic and international markets. Because of its transparency character, it will be easier to administer. In this paper an attempt has been made to know the impact of GST in India and issues and challenges faced to implement GST.

Keywords - *GST in India, Issues, challenges in implementation, Indian Economy*

Introduction:

GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. GST as it is known is all set to be a game changer for the Indian economy. India as world's one of the biggest democratic country follow the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The centre and the states are empowered to levy respective taxes as per the Constitution of India. The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level. Now the Goods and Services Tax (GST) will be a further significant breakthrough - the next logical step - towards a comprehensive indirect tax reform in the country.

Goods and Services Tax (GST) was launched at midnight on 1 July 2017 by the President of India, Pranab Mukherjee and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (30 June-1 July) session of both houses of the Parliament convened at the Central Hall of the Parliament.

GST is applicable throughout India which replaces multiple cascading taxes levied by the central and state governments. It was introduced as the Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill.

Objectives of Study:

1. To know the concept and the features of GST
2. To evaluate the advantages and challenges in implementation of GST
3. To know the future challenges and impact of GST on India.

Research Methodology:

Research paper is based on secondary data. Data is collected from various books, journals, articles, government reports, newspapers and websites which focus on different aspects of Goods and Services Tax.

Review of literature:

Kelkar (2009) committee has recommended in his report that GST will bring qualitative change in the indirect tax system of the country and the GDP will grow due to reduction of production cost and this will lead to enhance consumption by the consumers.

Vasanthagopal (2011) has found in the article GST in India: A Big Leap in the Indirect Taxation System that there is a positive impact of GST on different sectors of the economy. He concluded his study by saying that only a rational and neutral design of GST will be able to show positive effect.

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GST Objectives- Following are the objectives of implementing GST in India:

1. To ensure that the cascading effect of tax on tax will be eliminated.
2. To improve the competitiveness of the original goods and services, thereby improving the GDP rate too.
3. To ensure the availability of input credit across the value chain.
4. To reduce the complications in tax administration and compliance.
5. To make a unified law involving all the tax bases, laws and administration procedures across the country.
6. To decrease the unhealthy competition among the states due to taxes and revenues.
7. To reduce the tax slab rates to avoid further clarification issues.

Key features of GST

1. Dual Goods and Service Tax : CGST and SGST

2. Destination-Based Consumption Tax: GST will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.

3. Computation of GST on the basis of invoice credit method: The liability under the GST will be invoice credit method i.e. cenvat credit will be allowed on the basis of invoice issued by the suppliers.

4. Payment of GST: The CGST and SGST are to be paid to the accounts of the central and states respectively.

5. Goods and Services Tax Network (GSTN): A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.

6. GST on Imports: Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.

7. Maintenance of Records: A taxpayer or exporter would have to maintain separate details in books of account for availment, utilization or refund of Input Tax Credit of CGST, SGST and IGST.

8. Administration of GST: Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body of the GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.

9. Goods and Service Tax Council: The GST Council will be a joint forum of the Centre and the States. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. One-half of the total number of Members of the Council will constitute the quorum of GST council.

Advantages

For the Government

- **Create a unified common market:** It will help to create a unified common national market for India. It will also give a boost to foreign investment and "Make in India" campaign.
- **Streamline Taxation:** Through harmonization of laws, procedures and rates of tax between Centre and States and across States.
- **Increase tax Compliance:** Improved environment for compliance as all returns are to be filed online, input credits to be verified online, encouraging more paper trail of transactions at each level of supply chain;
- **Discourage Tax evasion:** Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring States and that between intra and inter-state sales.

For Overall Economy

- **Bring about certainty:** Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;
- **Reduce corruption:** Greater use of IT will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption;
- **Boost secondary sector:** It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- **Employability** Ultimately it will help in poverty eradication by generating more employment and more financial resources.

For the Trade and Industry

- Simpler tax regime with fewer exemptions.
- Increased ease of doing business.
- Reduction in multiplicity of taxes.
- Elimination of double taxation on certain sectors.
- More efficient neutralization of taxes especially for exports
- Making our products more competitive in the international market.
- Simplified and automated procedures for registration, returns, refunds and tax payments.
- Decrease in average tax burden on supply of goods or services.

For Consumers

- **Transparent prices:** Final price of goods is expected to be transparent due to seamless flow of input tax credit between the manufacturer, retailer and service supplier.
- **Price reduction:** Reduction in prices of commodities and goods in long run due to reduction in cascading impact of taxation;
- **Poverty eradication**: By generating more employment and more financial resources.

For the States

- **Expansion of the tax base:** As states will be able to tax the entire supply chain from manufacturing to retail.
- **More economical empowerment:** Power to tax services, which was hitherto with the Central Government only, will boost revenue and give States access to the fastest growing sector of the economy.
- **Enhancing Investments:** GST being destination based consumption tax will favour consuming States. Improve the overall investment climate in the country which will naturally benefit the development in the States.
- **Increase Compliance:** Largely uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales

Other Advantages:

1. GST will help to reduce number of indirect taxes..
2. There will be no hidden taxes and the cost of doing business will be lower.
3. It will bring down the prices down which in turn will help companies as consumption will increase.
4. The production and distribution of goods and services will increase.
5. There will be lesser complications in valuation of goods, including compliances costs.
6. The taxation burden to be split equitably between manufacturing and services in GST.
7. GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets).
8. It is a transparent and corruption free tax administration.
9. GST is backed by the GSTN, which is a fully integrated tax platform to deal with all aspects of GST.

