



**CONTEMPORARY ISSUES OF INDIAN GST**

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**ABSTRACT**

Goods and Services Tax (GST) is implemented from July 1, 2017 after a long journey of nine years. The gap of finalizing rules and regulations of it and implementation of it was only twenty days. It is imperative to analyze this reform with the reference of this journey for the improvement in the implementation of it so that this reform can achieve success for which it is introduced in the Indian Indirect Tax System. This paper analyses this long journey of this reform to point out contemporary issues related to it using secondary data source. It is concluded from the analyses that there are both kinds of issues exists i.e. implementation as well as policy framing issues. This paper also provides suggestions to remove these issues.

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**INTRODUCTION**

GST is implemented from July 2017 after a long journey of nine years. It was introduced in the budget 2009 and Amendment Bill was placed before Parliament in 2011. It was again placed before new Parliament i. e. 14<sup>th</sup> due to abolishment of 13<sup>th</sup> Parliament for Lok Sabha election in 2014. It was passed in May 2016 and August 2016 by Lok Sabha and Rajya Sabha respectively. Then discussion on draft bills released in July 2016 was started by the Council which was constituted on September 2016 after President's permission. 17 meetings of GST were held before July 2017 in which four Acts i.e. CGST, SGST, UTGST and GST Compensation Act and 12 rules and regulations about refund, registration, input tax credit, place of supply, accounts and records, return, assessment and appeal and penalty etc. were finalized.

Figure 1 shows the progress of GST from the introduction to final implementation date. Time span of twelve years is divided into four groups having three years' time span each. It is clearly shown from the figure that most of the activities of it are in the second and last group which concludes that Amendment bill takes six years to pass and after passing it all major activities are fulfilled only in the last three years. Structure of Indian GST is almost final in 2009-12. In this group models of GST laws and IT structure were drafted. But period of 2012-15 is silent period as far as development of GST is concerned as no activity related to GST were happened due to not passing of amendment bill in the parliament.

After passing it in July 2017, GST again accelerates its growth which is evident from the last group in which most of the activities are concentrated around last one and half year.

Figure 2 further analyses this one and half year time span dividing it into three groups of six months each. It is evident that second and third group concentrates more activities related to GST. In the second group, Amendment Bill was passed in the both parliament and state assemblies which was the biggest success towards implementation of GST in India. GST Council was also constituted in this group which is the backbone of every decision of GST. Meetings were held during this period in which discussion on various Acts and rules were made. In the last group, major decisions were made which is evident from the approval of four Acts i.e. CGST, SGST, UTGST and Compensation Act and 12 rules regarding provisions of these Acts. Hence framework of GST is almost completed on June 18, 2017.

Framework of GST was finished one month ago before the implementation date. Hence, time for implementation was one month. Framework is important but implementation of good framework is more important. Indian GST was implemented from July 2017 and last meeting of rates and rules and regulations finalization held in 11 June 2017 before the implementation date. So, there is three months' time for knowledge about final GST which emerges various issues. Except these issues final draft of GST also has some issues. For the success of this tax reform, it is imperative to analyse these issues and bring out some suggestions to overcome these issues. In the line of this idea, this paper firstly outlines these issues by dividing GST issues into two parts namely

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implementation issues and policy issues and then provides suggestions to reduce these issues.

