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Study of Mejor Issues and Challenges with Goods and Services Tax (GST) in India

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Abstract

*Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition. GST Law has replaced many indirect tax laws that previously existed in India. The implementation of Goods and Services Tax (GST) in India has faced several significant challenges including complex tax structure, compliance burdens, technical glitches, legal issues etc. There are also some issues in GST i.e. penalty for minor mistakes in e-way bill, loss of ITC if the seller files return late, double taxation for non-payment of Reverse Charge Mechanism (RCM), high tax rates on cement and two-wheelers etc. The GST Council has recently recommended a comprehensive reform package that includes rate rationalization with a simplified two-slab structure i.e.5% and 18% along with a new 40% slab for sin and luxury goods, sweeping rate reductions across sectors with focus on common-man, labour-intensive Industries, farmers and agriculture, health, key drivers of the economy. These **recommendations** are based on consensus among all members of the **GST** Council to make **GST** simpler, fairer and more growth-oriented. The revised rates and exemptions will come into effect from 22nd September 2025 ensuring timely relief for the common man, households, farmers and businesses.*

Key words

Goods and Service Tax, Issues and Challenges

Objectives of the study

1) To know the major issues of Goods and Services Tax (GST)
2) To study the challenges with Goods and Services Tax (GST)
3) To do the recommendations for improvement in GST compliance.

Methodology

The paper is based on secondary data. The study is not more descriptive in nature. Information has been collected from various articles, books, website. The information on internet has been studied.

Introduction

The Goods and Services Tax (GST) is a type of indirect tax which is replace with to multiple indirect taxes prevailing in India before 1 July 2017 for example VAT, Service Tax, Central Excise Duty, Entertainment Tax, Octroi etc. on the supply of goods and services. It is a comprehensive, multistage, destination-based tax, comprehensive because it has subsumed almost all the indirect taxes except a few state taxes. Multi-staged as it is, the GST is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination-based tax, it is collected from point of consumption and not point of origin like previous taxes.

Goods and services are divided into four different tax slabs for collection of tax 5%, 12%, 18% and 28%. However, petroleum products, alcoholic beverages and electricity are not taxed under GST. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on several items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, post-GST, most goods are expected to be in the 18% tax range.

The Goods and Services Tax came into effect from 1 July 2017 in India. 1st July is celebrated as GST Day. The GST replaced existing multiple taxes levied by the central and state governments.

Goods and Service Tax (GST) is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The launch of the Goods and Services Tax (GST) was not merely a change in tax law, it was a revolutionary reform that transformed India's indirect tax system. By bringing together multiple state and central taxes under one umbrella, GST has paved the way for a "One Nation – One Tax – One Market" structure.

Definition of GST

"GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set of benefits from the producer's /service provider's point up to the retailer level where only the final consumer should bear the tax."

New article 366(12A) of the Indian Constitution defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

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Existing article 366 (12) defines goods to include all materials, commodities and articles. New article366 (26A) defines service to mean anything other than goods. There are four tax rates namely 5%, 12%, 18% and 28%. Some goods and services would be exempt. Separate tax rate is applicable for precious metals.

Different types of GST

India currently recognizes four types of goods and service tax returns. These are as under -

- **CGST (Central Goods and Services Tax):** When purchasing or selling things within one state, CGST is collected as an indirect tax by the central government in order to raise money for activities like infrastructure development and public services.
- **SGST (State Goods and Services Tax):** When purchasing or selling something within your state, SGST tax is collected by the state government and used for local projects, schools and other purposes that benefit the entire population of that particular state. The money collected stays within its borders to fund local needs or state initiatives.
- **IGST (Integrated Goods and Services Tax):** When purchasing something that originates in another state, IGST comes into effect to facilitate transactions smoothly across state boundaries and ensure a fair distribution of revenues among participating jurisdictions.
- **UTGST (Union Territory Goods and Services Tax):** UTGST is applied only on sales occurring within Union Territories governed directly by the central government, thus enabling more consistent financial management and development across these regions.

