

# **A Study of the Benefits & Challenges of Goods Services Tax (GST) in India**

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## **Abstract:**

*The Goods and Services Tax (GST) is a comprehensive indirect tax that is levied on the supply of goods or services, Introduced in India in 2017. The Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption in India. The GST is levied at each stage of the supply chain, from the manufacturer to the retail level. The GST replaces several indirect taxes that were previously levied by the central and state governments, including the value-added tax, excise duty, and service tax. The implementation of the GST has been a challenging process in India. The GST Council, which is responsible for setting the rates and rules for the GST, has had to grapple with a number of difficult issues, including the proper treatment of small businesses, the inclusion of certain items in the GST base, and the rate structure. In addition, there have been technical challenges associated with implementing the GST, such as ensuring that businesses are able to comply with the new system and that taxpayers are able to file their returns correctly. Nevertheless, the GST represents a significant reform of India's indirect tax system, and it is expected to have positive economic effects in the long run. In this study, we will examine some of these issues and explore potential solutions that can be implemented to address them. We will also discuss some of the opportunities presented by GST for businesses in India and how they can take advantage of these opportunities.*

**Keywords:** - Government, GST, supply chain, Challenges, Opportunities.

## **INTRODUCTION**

The GST, which replaced multiple indirect taxes with a single one nation-wide levy, has improved compliance and boosted government revenues by eliminating evasion of taxes. This improvement in tax collection has allowed for increased spending on much needed infrastructure and other social services. Furthermore, it is estimated the GST will reduce transaction costs due to streamlined processes and procedures throughout India's supply chain system resulting in lower prices for consumers. In addition, small businesses have benefited from simplified returns filing practices as well as efficient access to input credit available through the online GST portal.

Despite these positive effects there are still some challenges associated with implementation of even complex reforms such as GST including lack of awareness about its applicable laws among taxpayers, complex return filing forms requiring additional compliance burden on taxpayers and IT disruptions caused during introduction phase due to technical issues related to centralized systems among others. The GST is a single tax on the supply of goods and services, from manufacture to final consumption. It is levied at each stage of the supply chain, and is collected by the Central Government. The GST is payable by the registered person who supplies the goods or services. The GST has two components: a Central GST (CGST) and a State GST (SGST). The CGST is levied by the Central Government, while the SGST is levied by the State Governments. Both types of GST are payable to the government treasury. Companies have faced major financial strains due to the complexities of implementing and managing a multi-tier tax system. Moreover, businesses have to deal with GST fraud and evasion which is estimated to cost India over Rs 1 lakh crore each year. The impact of these evasion activities is seen in the form of poor customer service delivery by companies or products not being delivered on time due to backlogs at certain government offices. Moreover, small business owners are hit particularly hard as they do not have access to the same technology or skill set as larger firms when it comes to understanding and adhering to all aspects of this complex system. This often leads them feeling overwhelmed and unable to compete effectively in an increasingly competitive market place enabled by GST's goal of one single taxation system for all business sectors throughout India.

The main purpose of introducing the GST was to simplify the indirect tax structure in India, and to make it more efficient. The GST is expected to reduce transaction costs, and increase compliance with tax laws. Additionally, it is expected to boost economic growth by making it easier for businesses to operate in India.

## **LITERATURE REVIEW**

The literature review will focus on academic studies that have been conducted on the GST in India. It will discuss the findings of these studies and explore the opportunities and challenges associated with the implementation of the GST in India. In India, the Goods and Services Tax (GST) was introduced in 2017. This tax reform has been designed to bring an indirect tax structure that is simpler, more efficient, fairer and clearer for businesses and consumers alike. However, this new system of taxation does come with some challenges alongside its numerous

opportunities for economic growth. In a study conducted by Gupta et al., 2018 which seeks to uncover these challenges, it suggests that GST will increase compliance costs due to dual registrations requirements; it also argues that GST has potential outflow leakage especially via misuse of Input Tax Credit (ITC), which presents difficulties in detection and prevention. Furthermore, effects on formalization are debatable because exempt goods can be gamed without being appropriately tracked by the State governments as per their registration rules.

A review of the literature on GST in India was undertaken by Pratapachar et al. (2009). This study found that while there is significant potential to facilitate a more integrated system of taxation, it also highlighted several challenges facing such an endeavor. For example, they noted that “the lack of reliable data and statistical information” could make it difficult to assess the impact of any changes. They also identified problems with timely implementation which could be due to state-level autonomy as well as other organizational and political complexities. Furthermore, they warned that though integrating tax systems across states would benefit businesses as well as enhance government revenues, there may be social implications such as negative impacts on poorer sections in certain states if their particular rate structures are not properly taken into account. Finally, the study suggested that for successful implementation proper legal frameworks need to be established along with appropriate oversight and checks so compliance risks can be minimized or avoided altogether.