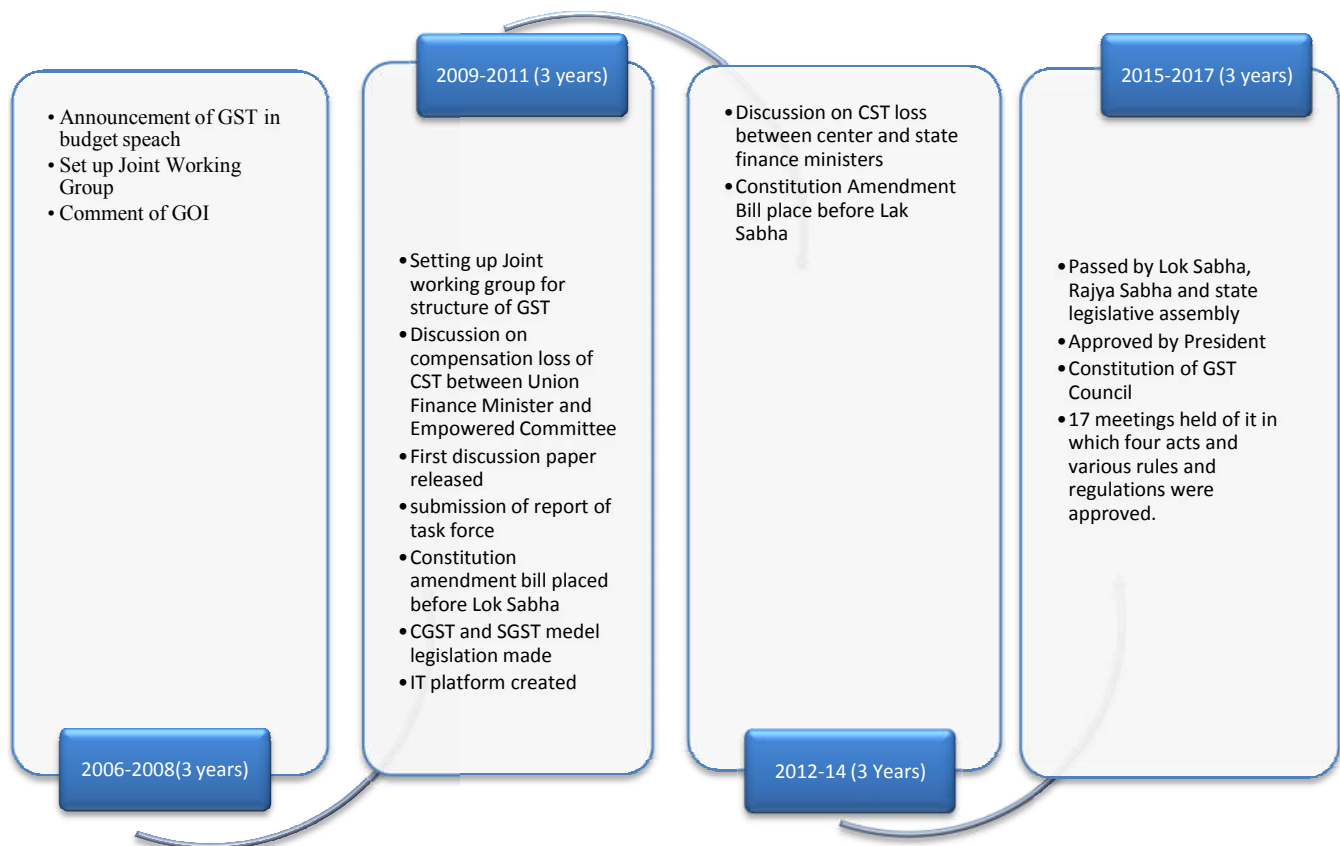


Figure 1 Progress of Indian GST over the twelve years

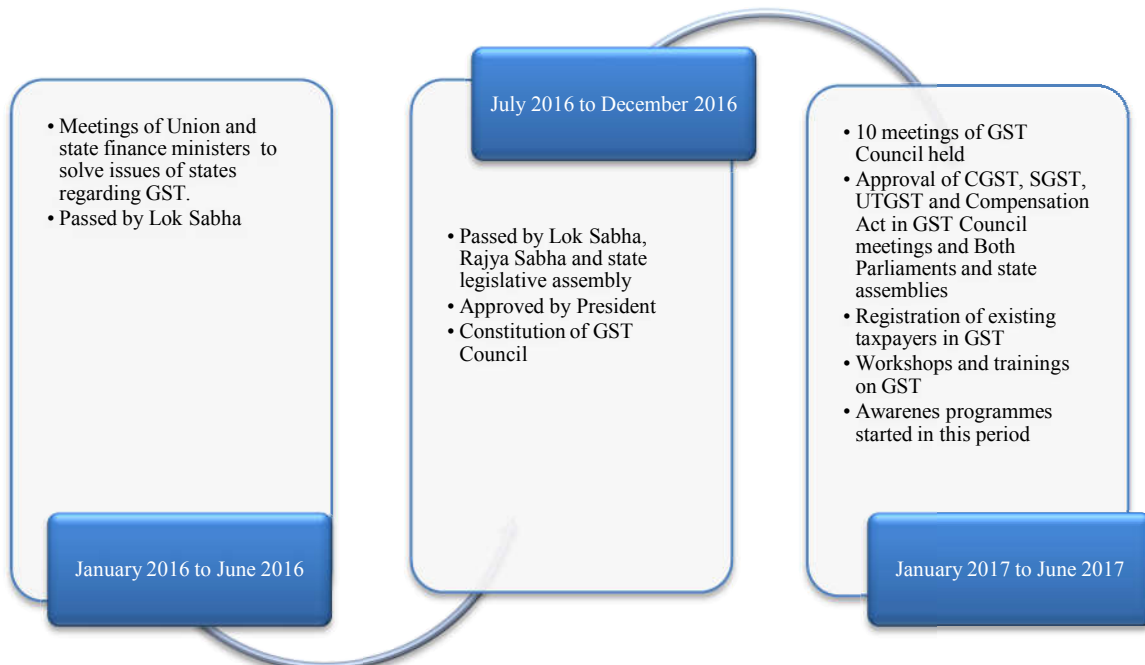


Figure 2 Activities of Indian GST from January 2016 to June 2017

## RESEARCH METHODOLOGY

This study has explorative in nature. It uses secondary data sources such as government reports, gazette of India, Parliamentary reports, websites of revenue, finance, CBEC departments of Government of India and State Governments.

### Objectives

- To overview developments in Indian GST;
- To study contemporary issues related to Indian GST; and

- To make recommendations to solve these issues on the basis of the analysis.

**INDIAN GST ISSUES**

**Implementation Issues**

**Awareness about GST**

As finalizing GST framework and implementation date were very close so it became the most important issue for Indian GST. Our government had started awareness programs such as workshops, supplying training materials, advertising in TV, internet, newspapers, radio etc. but ratio of these was not enough. Rural persons were not aware about it at the time of the implementation and still they are unaware. Single tax ad created buzz among persons and they were hoped to benefit them from it but they should be aware about whole scenario. They even unaware about income and goods and services tax difference and were worried about how their income tax affected from it. Query based awareness Programme should be started by the government. Shopkeeper especially small one didn't purchase goods in the first two weeks of the implementation of GST evidenced from the various newspapers and the reason for this was nothing but unawareness about the rules and regulations of the law. Awareness programs can reduce fear of these small shopkeepers and create a positive environment for GST implementation.

**Readiness of Banks**

GSTN which is the online network is the backbone of success of GST. Payment, return and refunds of GST are online in which banks will play a major role. Therefore, readiness of banks for GST was very important. But, banks were not ready for it. Association of banks had written a letter to government regarding some time for GST preparations.

**Transitional Issues**

GST clubs existing indirect taxes so existing tax payers of these taxes were in doubt about their requirements about input tax credit, registration and stock etc. Though all Acts had transitional provisions yet knowledge to tax payers about these provisions was not provided as much as required which emerges confusions among taxpayers.

