

A Structural Analysis of GST Regime: Issues and Challenges

Dr. Sandeepa Malhotra*

Faculty, MBA (Business Economics) Jiwaji University, Gwalior

Abstract – India's Goods and Services Tax (GST), is being known as a 'distinct advantage' for its far-reaching sway on business. Makers, brokers, and specialist co-ops crosswise over India have been put under one brought together expense umbrella, and never again need to work with a monotonous exhibit of 17 particular kinds of charges they at present need to follow. The business, at show, is attempting to get on with the goal based expense from a starting point based duty structure. The move from the past duty administration and convey forward the info credits into GST is the greatest test that organizations are confronting today. To make "One Nation, One Tax" a reality, the administration is preparing its officers on tax assessment of administrations. GSTN, the innovation spine for the change, has an enormous IT command of safely taking care of mammoth volumes of information that GST.

Keywords: GST, Tax, Issues and Challenges.

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INTRODUCTION

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Goods & Services Tax Law in India is a **comprehensive, multi-stage, destination-based tax** that is levied on every **value addition**.

In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. Under the GST regime, the tax will be levied at every point of sale.

Now let us try to understand the definition of Goods and Service Tax – “GST is a comprehensive, **multi-stage, destination-based tax** that will be levied on every **value addition**.”

The presentation of Goods and Services Tax (GST) would be an exceptionally critical venture in the field of backhanded assessment changes in India. By amalgamating countless Focal and State charges into a solitary assessment, it would relieve falling or twofold tax assessment significantly and prepare for a typical national market. From the purchaser perspective, the greatest favorable position would be as far as a diminishment in the general taxation rate on merchandise, which is right now assessed to be around 25%-30%. Presentation of GST would likewise make Indian items focused in the local and worldwide markets.

OBJECTIVES OF GST

- One Country – One Tax
- Consumption based tax instead of Manufacturing
- Uniform GST Registration, payment and Input tax Credit
- To eliminate the cascading effect of Indirect taxes on single transaction
- Subsume all indirect taxes at Centre and State Level under
- Reduce tax evasion and corruption
- Increase productivity
- Increase Tax to GDP Ratio and revenue surplus
- Increase Compliance
- Reducing economic distortions

Multi-stage

There are multiple change-of-hands an item goes through along its supply chain: from manufacture to final sale to the consumer.

Let us consider the following case:

- Purchase of raw materials
- Production or manufacture
- Warehousing of finished goods
- Sale to wholesaler
- Sale of the product to the retailer
- Sale to the end consumer

Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax.

There are 3 taxes applicable under GST: CGST, SGST & IGST.

- **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra)
- **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Maharashtra)
- **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

ADVANTAGES OF GST

1. GST eliminates the cascading effect of tax

GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier.

Cascading tax effect can be best described as 'Tax on Tax'. Let us take this example to understand what is Tax on Tax:

Before GST regime:

A consultant offering services for say, Rs 50,000 and charged a service tax of 15% ($\text{Rs } 50,000 \times 15\% = \text{Rs } 7,500$). Then say, he would buy office supplies for Rs. 20,000 paying 5% as VAT ($\text{Rs } 20,000 \times 5\% = \text{Rs } 1,000$). He had to pay Rs 7,500 output service tax without getting any deduction of Rs 1,000 VAT already paid on stationery.

His total outflow is Rs 8,500.

Under GST

GST on service of Rs 50,000 @18%	9,000
Less: GST on office supplies (Rs 20,000*5%)	1,000
Net GST to pay	8,000

2. Higher threshold for registration

Earlier, in the VAT structure, any business with a turnover of more than Rs 5 lakh (in most states) was liable to pay VAT. Please note that this limit differed state-wise. Also, service tax was exempted for service providers with a turnover of less than Rs 10 lakh.

Under GST regime, however, this threshold has been increased to Rs 20 lakh, which exempts many small traders and service providers.

Let us look at this table below:

Tax	Threshold Limits
Excise	1.5 crores
VAT	5 lakhs in most states
Service Tax	10 lakhs
GST	20 lakhs (10 lakhs for NE states)

3. Composition scheme for small businesses

Under GST, small businesses (with a turnover of Rs 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition scheme. This move has brought down the tax and compliance burden on many small businesses.

4. Simple and easy online procedure

The entire process of GST (from registration to filing returns) is made online, and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise, and service tax.

Our *ClearTax* GST software is already on a roll filing GST returns

5. The number of compliances is lesser

Earlier, there was VAT and service tax, each of which had their own returns and compliances. Below table shows the same:

Tax	Return Filing
Excise	Monthly
Service tax	Proprietorship/Partnership- Quarterly Company/LLP- Monthly
VAT	"Different for different states" Some states require monthly returns over a threshold limit. Some states like Karnataka require a monthly return

Under GST, however, there is just one, unified return to be filed. Therefore, the number of returns to be filed has come down. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST. The main GSTR-1 is manually populated and GSTR-2 and GSTR-3 will be auto-populated.

