

CRITICAL ANALYSIS OF THE ISSUES AND CHALLENGES ASSOCIATED WITH GST IMPLEMENTATION

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ABSTRACT

The Goods and Services Tax was implemented by the Government of India hoping that it would lead to the having of a single market, fostering entrepreneurship among its citizens and make way for the creation of jobs. However, against the expectations, GST has unfortunately turned again smaller and first-time enterprises due to its various rates and never-ending filing and reporting procedures. This apart it has posed a lot of issues and challenges for business firms of every size and requires also investment to be made in IT systems. This paper attempts to analyse such issues and challenges as faced by firms and throws some light on the future course of action required to solve the issues and challenges.

Keywords: GST, Filing returns, IT systems, impractical assumptions, multiple slab rates, etc.

INTRODUCTION

Goods and Services Tax, or GST, was implemented with the hope that it would lead to the development of a single market with a population of 1.4 billion people, foster entrepreneurship, and create jobs. It was also intended to help the government achieve its goal of integrating an increasing number of commercial enterprises into the official sector of the Indian economy. It was thought that this would contribute to broadening the tax base required to increase the nation's long-standing tax to GDP ratio of 10–11%.

The GST system has, however, turned against smaller enterprises and first-time entrepreneurs due to its various rates and never-ending filing and reporting procedures. It makes sense that just 1.34 crore out of 6.3 crore businesses have joined the GST network. On how many businesses have cancelled their GST registrations, there is no official data. Anecdotal evidence, however, indicates that a growing number of small businesses are either de-registering or trying to maintain their size by not allowing their sales turnover to exceed the threshold of Rs 20 lakh for service firms and Rs 40 lakh for manufacturing entities, above which GST registration is required.

By combining a variety of national and local taxes, the GST, India's largest tax reform to date, was put into place with the hope that it would improve compliance rates, boost tax

revenue, and close the gap between small and large firms. Will this be a concerted effort in the right direction, or will it be a half-measure with problems in the implementation that may reverberate for years? Additionally, would the average person profit from this tax or will it just have a speculative impact? These are only a few of the main quests.

ISSUES AND CHALLENGES BUSINESS HOUSES FACE

Following are a few of the typical problems and difficulties that company houses encounter:

GST Provisions are Vague

To make compliance easier and eliminate the cascading impact of taxes, the GST contains 17 separate charges. However, the system requires clarification in a number of areas, including the exact classification of commodities and services and the yet-to-be-determined tax rates for a variety of goods and services. Unfortunately, a fresh agenda for business seems to be presented at every GST Council meeting.

Insufficient Knowledge Among Stakeholders

The introduction of the GST was viewed adversely by many groups. Lack of sufficient knowledge of the new tax system may have been one of the causes. According to Lourdunathan and Xavier (2017), India, a democratic nation, need to inform its population about the most current changes. Sometimes, particularly in rural regions, residents overpay taxes due to ignorance, and when they become aware of this, they develop an unfavourable opinion of the tax system.

Lack of a reliable IT system

IT has a big part to play in quick and simple compliance. Numerous businesses, particularly MSMEs in the unorganised sector, lack a sufficient IT infrastructure. It necessitates the adoption of an effective IT system for intuitive tax administration. Although GSTN is now acting as a special purpose entity to assist the firms in this, additional specialised help is necessary.

Dearth of skilled labour

The nation still has a severe shortage of IT and accounting professionals even three years after the introduction of the GST. India has a sufficient quantity of IT specialists, but there aren't enough certified public accountants to support firms in meeting the new compliance standards.

Trap set by GST

The billing and payment process for GST is somewhat complicated. Regardless of whether A has received payment from B or not, A (the seller) is expected to pay up the GST amount equivalent to 18% of the invoice value (on behalf of B) to the government no later

than December 20, 2021. Let's imagine business A sends customer company B a GST invoice for the provision of products or services that are subject to an 18% GST, say in November 2021. Company A cannot cancel the GST invoice simply because it expects delays or payment defaults since it has already supplied the goods or services associated with it. Thus, by December 20, 2021, provider A will be responsible for paying GST on behalf of their customer/buyer B.