Challenges of Goods and Services Tax (GST)

India's Goods & Services Tax (GST), implemented in 2017, was a major tax reform aimed at simplifying the tax system and enhancing compliance. However, over the years several issues have emerged making it a bad experience for taxpayers. The challenges including compliance complexities, technical glitches, high costs etc. impacting taxpayers and businesses. These challenges are as follows- 1. **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.

2. **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. Due to this, further increasing their overhead expenses.

3. **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.

4. **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.

5. **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.

6. **Higher Tax Burden for Manufacturing SMEs -** Small businesses in the manufacturing sector will not have it easy in the GST regime. Under the excise laws, only manufacturing business with a turnover exceeding Rs. 1.50 crores had to pay excise duty. Whereas, under GST the turnover limit has been reduced to Rs. 20 lakhs, thus increasing the tax burden for many manufacturing SMEs.

7.Compliance Complexities:

The GST system was designed to simplify the tax structure, but it has resulted in increased compliance burdens for taxpayers. Frequent changes in tax rates and filing requirements have made it difficult for businesses to keep up, leading to confusion and increased litigation.

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High compliance costs are particularly burdensome for small and medium-sized enterprises (SMEs), which struggle to manage the expenses associated with GST registration, return filing and audits.

8. Technical Glitches:

The GST portal has faced numerous technical issues, making it challenging for the taxpayers to file returns on time. These glitches have resulted in incorrect filings, leading to penalties and fines for businesses. The GST Network (GSTN), which manages the portal, has been criticized for not adequately addressing these technical problems, causing frustration among users.

9. Blocked Input Tax Credit (ITC):

Many taxpayers face issues with blocked ITC due to non-compliance or non-existent sellers. This situation hampers cash flow and increases operational costs for businesses. The inability to amend GSTR-3B returns further complicates the situation, as minor errors can lead to significant financial effects.

10. High Tax Rates:

The GST regime includes multiple tax slabs i.e. 5%, 12%, 18%, and 28% which can be confusing and lead to compliance challenges. Essential goods often face higher tax rates, which has raised concerns among consumers and businesses. The high rates on essential items, such as cement and two-wheelers, have been criticized for being burdensome, particularly for lower-income groups.

11. Lack of Harmonization:

There is often a disconnect between the provisions of the law and the functionalities offered on the GST portal. This lack of harmony has resulted in difficulties for taxpayers in navigating the system effectively.

Issues of Goods and Services Tax (GST)

Goods and services tax is currently going under tremendous pressure to go through some of the burnings and solution-seeking problems of the year-old implemented indirect tax regime. The finance ministry as well as the GST council needs to take care of the GST return filing issues and forms-related consequences that have to be faced by the taxpayers. Following are the key issues with GST implementation.

1. **Loss of ITC if the Seller Files Returns Late -** If the seller's return is not filed on time, the buyer faces the loss of one month's ITC, which is unfair and disrupts business. The buyer does not have the authority over the seller to ensure timely tax payment, but the Government does. Therefore, the Government should exercise its authority to recover the tax from the seller. There is no fault of the buyer in this delay of filing the return and payment of tax. Thus, the buyer should be given a specified time to rectify the mismatch and if the seller still does not deposit the tax, then recovery should be made from the seller.

2. **Penalty for Minor Mistakes in E-way Bill -** Heavy penalties are imposed for minor mistakes in the E-way bill, which is a significant problem for Taxpayers. This provision should be made flexible so that minor mistakes do not attract penalties. When E-way bills are checked, the dealer has no means to obtain legal advice and the vehicle driver is their sole representative who does not understand these issues. The Government should catch tax evaders, which is appropriate, but penalties for minor mistakes are not suitable for industry and trade.

3. **Double Taxation for Non-payment of RCM -** If a trader fails to pay Reverse Charge Mechanism (RCM) on time, they end up paying double tax as they do not get credit for it later. RCM itself is a complex provision causing significant difficulties for taxpayers. This provision should be simplified. The initial provision for RCM under GST was considered impractical and a large part was removed, but what remains is still problematic. If a dealer has not paid it, they do not get credit for it and now if recovery is being made, it is double taxation with interest
and penalties.