Exemptions under GST

- Custom duty will be still collected along with the levy of IGST on imported goods.
- Petroleum and tobacco products are currently exempted.
- Excise duty on liquor, stamp duty and electricity taxes are also exempted.

Challenges of GST

- SCGT and CGST input credit cannot be cross utilized.
- Manufacturing states lose revenue on a bigger scale.
- High rate to tax to compensate the revenue collected now from multiple taxes i.e. High Revenue Neutral Rate.
- The reduction in the fiscal autonomy of the States.
- Concerns raised by banks and insurance companies over the need for multiple registrations under GST.
- The levy of additional cess.
- The capacity of State tax authorities, so far used to taxing goods and not services, to deal with the latter is an unknown quantity.
- The success of GST depends on political consensus, technology and the capacity of tax officials to adapt to the new requirements.

Challenges of GST System:

1. Condition imposed by Sec 16 is such that if not adhered the taxpayer shall not be eligible for ITC and would adversely affect the working capital of the entity by blocking the fund.

2. Condition imposed by Rule 36 (4) is that if the supplier has not uploaded the sales invoices within prescribed time limit ITC would not be available to the recipient and can only claim up to 5% of the invoices reflecting in GSTR-2B in respect of invoices that has not been uploaded by the supplier resulting blocking of fund (now a days for quarter 1 of FY 2021-22 the provision of Rule 36(4) has been relaxed and it can be reconciled cumulatively for April,

May and June 2021), but the majority of the taxpayers ignoring the provision of Rule 36(4) and claiming the ITC as reflected in GSTR-2A being the contravention of the provision and would lead to fall the entity in litigation.

This Rule leave no option to the taxpayer to avoid these contravention because it is resulting in huge amount of fund blocking and the entity, who made the payment on time and just because of non filing GST return by the supplier on due date, cannot be denied for availement of full ITC.

3. Implementation of QRMP Scheme is also created a more adverse situation to the smoothness of the business because under this scheme if the buyer who availed the supply from QRMP opted supplier it cannot take the ITC until the supplier file its GST return at the end of quarter and receiver's GSTR-2B would reflect no invoice before the end of quarter and render buyer ineligible to take ITC requiring more working capital.

However the government has taken a step to overcome this problem by implementing Invoice Furnishing Facility (IFF) but this is resulting in multiple reconciliations.

4. has created the situation before enterprises that if the registered supplier obtain any supply from unregistered person then it shall not be eligible for ITC and the result is that registered person would not prefer to make business connection with unregistered person this would lead the small business to obtain GST registration, this situation prove that the turnover limit granted by the govt. is just an illusion.

5. No revision in GST return is also a problem before the taxpayers because no entry can be modify in GSTR-1 or 3B after it is submitted and can only be done in Annual Return only.

6. Non reconciling GSTR-1 with 3B would render the Assessing Officer to issue notices to the taxpayer. If the sales shown in GSTR-1 do not match with that of GSTR-3B in a particular period then the AO can issue notice to the taxpayer and it is to be replied within prescribed period if not replied then AO can cancel the GST registration.

7. By considering the above mentioned difficulties it is correct to say that a small businessman would require accountant and tax expert to save itself from legal consequences which would increase the cost of business and the idea behind GST ease of doing business does not seem to be happen.

8. E-Way Billing and HSN system also created a problem to specific industry like FMCG where there is daily transportation of a large variety of product for which E-Way Billing is not an easy task to maintain and regulate. Further for HSN compliances in FMCG there a large no of Product for which HSN management is a headache.

Challenges in Implementation of GST:

While GST has very significant objectives but it is still facing a lot of implementation issues. Some of them are:

1. Lack of adaptation mechanisms and trained staff.

2. In some cases, the double registration might annoy people. And it results in increase compliances and cost.
3. Unclear estimate of the exact impact of GST.
4. There is no clear mechanism to control tax evasion.

Conclusion

Adoption of GST may be new to us but in other countries like France it was adopted in 1954 and France became the first nation to adopt GST first after that Italy, Japan, Canada, Australia, South Korea, UK and China took a step to implement GST in their economy.

Thus GST is a positive step towards shifting Indian economy from the informal to formal economy. It is important to utilize experiences from global economies that have implemented GST before us, to overcome the impending challenges. Goods and Services Tax (GST) will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. The GST creates one nation one tax to replace a slew of complex ones that differ from state to state. As discussed above it is very clear that GST is going to have a big impact on Indian economy. There are few challenges which need to be solved. There is need to create proper infrastructure facilities in rural areas to file GST return. Initially government should set up some small centers to guide and train people that how to file GST. They also need to tell that there is no need to get scared of it as this is totally transparent tax system..Small training program should be conducted. Strong IT network should be provided. So from the above discussion it is very clear that GST would create uniformity of taxes and also reduce tax burden. This in turn would increase revenues of the state and the union at the country level and increase competition at the international level.

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