Implementation of GST in India: Challenges Faced, And a Comparative Study With Respect To Other Nations

[1]Dr. Jeevan Jayant Nagarkar, [2]Mr. Bhaskar Chakravorty

[1]Assistant Professor, Symbiosis Institute of International Business, Pune.
[2]MBA Student, Symbiosis Institute of International Business, Pune

Abstract-Goods and Services Tax (GST) was one of the most awaited and much needed economic reform in India. It was aimed at uniting all indirect taxes under one umbrella. This meant better and easier compliance, better economic growth and zero cascading effect, among other advantages. The GST council was formed by the Ministry of Finance to implement the GST regime. After a long wait, GST was finally rolled out on 1st July, 2017.

Soon after the implementation, it was realized that the execution of this reform was a far bigger challenge than anticipated. A lot of concerns came into picture over time, such as - Rates for different categories, tax return filing process, Reverse Charge Mechanism, TDS, etc. The GST council met over 5 times after the implementation to keep on suggesting changes and to resolve existing concerns. Even now, many more concerns are coming to light.

This study aims to understand the challenges faced, and changes done during the course of implementation of GST in India. Furthermore, to understand if the challenges faced; were similar to challenges faced by other nations, which have implemented GST in the recent past. Finally, to draw a conclusion as to what challenges maybe expected while implementing such an economic reform.

This paper accounts for changes in the GST Act only up to the 10th of December, 2017.

The final report comprises the introduction, literature review, an overview of the study and progress of the study so far.

INTRODUCTION

Goods and Services tax (GST) is an indirect combined (central and state) sales tax that is collected on sale of specific goods and services. The business adds the GST to the price of the product and a customer who buys the product pays the sales price plus GST and the GST portion is collected by the business or seller which later on is forwarded to the government. A total of 160 countries all over the world have implemented GST so far. In many other countries of the world value added tax (VAT) is taken as analternative for GST. The Goods and Services Tax (GST), which was introduced in India on 1, July 2017 and was applicable throughout India, which replaced multiple cascading taxes levied by the central and state governments.

GST in India

GST in India is conceived with the motto of “one nation, one tax” and has subsumed 17 different types of central and state level taxes. With the implementation of GST in India the movement of goods has become comparatively cheaper and it has done away with various different sort of taxes. GST is a single indirect tax for the entire nation, one which is on its way to making India a single unified market. It’s a single tax on the supply ofgoods and services, right from the manufacturer to the consumer. In India,HSN codes are provisioned for various categories of sales, for GST.

Goods and service tax is facilitating Indian businesses to be globally competitive. The Indian GST case is structured for efficient tax collection, reduction in corruption, easy inter-state movement of goods, and betterment of the economy as well as demolition of the possibility of tax evasion with some other important considerations. The Goods and Services Tax has revolutionized the Indian taxation system. In India the GST Act was passed in the Lok Sabha on 29th March, 2017 and came into effect from 1st of July, 2017 however it took drastically long enough for the act to be implemented. While having a discussion on GST in India there are certain difficulties necessary to be mentioned which states that unlike India, other countries have a much higher threshold for GST applicability which in turn helps them inreducing the burden for small businesses while in India it seems a bit difficult and it will bring in challenges for the Indian SMEs (i.e. Small and medium enterprises).

The other thing to be taken care of is that India has the highest rate of GST at 18% compared to some other emerging market economies of the world. India has two types of GST hence it called as dual GST model which includes CGST (Central Goods and Services Tax) and SGST (State Goods and Services Tax).

The government believes that the implementation of the new indirect tax regime is a key component in improving ease of doing business. As of now, India ranks at 100th out of 190 countries in the list of ease of doing business by the World Bank. The government has categorized 1211 items under tax slabs of 0 per cent, 5 per cent, 12 per cent, 18 per cent and 28 per cent.

GST – The global picture

It would not be exaggerated to mention over here that the concept of GST is not new to the world as nearly 160 countries as on 2016, have opted this mode for bringing individually tax rates into a single tax.