4. **Increase in Number of Notices -** Traders face an increasing number of notices under GST, creating obstacles in doing business. The system was claimed to be non-intrusive, but it currently involves more intervention than the previous tax system. The number of notices under GST is much higher than in the previous indirect tax system, indicating defects in the system that need to be addressed. Most notices are related to input credit and the biggest defect is that there is no provision for the buyer to inform the department from whom they purchased goods. This tax is based only on the seller's information and if the seller makes a mistake or evades tax, the buyer is held responsible, which is the biggest fault of this tax system.

5. **Inability to amend GSTR-3B -** GSTR-3B is a crucial return under GST, but there is no provision to amend it after filing, leading to errors and many notices. After almost seven years of GST implementation, GSTR-3B is not revised. This is a procedural defect in implementing GST in our country.

6. **Annual Return for Composition Dealers -** The deadline for composition dealers to file their annual return is April 30, which is very early, while regular dealers get nine months. Moreover, there is no rationale for asking for the details of purchases from composition dealers. Composition dealers were considered incapable of complying

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with GST's complex procedures. So, they cannot prepare and file their annual return within a month, including purchase details. The Government should deal with this problem sympathetically and give the time to composition dealers at least 9 Months, which is available to the regular dealers at present.

7. New Registration Process - The new registration process is complicated, involving physical verification of business premises in every case, with different processes in different places. The utility of 100% physical verification is questionable. Risk assessment should determine which dealers require physical verification, otherwise, the process is impractical. A standard operating procedure for registration should be issued. Is it the government's decision that 100% of cases require physical verification of business premises? If so, the Government should clarify and if not, a circular should be issued to remove any confusion and address any procedural flaws.

8. Reduction in the Number of Tax Rates - Currently, GST has multiple tax rates like 5%, 12%, 18%, 28% making it complex for traders. The number of tax rates should be reduced and simplified to provide relaxation to traders and make the tax system more transparent and straight forward. One nation, one tax is fine, but the tax rates should also be limited. GST revenue is continuously increasing, so the adjustment in tax rates should be made. Tax Payers and Public have high expectations from the Government in this regard.

9. **Loss of ITC under Section 16(4) -** If the return is filed late under Section 16(4), ITC is not available, nor can it be passed on to the buyer, even though the tax has been paid to the Government. This provision causes financial loss to traders and it is absolutely unfair. The Government receives the full tax, but due to non-availability of ITC, it becomes double taxation for industry and trade. Additionally, the Government charges interest and penalties for late returns and tax payments. This provision of restricting ITC is not justified. Although the Government intends to maintain discipline by implementing such laws, which is very important, mistakes can occur in adhering to such deadlines in a new tax system. Therefore, an amnesty scheme should be introduced for initial years to address ITC-related issues for buyers and seller.

10. ITC on Passenger Vehicles - Traders cannot avail ITC on scooters, motorcycles and cars, which are essential for many businesses, especially two-wheelers. There is no rationale for blocking ITC on these vehicles. A comprehensive study should be conducted to restore ITC on these vehicles with some conditions. Initially, this unreasonable restriction might have been imposed based on some notion, but it should be lifted now that GST revenue has fixed.

11. **High Tax Rates on Cement and Two-wheelers -** The tax rate on cement and two-wheelers is 28%. These items are not considered as luxury Goods. A study should be conducted to reduce the tax rate on these items to provide relief to both traders and consumers. These items are commonly used by the General public.

12. **Target-based GST -** States set their GST targets and conduct surveys to meet these targets, often resulting in arbitrary demands. This practice is impractical. When the Government's tax revenue is increasing on its own, artificially collected tax can pose a future threat to the country's trade. This trend should be stopped.

13. **Fair Treatment by GST Officers -** GST officers should be trained to treat taxpayers fairly and follow the law. Officers, under pressure from higher authorities, focus solely on revenue collection through surveys and recovery, which is unfair. While making decisions, not only revenue but also justice should be considered, which is often not happening. Strict and vigilant efforts are required in this regard.

