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CONFRONTING HURDLES IN THE ENACTMENT OF GOODS AND SERVICES TAX (GST) IN INDIA

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ABSTRACT

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, was a monumental step in simplifying the country's taxation system. This abstract provides a concise overview of the challenges and benefits associated with the implementation of GST, focusing on its impact across various sectors: manufacturing, services, agriculture, and e-commerce.

The initial phase of GST rollout faced teething problems, including technical glitches in the GSTN, ambiguities in tax rates and procedures, and migration challenges for existing taxpayers. Incompetence among some tax officials exacerbated these issues, but concerted efforts have since improved the system's functionality.

Despite the substantial advantages GST has brought to the Indian economy, challenges endure. Notably, a heightened compliance burden, especially for small and medium-sized enterprises (SMEs), threatens to impede their operations. Furthermore, the regressive nature of taxation and increased taxes on certain essential items have sparked concerns. Initial resistance from some quarters and adjustments in the tax system have necessitated ongoing adaptation.

Various sectors, from manufacturing to e-commerce, have encountered sector-specific difficulties, encompassing classification, compliance costs, rate clarity, input tax credits, and supply chain disruptions. Government measures, such as the composition scheme and training programs, aim to mitigate these challenges.

In summary, the implementation of GST has delivered numerous economic benefits for India.

However, addressing persistent challenges, particularly those impacting SMEs and the regressive tax structure, is vital to ensuring a seamless and efficient GST system, which is essential for the country's economic growth and development.

Keywords: GST, Challenges, Demerits, SMEs.

RESEARCH QUESTIONS

1. What were the specific challenges faced by small and medium-sized enterprises (SMEs) in complying with GST regulations, and how did these challenges impact their operations and competitiveness?
2. How has the regressive nature of GST taxation affected different income groups in India, and what strategies can be employed to mitigate its impact on lower-income households?
3. What sector-specific challenges emerged in the manufacturing, services, agriculture, and e-commerce sectors during the implementation of GST, and what steps can be taken to enhance sector-specific compliance and efficiency?
4. How have government initiatives, such as the composition scheme and training programs, contributed to addressing the challenges associated with GST implementation, and what further measures can be taken to ensure a smooth and efficient GST system in India?

OBJECTIVES OF THE PAPER

This paper aims to assess the challenges in the initial implementation of the Goods and Services Tax (GST) in India, examine its sector-specific impact, analyse the regressive nature of GST, evaluate the compliance burden on small and medium-sized enterprises, and assess the effectiveness of government measures. The ultimate objective is to provide recommendations for policy adjustments to ensure an efficient and growth-enhancing GST system while addressing persisting issues.

RESEARCH METHODOLOGY

The research conducted for this paper is secondary. This research paper aims to explore the economical and legal aspects of the challenges concerning the implementation of GST. A qualitative approach was used for all the data collection. All the data was collected through various online sources like websites, scholarly articles, research papers, etc.

1. INTRODUCTION TO THE PAPER

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, as a historic tax reform aimed at simplifying the country's indirect tax system, which had been a long-standing challenge. The pre-existing tax structure had been characterized by a plethora of indirect taxes, such as excise duty, service tax, VAT, and others, which created confusion and complexity for businesses and taxpayers. The introduction of the GST marked a significant shift from the old tax regime to a new, unified tax system.

The implementation of the GST involved various steps, including passing the GST Bill in Parliament, establishing the GST Council, designing, and developing the GST IT system, registering taxpayers, migrating existing taxpayers to the new system, and educating businesses and consumers on the new tax system. The GST was designed as a dual model, where both the central and state governments have the authority to levy and collect GST, ensuring a unified and consistent tax system across the country.

The introduction of the GST has brought significant changes to the tax system, including tax administration, tax collection, tax rates, and compliance requirements. GST has replaced multiple taxes with a single tax, streamlining the tax structure and reducing the tax burden on businesses. It has eliminated the cascading effect of taxes, where taxes are charged on top of taxes, leading to an increase in the cost of goods and services. Additionally, the GST has enhanced tax compliance, making it easier for businesses to comply with tax regulations, which has also led to increased revenue for the government.

