

Goods and Service Tax: Issues and Challenges

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Abstract: Goods and Service Tax Act came into force from 1st July 2017. It has replaced many indirect taxes such as Excise, Service Tax and VAT. The GST Council is reviewing the rules frequently to modify the provisions so that the procedures become more convenient to the business. The GST Council, in its latest meeting on November 10, announced several modifications to ease the compliance burden on businesses, such as postponing return filing dates for small and large businesses, allowing small businesses to file quarterly returns, removing the need to file the GSTR-2 and GSTR-3 forms, and expanding the composition scheme to include more businesses. The council has drastically reduced the tax rate on more than 200 goods, including the items included in the highest tax bracket of 28%. Due to such frequent changes there is great disturbance amongst the tax payers about the liabilities. In such atmosphere of uncertainty scenario accounting and tax professionals are facing major difficulties such as technology issues of GSTN sites or IT Systems, non availability of skilled people and need for re-skilling, constantly revising GST Provisions (Rules and Regulation), GST preparedness among clients, and increased compliance, with increase in the number of returns to be filed annually. Also the details necessary for preparation of union budget are also missing which will pose very real problems for Government in preparation of the Budget for financial year 2018-19.

Introduction

India's Goods and Services Tax (GST), is 'One Nation One Tax' scenario in India which came into existence from 1st July, 2017. It is termed as a 'game changer' for its far-reaching impact on business.

All business organizations including production houses, traders, and service providers across India have been placed under one unified tax umbrella. Goods and Services 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. Goods and Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

Objectives of the Study

In this paper an attempt is made to understand the simple meaning of some of the provisions of GST Law and to know some of the merits and difficulties faced by the business world on emergence of the new tax structure.

Research Methodology

The researcher has conducted interviews of tax consultants to understand their experiences. Also the views expressed by the tax practitioners and by the experts on the sites are considered while discussing the topic.

GST Explanation

GST will be levied on each stage of value additions to the goods which are to be sold. It means when monetary worth is added at any stage from purchase of raw material, manufacture, sale to the whole seller and to the retailer and to the final consumer, GST is to be charged. It will be charged at the point of supply or at the point of consumption. It means under the GST regime, the tax will be levied at every point of sale. An item passes through multiple owners from production stage till it reaches the hands of final consumer. The movement can be described as - Purchase of raw materials, Production or manufacture, Warehousing of finished goods, Sale to wholesaler, Sale of the product to the retailer and final Sale to the end consumer.

Goods and Services Tax will be levied on each of these stages, which make it a multi-stage tax. GST will be levied on value additions i.e. the monetary worth added at each stage to achieve the final sale to the end customer.

The manufacturer who makes product buys raw material and other stores. When the raw material is processed and converted into a finished product, the value of the inputs increases. The manufacturer then sells the ready product to the whole seller who packs large quantities of the product and labels it. This is another value addition to the product after which the whole seller sells it to the retailer. The retailer packages the product in smaller quantities and invests in the marketing of the products thus increasing its value.

There are 3 taxes applicable under GST: CGST, SGST and IGST. CGST is Central Goods and Service Tax collected by the Central Government on an intra-state sale. SGST is State Goods and

Service Tax collected by the State Government on an intra-state sale. IGST is Integrated Goods and Service Tax collected by the Central Government for inter-state sale.

The tax structure under the GST regime will be as under:

For sale within the State, CGST and SGST will be levied and revenue will be shared equally between the Centre and the State. For sale to another State, there will be only one type of tax (central) IGST. The Center will then share the IGST revenue based on the destination of goods.

There are many **advantages** of GST. GST law has increased the minimum level of activity required for registration which is turnover of Rs 20,00,000. It has eliminated cascading effect of taxes. In the pre-GST regime, tax on tax was calculated and paid by every purchaser including the final consumer. This tax on tax is called Cascading Effect of Taxes. GST avoids this cascading effect as the tax is calculated only on the value-add at each stage of transfer of ownership. The individual who has paid a tax already can claim credit for this tax when he submits his taxes. The sale price is reduced because the cost price for the previous buyer is reduced due to a lower tax liability. Composition scheme for small businesses is introduced, due to which small traders can have relief from detail record keeping. Online procedures are established which has turned out to be more objective environment. It has removed the indirect tax barriers between states and integrated the country through a uniform tax rate. This will lead to higher revenue collection as well as it will boost the economic development of India. In fact, the growth rate has shown improvement after the implementation of GST. In the coming quarters, the GST reforms in terms of rates and compliance will play an important role in manufacturing sector growth.

