

## **GOODS AND SERVICE TAX IN INDIA: THE DEVELOPMENTS AND CHALLENGES IN IMPLEMENTATION**

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### **Abstract**

Goods and service tax is the biggest taxation reform in India. It purports to replace multiple taxes like VAT, Service Tax, Central Excise etc, with only one tax regime, i.e. GST. In the present study the author has made an attempt to highlight the salient features of the GST and has also discussed how GST is going to be beneficial to citizens, industrialists and Government of India in many ways. However the study also discussed that as GST as a single tax will replace a number of taxes under current regime, it is going to pose a couple of mind boggling challenges. The study concluded that Information technology (IT) is considered to be the key implementing factor for the Goods and Service Tax (GST) to become the game changer everyone expects it to be. Trained professionals in the field of GST are the need of the hour. Multiplicity of the rates introduced by the government of India and a number of goods exempted from GST are going to spoil the Ideal tax structure visualized at the time GST concept was mooted by various committees time to time.

### **Keywords:**

Goods and Service Tax(GST);  
Goods and Service Tax Network(GSTN);  
Central Goods and Service Tax(CGST);  
State Goods and Service Tax(SGST);  
integrated Goods and Service Tax(IGST);  
Union Territory Goods and Service Tax(UTGST);

## Introduction

Goods and service Tax (GST) is the biggest reform in the field of Indirect Taxes in India. A number of indirect taxes levied by Central and State Government would be amalgamated into one single tax and that will be GST. It is believed that this tax would eliminate double taxation or cascading effect and unify whole Indian market in to one market. Currently tax burden on goods is 25-30% ,and with the introduction of GST overall tax burden on goods will be reduced and the consumer will be benefitted. The administration of this system would be done electronically so as to bring in transparency in the indirect tax regime in India.

Genesis (en.wikipedia.org)

**Table 1 Committees set up to design and structure GST in India**

Committee	Recommendation
<b>Empowered committee by Atal Bihari Administration</b>	An empowered committee was set up by the Atal Bihari Vajpayee administration in 2000 to streamline the GST model to be adopted and to develop the required back-end infrastructure that would be needed for its implementation.
<b>Empowered committee of State Finance Ministers under P. Chidamabaram</b>	In April, 2008, the EC submitted a report, titled "A Model and Road map for Goods and Services Tax (GST) in India" containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST bill . Based on inputs from GoI and States, The EC released its First Discussion Paper on Goods and Services Tax in India on 10 November 2009 with the objective of

	<p>generating a debate and obtaining inputs from all stakeholders.</p> <p>A dual GST module for the country has been proposed by the EC. This dual GST model has been accepted by centre. Under this model GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States.</p>
<b>Joint Working Group</b>	<p>In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislation required for GST, process/forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST.</p>
<b>Empowered Group for development of IT Systems</b>	<p>In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr. Nandan Nilekani. Amendmenttee</p>

### **Objectives of the study**

1. To study salient features of Goods and service tax in India.
2. To study how citizen, industrialists and Government of India are going to be benefitted by the implementation of GST in India.
3. To analyse various challenges in the implementation of Goods and service tax in India.

## Research Method

This study is totally based on secondary data mainly available on the Central Board of Excise and Customs (CBSC) website. In order to study the latest developments in the field of GST in India the required data has been collected from the website of Central Board of Excise and Customs (CBSC) which is updated from time to time and provide updated information on GST Laws and Rules. Other relevant information was obtained from books, journals and magazines. Knowledge Updates in Students Professional Today released by Institute of Company secretaries of India (ICSI) proved to be quite beneficial in carrying out this study.