**IT Infrastructure**

Software for GST was not released. Though Government had started preparations for GST but taxpayers were not aware about the requirement of IT infrastructure for their business due to lack of knowledge about final rules and regulations of GST. Small businessmen require filing 37 documents in form of various details and return per year electronically in GST which needs IT infrastructure. Hence, setting up of IT infrastructure according to the requirement of GST was also an issue for all taxpayers. Even forms of returns and e-way bills were also not ready till implementation date i.e. 1 July 2017.

**Hike in Service Prices**

Services are in the slabs of 18% or 28% under GST instead of 15% current rate which definitely increases rate of it as it is indirect tax in which incidence will be passed on consumers at last.

**Coordination between States and Center**

GST is levied by both center and state with similar rates. Rules and regulations of GST require cooperation of center and states for the CGST and SGST input tax credit and states for IGST input tax credit. Experience of past increases doubt on coordination and this is started currently. West Bengal had written to Finance Minister about their doubts.

**Changing Tax slabs of items**

GST was implemented with four tax slabs i.e. 5%, 12%, 18% and 28%. Amendments in rate slab of various items were made within one month of the finalization of the GST rate in 14th meeting. This shows lack of stability and improper research for the inclusion of the items into slabs. It also increases chances of lobbying to put an item into lower tax slab.

**Policy Issues**

**Remaining Taxes**

It is myth that GST is a single tax remained in India as there will remain many indirect taxes behind such as taxes on petroleum, tobacco, electricity, custom duty etc. It is clear from the Table 1 that Indirect tax structure is simplified due to GST but there will be left a lot more to do for indirect taxes. This will conform the finding of Anushuya and Narwal, 2014 in which they observe that Indian tax system adopts gradual approach for a reform. In spite of this, GST is the biggest tax reforms of Indian tax system as it leads a lot of changes in the existing one which was not seen in the earlier tax reforms introduced by her time to time.

