

## GST: ISSUES AND CHALLENGES

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### ABSTRACT

*GST is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Small businessmen are facing certain problems in filing returns and provisions of GST act such as problem of accounting software, Lack of clarity on GST rules and regulations, Increase in the number of returns to be filled annually, Requirement of updated IT system and Internet, Problem of Input Tax Credit, Cash Flow Issue etc. GST is helpful for the development of the country. Timely correction in GST act will be helpful to solve problems of small businessmen.*

**KEYWORDS:** *Input Tax Credit, IT System, CGST, IGST, SGST, UTGST, Growth Rate, Inflation Rate.*

### Introduction

GST is a multi-stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost of the product because GST paid on the business inputs is claimable. Hence, it does not matter how many stages where a particular good and service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain. GST is a broad based consumption tax covering all sectors of the economy except specific goods and services which are categorized under zero rated supply and exempt supply orders.

The basic fundamental of GST is its self-policing features which allow the businesses to claim their input tax credit by way of automatic deduction in their accounting system. This eases the administrative procedures on the part of businesses and the Government. Thus, the Government's delivery system will be further enhanced. Tax collected from GST is used for socio-economic development which includes providing infrastructure, education, welfare, healthcare, national security etc. Over the past few decades, the worldwide trend has been for the introduction of a multi-stage GST system. Today, almost 90% of the world's populations live in countries with GST, including China, Indonesia, Thailand, Singapore and India. A taxable supply is a supply which is standard rated or zero rated. Exempt and out of scope supplies are not taxable supplies. GST is to be levied and charged on the value of the supply. GST can only be levied and charged if the business is registered under GST. A business is not liable to be registered if its annual turnover of taxable supplies does not reach the prescribed threshold. Therefore, such businesses cannot charge and collect GST on the supply of goods and services made to their customers. At the Central level, Central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty etc. and at the State level, VAT/ Sales Tax, Octroi and Entry tax, Purchase tax, Luxury tax, Entertainment Tax, Tax on Lottery etc. are included in GST. In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to

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another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchase. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. Impact of GST on issues related with inflation rate, increase in GDP, increase in per capita income, reduction in fiscal deficit, increase in Govt. income through indirect tax, employment generation etc. are important to be discussed after GST regime.

#### **Challenges in Implementation of GST**

GST is the greatest reform in indirect taxes after independence. Most of the users of the GST are facing many problems. These problems are the main cause for the successful implementation of GST. These problems are discussed as under:

##### **Problem of Accounting Software**

Most of the business firms are using accounting software as per its own requirements. These software are not compatible with GST software. Making of new software as per GST requirement requires additional cost as well as training. Deficiency of newly trend staff is also a problem for business organizations.

##### **Lack of clarity on GST rules and regulations**

Various provisions of GST are not clear. Categorisation of goods and services is not clear. Provision of E-way bill is not clear. Implementation of provision of E-way bill requires radio frequency which needs extra cost.

##### **Increase in the Number of Returns to be Filled Annually**

GST act requires multiple returns to be filled annually. In some cases a business enterprises requires 37 GST returns to be filled and this can increase as per business model. Business firm should deal with registered supplier to get input tax credit. It requires correct business data in time to fill GST return. Filing of multiple returns requires extra cost and extra staff.

##### **Requirement of Updated IT System and Internet**

Filing of GST return requires updated IT system with GST trained IT skilled manpower and speedy internet. There are shortages of GST trained staff in the market. Available GST trained staff demanding extra cost which is not affordable by the small businessmen. Facility of internet is poor in remote and rural area. Preparation of accounting data and loading of data on GST software gives extra burden to small businessmen.

##### **Problem of Input Tax Credit**

GST software requires manifold documentation to get input tax credit. Input Tax Credit is given at every stage of production chain and effective tax liability is born only to the extent of value that has been added. Input Tax Credit is given when all documents of buyer and seller are uploaded on the GST site and verified by the system.

