

# Post Implementation Issues of Goods and Services Tax in India

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## Abstract

GST was declared as India's second intended attempt. But several months ago, on 1 July 2017, India as a country had made a big leap towards a new order in its tax history which is undoubtedly, one of the important and revolutionary indirect fiscal reforms in Indian history since independence. In addition, the post-GST era has so far seen the exporter numerous blows, errors and incompatibility in archived returns as well as the World Bank calling GST a very complicated tax system. The GST Act prior to its implementation faced the resistance of state governments due to fear of loss of income for state governments. The current GST has certain problems in the system. In addition, there are only two countries apart from India, namely, Canada and Brazil to have applied the dual GST model. In most other countries of the world there is only one single tax system that is VAT or GST.

The following study focuses on getting a meaningful idea about The challenges and prospects of post GST application in India and the difference between Indian model of GST and similar taxes in other countries is double GST Model. This study seeks to clarify the problems of subsequent application of goods and services tax in India that how experience in GST raises a larger point, and maybe it highlights a future lesson, about policy reforms. After two years in the time of the pandemic significantly after the closure it has become difficult to manage for businessmen. Meanwhile, the government has been proactive in resolving the problems faced by Indian taxpayers. There are still gaps between the expectation and actual application of GST in terms of a simplified tax structure, ease of doing business, and overall price reduction.

This study discusses the main problems of how goods and services tax affects the Indian economy and after the results are applied a thorough understanding of GST in some other countries of the world. In addition, these issues have been raised during the post-implementation period, as well as critically analysing the expectation and the difference between their reality.

**Keywords:** Constitution, economy, government, goods and Services Tax, India.

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## Introduction

At present, 165 countries have joined it and India has become the 166 nation to join the GST group of countries. India has approved dual GST. Due to the 101st constitutional amendment, both Central and the states/territories of the Union could impose taxes on the supply of goods and services at the same time. Integrated GST is chargeable in inter-state transactions. It is collected and collected by the Central government. It is equal to CGST + SGST. There would be two components of GST viz. GST Central (CGST) and GST state (SGST) the center will collect CGST and the Union states/territories will charge SGST/UTGST in all or both goods or services supply transactions. GST is to

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increase competitiveness and performance in India's manufacturing sector. The decline in exports and the high expenditure on infrastructure are just some of the concerns of this sector. Multiple indirect taxes had also increased administrative costs for manufacturers and distributors and with GST instead, the compliance burden has decreased and this sector will increase more

steadily. (Singh: 2019) GST success would be based on efficiency, fairness and simplicity. Several experts stressed that GST will increase GDP from 1 to 2% and reduce inflation by 2% compared to term.

cumulative GST revenues to May 2018 were Rs.94,016

crores with CGST of 15, 866 crores (17%), GST was Rs.21, 691 crores (23%), the GST was Rs.49,120 crores (including Rs.24,447 crores collected on imports)-52% and the CBC was Rs.7,339 crores (including Rs.854 crores collected on imports) (Ministry of Finance, Government of India).

**Taxes subsumed in GST: State and Central Taxes**

State Taxes	Central Taxes
Value Added Tax (VAT) Entertainment Tax levied by states	Excise Duty
Luxury Tax	Additional Excise Duty
Tax on Lottery, Betting and Gambling	Excise Duty under Medicinal and Toilet Preparation Act. Service Tax
Entry Tax other than for local bodies	Additional Custom Duty commonly known as Countervailing Duty (CVD), Special Additional Duty (SAD) Surcharge CENVAT

Source: Empowered Committee of State Finance Ministers Government of India

cumulative GST revenues to May 2018 were Rs.94,016 crores with CGST of 15, 866 crores (17%), GST was Rs.21, 691 crores (23%), the GST was Rs.49,120 crores (including Rs.24,447 crores collected on imports)-52% and the CBC was Rs.7,339 crores (including Rs.854 crores collected on imports) (Ministry of Finance, Government of India).

While the central government trusted to launch the GST as a good and Simple tax, there were many others who wanted to keep it away considering it was an average baked GST regime on taxpayers. (Shinde: 2018) the GST has been implemented in India for three years. It all began with panic and confusion and everyone was busy solving the teething problems of this huge tax reform. The country was skeptical, whether it was a financial expert or a common man, about how the GST would work successfully. (Vasal: 2018) with GST on the move, the government has been proactive in solving problems faced by Indian taxpayers. There are still gaps between the expectation and actual application of GST in terms of a simplified tax structure, ease of doing business, and overall price reduction. But there has definitely been a global positive impact in terms of macroeconomic growth and digitalization in the tax system.