Despite the benefits, the implementation of GST faced some challenges which has been further discussed in detail in the research paper.

Overall, the introduction of GST has been a significant reform in India's tax system, with the potential to enhance transparency, efficiency, and ease of doing business in the country. The GST has brought in a uniform tax system, which has reduced the burden on businesses and taxpayers, while also promoting economic growth. The government continues to work towards improving the GST system, addressing challenges, and ensuring the successful implementation of this landmark tax reform.

2. BASIC CONCEPT OF GST ALONGWITH ITS POSITIVES

The Goods and Services Tax (GST) is a value-added tax levied on the supply of goods and services in India, replacing multiple indirect taxes like excise duty, service tax, and VAT. GST was introduced on July 1, 2017, and it is administered by the Goods and Services Tax Council. It is a comprehensive indirect tax system, with a destination-based approach, and is applicable to every stage of the supply chain, from manufacturers to end consumers.

GST has played a vital role in streamlining India's tax system by eliminating the cascading effect of taxes, simplifying the tax structure, and enhancing transparency and efficiency in tax administration.

Since its implementation on July 1, 2017, the Goods and Services Tax (GST) has brought various benefits to the Indian economy. These benefits include simplifying the tax structure by replacing multiple indirect taxes with a single tax, reducing the tax burden on businesses by eliminating the cascading effect of taxes and allowing input tax credit, increasing tax compliance by enhancing transparency and accountability in tax administration and reducing tax evasion, promoting economic growth by facilitating inter-state trade, lowering transaction costs, and boosting investment, streamlining the supply chain by eliminating multiple taxes and reducing the time and cost of moving goods across state borders, making Indian goods more competitive in the global market by making exports more tax-efficient, and increasing government revenue by broadening the tax base and curbing tax evasion. Overall, the implementation of GST has had a substantial positive impact on the Indian economy, benefiting businesses, consumers, and the government.

3. CHALLENGES CONCERNING IMPLEMENTATION OF GST

- 1. Initial Teething Problems-** During the initial implementation of GST in India, there were several challenges and teething problems. These included technical glitches in the GSTN, which caused delays in tax filing and refunds. Additionally, there was a lack of clarity on GST rates and procedures, which caused confusion among taxpayers and tax officials. The migration of taxpayers from the old tax system to the new GST system was also a challenging process, with many businesses struggling to update their records and comply with the new requirements. Extensive training was required for tax officials and businesses on the new GST system, which took time and resources. Finally, some businesses were resistant to the new GST system, either because they did not understand the new requirements or because they did not want to pay more taxes. However, many of these issues have been resolved over time, and the GST system is now running more smoothly.
- 2. Incompetent Tax Officials:** Incompetent tax officials have been a significant challenge in the implementation of GST in India. Some tax officials were not adequately trained on the new GST system, which led to errors and delays in tax processing and refunds. In some cases, officials were not able to resolve taxpayer grievances, leading to frustration and dissatisfaction among businesses. This lack of competency and expertise among some tax officials has been a hurdle in the smooth implementation of the GST system.
- 3. Complex Tax System-** The implementation of the Goods and Services Tax (GST) system in India has brought several benefits to the economy, but it is also complex in various ways. For instance, the multiple tax rates for different goods and services can be confusing for businesses and consumers, who have to keep track of the different tax rates. Additionally, businesses are required to file multiple tax returns, including monthly, annual, and other periodic returns, which can be time-consuming and challenging, especially for small businesses. Furthermore, the GST system has a complex registration process that requires businesses to obtain a unique GST identification number (GSTIN) and comply with various registration requirements, which can be difficult for small businesses and startups with limited resources and expertise. Despite the benefits of the

GST system, it remains a complex system that requires careful navigation by businesses and consumers alike.

