

Implementation of Goods and Services Tax (GST) in India: A Problematic View

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Abstract

Goods and Services Tax (GST) is one of the biggest steps in the field of indirect taxation in India. Various central taxes like central excise duty, additional custom duty, service tax, special additional duty of customs and state taxes like VAT, entry tax, octroi, entertainment tax, luxury tax, purchase tax, *etc.* are subsumed by GST in India. According to the report submitted by the 13th Finance Commission in December 2009, it was supposed that GST would be implemented from April 1, 2010. But, various legal and political issues hindered its path. Consequent upon, GST implementation process faced a lot of problems. Therefore, the present paper is an attempt to identify the problems arising in successful implementation of GST in India. Hence, it is found that various infrastructural, technological, political, operational and legal issues are creating problems in GST implementation. If all the issues are being resolved by the Government of India and other stakeholders then GST will be considered as a panacea for the financial health of our economy.

Keywords- Government, compliance, rates, business, stakeholders.

1. Backdrop

Goods and Services Tax (GST) is a single tax levied on the supply of goods and services. It is a destination based tax because it is levied at the final stage of consumption. According to Clause 366 (12A) of the Indian Constitution Bill, 'Goods and Services Tax' means "any tax on supply of goods, or services or both except taxes on supply of the alcoholic liquor for human consumption." The concept of Harmonized Sales Tax (HST) or Value Added Tax (VAT) or Goods and Services Tax (GST), was first introduced in countries namely Germany and France. During the 18th century, the concept was proposed by a German economist. He developed sales tax on goods, which was charged as a fixed percentage on the final prices from consumers without affecting production cost or distribution cost. Finally, on April 10, 1954 Maurice Laure, (Joint director of the French tax authority) introduced VAT in France.

In India, during 1985, Vishwanath Pratap Singh, the Finance Minister in Rajiv Gandhi's Government started reforms in indirect tax regime with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, early discussions on Value Added Tax at the State level was started by Prime Minister PV Narasimha Rao and his Finance Minister Manmohan Singh. Then the proposal about common Goods and Services Tax was forwarded during the meeting of the Prime Minister Atal Bihari Vajpayee with his economic advisory panel during the year 1999. In 2000, an empowered committee under the chairmanship of Asim Das Gupta, then Finance Minister of West Bengal was set up by Atal Bihari Vajpayee on the advice of three former RBI Governors IS Patel, Bimal Jalan and C Rangarajan, to design the GST model. In 2003, Kelkar Task Force introduced the GST concept. They suggested about GST implementation at National level. During budget session 2006-2007, then Union Finance Minister, Mr. P. Chidambaram proclaimed about GST implementation from April 1, 2010 and an empowered committee of State Finance Ministers was set up to work with the centre.

In January 2007, first GST study paper was released, which was authored by Dr. Parthasarathy Shome. On 10th May, 2007 an empowered committee of States' Finance Ministers, formed the Joint Working Group and on 19th November, 2007 report was submitted by this group. In April 2008, an empowered committee finalized views about the structure of GST. On 10th November 2009, an empowered committee released first discussion paper on the GST structure with the aim of creating debate and taking inputs from various stakeholders. On December 2009, 13th Finance Commission submitted its report, in which proposal for GST implementation from April 1, 2010 was kept. In the year 2010, Department of Revenue made comments about the discussion paper on GST and then Finance Minister, Pranab Mukherjee suggested probable rates of GST. In 2011, team was set up to draw up laws for GST implementation and finally, in March 2011, 115th Constitutional Amendment Bill for GST was introduced in Parliament. It included setting up of GST council within 60 days after passing the bill by the President, which was chaired by Union Finance Minister. This council decided GST rates, exemption limits, *etc.* It also included setting up of an authority for settlement of GST disputes arising among the States.

