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GST in India: Impact and challenges

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Abstract

GST or Goods and Services Tax, the greatest tax reform in India since independence which has been long pending. GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is the only indirect tax that directly connects all the sector of Indian economy thus enhancing the economic growth of the country by creating a single unified market. However, there is a huge outcry against its implementation. This paper presents an overview of GST concept, advantages and explains its features along with focused in challenges faced by India in execution.The serious challenge faced by the industry and businesses is the shift from the previous tax regime into the Input tax credit of the GST. Many people in the economy are struggling to get adapted to the destination based tax of GST. Goods and Services tax Network (GSTN) which is considered as technology backbone for the revolutionize has a huge IT mandate steadfastly tackling mammoth aggregate of data which GST will spawn. GST though eradicated the cascading effect of tax has a disruptive impact upon the information technology landscape.

Keywords: GST, tax, government, indirect tax, cascading effect, economy, growth

Introduction

GST (Goods and Services Tax) is the biggest indirect tax reform of India. GST is a single tax on the supply of goods and services. It is a destination based tax. GST has subsumed taxes like Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc. GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central. Businesses are required to obtain a GST Identification Number in every state they are registered.

- SGST – State GST, collected by the State Govt.
- CGST – Central GST, collected by the Central Govt.
- IGST – Integrated GST, collected by the Central Govt.
- UTGST – Union territory GST, collected by union territory government.

Need of GST in India

Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating of various Central and State taxes into a single tax would help mitigate the double taxation, cascading, a multiplicity of taxes, classification issues, taxable event, etc., and leading to a common national market.

VAT rates and regulations differ from state to state. On the other hand, GST brings in uniform tax system across all the states. Here, the taxes would be divided between the Central and State government.

Impact of GST on Indian economy

GST offers several benefits to our economy. Here are some keyl advantages:

- Create unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign
- Boost export and manufacturing activity and leading to substantive economic growth
- Help in poverty eradication by generating more employment
- Uniform SGST and IGST rates to reduce the incentive for tax evasion [1].

Impact of GST on consumers

GST is also beneficial for consumers. Here is how it impacts the Indian consumers:

- Simpler Tax system
- Reduction in prices of goods & services due to elimination of cascading
- Uniform prices throughout the country
- Transparency in taxation system
- Increase in employment opportunities

Impact of GST on traders

GST is also having some positive impact on traders. Let's see how it affects the traders:

- Reduction in multiplicity of taxes
- Mitigation of cascading/ double taxation through input tax credit
- More efficient neutralisation of taxes especially for exports
- Development of common national market
- Simpler tax regime
- Fewer rates and exemptions
- Distinction between Goods & Services no longer required

Types of GST

In India, there are 4 components of GST. The following table explains the 4 types of GST and compares them on various parameters:

Table 1

	Central GST – CGST	State GST – SGST	Union territory GST – UTGST	Integrated GST - IGST
Tax Levied By	Central Government	State Government	Union territory Government	Combined levy, collected by Central Government
Taxes that it will replace	Service tax, excise duty, countervailing duty (CVD), special additional duty (SAD), Additional duties of excise(ADE), and any other indirect central levy	VAT, sales tax, luxury tax, entry tax, entertainment tax, purchase tax, Octroi, taxes on lottery	VAT, sales tax, luxury tax, entry tax, entertainment tax, purchase tax, Octroi, taxes on lottery	Central sales tax (CST)
Applicability	Supplies within a state	Supplies within a state	Supplies within a union territory	Interstate supplies and import
Input Tax Credit	Against CGST and IGST	Against SGST and IGST	Against UTGST and IGST	Against CGST, SGST and IGST
Tax Revenue Sharing	Central government	State government	Union territory government	Shared between state and central governments
Exemption Limit	Rs 20 lakh annual turnover	Rs 20 lakh annual turnover	Rs 20 lakh annual turnover	Exemption limit not defined
Composition Scheme	The dealer may use the benefit of turnover of Rs 50 lakh	The dealer may use the benefit of turnover of Rs 50 lakh	The dealer may use the benefit of turnover of Rs 50 lakh	Composition Scheme is not available in this regard
Free Supplies	CGST is applicable on free supplies	SGST is applicable on free supplies	UTGST is applicable on free supplies	IGST is applicable on free supplies
Registration	Not applicable till the turnover exceeds Rs 20 lakh	Not applicable till the turnover exceeds Rs 20 lakh	Not applicable till the turnover exceeds Rs 20 lakh	Registration is necessarily mandatory if supply is made outside the states. [2]