yet, the biggest question that had to be addressed before going to GST was what if tax collections do not match expectations? As it has already happened. Another

question is whether GST had strengthened India's budget federalism. It appears that the benefits of GST are not uniform throughout the center and states. The center's tax base may expand from 20% to 25%, as the tax collection point has shifted from the manufacturing level to the retail level. However, the impact on states on GST revenues varies greatly depending on the structure of the underlying savings. And suggested that vertical and horizontal imbalances in Indian tax federalism dig into the post-GST scenario. The finance Commissions appointed once every five years, in accordance with Article 280 of the Indian Constitution, have an important role to play in resolving this issue. (Shinde: 2018)

**Objectives of the Study**

- To study the Goods and Services Tax (GST) framework in India.
- To compare the Indian GST system with other countries.
- To identify the prospects and challenges of the goods and Services tax (GST) after its implementation in the India.

*Methodology :*

The study focuses on secondary sources. Secondary data

were obtained using articles, reports, various websites, etc. Which were published and focused on various aspects of goods and services tax.

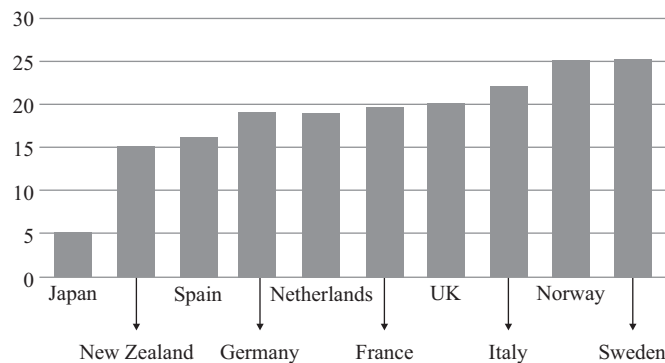
**Understanding on Indian GST with other countries GST system:**

GST is an indirect tax blanket that will subsume various state and federal indirect taxes such as value added tax (VAT) and excise and different state taxes, central surcharges, entertainment Tax, luxury tax and many more (Milandeep Kour, Chaudhary, Singh, & Kaur, 2016). France was the first country to introduce GST in 1954. After France was approved by many nations, but some of the nations reverted again because of their option. 40a many countries in the world have a single unified GST system, countries such as Brazil and Canada have a dual GST system whereby GST is charged by federal and state or provincial governments. It is the Canadian dual GST (central and state) model

applied in 1991 that the Indian model of indirect tax reform finds similarities with. Canada introduced GST in 1991 at a rate of 5 percent and Canada's GST model gives provinces options to go to state or central GST. In India, a double GST is proposed whereby a Central Goods and Services Tax (CGST) and a state goods and services tax (SGST) the taxable value of each transaction for the supply of goods and services shall be charged. The government believes that the implementation of the new indirect tax regime will be a key component in improving the ease of doing business. GST, the country's largest indirect tax reform since independence, has replaced a lot of central and state taxes, transforming the nation of 125 crores into a customs union. From now on, India is in the 130th of the 190 countries on the World Bank's easy-to-do list. The government has classified 1211 items in fiscal slabs of, and. Fiscal reform in India can be historic for the projected change scale, not the first country to move to a unified indirect taxation system as mentioned Earlier.

**GST rates in high-income countries**

European countries tout to haw higher tax rates

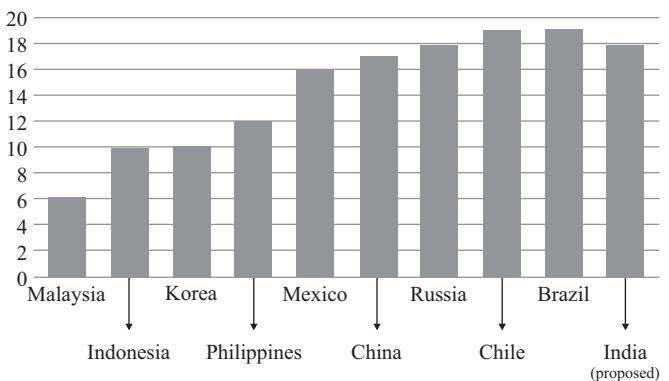


Source TDB Intelligence Unit

Note: Source of the picture (article) was Originally Published in The Dollar Business by TDB INTELLIGENCE UNIT September, 2016

**GST rates in emerging economies**

India's proposed rate is at the higher-end for emerging economies



The interests of the various stakeholders must also be addressed. Unfortunately, however, all these amendments have stolen India's GST from much of its simplicity. In fact, multiple-type categories are likely to lead to classification-related litigation, thus making tax compliance and administration complicated. It can also open many ways to evade and avoid taxes, thereby eroding the tax base. But both the union's finance minister and the main economic adviser have expressed confidence that as income rises, the country can move to a single rate over a period of three to five years from now on. The government of India plans to bring oil products, real estate and electricity under GST in the foreseeable future. An expanded tax base may allow the country to

take further steps towards a simplified GST. In this context, the role of the GST Council is fundamental to the intermediation of the necessary political consensus between the central government and the various governments of the state.