**Table 1** Indian Indirect Tax Structure after GST Implementation

Indian Indirect Tax Structure after GST Implementation	
CGST	SGST
Basic Custom Duty	Taxes on vehicles
Taxes on transactions in State Exchange (STT)	Tolls
Taxes on Land and Buildings	Taxes on goods and passengers carried by road or on inland waterways
Taxes on mineral rights	Stamp Duty
Duties of excise on alcohohle	

Source: The Empowered Committee of State Finance Ministers, 2009.

**Multiple Slabs**

Base of GST is minimum tax rate slabs. Most of the countries in which it has implemented have two or three tax slabs of GST. But Indian GST final tax slab are seven i.e. 0%, 0.25%, 3%, 5%, 12%, 18% and 28%. Though most of the items are in four tax slabs which are 5%, 12%, 18% and 28%, yet the range of tax slabs are complicated. The more number of GST slabs increases the more its complexity increases. Thus reducing these tax slabs in the coming years will be a challenge for the Council to have real fruit of GST.

**Exemptions**

GST should be levied on all items but Indian GST exempt some items such as Petroleum, tobacco etc. Exemption will reduce base of any tax so as GST. Inclusion of these exempted items into GST will be a challenge for the Council.

### **Appellate Mechanism**

Appellate authority doesn't have any authority to take action itself on wrong ITC. It can take action only after recommendation of the Council which means providing loophole to the tax evaders. Providing more power to the Appellate mechanism for the smooth functioning of GST should be considered by the Council in future meetings.

### **ANALYSIS AND SUGGESTIONS**

From the discussion of the last section, it is clear that there is lot of issue while implementing GST in India and lots of them could be reduced with some initial strategy of implementation. Even today, Business is not in smooth form as small businessmen as well as big businessmen are struggling to learn rules and regulations of GST. This struggle differs in quantity. The reason of this difference is the qualified C.A.'s who are already has by big business houses.

As issues are categorized so suggestions are also categorized. They are:

#### **Implementation suggestions**

- Assistance should be clearly provided to the business houses and C.A. without any confusion as contradictory answers provided by the helpdesk and twitter of CBEC are reported by various C.A.'s.
- There should be some arrangements for availability of helpline for 24 hours without any call drop.
- Frequency of awareness programs should be increased.
- Industry based query session should be included in the workshops.
- Small business houses should provide subsidy for IT infrastructure by the governments i.e. center as well as state.
- More short Terms courses should be introduced to have trained GST assistant.
- A detail and proper research should be again conducted to review the items included into the slabs as changing slabs of items creates buzz among business houses and consumers also due to unawareness of the changing slabs.

### **Policy Suggestions**

- Exempted items should be included in the taxed item gradually by educating business houses and consumers demonstrating the benefits of such inclusion.
- Remaining indirect taxes should be included in it gradually.
- Center and State governments should have cooperation in levying the taxes so that minimum taxes are levied by the states according to their list. The reason of demanding such understanding is that ideal GST is levied with minimum other taxes.
- More power should be given to the Appellate mechanism for the smooth functioning of GST.

### **SUMMING UP**

Indian tax system was waiting GST since a long time i.e. twelve years and this waiting came to an end on July1, 2017. In this period, it passed through various challenges such as political and structural. It became reality in 1 July 2017 after removing the biggest hurdle on the way of it i.e. Constitution's Amendment. Drafting a law is very difficult but implementing it in a right way is more difficult. As lots of activities related to GST happens last one year from the implementation date, so various issues come across in the way of implementation of it. Not only there are implementation issues but also there are some policy issues regarding it which requires consideration for the further improvement in this tax.

This paper categorizes GST issues in two parts namely implementation issue and policy issue. First clubs issues regarding implementation of GST in India and second one sums issue regarding structure of GST for India comparing ideal GST. It is a myth that there is one indirect tax in India after implementation of GST as there is lots of tax remains out of ambit of it such as local taxes, taxes on vehicles, custom duty etc. Exemptions to petroleum, tobacco will reduce base of it. Power to Council to recommend any matter about GST to investigate is another structural issue.

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