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# **GST ADMINISTRATION IN INDIA**

AUTHORED BY - T. NAMMEETA

## **Introduction – What is tax and why should we pay it?**

Good governance refers to the care and welfare the government provides to its people in a state. Providing this would be impossible without a tax. A tax is a required payment imposed by a government on individuals or organizations to gather money for public projects that improve facilities and infrastructure. The collected fund is then used to fund different public expenditure programs, such as expenses on infrastructure, education, security, basic healthcare, and pensions.

Our tax structure in India has undergone lot of reforms over the years such as Direct Tax Code (DTC), Vivad Se Vishwas Scheme, Faceless Tax Assessment Scheme, Indirect Tax Framework and we are presently with the Goods and Services Tax (GST) system.

## **What were the complications in the previous tax system?**

The tax structure was intricate with various taxes at the central and state levels, leading to a complicated tax compliance process for businesses. This complexity resulted in challenges for businesses, particularly small and medium-sized enterprises (SMEs), who struggled to understand and comply with the multiplicity of tax laws. Additionally, the lack of a unified tax system created a cascading effect where taxes were levied on top of taxes, increasing the overall tax burden. This burden was further exacerbated by inter-state barriers, as tax compliance and transportation of goods across state borders were challenging due to differing tax rates and procedures in each state. Furthermore, the complex system provided opportunities for tax evasion and black-market activities.

However, in 2017, the introduction of the Goods and Services Tax (GST) aimed to address many of these issues. The GST created a single, unified tax system, simplifying compliance and reducing the cascading effect of taxes. This significant step in reforming India's tax structure not only aimed to alleviate the burden on businesses but also sought to promote economic growth.

## What is GST?

GST is an indirect tax, the kind of tax where the burden of taxation is transferred. GST the abbreviation of Goods and Service Tax. BJP during the 2014-2019 tenure, in their first regime came up with the implementation of GST in India to execute the idea of “One Nation, One Tax”. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017 and came into effect on 1st July 2017. Under the GST regime, the tax is levied at every point of sale. In the case of intra-state sales, Central GST and State GST are charged. All the inter-state sales are chargeable to the Integrated GST.

## How is GST better than the previous tax system?

GST has now subsumed and streamlined all indirect taxes to execute the idea of “One Nation, One Tax”. Common laws, such as the implementation of e-way bills for goods transport and e-invoicing for transaction reporting, can be introduced to enhance tax compliance. This unified system of indirect tax compliance alleviates the burden on taxpayers by eliminating the need for multiple return forms and deadlines. The constitutional amendment empowers both central and state governments to take decisions or make laws regarding taxes.

Under GST, taxpayers are eligible to claim an input tax credit solely on invoices that have been uploaded by their respective suppliers. This measure significantly reduces the likelihood of claiming input tax credits on fraudulent invoices. The implementation of e-invoicing has further strengthened this objective. This reduces the possibility of tax evasion.

It also made tax rates unified and harmonized. This make the compliance easier too. It simplified inter-state trade by removing entry barriers and check posts, resulting in the reduction of logistics cost and making movement of goods efficient.

It has also boosted up manufacturing and exports as GST reduced the tax burden on manufacturing by allowing for the full refund of GST on exports. This boosted the “Make in India” initiative and made Indian products more competitive in the Global market.

Updating old accounting system to a more GST compliant software has increased operational cost in many businesses and companies. The purchasing, installing and training employees have increased operational costs for small businesses. This has led to hiring tax professionals to become

more GST compliant.

Previously, excise duty was only applicable to businesses with an annual turnover exceeding Rs. 1.5 crore. However, under the current regime, businesses with an annual turnover of Rs. 40 lakh are required to pay GST.

The burdens on SMEs and other entities in terms of compliance have significantly increased due to the requirements of registering with the regulating body, issuing GST, generating compliant invoices, maintaining digital record keeping, and filing returns.

The process of claiming and verifying input tax credit (ITC) has been identified as a cumbersome task, with instances of fraudulent claims and mismatch of ITC adding to the burden of businesses and tax authorities. Additionally, the E-way bill system, which was introduced to track the movement of goods, has faced technical and compliance challenges, thereby increasing the complexity of interstate transactions. Furthermore, the effective implementation of anti-profiteering provisions, aimed at ensuring that businesses pass on the benefits of reduced taxes to consumers, has proven to be a challenging task.

The lack of awareness and resources to comply to GST causes the failure to understand nuances resulting in no or less payment of the tax, attracts penalties and fines which elevates the costs. How could these issues be resolved?

To prevent technical glitches and downtime, it is recommended to invest in a stable and robust IT infrastructure for the GSTN. This will ensure that the GST portal can handle peak filing periods without disruptions. Additionally, the return filing process should be streamlined by reducing the number of returns and making it more user-friendly. User-friendly online tools and guidance should be provided to help businesses file their returns accurately and efficiently.

To minimize confusion and compliance challenges, frequent changes in tax rates and rules should be minimized. Changes should be implemented with careful consideration and ample time should be provided for businesses to adapt. The system for verifying ITC claims should be strengthened to reduce fraud and errors. A robust reconciliation mechanism should be implemented to match ITC claimed by buyers with the details of sales reported by suppliers.

The E-way bill system should be improved by addressing technical issues and making it more user-friendly. The process of generating and verifying E-way bills should be simplified, especially for businesses involved in interstate transactions. Effective anti-profiteering measures should be implemented to protect consumer interests. Clear guidelines should be set for businesses to determine the passing on of benefits from reduced taxes.

To reduce administrative burdens, the registration process for businesses with operations in multiple states should be simplified. The possibility of a single registration for pan-India operations should be considered. The compliance burden on small businesses should be examined, and the threshold limit for mandatory GST registration should be raised. Support, training, and resources should be provided to help small businesses comply with GST requirements. Investing in data analytics and technology for tax enforcement will help identify and curb tax evasion and fraud effectively.

### **Conclusion:**

The Goods and Services Tax (GST) is a commendable tax system that has simplified India's complex tax structure, fostering transparency, economic integration, and increased tax collections. However, there is scope for improvement in areas such as simplification, enhancing IT infrastructure, ensuring consistency, supporting small businesses, data-driven enforcement, and stakeholder consultation. With ongoing reforms and refinements, GST has the potential to become an even more efficient and taxpayer-friendly system over time, benefiting both the government and businesses in India. In conclusion, the GST represents a significant leap forward for India's tax system.