On August 2013, report was submitted by the Parliamentary Standing Committee (PSC) and recommended about the removal of proposed GST disputes settlement authority and to give its mechanism to GST council. Another recommendation was that decision should be taken by voting, instead of consensus by GST council. GST Council representatives should include 1/3 from centre and 2/3 from states. The decisions with more than 3/4 vote representatives should be passed in the council. The PSC also revised the quorum from proposed 1/3 to half. But, with the dissolution of 15th Lok Sabha, the proposed 115th amendment bill lapsed.

On 19th December, 2014, NDA Government after making changes in the GST bill on the basis of earlier developments made, pending demands of State Finance Ministers and suggestions given by the Standing Committee on Finance, redefined it as 122nd Constitutional Amendment Bill, 2014 for consideration by 16th Lok Sabha.

Finally, GST Bill passed on 6th May, 2015 in the Lower House of Government, *i.e.* Lok Sabha. On 14th June, 2016 the Government of India placed the draft model of GST Law on the public portal to invite various suggestions and comments to consider any modifications. On 3rd August, 2016, GST Bill was passed in the Rajya Sabha. On 8th September, 2016 the Honorable President of India, Pranab Mukherjee gave his assent to 122nd Constitutional Amendment Bill. On 1st July, 2017 GST came into force all over the country except Jammu and Kashmir (J&K). On 7th July 2017, Jammu and Kashmir legislation also passed its State Goods and Services Act.

2. Taxes subsumed under the Indian GST regime

Central level indirect taxes subsumed into the GST regime	State level indirect taxes subsumed into the GST regime
Central Sales Tax	State Value Added Tax/ Sales Tax
Central Excise Duty	Luxury Tax
Additional Duties of Excise	Tax on lottery, betting and gambling
Excise Duty levied under Medicinal and Toilet Preparation Act, 1955	Octroi and Entry Tax
Additional duties of customs known as Countervailing Duty (CVD)	Purchase Tax
Special Additional Duties of Customs (SAD)	Taxes on advertisements
Service Tax	Entertainment Tax (excluding those levied by local bodies)
Central surcharges and cesses	State surcharges and cesses

3. Literature Review

Pope and Jabbar (2007) discussed the tax compliance costs within international small and medium enterprises (SMEs) and proposed GST in Malaysia. With the help of secondary data, they found regressive nature of GST compliance costs of small business globally. They concluded that major areas, *i.e.* high GST threshold limit with low GST rates, simplified tax payment, providing incentives to SMEs for tax collection, minimizes zero rated supply categories, *etc.* should be kept in mind at the Government policy level to alleviate the burden of GST compliance costs.

Umar (2010) analyzed the challenges and opportunities associated with Reformed GST in Pakistan. The study found opposition to RGST on aspects, like the GST threshold limit of Rs. 7.5 million, inflation due to GST, problem of liquidity for small traders due to GST. The researcher concluded to implement GST in Pakistan in an equitable way and by combating the challenges related to its implementation.

Baer (2013) discussed the major patterns of VAT non-compliance among the countries, *i.e.* Australia, Canada, New Zealand and United Kingdom to know the actual compliance issues that may be faced by U.S. tax authorities

at the time of VAT adoption. This study is based on a survey conducted to collect the responses from senior tax administrators. The study explored the challenges faced by the tax authorities to encourage tax compliance, methods used by them to find out the effectiveness of compliance programs and VAT performance. According to U.K. tax officials, the major portion of VAT revenue is lost due to fraud and evasion. Various reasons like wrong estimation of VAT liabilities, invalid invoices, lack of knowledge about GST laws, avoidance of VAT on cash transactions, *etc.* were found. The tax authorities adopted the strategies to promote compliance and combat non-compliance, *i.e.* conducting education programs, simplification of tax laws and conducting audit programs, *etc.* The effectiveness of VAT compliance is measured by VAT gap measures, microeconomic and macroeconomic analysis and operational indicators.

Pope and Rametse (2001) stated the major compliance cost issues faced by small businesses and evaluated GST start-up cost estimates for small businesses. From the data regarding the GST recurrent compliance costs of small businesses in countries including the UK, New Zealand and Canada, they found that with the increase in size of business, compliance cost decreases as a percentage of their turnover. Other findings were that for small businesses, gross GST start-up costs would be higher than Government's indication. But the use of improved technology would play an important role in minimizing GST compliance costs for the small business sector.