6. Defined treatment for E-commerce operators

Earlier to GST regime, supplying goods through e-commerce sector was not defined. It had variable VAT laws. Let us look at this example:

Online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and mention the registration number of the delivery truck. Tax authorities could sometimes seize goods if the documents were not produced.

Again, these e-commerce brands were treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which did not require them to register for VAT.

All these differential treatments and confusing compliances have been removed under GST. For the first time, GST has clearly mapped out the provisions applicable to the e-commerce sector and since these are applicable all over India, there should be no complication regarding the inter-state movement of goods anymore.

7. Improved efficiency of logistics

Earlier, the logistics industry in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. These warehouses were forced to operate below their capacity, giving room to increased operating costs.

Under GST, however, these restrictions on inter-state movement of goods have been lessened.

As an outcome of GST, warehouse operators and e-commerce aggregators players have shown interest in setting up their warehouses at strategic locations such as Nagpur (which is the zero-mile city of India), instead of every other city on their delivery route.

Reduction in unnecessary logistics costs is already increasing profits for businesses involved in the supply of goods through transportation.

8. Unorganized sector is regulated under GST

In the pre-GST era, it was often seen that certain industries in India like construction and textile were largely unregulated and unorganized.

Under GST, however, there are provisions for online compliances and payments, and for availing of input credit only when the supplier has accepted the amount. This has brought in accountability and regulation to these industries.

REVIEW OF LITERATURE

GST offers duty and back experts numerous chances to develop their customer list and obviously set up their part in guaranteeing consistent movement of different organizations to wind up GST agreeable. Firms are scrambling to get the correct groups set up to profit by the new expense administration as GST is required to acquire monetary funds, which will gather by virtue of a very much arranged GST framework. In any case, such prospects are not without challenges for these experts.

GST Issues Seen Across India

Even after almost a month of the launch of GST in India, people and businesses are still struggling to accept it completely. Let's see how people from different areas are reacting to GST and what are their concerns.

While many people have already started adjusting themselves to the new GST based tax system, many others are still struggling with the shortcomings of GST and the extent of adjustment they are supposed to make. As we have all realised so far, **GST is not a perfect tax system**. The government may have officially launched the system through the country, common men are facing new problems every day in the post-GST era. Small retailers and shopkeepers are the ones suffering the most.

Problems for Small Unorganized Wholesalers

While disorderly money based little wholesalers were all the while recuperating from the effects of a year ago's demonetization, GST has additionally added to their misfortunes. Little retailers and even merchants are currently wanting to purchase their day by day staple supplies from GST consistent discount chains like Walmart and Metro money. It might somewhat expand the costs of your day by day needs, however the greatest effect will be in the chaotic area that should begin keeping up legitimate GST consistent bills and solicitations on the off chance that they wish to make due in the post-GST regime.

Shopkeepers Struggling with Creating Invoices and Filing Returns

Small shopkeepers are mainly struggling in creating different invoices for goods with different GST rates. The confusion is about whether they should make

different bills for such products or mention separate tax information in the same bill. Since they have so many types of items with different GST categories, it is almost impossible to maintain separate invoices.

How to File GST Return

The tax return filing procedure under GST is also becoming a major cause of a headache for small businesses. No one seems to be sure about the appropriate process for filing GST return. For now, people have to file only one return every month and an annual tax return. For this, you will have to fill GSTR-1 to GSTR-11 forms on GST online portal. If you are not sure about this, it would be wise to take the help from a CA.

Variety of Taxes

Many food retailers, especially Mithai shopkeepers are also confused about how to charge GST on different items in a single dish. For example, a 'Mix vegetable' contains different types of vegetables and even some fruits and dry-fruits, so whether they should charge different taxes or a single tax on the dish. Or should they stop making different varieties of dishes altogether just to keep a basic GST rate? The same problem is being faced by various other businesses.

The question everyone asking is, how can GST be said a single-tax system when these are five different tax rates?

Different Rates for Different Locations

Since GST is still not implemented completely by every business around the country, the prices of some products are changing the location. The price is also affected by the logistics cost and dealer margins for different places. You will see the obvious difference between the price of the same car in Mumbai and Jaipur, even after the implementation of GST.

Non-AC Restaurants Charging GST at 18% Rate

According to the official GST rules, non-AC restaurants are supposed to levy 12% GST while AC restaurants will charge 18% GST rate. But many local restaurants in India, where either there are no ACs for the general public or the ACS are not in working condition, are also charging 18% tax rate on their bills. This is also happening with takeaway orders at various big food chains like McDonald's where the same 18% GST rate is being levied on both take away orders and sitting-in orders.

GST on Local (GST Exempted) Goods

According to GST rules, clothing and footwear below Rs. 500 are exempted from GST. But many

shopkeepers, especially retail chains are still mentioning GST rate of 5% in their bills for such items. People are confused whether this rule is applicable only for local products from local market purchases or also on same products purchased from big shops.