With GST becoming the reality, the industry, at present, is struggling to get on with the destination-based tax from an origin-based tax structure. Accounting professionals are expecting huge business opportunities with this new tax structure. GST is expected to bring in financial savings. This will happen only if GST system is properly planned.

But such prospects are not without **challenges** for these professionals. Some of the biggest challenges in front of the tax and finance professionals today in the GST transition phase are as follows:

The shift from the previous tax regime and carry forward the **input credits** into GST is the

biggest challenge that businesses are facing today. The tax paid on purchases will be deducted from the tax payable to the government on the sales of the entity. Here the rules are constantly changing which has created a major disturbance amongst the business community.

GST preparedness among clients is missing

Clients' understanding of GST provisions and its impact on their business is still at initial stage, and many are still identifying the locations and places they need to be registered in. These businesses are also assessing the applicability of GST-rules to their organizations and the procedures needed to be adhered to for the compliance. They need to understand the relevant Supply Chain, IT Systems, and Legal formalities. They need to know their new Working Capital, Cash Flow, and Fund Flow needs. The GST anti-profiteering clause implies that the final product must become cheap as compared to earlier prices, which is the main challenge in front of the businesses.

Lack of Clarity on GST Provisions (Rules and Regulation)

Various provisions of GST are still ambiguous. Classification of goods and services in various cases is still imprecise. Provisions for anti-profiteering, as well as the e-way bill, by which consignments will be tracked across states, are unclear. Under GST rules transporters have to generate e-way bills on the GST portals. Substantial costs are necessary for installation of radio frequency identification devices (RFIDs). The infrastructure is needed to be built up for proper functioning of this e way bill which is yet a remote possibility.

Increased compliance, with increase in the number of returns to be filed annually

Businesses will need to file multiple returns, such as GSTR 1, GSTR 3B, GSTR 2, GSTR 3 and more such as for transition TRAN 1 return. Thus the procedural part and returns filing has increased to the great extent for which the business world is not prepared. They have to depend on the consultants and have to incur higher costs.

Clients will need to ensure timely compliance by registered suppliers so that there is no loss of input credit. The filing of accurate GST returns has become very tedious due to such provisions.

Preparedness of IT Systems

Many businesses have not yet found out correct accounting software and IT systems in line with the new tax provisions. They are struggling to create proper GST invoices, and to extract required reports. Tax and accounting professionals and the business houses jointly have to ensure that their information systems are compatible with their GST Service Provider (GSP).

Lack of skilled resources and need for re-skilling

For GST compliance, the necessary skilled staff with updated GST subject knowledge and training are not easily available. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure quick implementation.

Also one of the immediate impacts of GST implementation on Indian economy will be related to the preparation for the Union Budget. The incomplete revenue data is causing uncertainty about the total tax collection. Businesses do not know the tax processes, and their tax liability, hence the collections from indirect taxes are difficult to be anticipated. The frequent changes in rates have made determination of revenue from GST more difficult. With only four months of data on GST and unverified input tax credit claims, net effect on revenue is not known. The GDP growth figures are bound to change to a large extent when the final GST collection data becomes available. The uncertainty will pose a problem for the government in estimating the probable GST collections for the financial year 2018-19 as it doesn't have a previous data to base its future projections. Also the compensation payable to the States for losses they incur due to GST cannot be estimated as the numbers are totally uncertain. It implies that a major part of the Budget-making process will be guesswork.

Conclusion: GST is both a challenge and an opportunity for tax and accounting professionals. To make "One Nation, One Tax" a reality, the government is training its officers for easy transition. The expansion of the tax base and improved compliance would lead to increased

revenues in the long run. GST offers tax and finance professionals multiple opportunities to grow their client list and clearly establish their role in ensuring flawless journey of businesses to become GST compliant. While GST aims to make business more efficient and protect consumer interests, tax and accounting professionals must supplement themselves with added expertise in cloud, big data, analytics, and business applications along with financial knowledge. It is the need of the hour.

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