## Literature Background

**Table 2 Review of Research work done on GST in India**

<p><b>Monika Sehrawat &amp;Upasana Dhanda (2015)</b></p>	<p>A simplified, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in its implementation. It is necessary to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.</p>
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<b>Shefali Dani(2016)</b>	<p>The author in her research paper on an Impact of Goods and Service Tax (GST) on Indian Economy concluded that the proposed GST regime is a half-hearted attempt to rationalize indirect tax structure. More than 150 countries have implemented GST. The government of India should study the GST regime set up by various countries and also their fallouts before implementing it. No doubt, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system only if there is a clear consensus over issues of threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until the consensus is reached, the government should resist from implementing such regime.</p>
<b>Hitesh K. Prajapati(2016)</b>	<p>The result shows that the GST Bill is beneficial to all and also the calculation is easy and implementation is also easy. It replaces many taxes in one. GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010 because of political issues and conflicting interests of various stakeholders it is implemented this year. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy</p>

	into a seamless national market.
<b>Lourdunathan F and Xavier P(2017)</b>	<p>It can be concluded from the above discussion that GST will bring One Nation and One Tax market. Provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Electronic processing of tax returns, refunds and tax payments through ‘GSTNET’ without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital, Therefore It is necessary on the part of the government to educate, conduct proper training, continuous seminars and workshop on GST is need of the hour. Thus, necessary steps should be taken.</p>

**Salient features of GST:**

1. Simultaneous power has been conferred on the Union and State Governments to legislate on GST through insertion of a new article 246 A in the Indian Constitution.
2. A new article 279A has been inserted in the Indian Constitution to create Goods and Service Tax Council. This council would be a joint forum of centre and State Government and would function under the chairmanship of the Union Finance Minister.
3. GST would be based on destination based principle against present concept of origin based tax.
4. Presently the taxes are based either on manufacture/sale of goods or provision of services. But under GST regime the taxes would be applicable on supply of goods and services.
5. GST would be levied on common base simultaneously by both the Centre and the State Governments. The GST to be levied by the Centre would be called Central GST (CGST) and to be levied by the States (including Union Territories with legislature) would be called State GST (SGST). In case of Union territories without legislature Union territory GST (UTGST) would be levied.
6. On inter-state supply of goods or services Integrated GST (IGST) would be levied which would be collected by the Centre.
7. On imports of goods, IGST would be levied.
8. Flow of input tax credit from one state to another will be seamless.
9. Input tax credit would be utilised in the following manner:
  - a. ITC of CGST allowed for payment of CGST & IGST in that order;
  - b. ITC of SGST allowed for payment of SGST & IGST in that order;
  - c. ITC of UTGST allowed for payment of UTGST & IGST in that order;
  - d. ITC of IGST allowed for payment of IGST, CGST & SGST/UTGST in that order.
  - e. ITC of CGST cannot be used for payment of SGST/UTGST and vice versa. (CBEC, 2017)
10. Returns will be filed electronically at different cut off dates by different class of tax payers.
11. Modes of electronic tax payments will be:
  - a. Internet banking
  - b. Debit/credit cards

- c. National electronic funds transfer
- d. Real time gross settlement.
- 12. Threshold exemption limits:
  - a. Annual turnover upto ₹ 20 lakhs(₹10 lakhs for special category States as specified in article 279A of the Constitution))
  - b. Compounding option(pay tax at flat rate without availing input tax credit) for annual turnover upto ₹50 lakhs
- 13. All goods and services will be brought under the purview of GST. However, alcoholic liquor for human consumption will be an exemption to that. Petroleum and petroleum products shall not be subject to the levy of GST till notified by GST council on a future date.
- 14. Exports will be treated as zero rated supplies. No tax will be paid on export of goods or services. Input tax credit will be refunded to the exporters.
- 15. As per 43C of GST Law, under GST system, TCS provision is applicable only for E-Commerce Operator. Every E-Commerce Operator needs to withhold a percentage (to be notified later on the recommendation of the GST Council) of the amount which is due from him to the supplier at the time of making actual payment to the supplier. Such withheld amount is to be deposited by such E-Commerce Operator to the appropriate GST account by the 10th of the next month. The amount deposited as TCS will be reflected in the electronic cash ledger of the supplier.
- 16. Four Acts have been passed

**Table 3 Acts passed under GST in India**

Act	Features
<b>The Central Goods and Services Act,2017</b>	This Act extends to whole of India except the State of Jammu and Kashmir.  This Act was passed to make a provision for levy and collection of tax on Intra-State supply of goods or services or both by the Central Government and matters connected thereto.
<b>The Integrated Goods and Services Tax Act,2017</b>	This Act extends to whole of India except the State of Jammu and Kashmir.