- 4. Increased Complaint Costs-** The implementation of GST has led to an increase in compliance costs for businesses in India. The GST system requires businesses to file multiple tax returns, including monthly, annual, and other periodic returns. This process can be time-consuming and challenging, especially for small businesses, which can result in errors and non-compliance. Additionally, the GST system has a complex registration process that requires businesses to obtain a unique GST identification number (GSTIN) and comply with various registration requirements. This can be difficult for small businesses and startups that may not have the necessary resources or expertise to navigate the registration process. Consequently, businesses have had to invest more time and resources into complying with the GST system, which has increased their compliance costs.
- 5. Compliance Burden on SMEs-** The implementation of the Goods and Services Tax (GST) system has increased the compliance burden on businesses, especially small and medium-sized enterprises (SMEs). These SMEs may not have sufficient resources to comply with the complex GST regulations, which can result in higher costs and reduced competitiveness.

SMEs may face challenges in understanding the various GST rules, regulations, and filing requirements. Compliance with GST regulations can be time-consuming and resource-intensive, which can be particularly challenging for SMEs. Furthermore, the compliance burden of GST on SMEs can be significant, especially during the initial stages of implementation, as they may need to invest in new technology and staff training to comply with the new regulations.

In addition, SMEs may have difficulties dealing with GST authorities, such as responding to GST audits, assessments, and inquiries. Any errors or omissions in GST filings can lead to penalties and interest charges, which could further increase the compliance burden and financial strain on SMEs.

Overall, the compliance burden of GST on SMEs can be a significant challenge that may impact their growth and competitiveness. Governments can provide additional support and guidance to SMEs to help them comply with the GST regulations and reduce the compliance burden. This could include simplifying the GST rules and regulations, providing training and assistance programs, and streamlining the GST filing and refund processes.

- 6. Higher Taxes for Some Items-** The GST system in India taxes different goods and services at different rates, ranging from 0% to 28%. As a result, some essential items that were previously taxed at a lower rate are now taxed at a higher rate under GST. For instance, items like sanitary napkins are taxed at a higher rate of 12%, while some luxury items like cars are taxed at a lower rate of 28%. Some critics argue that this results in higher taxes for essential items and lower taxes for luxury items, which may not be fair. Nevertheless, the GST system was introduced to simplify the tax structure and reduce the overall tax burden on businesses, which it has achieved to some extent.
- 7. Resistance from Some Quarters-** The implementation of GST in India has received resistance from some quarters. Some businesses were initially resistant to the new GST system, either because they did not understand the new requirements or because they did not want to pay more taxes. Additionally, some states were initially hesitant to adopt the GST system, as they were concerned about losing their fiscal autonomy. However, over time, most of these concerns have been addressed, and the GST system has been adopted by all states in India. Nonetheless, some businesses and taxpayers may still have grievances with the GST system, particularly with regards to compliance costs and the complexity of the tax structure.
- 8. Regressive Nature of Taxation-** The Goods and Services Tax (GST) is considered a regressive tax because it imposes the same tax rate on all goods and services, regardless of the income level of the consumer. This means that lower-income households, who tend to spend a larger proportion of their income on goods and services, will pay a higher proportion of their income in GST than higher-income households.

For example, a low-income household that spends 90% of their income on goods and

services subject to GST would pay a higher percentage of their income in GST than a higher-income household that only spends 50% of their income on taxable goods and services.

Essential items such as food, healthcare, and education, which are consumed more by low-income households, are typically subject to the same GST rate as non-essential items. This means that low-income households are likely to spend a larger proportion of their income on GST than higher-income households.

Although the GST system aims to reduce the overall tax burden on consumers and businesses, the regressive nature of the tax could potentially negatively impact low-income households. To address this issue, some countries have introduced exemptions and reduced tax rates for certain essential goods and services consumed by low-income households.

4. CHALLENGES IN RELATION TO COMPLIANCE WITH GST IN VARIOUS SECTORS

4.1. Manufacturing Sector

The implementation of the Goods and Services Tax (GST) system has presented a range of challenges to the manufacturing sector. Some of the main challenges that manufacturers have encountered are:

- a) Increased compliance costs:** Under GST, manufacturers are required to comply with new regulations, file GST returns, and maintain GST records. These compliance activities can be time-consuming and resource-intensive, leading to increased costs for manufacturers.
- b) Impact of new tax rate structure on margins:** The new GST tax rate structure has had an impact on manufacturers' margins. Some manufacturers have had to increase prices to maintain their margins, while others have had to absorb the increased costs, resulting in lower profitability.

