

Goods and Services Tax (GST) : Issues and Challenges

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Abstract

GST-the revolutionary tax reform introduced in 1st July 2017 as a part of 122nd amendment bill of constitution of India was set up with the goal of 'one nation-one tax-one market'. The GST system has been implemented in India with aspiring goals of avoiding cascading effect, unified law subsuming various indirect taxes and ensuring availability of input credit. But the proper implementation of the system is yet lagging behind. The present study has identified the prominent challenges and issues faced by the GST system from the view of customers, merchants and officials.

Key words: GST, Issues and challenges

Introduction

GST-the revolutionary tax reform introduced in 1st July 2017 as a part of 122nd amendment bill of constitution of India was set up with the goal of 'one nation-one tax-one market'. The tax system of GST has been implemented with the view to overcome the challenges of previously existed indirect taxes, including multiplicity of taxes leading to cascading effect, levy of excise duty on manufacturing point, set off of input tax only on goods and not between goods and services, lack of uniformity in provisions and tax rates, complexities in administration and insufficient tax compliance. With the implementation of GST the previous rates of VAT of 0%, 1%, 5% and 14.5% changed to GST rates of 0%, 5%, 12%, 18% and 28%.

Though GST came into existence with the 122nd amendment bill of constitution of India, the proper implementation of this tax system is yet not accomplished. Thus the present study focuses on identifying the issues and challenges GST implementation in India.

Objective of the study

- ◆ To understand the concept of GST in light of tax reform introduced in India
- ◆ To study the issues and challenges of GST in India.

Methodology

The study is conducted on the basis of extensive study of secondary data collected from various national and international journals, books, publications from various websites and government reports on GST. Issues and challenges have been mainly identified through detailed discussions with retail merchants and also with tax commissioner.

Challenges and issues of GST

Reluctance on the part of suppliers to move into the new system of GST

Clients' understanding of GST provisions and its impact on their business is still at a nascent stage, and many are still identifying the locations and places they need to be registered in.

Lack of clarity of GST provisions among retailers and customers

Various provisions of GST are still ambiguous. Categorisation of goods and services in various cases is still unclear. Provisions for anti-profiteering, as well as the now-deferred e-way bill, which tracks consignments across states, are unclear. The new tax regime requires transporters to generate e-way bills on the GST portals which includes incurring substantial costs to install radio frequency identification devices (RFIDs).

Currently there is no clarity on who will bear the bill for the infrastructure. The government has also made the rules related to assessment and audit public, but the absence of actual forms in the public domain main challenges the effectiveness of the rule.

Lack of affordability of IT infrastructure needed for GST

Various businesses are yet to map the accounting software and IT systems in line with the new tax provisions, to create GST invoices, and extract required reports. Tax and accounting professionals jointly need to ensure that their clients' current systems are compatible with their GST Service Provider (GSP).still the required infrastructure not available for effective administration.

Lack of professionals (the need for skilled resources and re-skilling)

With GST rates and their complexities only recently becoming a part of our policy framework, skilled staff with updated GST subject knowledge and training is not easily available. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure swift implementation. While GST aims to streamline business and protect consumer interests, the legislation should not allow a sense of apprehension to impact industrial interests. GST is both a challenge and an opportunity for tax and accounting professionals, and knowledge of cloud, big data, analytics, and business applications along with financial knowledge is the need of the hour.

Small and unorganised wholesalers can't survive in the long run

While unorganised cash based small wholesalers were still recovering from the impacts of last year's demonetization, GST has further added to their losses. Small shopkeepers and even dealers now prefer to buy their daily grocery supplies from GST compliant wholesale chains like Wal-Mart and Metro cash. It may slightly increase the prices of your daily needs, but the biggest impact will be in the unorganised sector that will have to start maintaining proper GST compliant bills and invoices if they wish to survive in the post-GST regime.

Problems with regard to the increased issue of invoices

Small shopkeepers are mainly struggling in creating different invoices for goods with different GST rates. The confusion is about whether they should make different bills for such products or mention separate tax information in the same bill. Since they have so many types of items with different GST categories, it is almost impossible to maintain separate invoices.

Lack of Knowledge on filing of GST return online requires the services of CA, application service provider (ASP) which further leads to increased operating costs.

The firms need to get the technical assistance from the experts and also from the CA and other professionals so they need to pay additional amount for that purpose so that increases the operating cost.

Confusion among customers on the applicability of rates on local products

Different rates are charged for different items so they are feeling confused with this different rates and they feel that the sellers charging additional taxes from them.

Complication with regard to the filing of GST

The SMEs are having trouble understanding and adopting the necessary requirements to comply with the new system of indirect taxation. Filing three returns in a month, registration rules, complex refund rules - there are multiple compliance issues that are worrying the businesses. In these past three months of GST implementation, the government identified the pain-points that were making compliance difficult for SMEs. The council met recently, to ease the GST compliance procedures, especially for the small businesses. The limit for composition scheme has been increased to Rs 1 crore. SMEs having an annual turnover of Rs 1.5 crore can file GST returns, quarterly. Government has even launched helpline systems on the social media to instantly address the problems and queries faced by businesses. You can also avail the services of application service providers (ASPs) that will help you ensure complete GST compliance in the easiest possible way.

Blockage of working capital

Frequent Liquidity crunch is another challenge for small businesses and particularly exporters. In GST, funds will be maintained in the form of an electronic credit ledger with the tax department. This credit ledger will keep a record of all your tax liabilities. In the case of services' sector, the rates have been increased from 15% to 18%. This will force the taxpayers in the sector to face some blockage of working capital. Government is currently working on a solution to this problem as working capital is very important, particularly for smooth functioning of small and new businesses. For the exporters, the government is working on an 'e-wallet' system that will be created for each exporter by April 1, 2018 to ease the process of refunding their returns. Till then, the exporters will have to pay a nominal GST of 0.1%. Exporters will also receive refunds from 10th October, which would help in resolving cash flow issues due to changes in the provisions and rates of GST.

Higher tax burden for manufacturing SMEs

Small businesses in the manufacturing sector will not have it easy in the GST regime. Under the excise laws, only manufacturing business with a turnover exceeding Rs. 1.50 crores had to pay excise duty. The turnover limit for manufacturing business has been reduced to Rs. 20 lakh, thereby increasing the tax burden for many manufacturing SMEs. However, SMEs with a turnover of upto 75 lakhs can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.

Organisation of GST council reduced the role of state finance minister with regard to the tax provisions

Now the decisions are made by the GST council and the state finance ministers loss their powers they have no powers and also the decisions are taken by ¾ majority so the minority states loss there words.

Although GSTN has been set up to provide for the IT infrastructure and services to central and state government, the proper functioning of the system is not yet appreciable.

The IT system need the efficient technology and they need to introduce the best technology and still it not working at the best .Rapid need for implementation necessitates IT infrastructure for the Goods and Services to upgrade itself. This requires development of comprehensive solutions to facilitate the adoption in the required timeframe. The IT systems on ERP and API side would be largely affected from the inculcation, as existing ERP vendors require to build patches that meet complete needs of GST execution on a techno-enable scale. This would then facilitate integration of API's; with GSTN released API needs to be tweaked.

Conclusion

The GST system has been implemented in India with aspiring goals of avoiding cascading effect, unified law subsuming various indirect taxes and ensuring availability of input credit. But the proper implementation of the system is yet lagging behind. The present study has identified the prominent challenges and issues faced by the GST system from the view of customers, merchants and officials. By implementing necessary reforms and changes GST can be an efficient system leading India to be more economically strong nation

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