Ramalingam (2015) highlighted the major issues during GST implementation in India. The researcher also makes a comparison between the state sales tax, VAT and GST. The study is based on secondary data. The study found that statutory, technological, governmental and public consensus, are some areas where unresolved issues lie. The researcher also found sub-national issues, *i.e.* issues for the state or union territories in the way of GST implementation. The study found that price value for consumers will be more under the GST in comparison to pricing under VAT system. But under the GST, revenue will increase for the Union Government, whereas it will decrease for States Government, if same rates were applied. The researcher concluded that academia, tax practitioners, taxpayers, politicians, lawyers, tax officials should discuss the unresolved issues to enable a smooth transition to GST regime.

Ramli, et al. (2015) found the expected compliance cost of Small-Medium Sized Enterprises (SMEs) during GST implementation in Malaysia. The study throws a light on issues and problems due to GST implementation. Data for this study was collected through a structured questionnaire survey among Malaysian SMEs. Total 173 responses gathered from the respondents of Malaysian SMEs of various industries about the issues in GST monetary compliance costs and possible GST impact on their business entities. They found that the compliance cost of Malaysian SMEs is expected to increase as GST will be implemented and also believed that their profits expected to increase despite of GST implementation. Majority of SMEs need to invest funds on HR training, which creates an additional burden on them. They concluded that despite of increasing compliance costs due to GST, it will improve the tax revenue and efficiency as in other countries.

Sehrawat and Dhanda (2015) analyzed the advantages and challenges associated with GST implementation in India. This explanatory study is conducted with the help of secondary data. They found that GST will protect SMEs by controlling tax dodging practices done by big corporations and will contribute towards state revenue collection. But, various issues such as problem of coordination of the Central Government with States Government and training to state tax officials, requirement of strong network, *etc.* create big challenges in its success. They concluded that India will have a world class tax system due to GST implementation, which will bring transparency in the tax system and make the tax system simplified and user friendly.

Chaluvaiah (2016) explored the benefits and challenges of the GST Bill by the use of secondary data. This study addressed various issues in GST implementation, *i.e.* lack of a proper GST administration system, need of trained tax collectors, need of the effective tax governing mechanism, tax on interstate services, *etc.* and concluded that GST brings the unified tax system, which will help in economic unification in India.

Gowda, et al. (2016) stated the challenges in GST implementation in India. This study is conducted with the help of secondary data. They found various issues like the need for constitutional amendments, deciding tax threshold limit under the GST, the nature of subsumed taxes, GST rates, transition rules, need of efficient tax administration software, taxation issues of financial services and e-commerce, fixation of RNR, *etc.* They concluded that GST implementation in India is delayed several times due to lack of consensus between the Central Government and States Government on various aspects. They suggested some better administrative mechanism for GST implementation.

Kumar and Sarkar (2016) identified the problems and prospects of Goods and Services Tax in India on the basis of secondary data. They found administrative and political issues in GST implementation and need of awareness among public regarding GST. GST may be beneficial for industries and consumers. Poor section of society may also get benefitted due to cost reduction. They concluded that GST has a favourable prospect for the nation. They suggested quick implementation of GST to avoid negative impact on the economy due to delay in implementation.

Hetal (2017) revealed the positive and legal aspects of GST and problems during the implementation of GST in India. The researcher also highlighted the expectations of businessmen for successful GST implementation. For this purpose, secondary data was collected. The researcher concluded that GST has both positive as well as negative aspects and negative aspects create hurdles in its implementation. Businessmen having various expectations regarding GST rates, GST training, *etc.* Changes towards the taxation by GST implementation will be easy to accept only by smoothening its way, for which government should take steps to tackle down the problems during GST implementation and meet the businessman's expectations about GST.