	This Act was passed to make a provision for levy and collection of tax on Inter-State supply of goods or services or both by the Central Government and matters connected thereto
<b>The Union Territory Goods and Services Tax Act,2017</b>	This Act extends to the Union territories of the Andaman and Nicobar Islands,Lakshadweep, Dadra and Nagar Haveli,Daman and Diu,Chandigarh and other territory.  This Act was passed to make a provision for levy and collection of tax on Inter-State supply of goods or services or both by the Union Government and matters connected thereto
<b>The Goods and Services Tax (compensation to States)Act,2017</b>	It extends to whole of India.  This Act provides for the compensation to the States for loss of compensation on account of GST in pursuance of One Hundred and First Amendment) Act, 2016.

17. In order to reduce multiplicity of Taxes, following taxes will be subsumed in GST:

**Table 4 Taxes that will be subsumed in GST**

<b>Central Taxes</b>	<b>State Taxes</b>
1. Central Excise Duty	1. VAT / Sales tax
2. Additional Excise Duties	2. Entertainment tax (unless it is levied by the local bodies).
3. The Excise Duty levied under the Medicinal and Toiletries Preparation Act	3. Luxury tax
4. Service Tax	4. Taxes on lottery, betting and gambling.
5. Additional Customs Duty, commonly known as Countervailing Duty (CVD)	5. State Cesses and Surcharges in so far as they relate to supply of goods and services.
6. Special Additional Duty of Customs - 4% (SAD)	6. Entry tax and Octroi.
7. Surcharges, and	7. Purchase Tax
8. Cesses.	

**Advantages of GST:****To the Citizens:**

1. Taxation system will be simplified.
2. Prices of goods and services will decline due to elimination of cascading effects.
3. Prices will remain uniform throughout the country.
4. It will encourage transparency in Indian Taxation system.
5. It will provide employment opportunities to the citizens. Even as the job scenario in a few sectors becomes a bit grim, there is a new demand for 'GST specialists' and 'GST Professionals' who can assist tax payers in GST compliance and implementation work.

**To the trade/industry:**

1. It will reduce multiplicity of taxes.
2. Cascading effect will be reduced.
3. Unified national market will be developed.
4. There will be fewer rates and exemptions.

5. Neutralisation of taxes especially for exports.

**To the Government:**

1. Generation of more employment opportunities for the citizens of the country.
2. Boost to manufacturing activity leading to success of “Make in India” campaign. It will improve GDP of the country.
3. Foreign investments in the country will increase due to unified common national market.
4. Lesser chances of tax evasion due to uniform SGST and IGST rates.
5. Lesser requirement of multiple record keeping will lead to lesser compliance costs.

**Challenges Ahead:**

**1. Need for robust IT infrastructure and security mechanism:**

A strong information technology infrastructure is going to be the backbone of GST system. Without the availability of efficient, robust and secured IT infrastructure, it is difficult to implement GST successfully. GST network should be ready and tested with its full array of services before the date of implementation. Portal functioning should be ensured without any disruption. With implementation of GST it is envisaged it will lead to web traffic as single tax is going to replace number of taxes. Single website would never be efficient to handle large volume of data. Mind boggling challenges due to this can be:

- a. More than three billion invoices would have to be uploaded every month for business of all kinds or sizes.
- b. Returns will be filed electronically at different cut off dates (10<sup>th</sup>, 15<sup>th</sup> and 20<sup>th</sup> of every month) by different class of tax payers. Apart from this eight other categories of returns would also be filed over a period of a quarter.
- c. For availing input tax credit, there is need that two parties i. E. Buyers and sellers agree on every single transaction. Reconciliation cum matching is done at a transaction level. All this require grand datastore to capture transaction level data.
- d. For the GST enabled IT platform called GSTN, necessary database for millions of traders and service providers need to be compiled with Union and State Governments as GST system consists of State GSTs, Central GSTs and an integrated GST for movement of goods. All this is not a task of sooth. Each entity has to be issued an ID number which is similar to PAN card

under income tax. Data regarding bank account number, place of business, nature of business needs to be compiled.