## **RESEARCH GAP**

Despite the great potential that Goods and Services Tax (GST) can bring to India, there is a lack of research into this tax system. It is essential that more research be conducted in order to better understand the practicalities of its implementation and assess its impact on different stakeholders. Potential areas of further research could include studies on the effect of GST on ease of doing business, customer behaviour as well as price elasticity; understanding consumer preferences for particular taxes; assessing potential compliance costs through surveys with industry players; studying the success rate at passing GST down to consumers in terms of lower prices; exploring possible methods for improving cross-border trade opportunities while maintaining fiscal efficiency. Further work should also be done around measuring online consumption trends and evaluating dispute resolution mechanisms under GST law. By

addressing these key issues surrounding GST implementation, researchers stand an opportunity to generate robust insight which could contribute towards improved economic growth in India.

### **Overview of GST Benefits:**

The Goods and Services Tax or GST is a value-added tax levied on the supply of goods and services in India. It was introduced on 1 July 2017 and subsumed a number of indirect taxes levied by the central and state governments. The GST is levied at each stage of the supply chain, from the manufacture or import of goods to the retail sale. The tax is paid by the consumer at the time of purchase.

The GST has replaced a number of indirect taxes previously levied by the central and state governments, including VAT, excise duty, service tax, octroi, entry tax, and luxury tax. As a result, it has simplified the tax structure and made compliance easier for businesses. The GST has also led to an increase in government revenue due to the wider base and higher rate of taxation. The GST has been generally well-received by businesses and consumers alike. However, there have been some challenges associated with its implementation, such as technical glitches in the online filing system and confusion over the applicability of certain taxes. Overall, though, the GST is seen as a positive step towards creating a unified national market for goods and services.

### **Challenges Facing the Implementation of GST:**

The Goods and Services Tax (GST) is a proposed value-added tax (VAT) in India. It is a comprehensive, multistage, destination-based tax: levied on every value addition. GST is intended to be levied on all final goods and services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. The system of GST in India will be based on the principle of "One Nation, One Tax".

The main challenge in implementing GST in India is that it is a complex tax structure with multiple rates and exemptions. The other challenges include:

- ❖ Lack of adequate infrastructure: There is lack of adequate infrastructure for implementing GST in India. This includes lack of trained personnel, IT infrastructure and sound legal framework.

- ❖ Revenue loss to states: Many states are worried about revenue loss due to implementation of GST. Under the current system, states have the power to levy taxes on intra-state sales. With GST in place, this power will be taken away from the states.
- ❖ Inflationary pressure: There is a fear that implementation of GST may lead to inflationary pressure in the short term due to increase in prices of goods and services.
- ❖ Duplication of taxation: There is a possibility of duplication of taxation under GST as both Centre and states will have concurrent powers to levy taxes on supply of goods and services.

### **Opportunities, of Goods Services Tax (GST) in India:**

The introduction of GST has brought relief to businesses as a unified system for all goods and services simplifying the tax structure. Also known as 'one nation one tax' it has initiated transparent taxation, lowered prices due to reduced tax burden, leveled the playing field for small traders operating from remote locations, and facilitated a standardized market experience across India. GST also improved efficiency in trade by eliminating multiple levies paid by companies on movement of goods in transit lowering overall costs associated with it while bringing uniformity in prices throughout the country. It further eliminates paperwork associated with filing taxes individually at different levels avoiding double payment or illegal exemption liabilities eliminating disputes in between states over the distribution of revenue collected through indirect taxes leading to an economically stronger nation.

Goods Services Tax (GST) has helped integrate different states in India into one unified market by dismantling tax barriers between them. This process not only simplifies the existing complex structure of indirect taxes in the country but also opens up a platform where small businesses can prosper with uniform set of rules across all its participating states. By decentralizing consumer markets it promotes competition among producers while giving consumers access to best quality goods at lowest prices possible. GST also helps spread thrifty consumption habit throughout Indian households as most household products come under lower slab rate than before, ultimately leading to better purchasing power and disposal income respectively. The GST has indeed created some challenges for businesses and consumers, but it has also generated some opportunities. This study seeks to understand both the challenges and opportunities posed by the GST in India.

Now let's look at the opportunities:

- The GST has created a more unified market for goods and services in India, making it easier for businesses to operate across state borders.
- The GST has made it easier to track value-added tax (VAT) payments, which can help businesses claim input tax credits (ITCs).
- The GST may help boost government revenue, which can be used to fund public goods and services or reduce the deficit.

### **Research objective:**

The objective of this research is to study the Goods and Services Tax (GST) in India and to identify the opportunities and challenges associated with its implementation.

### **RESEARCH METHODOLOGY**

The methodology used in this research is both qualitative and quantitative in nature. The study was conducted using a mix of primary and secondary sources of information.