Though in India it is termed as a new system it has its roots quite long back in some other countries of the world which we would discuss here in the upcoming lines. **France** was the very first country to implement theGST in the year 1954 and since then almost about 160 countries have adopted this tax system in one or the other way all over the world. To mention here some of the countries with the GST system are Canada, Vietnam, Australia, Singapore, UK, Spain, Italy, Nigeria, Brazil, and South Korea. The USA does not have GST as it ensures high autonomy for the states and follows a unique VAT system of taxing. As stated earlier France, the Western European country was the very first country to have implemented GST and as of now the current rate of GST is 19.6 per cent. Most European countries introduced GST back in the 1970s-80s.

Nowadays a single unified tax system is a global fiscal trend. The one big difference between the Indian model of GST and similar taxes in other countries is the dual GST model. Many countries in the world have a single unified GST system, countries like Brazil and Canada have a dual GST system whereby GST is levied by both the federal and state or provincial governments. It is the Canadian model of dual GST (central and state) implemented in 1991 that the Indian model of the indirect tax reform finds similarities with. Canada introduced GST in the year 1991 at a rate of 5 percent and the Canadian GST model gives options to provinces to go for state or central GST.

This report further delves in to the key points of the GST Act, the key features of GST in other nations such as – France, Canada, Malaysia, etc., and tries to do draw a parallel between the challenges of implementation in various nations.

LITERATURE REVIEW

Goods and services tax in India- A Positive reform for indirect test system -AkanshaKhurana and Aastha Sharma, 2016 - GST will provide relief to producer and consumer by providing wide and comprehensive coverage of input tax credit set –off, service tax set-off and subsuming the several taxes.

Impact of GST on Indian Economy –Alpna Yadav, 2017 - By the implementation of GST cost of manufacturing of goods will reduce. The cost of consumer goods will reduce. The Pharmaceutical industry is also benefitted as there is 8 types of taxes are bear by them in current scenario after GST these taxes will remove to one single tax. Similarly, the impact of GST on all other sectors like Infrastructure, textile, IT, Agriculture, Food Industry, Transport, Real estate industry will positive and all the sectors will be benefitted with the implementation of GST. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set off. Service tax set off and subsuming the several taxes. GST is likely to improve tax collection and Boost India's economic development.

Rethinking the Prospects and Challenges of Implementing GST in India – Sandeepan Banerjee and Mona Banerjee, 2016 – Even after the passing of the GST bill by both the houses in the parliament, a long journey is yet to be traversed from the business standpoint. The key challenges to look at currently would be –

- Fixation of Revenue Neutral Rate
- GST Rate and Inflation
- Transaction Value for Taxation of Stock Transfers
- Multiple Registration of Service Providers
- Computation of Loss of Revenue to state

Deloitte Haskins & Sells LLP(March, 2017) -Countries have faced initial bottlenecks, such as finding the VAT model to be very complicated on account of huge diversity in application of exemptions. In the European Union, there was a problem of reduced rates among member states. There have also been challenges pertaining to interpretation. Canada s challenge was the presence of a variety of tax rates under the GST/harmonised sales tax regime. There were post-implementation issues in Malaysia. Canada s British Columbia, after having harmonised its provincial retail sales tax with the GST in July 2010 rolled back to its earlier tax regime in 2013.

Despite these challenges, GST/VAT has emerged as the preferred form of indirect tax system, being tax neutral, and offering a larger and more stable source of revenue. It is also potentially self-enforcing in nature. Gross domestic production of major economies such as New Zealand, Canada, Singapore, Australia, and so on, have reported annual increases in gross domestic production by 2.43%, 0.87%, 7.02% and 2.57%, respectively.

CRISIL(August, 2016) - When implemented in many countries, GST caused a spike in inflation with the impact lasting 10-12 months. The duration of the impact on retail sales varied, with consumer spending growth normalising within 3 months in Japan, Australia and China, but taking as long as a year in Singapore. Also, most countries witnessed a pre-GST spending rush. Malaysia, which implemented it in April 2015, saw a spending rush -- but not on big-ticket items. Sales of electronics & telecommunications equipment, departmental and general stores, jewelry and watches, furniture, and apparel rose. This was reflected in the rise in credit card transactions and rise i n narrow money supply, which captures the transactions demand for money. Consumer spending also surged in Australia, Japan, China and Singapore just before GST kicked in.