- c) **Classification of goods:** Classifying goods according to the Harmonized System of Nomenclature (HSN) code can be a complex and time-consuming task for manufacturers. Proper classification is essential for determining the correct GST rate to be applied.
- d) **Determination of place of supply:** The GST system requires the determination of the place of supply for goods and services. This can be a challenge for manufacturers, especially those involved in inter-state transactions. Properly determining the place of supply is crucial for charging the correct GST rate.
- e) **Valuation of goods and services:** The GST system requires the valuation of goods and services for the purpose of charging GST. This can be a challenge for manufacturers providing discounts, free samples, or involved in job work.

In conclusion, the implementation of GST has presented several challenges for the manufacturing sector, including increased compliance costs, impact of new tax rate structure on margins, classification of goods, determination of place of supply, and valuation of goods and services. The government needs to provide support and guidance to manufacturers to ensure a smooth transition to the GST system and reduce the burden of compliance.

4.2. Service Sector

The implementation of the Goods and Services Tax (GST) system has brought various challenges to the services sector. Here are some of the challenges faced by the services sector:

- a) **Determination of place of supply:** The GST system requires the determination of the place of supply for services, which can be complex for service providers who operate across multiple states. Proper determination is essential for charging the correct GST rate, and failure to do so can result in compliance issues and penalties.

- b) **Invoicing requirements:** GST requires service providers to issue GST-compliant invoices. However, some service providers may lack the necessary infrastructure to comply with these requirements, which can lead to compliance issues and penalties.
- c) **Input tax credit restrictions:** While GST allows input tax credit (ITC) for services, there are some restrictions that apply. Service providers may face challenges in claiming ITC for services used in the course of their business, which can lead to increased costs.
- d) **Changes in tax rates:** The GST Council may make changes to the GST rates, which can be a challenge for service providers to keep up with. Frequent changes in rates can disrupt cash flow and increase compliance costs.
- e) **Lack of clarity on certain services:** There may be a lack of clarity on the GST treatment of certain services, which can cause confusion and compliance issues for service providers. For example, services provided to international clients may be subject to different rules, and the treatment of composite supplies may not be clear.

In summary, the implementation of GST has presented several challenges for the services sector. These include determination of place of supply, invoicing requirements, input tax credit restrictions, changes in tax rates, and lack of clarity on certain services. The government needs to address these challenges and provide support and guidance to service providers to ensure a smooth transition to the GST system.

4.3. Agricultural Sector

The Goods and Services Tax (GST) system has presented several challenges to the agricultural sector. Here are some of the issues faced by the sector:

- a) **Lack of clarity on GST rates:** There is a lack of clarity on the GST rates applicable to agricultural products. Different rates apply to different types of agricultural products, and there may be confusion among farmers and traders about the applicable rates.

- b) **Compliance burden on small farmers:** The GST system requires farmers with an annual turnover of over Rs. 20 lakhs to register for GST and comply with its provisions. However, many small farmers may not have the necessary resources to comply with the requirements, leading to increased compliance costs.
- c) **Input tax credit restrictions:** While GST allows input tax credit (ITC) for certain goods used in agriculture, such as fertilizers and machinery, there are some restrictions that apply. Farmers may face challenges in claiming ITC for these goods, leading to increased costs.
- d) **Supply chain disruptions:** The implementation of GST has led to supply chain disruptions for agricultural products. There have been reports of delays and additional costs in transporting goods, which can affect the prices of agricultural products.
- e) **Lack of infrastructure:** The implementation of GST requires farmers and traders to have access to digital infrastructure to comply with the requirements. However, there may be a lack of such infrastructure in rural areas, making it difficult for farmers to comply with the requirements.