e. Another complexity is insertion of multiple notifications, circulars and legislation in GSTN. This task is gigantic. This all depends on GSTN infrastructure

f. Another challenge in the roll out of GST, particularly in the North East, is the poor Internet connectivity. The implementation of GST requires high-speed connectivity between the GST server and the State VAT data centre, and also between District VAT office and State VAT office since the processing of returns, among other processes, is done online. Additionally, all dealers have to upload invoice-wise details online. (Bhargava, 2017)

Above mentioned mind blogging activities require extensive technological platform.

## **2. Indian Businesses need to align their software systems with the GST network:**

Up gradation of existing technological infrastructure of businesses is required in order to ensure compliance with GST requirements. Many Indian companies are also struggling to update and redesign their software to implement GST. Companies are upgrading their business management software like Enterprise Resource Planning (ERP) so as to accommodate the complex calculations of GST. Many companies will have to move from their current system of record keeping to upgraded system so as to comply with GST requirements where there is necessity to establish correlation between every entry. Also, there is lack of coordination between tax payers and the technology teams in introducing GST compliant IT systems. Companies should set-up teams including both tax advisors and technology proficient people in order to enable incorporation of GST compliant technological infrastructure. The upgraded system should be such that is able to track movement of goods, analyse tax implications and other cost implications at each stage under GST regime.

## **3. Variation in compliance norms and requirements across industries:**

Businesses which are required to pay tax under GST regime are not homogeneous. So there will be variation in compliance norms and requirements across industries. For example, automotives have lesser volume of reverse transactions whereas pharmaceutical industries have higher volume of reverse transactions. Small retailers in pharmaceutical industry return medicines to manufacturers after their expiry dates. The tax filing process has to bring in uniformity and simplification however it has to consider the variation in kinds and sizes of businesses.

4. **Need for Extensive Training to the GST Tax Administration Staff:** GST is absolutely different from the present taxation system. The tax administration staff at both Centre and state needs to be trained properly in order to provide them in depth knowledge of the concepts, legislation and Procedures of GST laws. Here the Government should take initiative to educate, conduct proper training, continuous seminars and workshop on GST.

5. **A multiple tax rate structure and exemptions maybe against the idea of GST:**

The main objective of GST was to have single rate of tax on all goods and services. However multiple tax rate structure has been allowed under GST. The government has finalised multiple tax rates and exemptions moving away from “ideal” tax structure. An ideal GST would have carried one single rate with very few exemptions. Instead, a multiple rate structure has been finalised. Almost all goods and services have been classified into groups attracting GST rates of 5%, 12%, 18% and 28%. In addition, four items (luxury cars, aerated drinks, tobacco and related ‘paan’ products) will attract separate cesses. Under the goods category, petroleum products, alcohol, electricity, real estate and several food subcomponents have been kept outside GST’s ambit. Under services, health and education, amongst some others, have been excluded. A big list of excluded items will result in incomplete input tax offsets, resulting in continued tax cascading, which an ideal GST would have eliminated. (Bhandari, 2017)

### **Conclusion**

GST, one of the biggest tax reform in India is spurring growth in the economy. It is the tax that has brought multiple taxes imposed on goods and services under single banner. It is expected that GST will simplify the tax structure and make it easier. It is certainly going to affect the businesses and professions throughout the country. However there are certain challenges in its implementation in India. An effective, secured, error free and efficient IT Infrastructure is key component to handle large volume of data under GST. The efficient working of the IT backbone of GST is the biggest challenge in view of large number of assesses to be registered on GSTN. There are also security threats of data hacking by various groups. Need for trained professionals in this field, bringing uniformity in tax compliance in diverse kind of businesses are other challenges posed by GST implementation in India. Government of India should look into these matters seriously before it is implemented in the market.

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