Challenges

The Goods and Services tax after its process of implementation have affected the businesses to a large extent in the filing of GST returns and other compliances within three months after it subsumes all central and state tax levies. The working capital block exporters will face the problem arena in which they need to pay for the Goods and Services tax in order to seek refunds. Companies in the economy need to keep track the frequent rate change by the government thereby incorporating the same in their internal structure of the company in a timely manner. In order to claim the credit arises from the GST, all companies need to have GST registration irrespective of whether it has branched or offices situated thereon. In this scenario there paves the way for limitation in the seamless flow of credit which is rightfully due to the assesse. The GST registration in turn will increase the compliance burden on the company. This is due to the reason that for each registration we need to file three returns a month which means 36 returns a year per state. And moreover there are three annual compliances so 39 compliances per state. Here it is very difficult for small businesses as they do not encompass enough man power to file so many returns.

1. Oppression of the GSTN portal

The divergent havoc that industry experts, tax consultants and small business owners are striving with is the overloading of the GSTN portal, with most of them coerced to file returns early morning or late night to refrain from facing slow processing of details on the portal [3].

2. Counterfactual data in the error report

There have been instances of the error reports depicting details of some other client, when the GSTN portal generated error reports aftermath of the upload of details by the taxpayers.

3. More-than-conventional time in spawning of error reports

According to industry experts, the more than conventional time in generation of error reports can be as high as 24 hours, which develop a lag in exhalation of refunds, generating a lot of frustration among the GSTN users.

4. Glitches in numbers inclusive of decimals

According to a tax expert interfaced by the media house, taxpayers have also face difficulties in entering their utilization credit, if the amount is in decimals. “For example, for a credit of Rs 100.85, the system is not securing utilization of Rs 0.85, due to which the taxpayers are not able to avail utilization of credit for other taxes such as SGST”.

5. Deferment of GST deadline causing refunds to get stuck

According to the report, exporters have mentioned their refunds under GST getting stuck due to extension of GSTR-1 deadline. “Most refunds are being asserted by exporters. For instance, an exporter has a refund claim of Rs 100 crore. With the deferment of filing deadlines for GST returns, especially GSTR-1, the kickback process is also stuck”.

6. Switch in business software

Most businesses adopt accounting software or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The transition to GST will crave businesses to modify their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will edge to increased costs of buying new software and training employees on how to use it. Clear Tax is the first company in India to barrage ready-to-use GST software. It is currently available at reduced prices for SMEs, to assist them to transit to GST to smoothly. In order to supinely the pain of the people, it doesn’t crave to update the extant software and provide free services for first 3 months.

7. Increase in operating costs

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own in order to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to buck the additional cost of hiring experts. Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses [4].

8. Policy transformation during the middle of the year

GST will go live and it is practically impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which clout result in confusion and compliance issues.

9. Online procedure

GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small cities across India face a huge technology disputes in the days ahead. Cloud-based software like the Clear Tax GST software could be an answer to this problem. This does not need any downloads, and the process for return filing on Clear Tax GST is very simple. Business owners need only upload their invoices, and the software will populate the return formsautomatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus up surging efficiency and timeliness [5].

10. No clarity on tax holidays

Many manufacturers (textile, pharmaceutical, FMCG industries) enjoy tax holidays and state benefit schemes. There is still no notification regarding these benefits. This will mean upsurge in costs for these industries, which will probably be passed on to the end consumers.

Conclusion

The Goods and Services Tax (GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government should study in depth the GST mechanism set up by different countries around the globe and also their fallouts before implementation. No doubt GST had simplified the existing indirect tax system and helps to overcome the cascading effect of tax. The bill was introduced to implement one country one tax but resulted into a pitfall as the price of basic goods and services had gone upward, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in Q2 of 2017-18 as against 7.5% in the second quarter of last year. It is clear that the economy is slowing down due to unplanned implementation of GST thus the disruptions may have accelerated the decline. The only possible remedy for this disruption is to make the transition to GST simpler.

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