In summary, the GST system has presented several challenges for the agricultural sector, including a lack of clarity on GST rates, compliance burden on small farmers, input tax credit restrictions, supply chain disruptions, and lack of infrastructure. The government needs to address these challenges and provide support and guidance to farmers and traders in the agricultural sector to ensure a smooth transition to the GST system.

4.4. E-Commerce Sector

The e-commerce sector has faced several challenges with the implementation of the Goods and Services Tax (GST) system. These challenges include:

- a) **Classification of goods and services:** The classification of goods and services under the GST system is complex, making it difficult for e-commerce companies to

determine the correct tax rate for each product. This can lead to discrepancies in tax collection and compliance.

- b) Compliance burden:** E-commerce companies are required to comply with several GST provisions, including registration, filing returns, and payment of taxes. This can be a significant burden, especially for small and medium-sized e-commerce companies.
- c) Lack of clarity on GST rates:** There is a lack of clarity on the GST rates applicable to e-commerce transactions, particularly for cross-border transactions. This can cause confusion and difficulties in determining the correct tax rate for transactions.
- d) Tax Collection at Source (TCS):** E-commerce companies are required to collect TCS from sellers on their platform, which can be challenging to implement, particularly for small sellers who may not have the necessary knowledge or resources.
- e) Integration with IT systems:** E-commerce companies need to integrate their IT systems with the GSTN (GST Network) to comply with the GST requirements. This can be a significant challenge, particularly for small and medium-sized companies that may not have the necessary IT infrastructure.

In conclusion, the implementation of GST has presented several challenges to the e-commerce sector, including classification of goods and services, compliance burden, lack of clarity on GST rates, TCS implementation, and integration with IT systems. It is important for the government to provide guidance and support to the e-commerce sector to address these challenges and ensure a smooth transition to the GST system.

5. KEY TAKEAWAYS

The implementation of the Goods and Services Tax (GST) in India was a significant reform aimed at simplifying the taxation system and promoting economic growth. The GST replaced several indirect taxes, such as excise duty, service tax, and value-added tax (VAT), creating a unified tax system for the country. The implementation of the GST required significant changes

to the existing tax structure and IT infrastructure.

Although the GST has brought several benefits to the Indian economy, it has also faced several challenges in various sectors. One of the significant challenges is the compliance burden, particularly for small and medium-sized enterprises (SMEs). SMEs may not have the necessary resources or knowledge to comply with the GST provisions, leading to a significant compliance burden for them. Additionally, the regressive nature of the tax can impact the purchasing power of the lower-income groups.

The manufacturing sector has faced several challenges with the implementation of the GST, including the classification of goods and services, compliance burden, and difficulties in implementing IT systems. The services sector has also faced challenges with the GST, such as the classification of services and the lack of clarity on GST rates. The agricultural sector, a major contributor to the Indian economy, has faced challenges such as the lack of clarity on GST rates for agricultural products and the difficulties in implementing GST compliance for farmers.

The e-commerce sector, a rapidly growing sector in India, has also faced several challenges with the implementation of the GST. The classification of goods and services, compliance burden, lack of clarity on GST rates, and the implementation of TCS are some of the significant challenges faced by the sector.

Despite the challenges, the GST has brought several benefits to the Indian economy. The removal of cascading taxes has reduced the tax burden on businesses, leading to lower costs for consumers. The simplified tax compliance process has made it easier for businesses to comply with the tax provisions, reducing the administrative burden on them. The GST has also led to increased revenue for the government, which can be used for developmental purposes.

To address the challenges faced by the GST, the government has introduced new provisions such as the composition scheme, the e-way bill, and the reverse charge mechanism, addressing some of the concerns of SMEs. The government has also provided training and education programs to businesses to help them comply with the GST provisions. Additionally, the government has been working to address the regressive nature of the GST through measures such as reducing the tax rate on essential goods and services.

In conclusion, the implementation of the GST has been a significant reform for India's taxation system. Although the GST has faced several challenges, the benefits it brings to the Indian economy cannot be ignored. The government's efforts to address the challenges faced by the GST are commendable, and it is crucial to continue working towards making the GST system more effective and efficient. The successful implementation of the GST is essential for India's economic growth and development.

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