RESEARCH METHODOLOGY

The present study is conceptual in nature. Hence, secondary source of data mostly comprising books, journals, research publications, internet has been used to achieve the stated objectives. The process involves –

1. Study of the GST Act in detail.
2. Study of all changes and amendments to GST Act up to 10th December, 2017.
3. Understanding the issues or concerns behind the above changes with relevant data.
4. Study of GST implementation in other nations in the recent past.
5. A comparison on the challenges faced in other nations versus the ones being faced in India
6. Coming up with a conclusion on implementing an economic reform at this scale

Objective

To understand the challenges faced and changes done during the course of implementation of GST in India. To compare these challenges with the ones faced by other nations which implemented GST in the recent history and draw a conclusion as to what challenges maybe expected while implementing such an economic reform

Hypothesis

Null Hypothesis: The challenges faced while implementing GST in India are similar to the ones faced by other nations which had implemented GST in recent history.

Alternate Hypothesis: The challenges faced while implementing GST in India are entirely different as compared to the ones faced by other nations which had implemented GST in recent history.

Note: It is possible to perceive this topic in terms of other hypotheses as well. The above hypotheses may be subjected to change, depending on any new perspective that may come up in the further course of the study.

IMPLEMENTATION CHALLENGES

This section looks at each of the hurdles faced so far in the implementation of GST in India. Each sub point discusses – the challenge, the reason and implications and corrective measure taken.

Mismatch in MRP for Goods Manufactured before 1st July

The Challenge: Soon after rolling out of GST, the country saw almost a black-out on sales of items like cars and refrigerators. The foremost concern from sellers were that goods slated for sale before GST implementation still had the old price on.

Corrective Solution: It was soon clarified by the Ministry of Consumer Affairs that new MRP stickers may be pasted on such goods, alongside the old ones. This provision was allowed in accordance with the Legal Metrology (Packaged Commodities) Rules, 2011.

Dual levy of GST on leased Aircraft for Airlines

The Challenge: Airlines were required to pay IGST on import of aircraft, aircraft engines and other parts. They were also being charged on the lease of the aircraft as well. This resulted in **double taxation** for them.

Corrective Solution: The finance ministry took the decision to exempt airlines from paying IGST while importing aircrafts, aircraft engines or other spare parts, as long as GST was being paid on the airline lease rental.

The following conditions were laid out for this provision –

- The items cannot be sold without the authorisation from concerned departments
- The items have to re-exported within three months after the expiry of lease

Outcome: This prevented dual taxation for airlines. Unless corrected this would have resulted in inflated airline ticket prices for consumers.

Ambiguity on applicability of GST on legal services

Even though legal services were under the ambit of GST, there was an ambiguity on its implementation. It was further clarified that the onus of paying GST still lies with the client. It would be a “reverse charge”.

Extension for filing GST Returns

To ensure better compliance the ministry for finance extended the deadline for filing GST returns to October 31st initially. This move was taken keeping in mind to provide some relief to business owners. The deadline was further moved down to November 30 for GSTR 2 and December 10th for GSTR 3.

GSTR 2 being one of the major returns from compliance perspective, as input tax credit depended on this, the above was a crucial decision.

Exemption on Advances Received

The GST Council brought in a decision to exempt - advances received by businesses in lieu of goods or service to be provided later, from GST.

This ended a lot of confusion which existed previously and provided a much a needed break to small cash heavy businesses which were already struggling under the aftermath of GST.

Multiple Rate Changes under GST Regime

The Challenge: The GST Council had to bring in multiple changes to the rates, rate slabs of GST over the course of implementation.

Due to the diverse range of goods and services brought under the ambit of GST at once it became difficult for the council to come up with a comprehensive rate at the first go. Moreover, it is also said that the council had always had the fact figured out that it would be better to make rate changes based on actual consumer and buyer feedback once the GST was actually rolled out. The council originally categorized more than 1200 goods into slabs.

The council went with 4 different slabs initially – 5, 12, 18 and 28 percentages. Soon after implementation multiple changes for each category of items started rolling out.

As and when, taking consumer feedback to into consideration this was done over a period of months.

