

## CHALLENGES IN IMPLEMENTATION OF GOODS AND SERVICE TAX (GST) IN INDIA

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### Abstract

The concept of Goods and Service Tax popularly known as GST was introduced on 1st July, 2017. The GST will have a 'dual' structure, which means it will have two components- the Central GST and the State GST. GST is expected to simplify tax administration, ensure 'Ease of Doing Business' and promote 'Make in India.' On bringing GST into practice, there would be amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%. The paper highlights the background, Challenges in Implementation of Goods and services Tax in India.

**Keywords:** Goods and Service Tax; Indirect Tax; Challenges

### Introduction

The idea of GST in India was proposed by Atal Bihari Vajpayee in 1999 and a committee was set up under the leadership of Asim Das Gupta the then finance minister of West Bengal to design a GST model. It was supposed to be implemented from 1st April 2010 under flagship of P Chidambaram the then finance minister of UPA government but due to political issues and conflicting interests of various stakeholders it did not come into force. In May 2016 the constitutional amendment bill for GST was passed by Lok Sabha and deadline of 1st April 2017 to implement GST was set by Arun Jaitley the finance minister of India. Finally the goods and service tax was launched at midnight on 1st July 2017 by the president of India, Pranab Mukherjee and Prime minister of India, Narendra Modi. Experts have enlisted the benefits of GST as under:

1. It would introduce "one country one tax"
2. It would absorb all the indirect taxes at the central and state level thus eliminating the cascading effect of tax.

3. Higher threshold for registration which will exempts many small traders and service providers.
4. It would bring down the prices of goods and services which in turn will help the companies as consumption will increase
5. In the GST system, when all the taxes are integrated it would eliminate the number of compliances like return filling
6. It would help to eliminate the separate tax imposition on goods and services which requires the transaction to split its value among goods and services leading to greater complications
7. It would wider the tax regime by covering all the sectors including the unorganized sectors thus widening the tax base. This would lead to better and more revenue collection by the government.
8. GST would simplify the working procedures and would minimize the tax burden of E-commerce and logistics companies
9. Employment generation for youths as GST trained experts

Tax policies play an important role on the economy. The main source of revenue for government of India is from tax. Direct and indirect taxes are the two main source of tax revenue. When the impact and incidence falls on same person it is called direct tax. When the impact and incidence falls on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system is currently mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, central sales tax (CST) and value-added tax (VAT), among others.

Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes will be subsumed under a single regime. The GST taxation laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. GST works on the fundamental Principle of “One Country One Tax”.

### **Literature of Review**

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simply

and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Dr. R. Vasanthagopal (2011) studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Agogo Mawuli (May 2014) studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Monika Sehrawat and Upasana Dhanda (2015) in “GST in India: A key tax reform” concluded that introduction of GST will undoubtedly boost the Indian economy but focus should be given on rational design of GST model and timely implementation.

Nitin Kumar (2014) studied, “Goods and Service Tax- a Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

### **Research Methodology**

The Research Scholar used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is descriptive in nature. Available secondary data was extensively used for the study.

## Objectives of the Study

To study about the Challenges of Introduction of Goods and Service Tax (GST in India).

To Study on Prospects in Implementation of Goods and services Tax (GST) in India

## Need for GST

1. The main reason behind introducing GST is to improve the economy of the nation.
2. VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
3. On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
4. GST rollout missed several deadlines due to disagreement among many states over certain important issues on the new tax reform. However GST is scheduled for a nation-wide rollout on July 1<sup>st</sup>, 2017

## Features of GST

1. GST is one indirect tax for the entire nation, which will make India “one unified common market”.
2. It will replace multiple taxes like VAT, CST, Excise Duty, Entry Tax, Octroi, LBT, and Luxury Tax etc.
3. There are four types of GST namely:
  - a) **SGST** – State GST, collected by the State Govt.
  - b) **CGST** – Central GST, collected by the Central Govt.
  - c) **IGST** – Integrated GST, collected by the Central Govt.
  - d) **UTGST** – Union Territory GST, collected by the Union Territory

4. Tax Payers with an aggregate turnover in a financial year up [Rs. 20 Lakhs & Rs. 10 Lakhs for North Eastern States and Special Category States] would be exempted from tax.

5. GST slabs are pegged at 5%, 12%, 18% & 28%.

**Journey of Indian indirect taxation and turning points, which reformed the taxation system till date before the introduction of GST taxation system in India:**

**1974:** Report of LK Jha Committee suggested introduction of VAT system.

**1986:** Introduction of restricted VAT called “MODVAT”.

**1991:** Chelliah Committee report recommended “VAT/GST” and recommendations accepted by Govt.

**1994:** Service Tax introduction.

**1999:** Empowered Committee formation on State VAT.

**2000:** Introduction of Uniform Floor State Tax Rates and abolition of tax-related incentives granted by State Governments.