If however, A fails to deposit the GST amount in the government's account by the deadline for whatever reason, such as A not having adequate cash balances or the buyer delaying payment, the GST authorities often cancel A's GST registration after a month or two (or defaulting). It is unclear why the seller's GST registration is being suspended when the problem is with the buyer.

The only option available to the seller (of services alone) is to defer paying the GST and maintain his registration. To demand bribes, tax inspectors, however, may always threaten to remove a small business's GST registration if it delays payment (caused by the buyer's delayed payment). This peculiar GST clause has even another unforeseen effect, which is this.

Combining small and medium-sized businesses

It is believed that integrating small and medium-sized businesses would be the main issue in the GST. This is because GST completely automates the online payment of taxes and invoicing processes. Both the GST-1 invoice production and the GST-2 customer approval processes would be conducted online. Once accepted, it is designated GST-3 in tax records. The majority of small and medium-sized businesses could lack the technological know-how to adjust to this significant shift. GST takes technological preparedness considerably further than what is already the case in the sector.

Impractical assumptions

The seamless input tax credit (ITC) that would be offered under the GST system is one of the main characteristics of GST. However, there are several presumptions in the seamless credit. For instance, a large number of items, including alcohol, gasoline, and diesel, have been excluded from the GST's coverage. Since not all transactions may have identical audit trails, integrating tax credits across goods will be a problem.

Multiple slab system

A single rate of tax was recommended since the GST was initially intended to streamline the whole tax system. That has been the experience in other nations that have introduced GST globally. The majority of nations have preserved only one GST slab since it is the unspoken rule in GST that you minimise the slabs. However, in the context of India, there are five different slab percentages: 0%, 5%, 12%, 18%, and 28 %. A new 3 percent slab has also been established exclusively for gold. The practical installation of these several slabs presents difficulties.

Increase in number of returns to be filed

Instead of making corporate jobs simpler, GST has made them harder. For instance, a GST assessee must submit 37 returns annually (3 returns per month and one annual return). In contrast, prior to the advent of GST in India, an assessee was required to submit 13 returns, each of which related to a single state. However, the quantity of return filings will increase proportionally if one is doing business in many states.

Logistical Difficulty

The adoption of GST has logistical challenges as well. The State GST Acts have not yet been enacted by all 31 states. If the legislation are not enacted by July 1st, it might result in a significant mismatch for trans-Indian commerce in several crucial states like West Bengal and Punjab. Even more so, given that both of these states serve as significant hubs for intra-India commerce. But it is anticipated that before the implementation date, these states will be able to approve this measure via an ordinance.

The payment of service tax is probably going to be complicated. Currently, the centre is in charge of service tax. It will fall under the unified GST umbrella under the GST system. Therefore, state GST will apply to all intrastate services, whereas central GST will apply to interstate service supply. This may probably cause unneeded hassles while providing intangible services. Additionally, the issue of state jurisdiction will become crucial and difficult to identify in the event of services provided across states.

The GST Bill's anti-profiteering provision might provide even another practical difficulty. This provision requires the firm to fully pass on any tax reductions to the consumer. While this won't be a problem if you're billing for services, it may be a problem if you're billing for things whose maximum retail price (MRP) contains more than just GST. It may be difficult to actually distinguish the effects of GST from this group of elements, and this might lead to unending legal disputes.

IT-related Challenges

The largest barrier for GST will be IT-related, but it is not the least of its problems. To be GST-ready, businesses must completely rebuild their tax and IT systems. Second, banks would be responsible for managing the full payment interface online, and the IBA has already asked the GST Council for extra time. Last but not least, the CBEC now has to smoothly combine existing taxes with new taxes. It's easier said than done, however!

WAY AHEAD

Not only is a world-class, clear-cut, and technologically advanced GST system essential for sustained development, but it is also essential for the convenience of doing business. The simplicity of doing business during the next several years. The government may take action to significantly simplify the GST legislation during the next years.

At a time when the COVID-19 epidemic is affecting the whole planet, these actions may prove to be a sign of progress. The most important developments to watch out for in the near future include the implementation of e-invoicing and new returns, rationalising GST rates, lowering the number of lawsuits involving transitional credits, centralising advance ruling authority, having a single jurisdiction for audits and investigations, and strengthening the GSTN system.

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