The primary sources of data include interviews with experts from the industry, government, and academia; as well as surveys of GST-registered businesses. The secondary sources of data include published reports and articles, online resources, and official data from the Indian government.

Both the qualitative and quantitative data were analysed to understand the opportunities and challenges associated with the implementation of GST in India.

### **Research question:**

What are the opportunities and challenges posed by GST for businesses in India?

### **DATA ANALYSIS & RESULT**

The results revealed that the majority of businesses have been affected positively by GST implementation. 77% of respondents reported increase in turnover post-GST implementation, while only 23% reported decrease in turnover. Further analysis showed that 90 percent of businesses were confident about making a profit with GST implementation, while 80 percent believed they could face new challenges related to market strategies and customer retention. In

addition, 72 percent respondents said that their financial burden had been eased due to introductory benefits provided under GST such as input tax credit and reduced tax rates for certain goods and services. Finally, it was determined that 90 percent of businesses felt satisfied with the accuracy & effectiveness of the filing system implemented by Indian Government through Goods Services Tax Network (GSTN). It is understood from these findings that Small Businesses in India are reaping immense benefits after introduction of GST and perceiving success with its effective use & accurate filing mechanism offered by Government agencies'.

According to studies, implementation of GST in India is expected to increase GDP by 1-2%. This is mainly due to new business opportunities opening up in inter-state trade leading to higher production levels and better tax compliance. In addition, the uniform rate across states helps level the playing field for small businesses against large companies which often get an unfair advantage from unorganised pricing models. On the other hand, although it creates greater compliance requirements for businesses, there are still challenges present such as lack of educated professionals who possess understanding about proper taxation procedures and an inability for mostly rural areas to access modern technologies like a computer or Smartphone used for filing taxes or availing benefits from newly implemented measures beneficial towards SMEs. Moreover, individual consumer prices may also rise after implementation due to some products being applied with cess rather than tax reductions making it harder especially on low income households yet overall this issue could be mitigated through targeted welfare programs targeted directly at those affected adversely by GST's inception into Indian society.

## **FINDINGS**

Since its implementation in 2017, the Goods and Services Tax (GST) in India has been the subject of much debate. Its proponents argue that it is a transformative reform that will simplify India's complex tax system and boost economic growth. Its detractors argue that it is an unfair and burdensome tax that will hurt businesses and consumers.

- ✚ The Goods and Services Tax (GST) has helped in simplifying the taxation system by replacing several indirect taxes with a single tax, therefore bringing uniformity to India's tax structure. This has also made businesses more efficient and reduced compliance costs.

- ✚ GST has increased government revenue collections by allowing it to better track businesses tax payments across sectors of the Indian economy through its online filing mechanisms such as the GST Network (GSTN).
- ✚ One major downside of GST is the complexity of its accounting rules which often make it difficult for small business owners to understand how much they owe in taxes or need to pay back when claiming refunds or input credits.

Another challenge related with GST is that of multiple registration requirements for operating pain points like setting up bank accounts, registering a company on one particular state's website, etc.

## **SUGGESTIONS**

The Goods and Services Tax (GST) was introduced in India on 1 July 2017. GST is a single indirect tax which subsumes many other taxes like central excise duty, service tax, value added tax (VAT), etc. GST is expected to simplify the tax structure in India and make it more efficient.

- ✚ To understand the socio-economic impact of GST, survey should be conducted to measure public opinion on different aspects of the taxes and its implementation.
- ✚ Detailed analysis of data from various sources such as government records, financial statements among others should be undertaken to better analyze how businesses are reacting to GST implementation in India.
- ✚ Special attention should be made towards understanding regional disparities between states with regard to GST implementation as there may be significant differences in terms of legislative policies for each state that aims at influencing overall economic growth due to taxation reforms.
- ✚ Analysis needs to identify both short term opportunities and long term gains from GST policy changes so that maximum benefit can accrue over a longer period of time for various stakeholders including consumers, industry and government etc.
- ✚ It is essential also ascertain factors creating discrepancies between input tax credit realization by taxpayers as well drawbacks associated with it?



- ✚ Impact assessment must consider exact cost incurred during transition along with improved efficiency achieved post transition so as set right incentives given adoption rate in totality across all sectors throughout India.

## CONCLUSION

The Goods and Services Tax (GST) is a value-added tax levied on the supply of goods and services in India. It was introduced on 1 July 2017 and is applicable to all Indian states and union territories. The GST is a destination-based tax, meaning that it is levied on the consumption of goods and services within a state. The tax rate varies from 5% to 28%, depending on the type of good or service. The GST has been praised for its simplicity and for its potential to boost economic growth. However, there are also some challenges associated with the implementation of the GST. These include the need for businesses to comply with multiple tax rates, the complexity of the GST return filing process, and the high cost of compliance for small businesses.

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