##### **Cash Flow Issue**

Under Section 16(11) of GST Act, tax burden has been shifted to the buyer rather than supplier. Buyer is responsible for not only for his share of tax but also for supplier's share of tax. If some inconsistencies is found in suppliers documentations, the buyer is responsible to pay tax for the share of supplier with interest. In this situation, short term cash flow issue will arise. If the business has less surplus cash, it may be defaulter to make tax payment. Input tax credit will release only the supplier has submitted his documentation. This problem will also be arises in case of inter-state transactions. It is possible that due to cash flow strains, certain small businesses might have to borrow money to fund their day to day activities.

##### **Objectives of the Study**

The objectives of the study are to analyse problems of GST act faced by small businessmen. The study will also discuss important provisions of GST act which is not accepted by small businessmen. The study will also analyse opinion regarding impact of GST in economic development of the country.

##### **Review of Literature**

The book **Systematic Approach to GST** written by Girish Ahuja and Ravi Ahuja related with analysis of GST provisions. The book discuss theoretical and numerical concepts of GST. It includes important notification, circulars and latest amendments.

The book **GST-A Professional Guide** written by Abhishek A. Rastogi deal with provisions of Goods and Service Tax. The book analyse all the concepts of GST act. The book is helpful for professionals, chartered accountants, businessmen and academicians.

The book **GST Law & Practice** written by Pankaj Ghiya and Meenal Ghiya related with central goods and service tax, state goods & service tax, IGST, UTGST And important circulars issued by GST council.

The book **GST Acts, Rules and Forms** written by Ashok Batra incorporates CGST Act, IGST Act, UTGST Act, GST (Compensation to States), Notifications, Circulars, Clarifications, Exemptions and concessions under GST, Compensation scheme for services under GST.

### Research Design

The study is based on primary data collected from businessmen and general public. The data is related with opinion of businessmen and general public regarding GST act. The collected data are analysed with the help of chi-square test to get results. The analysis is also related with role of GST in the economic development of the country.

### Hypothesis

The study is based on the hypothesis that:

- Implementation of GST will be helpful for economic development of the country.
- Small businessmen are facing problems regarding filing of GST return and GST provisions.

### Discussion and Findings

Primary data regarding role of GST in the economic development of the country and problem faced by the small businessmen are collected and presented in the table. Justification of the data are tested with the help of chi-square test as below:

#### Observed Data

Particulars	Not Beneficial for the economic development of the country	Beneficial for the economic development of the country	Total
Small businessmen are facing problems regarding filing of returns and GST provisions	7	38	45
Small businessmen are not facing problems regarding filing of returns and GST provisions	5	10	15
Total	12	48	60

#### Expected Data

Particulars	Not beneficial for the economic development of the country	Beneficial for the economic development of the country	Total
Small businessmen are facing problems regarding filing of returns and GST provisions	9	36	45
Small businessmen are not facing problems regarding filing of returns and GST provisions	3	12	15
Total	12	48	60

**Chi-Square Test**

Observed Data (O)	Expected Data (E)	(O-E) <sup>2</sup>	$\chi^2 = \frac{(O-E)^2}{E}$
7	9	4	0.4444
38	36	4	0.1111
5	3	4	1.3333
10	12	4	0.3333
		$\chi^2 =$	2.2221

Table Value of Chi Square

Degree of Freedom = (c-1) (r-1)

$$= (2-1) (2-1) = 1$$

Table value of chi-square for d.f. =1 at 5% level of significance = 3.841

Calculated value of chi square is less than table value. So it can be concluded that null hypothesis has been implementation of GST will be helpful for the economic development of the country. Although small businessmen are facing problem of filing returns and some provisions of GST act are not favourable for them but GST act is the remarkable achievement for the country.

**Conclusion**

Implementation of GST is helpful for the economic development of the country. It helps to improve growth rate, reduce poverty line, increase income of the State and Central Government, reduce inflation rate and helpful in reducing corruption in the Government system but small businessmen are facing certain problems. It is expected that GST council will improve in light of small businessmen.

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