The thing is that shopkeepers producing computerised bills and having an AC in the shop are allowed to charge GST on all their goods.

Some Pertinent Issues for Small Traders

Small businesses are unable to afford the cost of computers and accountants required to implement GST (make bills and file tax returns). 28% GST rate on some products like marble, plywood, and automobile parts is too much for common people. Buyers are willing to purchase from unregistered dealers to avoid paying high GST, especially products with **28% GST rate**.

It is too difficult to assign MRP to handmade products like local shoes, Banarasi Sarees, etc. Most small artisans are illiterate and therefore unable to write MRP on their products and/or do any paperwork. Dealers are confused how to rates of such products.

Small businesses with low annual turnover who are exempted from GST are still afraid to supply as they have no proof that they are exempted from GST. Buyers are demanding bills from even those shops which are GST exempted but have no proof of that. Many dealers are still buying from unregistered wholesalers on cash without bills and without paying any tax.

Challenges

GST, the greatest tax reform since Independence is here. As are the challenges for businesses across the country. Like everything else, all is not smooth sailing for GST and there are some obvious challenges for businesses and end consumers which we will discuss in detail here.

Change in Business Software

Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The transition to GST will require businesses to change their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will lead to increased costs of buying new software and training employees on how to use it.

Clear Tax is the first company in India to launch a ready-to-use GST software. It is currently available at reduced prices for SMEs, to help them to transit to GST smoothly. To ease f the pain of the people, it

doesn't require you to update the existing software and provide free services for first 3 months.

GST Compliance

SMEs are still not completely aware of the nuances of the new tax regime. Changing over to a completely new system of taxation requires understanding of the minutiae, which businesses lack right now. Most of them are worried about filing timely returns, but it is important to note that even before businesses can reach the filing stage they have to issue GST-compliant invoices. For a traditionally pen-and-paper economy like India, this change to digital record-keeping is going to be massive. Invoices after 1st July will need to be GST-compliant with all details such as GSTIN, place of supply, HSN code etc. as mandated by the law.

The Clear Tax Bill Book web application, which is available for free on their site, is an easy solution to this problem. It will help every business issue GST-compliant invoices to their customers. These same invoices can then be used for return filing through the Clear Tax platform.

Increase in Operating Costs

Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts.

Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.

Policy Change During the Middle of the Year

GST will go live three months into the financial year 2017-18. So, for FY 2017-18, business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which might result in confusion and compliance issues.

Online Procedure

GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small

cities across India face a huge technology problem in the days ahead.

Cloud-based software like the Clear Tax GST software could be an answer to this problem. This does not require any downloads, and the process for return filing on Clear Tax GST is very simple. Business owners need only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus increasing efficiency and timeliness.

Higher Tax Burden for Manufacturing SMEs

Independent companies in the assembling segment won't have it simple in the GST administration. Under the extract laws, just assembling business with a turnover surpassing Rs. 1.50 crores needed to pay extract obligation. Though, under GST as far as possible has been decreased to Rs. 20 lakh, in this manner expanding the taxation rate for some assembling SMEs. In any case, SMEs with a turnover of upto 75 lakhs can choose the structure plan and pay just 1% impose on turnover in lieu of GST and appreciate lesser compliances. The catch however is these organizations will then not have the capacity to guarantee any information impose credit. The choice to pick between higher charges or the piece plot (and in this manner no ITC) will be an extreme one for some SMEs.

No clarity on tax holidays

Many manufacturers (textile, pharmaceutical, FMCG industries) enjoy tax holidays and state benefit schemes. There is still no notification regarding these benefits. This will mean increased costs for these industries, which will probably be passed on to the end consumers.

Disruption to Business

Material dealers (chaotic) are going on strike to challenge GST. Diners and medication shops in Chennai are additionally undermining to dissent the administration change - and this is just a hint of a greater challenge. In the coming days, we can hope to see a greater amount of these challenges occurring the nation over and these will without a doubt disturb business. On the off chance that there's any comfort, it's in realizing that different nations who actualized GST never had it simple either. Malaysia as of late presented GST in 2014 and confronted across the country strikes and dissents. How the Indian government will deal with these occasions is left to be seen.

CONCLUSION

The government is attempting to diminish the weight of consistence for organizations by unwinding the arrival documenting prerequisites for the initial two months post execution. Likewise, the arrangements of TCS on e-commerce business and enlistment for online venders have additionally been casual until further notice. Change is certainly never simple. The administration is attempting to smoothen the street to GST. It is vital to take a leaf from worldwide economies that have executed GST before us, and who conquered the getting teeth inconveniences to encounter the upsides of having a bound together expense framework and simple info credits. When GST is executed, the greater part of the present difficulties of this move will be an account of the past. India will turn into a solitary market where products can move unreservedly and there will lesser compliances to manage for organizations.

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Corresponding Author

Dr. Sandeepa Malhotra*

Faculty, MBA (Business Economics) Jiwaji University, Gwalior

E-Mail – sandeepamalhotra@ymail.com