Barhate (2017) analyzed the perception towards past tax system, about GST probable benefits, problems regarding GST and past tax administration among traders of Shri Rampur Taluka (Maharashtra). Total 196 respondents were selected who belong to manufacturing, construction, restaurant, travel and entertainment business. By descriptive

analysis, it was analyzed that traders perceived past tax system as problematic and GST as positive booster. With the help of ANOVA, the researcher drawn results about having the resentment towards past taxation and conviction about GST benefits among traders. Big traders faced a lot of problems during the past tax regime. Opinion about GST benefits does not differ by traders attributes. But, the worrying fact is less number of registered traders under the new taxation system and their heavily dependence on advisors. Lack of information and less number of training programs are major apprehensions regarding GST implementation. So, the researcher suggested to organise GST orientation programs in small towns for its speedy and effective implementation and to orient small traders.

Jindappa (2017) focused on how the life of middle-class family or common man is getting impacted by GST implementation. By use of secondary data, the study found that a common man is affected by GST in both positive and negative manner. Changes after GST are difficult to accept for many stakeholders like bankers, traders, professionals, industrialists, *etc.* The researcher claimed that GST actual benefits would be seen in long-run. But, to reach at that interval various challenges in its way of implementation must be overcome.

Chen and Taib (2017) explored the factors affecting the business operator's awareness about the GST implementation and perceived issues and problems in GST implementation. For this study, primary data was collected through questionnaires which were distributed to 302 business operators/registered members of the Melay Chamber of Commerce of Melaka, Melaka Chinese Chamber of Commerce and Industry, Melaka Indian Chamber of Commerce and Industry, chosen through stratified random sampling. Data was analyzed using Kruskal-Wallis test and correlation analysis. They found that majority of business operators are aware about GST mechanism and they agreed with perceived problems due to GST, *i.e.* hiring of new staff, providing training to them to handle GST matters, burden of record keeping, *etc.* They also found a positive relationship of business size, business initiatives with GST awareness and perceived issues and problems in GST.

Ching, et al. (2017) measured the Malaysian retailers' attitude, their readiness towards GST and business owners' compliance costs due to GST implementation. To collect the data, semi-structured face-to-face interviews were conducted with GST registered SMEs' owners. They found negative attitude towards GST implementation and its regulations among the taxpayers and they perceived GST as a burden due to several issues in its implementation, *i.e.* tighter cash flows, staff's non-receptive attitude towards change, risks of unintentional errors by staff, glitches in GST-compliant software, fear of penalty due to inaccurate GST filing, *etc.* The study found GST compliance costs in the form of initial costs, fixed natured GST recurring costs and also non-compliance costs, psychological costs, social costs, which were proportionally higher in SMEs in the retail sector. The findings revealed mixed results about the taxpayers' attitude and their perception about GST.

Verma and Banerjee (2018) described the challenges faced by the Indian Government after GST implementation. The study is based on secondary data. They categorized three types of problems, *i.e.* design issues, infrastructural

issues and operational issues. They suggested to make a simple uniform taxation structure so that business can run as per the requirement of economy which will ultimately increase tax collection.

Kharub (2018) did a SWOT analysis of Indian Goods and Services Tax with the help of secondary data. The researcher found GST as an opportunity creator for the Central Government and States Government, consumers and for trade/industry. But, it has also some drawbacks like need to be changed business software, Indian people unhabitual about technology, being influenced by political parties, *etc.* It was concluded that all the sectors such as industries, businesses, service sectors have to bear the GST impact.

4. Conclusion

Various political, legal, infrastructural, technological and operational issues are faced in GST implementation. Post-GST implementation, inflation and prices were increased in many countries. In India, many stakeholders like bankers, traders, professionals, industrialists, *etc.* are not willing to accept GST. They have some myths about GST. But, GST will lead to greater impact on traders, businessmen, consumers as well as on the Indian economy in long-run. Consumers will get benefitted through reduction in prices of goods and services due to elimination of cascading. It simplifies the taxation system and also increases the transparency in taxation system. A positive impact on foreign investments and exports may be seen in coming years. So, instead of all the problems, GST will be proved as a positive booster for Indian economy and will be beneficial for all the stakeholders.

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