Latest Provisions and Changes

The following section cover the latest amendments made. The GST council continues to bring in relevant changes and amendments till date as per requirements.

In supplement to relaxation of GST laws and regulations, GST rates are additionally to be decreased for assorted goods and services as below:

- **Penalty for Late Filing GST Revisit Decreased to Rs.50 – Rs.20 for NIL Return**

The penalty for late filing of GST returns have been decreased by the 25th GST Council Meeting. Now, each company that floundered to file GSTR1 revisit, GSTR5 revisit or GSTR5A revisit will have to pay a penalty of Rs.50 each date of default. In case of default to file NIL GST revisit, the penalty possesses been decreased to just Rs.20 each day. The reduction in penalty for late filing GST returns will cut the compliance and penalty burden on countless tiny and medium companies across the country.

- **Cancellation of GST Registration**

Persons who obtained GST registration voluntarily were beforehand barred from submitting their GST registration for one year from date of registration. The laws now have been adjusted to permit cancellation of voluntary GST registration before 1 year.

Also, those who obtained GST registration mandatorily because of migration from VAT or Service Tax or Central Excise can annul their GST registration before 31st March 2018.

- **E-Way Bill Introduced**

The ministry begun rolling out the e-way bill mechanism on an examination basis across ewaybill.nic.in. Stakeholders can login to ewaybill.nic.in and produce, annul or adjust GST eway bill on a trial basis. After the arrangement is prepared, the GST eway bill arrangement will be made available on ewaybillgst.gov.in.

The ministry expects to rollout a nationwide GST eway bill arrangement for interstate movement of goods from 1st Februrary 2018. The ministry expects to rollout eway bill arrangement for intrastate movement of goods on after 1st June 2018. Though, no date has been set, mandating eway bill for intrastate movement of goods.

- **GST Rate Adjustments for Goods**

The below are the GST rate adjustments for goods as per the latest GST Council Meeting:

GST Rate Decreased from 28% to 18%

Old and utilized motor vehicles [medium and colossal cars and SUVs] on the margin of the supplier, depending on the condition that no input tax trust of central excise duty/value added tax or GST paid on such vehicles possesses been availed by him.

Buses, for use in area transport, that completely run on bio-fuels.

GST Rate Decreased from 28% to 12%

All kinds of aged and utilized motors vehicles [other than medium and colossal cars and SUVs] on the margin of the supplier of depending on the conditions that no input tax trust of central excise obligation /value added tax or GST paid on such vehicles possesses been availed by him.

GST Rate Decreased from 18% to 12%

Sugar confectionary

Drinking water packed in 20 litters bottles

Fertilizer grade Phosphoric acid

Bio-diesel

Bio-pesticides

Bamboo wood constructing joinery

Drip irrigation arrangement encompassing laterals, sprinklers

Mechanical Sprayer

GST Rate Decreased from 18% to 5%

Tamarind Kernel Powder

LPG supplied for supply to household internal customers by LPG distributors

Scientific and technical instruments, apparatus, supplies, accessories, portions, constituents, spares, instruments, mock ups and modules, raw physical and consumables needed for raise vehicles and satellites and payloads.

GST Rate Decreased from 12% to 5%

Articles of straw, of esparto or of supplementary plaiting materials; basketware and wickerwork

Velvet fabric alongside no refund of unutilised input tax credit.

GST Rate Decreased from 3% to 0.25%

Diamonds and valuable stones

GST Rate Change to NIL

Parts and accessories for produce of hearing aids.

De-oiled rice bran

GST Rate Increased from 12% to 18%

Cigarette filter rods

GST Rate Increased from Nil to 5%

Rice bran (other than de-oiled rice bran)

- **Clarification for Health Services**

The GST Council amended that services provided through senior doctors / consultants / technicians retained by the hospitals, whether operatives or not isexempt from GST. Also, the whole number charged by hospitals for healthcare services from the patients encompassing the retention money and the fee/payments made to the doctors isexempt from GST. Finally, food supplied to the in-patients as counseled by the doctor/nutritionists is a portion of composite supply of healthcare and is not separately taxable under GST. Though, supplementary supplies of food by a hospital to patients (not admitted) or their attendants or visitors is taxable under GST.