**2003:** Implementation of VAT system in Haryana.

**2004:** Strong progress towards introduction of CENVAT.

**2005-06:** Implementation of VAT based taxation system in 26+ states in India.

**2007:** First GST Stuffy released by Mr. P. Shome in January; Finance Minister speech carries the introduction of GST in Budget; CST phase out starts in April 2007; joint working group created and reports submitted.

**2008:** EC rolls out the GST Structure of Taxation System in April 2008.

**2009:** Date proposed for Implementation as April 1, 2010.

**2010:** Department of Revenue commented on GST discussion paper and finance minister suggested probable GST rate.

**2011:** Team was created to lay down the road map for GST and 115th Constitutional Amendment Bill for GST was laid down by the Parliament.

**2012:** Negative list regime for service tax was implemented.

**2013:** Parliamentary Standing committee submitted its report on the Bill.

**2014:** 115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill.

## Challenges in Implementing GST:

Wall Street firm Goldman Sachs, in a note „India: Q and A on GST- Growth Impact Could Be Muted“, has put out estimates that show that the Modi government’s model for the Goods and Services Tax (GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections. There appears to be certain principle loopholes in the GST model imposed by the union government which may be ineffective in delivering the desired result.

1. Note ban has huge impact on the Goods and Services Tax (GST) a serious doubt on implementing GST by the central government’s targeted deadline of April 1, 2017..
2. The impact of the November 8 demonetization of high value currency on their respective economies to underline that it is not the appropriate time to implement. That could have a unstable effect on the economy.
3. The principle ideology behind implementation of GST-one country one tax is not suitable for India. Previously there were 32 taxes which include service tax, excise duty, sale tax and 29 state VAT taxes and after implementation of GST it comes to 31 taxes which include IGST, CGST and 29 SGST which again bear complicated tax structure in the country and rebuts the principle of one country one tax.
4. Another principle ideology behind implementation of GST-one rate of tax is not possible in India due to, According to the 101st amendment in the constitution, Article 246 A states that parliament and legislative assembly can impose taxes on goods and services. Hence not only union government but also state government had power to have own GST rate. Article 279 A of the constitution states that GST council has only recommendatory powers, now it’s up to state government to levy its own GST rate and distorts the entire GST uniformity rate system of the country.
5. Government had incorporated goods and services tax network(GSTN), which is responsible for developing GST portal to ensure services like GST registration, GST return filling, IGST settlement, etc. which requires robust IT network. It is widely known that India is in an embryonic stage as far as IT network connectivity is concerned.
6. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be

adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.

7. Trained and skilled man power with updated GST subject knowledge are not easily available, this had created an additional work load on professionals across industry.

8. The Indian insurance market is not so developed as less than 10% of the population has insurance. This was the reason behind the government initiative, Pradhan Mantri Jeevan Bema Yojna“ however with the implementation of GST insurance premiums have become expensive by 300 basis points which will become difficult for insurance companies to penetrate the market and would work as an unfavorable factor against insurance awareness schemes. The government initiative „Pradhan Mantri Jan DhanYojna“ initiated that every citizen of have a bank account will face difficulties as the tax on financial services had raised by 3% in the new goods and services tax regime.

9. The telecommunication sector assumes a serious problem as on the one hand the government is initiating digital India and on the other hand telecom services is getting costlier as telecom services will attract GST tax rate of 18% which is 3% higher than the previous service tax rate, even when India’s rural teledensity is not even 60%.

10. The GST administration intends to keep petroleum products out of the ambit of GST, being petroleum products have been a major contributor of inflation in India.

11. Small traders are confused with the GST tax rate application and increasing cost of operations, as they are unable to afford the cost of computer and accounting staff for maintenance of record and filling of returns under GST.

12. Political reasons are determining the fate of GST, which is not the correct thing, because ideally GST is an economic and tax reform, and economic and tax reforms should not be dictated by political.

## **Conclusion**

It can be concluded from the above discussion that GST will bring One Nation and One Tax market. 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, The country is keenly looking for the roll-out of GST from April 2017, as the government focuses on creating one single tax & market for all in India. GST in India will make the country industry friendly by implementing one type of tax and that will attract more investments from foreign investors also. Also, implementation of dual model of GST will result in generating more employment opportunities. Therefore, it is very important that the government makes efforts to make the GST applicable all over the country with clear law and industry friendly so that the industry, consumers and the economy benefits as a whole

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