14. **Trade in the Name of Poor and Helpless Individuals -** Some people use the identity of poor and helpless individuals, using their Aadhaar and PAN cards to trade, leading to large demands against them. In many cases, these individuals are complicit due to poverty, ignorance and thirst, but the real culprits/criminals are others. A special wing should be established under GST to catch the real criminals behind such trades and recover the dues from them. Legally, the department is correct while creating demands against these persons, but this entire arrangement needs to be attacked to prevent poor and helpless people from becoming victims of small facinations and to avoid creating problems for the department, which often cannot recover anything from them as they have no property with them. A real campaign should be launched to catch the real criminals behind them and recover the dues from them.

15. Interest Despite Tax Payment Issue - There is a strange provision in GST that if the taxpayer deposits the tax in the bank but files the return late for some reason, they face a penalty for late filing and interest on the deposited amount. This is not right. This provision should be abolished to prevent undue interest burden on taxpayers.

16. **High Interest Rate -** The interest rate under GST is 18%, which is much higher than the market interest rate and impractical. This 18% interest rate is outdated and should be reduced. The interest rate should be aligned with the market or bank rate, with an additional 2% margin, but 18% is excessively high.

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17. Required Documents for ITC - The list of documents required to claim ITC is unclear, causing difficulties for traders. A clear list of required documents should be provided to ensure that ITC claims are never blocked. Otherwise, doing business becomes impossible. This list should be clearly defined to provide traders with the correct information and allow them to claim ITC without any barrier. There should be a way for traders to ensure that their ITC is fully secure.

18. Role of the GST Council - The GST Council is currently unable to effectively address taxpayer's problems or this is not its primary function. The objectives of the GST Council should be modified to include resolving taxpayer's issues. This change will make the GST system more inclusive and effective, providing better support to traders and resolving their problems. Finally, a meaningful GST exemption scheme should be introduced as soon as possible to provide relief to taxpayers, especially MSMEs, from the economic burden, penalties and interest.

Recommendations for Improvement in GST -

- **Streamlining Compliance**: Simplifying the filing process and reducing the frequency of changes in tax regulations could less some of the burdens on taxpayers.
- **Enhancing Technical Support**: Improving the GST portal's functionality and reliability is crucial to ensure timely and accurate filing of returns.
- **Addressing Input Tax Credit (ITC) Issues**: Implementing measures to resolve blocked ITC claims and allowing for easier amendments to returns would help businesses manage their cash flow better.
- **Reviewing Tax Rates**: A reassessment of tax rates on essential goods could make the GST system more equitable and less burdensome for consumers.
- The Law should not compel the taxpayer to do the impossible i.e. to ensure that the supplier has paid the tax to the Government. To the extent, the taxpayer has a valid invoice and has paid the GST component to vendors, the cost is eligible as credit, then the input tax credit should not be denied only on the basis that the vendor has failed to file its GST return.
- **Processes must be reduced** so that business can operate efficiently in the best interest of the people and for economic growth. **Filing of 37 returns** per GSTIN could be a very time-consuming exercise, wherein everyone would not even have the bandwidth to comply with.
- Relief must be given to small scale operators and particularly reduced processes should be applicable to them. They do not have finance or resource to comply. Much of India's business is one- or two-man show. The **facility to file quarterly returns** should be extended to assessee with up to 10 crore turnovers.
- **Rates should be rationalized and reduced** to make India competitive and in interest of compliance and economic growth. The highest rate should be kept at 18% and there should be only few items that fall in 28% slab. Daily use items such as soaps, cremes, movie tickets, electrical goods should not be taxed at 28%.
- **Technological glitches of the GST network** should be sorted out on a war footing basis.

Conclusion

Under the GST regime, an assessee is required to file up to 37 returns per year, which includes three monthly filings and one annual return. There are only 13 returns required. This has led to a substantial rise in compliance, logistics and other costs. Tax refund delays and too much documentation and administrative effort needed. Due to various issues and challenges in GST, some of the criticizers criticize that GST is destroying small businessmen and industries in the country. It is the need of ongoing reforms and improvements to simplify compliance, enhance the reliability of the GST network and provide better support for businesses navigating this complex tax system. The government and tax administrative mechanism needs to chalk down effective strategic policies for providing necessary IT infrastructure coupled with extensive training of staff and other stake holders who are also needed to be educated about the mechanism of this new tax regime.

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