List of recent Amendments under 25th GST Council Meeting

#	Relevant Act	Amendment	Notification No.
1	CGST	All taxpayers are exempted from tax payment of Tax on advance received in case of supply of Goods.	Notification No. 66/2017 –Central Tax
2	CGST	E-Commerce operator who's turnover does not exceed Rs. 20 Lacs (Rs.10 Lacs in specified state) need not required to register under GST. (Prior to this amendment, E-commerce Operator was required compulsory registration.)	Notification No. 65/2017 –Central Tax
3	CGST	Late fees payable is reduced from Rs. 200/- to Rs. 50 for who's turnover is below to Rs. 1.5 Crore from October on wards, Provided further where the total amount of CGST or SGST payable is nil, late fees will Rs.20 Per Day from October on wards.	Notification No. 64/2017 –Central Tax
4	CGST	ITC-04 due date has been revised from 30.11.2017 to 31.12.2017	Notification No. 63/2017 –Central Tax
5	CGST	Form GSTR-6 due date for July month has been extended to 31.12.2017 from 30.11.2017	Notification No. 62/2017 –Central Tax
6	CGST	Form GSTR-5A for the month of July, August, September and October 2017 has to be filed by 15.12.2017	Notification No. 61/2017 –Central Tax
7	CGST	Form GSTR-5 for the month of July, August, September and October 2017 has to be filed by 11.12.2017	Notification No. 60/2017– Central Tax
8	CGST	Form GSTR-4 for the Q2 (Jul to Sept) to be filed by 15.12.2017.	Notification No. 59/2017 –Central Tax

#	Relevant Act	Amendment	Notification No.
9	CGST	Due date Extended for the furnishing of FORM GSTR-1 for those taxpayers with aggregate turnover of more than Rs. 1.5 crores. (Refer Notification for Due date)	Notification No. 58/2017–Central Tax
10	CGST	Taxpayers with aggregate turnover of up to Rs. 1.5 crore filed quarterly GSTR-1. (Refer Notification for Due date)	Notification No. 57/2017–Central Tax
11	CGST	Form GSTR-3B compulsory to be filed till March, 2018.	Notification No. 56/2017–Central Tax

CONCLUSION& LEARNINGS

At the onset of this final chapter, I would like to mention that having an opportunity to study and present my views on one of India's key economic reform is a grand experience.

One of the challenges in this study was the vast and dynamic nature of the GST itself. Moreover, multitudes had already been written and said in it's anticipation.

The key points of this report can be summarized as:

- **The Global Picture**

Most of the developed nations in Europe and North America had implemented GST in the early 70s or 80s. The latest nation from the developed nation's club to have implemented GST was Canada way back in early 90s. This meant that all though reports were available, it is impossible to find any quantitative data to compare the nations.

On the other hand, developing nations in Asia who adopted GST recently, are much smaller nations than India. The key difference being, these nations have minimum cultural, geographical or state wise diversity. Hence, it does not do justice to compare India's GST implementation saga with any of these nations.

- **Constant Amendments and Rate Changes**

After rolling out GST the council has met for over 20 times now to better the implementation and to take corrective action. Most frequent being change in rates and slabs. As per experts, for a country as vast as India, this is only but fair. It is impossible to get all nuances of such a key Act correct at the first go. The council is taking into accordance the public feedback and is constantly acting on corrective action.

Moreover, setting up a precedence of allowing dynamic changes and amendments in the first few months, sets a ground to keep making future changes as and when required.

- **Calming down the GST 'fever'**

Ever since implementation, it has caused widespread confusion and resulting backlash. The Act is monitored constantly and closely. Changes are rapid and unending.

However, when compared to the implementation in other nation, we find that this is not at all unnatural. A minimum gestation period of 3 years would be required to completely solve and pending issues and make GST a norm in the business.

- **Notifying and Implementing**

The major concern among the manufacturers and suppliers seems to be the gap between a provision being announced and it being implemented and accepted.

Currently, even though the GST council comes up with changes every month or so at least, it takes more than months to actually account for those provisions and implement them. This puts small scale unorganized industries in a soup.

The council may try and consider coming up with separate plans for implementation – wherein, they can raise awareness about the changes and also set specific compliance deadlines.

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