The objective of this article is two-fold study. In a first part, the author briefly describes the impact of GST on the Indian economy and issues arising from post-GST problems are attributed to the commitments the country has had to make to go GST. The introduction of GST in India has been affected by many teething problems, new trends strongly suggest that the country has successfully overcome them through timely GST Council

interventions. In a second part, the author presents a critical analysis on the subject and discusses the difference between expectations and reality.<sup>40a</sup> based on the latest available data, The author concludes that India's GST is on the right track and that the country can expect a much simpler GST in the coming years. (Jose: 2018)

### **Expectation versus Reality**

GST has brought one nation one tax system, but its effect on various industries is slightly different. The first level of differentiation came in depending on whether the industry deals with manufacturing, distributing and retailing or is providing a service. But due to GST business which was not under the tax bracket previously now have to be registered which lead to lesser tax evasion. (Singh: 2019)

In so far as, it has been three years since the introduction of Goods and Services Tax (GST), India's biggest tax reform, in 2017. It has been a roller coaster ride for the government, industries, and consumers due to the amount of changes and reforms introduced in the past three years. These changes were primarily focused on rationalising rates, simplifying procedures, and curbing tax evasion. Stabilising one of the world's biggest online tax systems, GSTN, was also a key focus area for the government. The roll-out of the Goods and Services Tax Act (GST) in India is followed by the beginning of online GST Registration and e-filing of GST Return filing. Among regular amendments & digitalisation of tax-related tasks, Chartered Accountants are constantly coming across various challenges that vary from using the online GST mechanism to the alignment of their books & records to meet the new GST requirements. This led to the investment of increased efforts and time by CA due to incorporation of details such as customer's address & GST Number, HSN Code (Harmonized System of Nomenclature) for products & SAC Code (Services Accounting Code) for services in the invoices and issuance of documents such as a Debit note, Credit note, Receipt Vouchers, Bill of Supply & E-Way Bill under the various circumstance. All had been a regular challenges which CA is Facing Under GST.

### **Advantages**

The data and evidence contained in the Economic Survey 2017-18 of the Government of India (hereinafter Economic Survey) suggest that GST is becoming more stabilized and the impact of transition issues waning. In December 2017, there were 9.8 million GST registrants and this is slightly more than the total indirect tax registrants in the old system. A positive development is the emerging trend of voluntary tax compliance. To quote from the Economic survey. (Economic Survey: 2018) Besides, One of the many benefits of the GST was the voluntary compliance it would elicit. A few numbers highlight this phenomenon. There are about 1.7 million registrants who were below the threshold limit (and hence not obliged to register) who nevertheless chose to do so. Some of other benefits which were expected are a robust and comprehensive IT system has become the foundation of GST Regime in India. All tax-payer services such as registrations, returns, payment etc. are available online. It would make compliance easy and transparent. Other notable good effect is uniformity Tax Rates & Structures/Development of Common National Market: As GST ensures that indirect tax rates and structures are common across the country. It increases the certainty and ease of doing business. In other words, GST makes doing business in the country tax neutral, irrespective of choice of place of doing business. Also, a seamless flow of tax-credit through-out the value chain and across boundaries of states, ensures that there is minimal cascading of taxes. This reduces the hidden cost of doing business. One another positive factor is competitiveness; as reduction in transaction cost of doing business would eventually lead to an improved competitiveness for the trade & industry. And last but not least it has boosted exports. Subsuming of major Central/State taxes in GST, complete and comprehensive set-off of tax paid on goods & services, phasing out of Central Sales Tax (CST) would reduce the locally manufactured goods & services. Undoubtedly, this increases the competitiveness of Indian Goods & Services in the International Market and give boost to Indian Exports.

### **At Central & State Governments Level**

Multiple indirect taxes at Central/State Level are replaced by GST. Backed with robust, end to end IT

system, GST would be simpler and easier to administer. In this way it is simple & easy to administer. GST will result in better tax compliance due to a robust IT infrastructure. Owing to seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an inbuilt mechanism in the design of

GST that would incentivise tax compliance by traders. Thus, it better Control on leakages. Plus, GST is expected to decrease the cost of collection of tax revenues of the Government and will, therefore, lead to higher revenue efficiency.

**Dual-GST: Who Gets What**

Transaction	New System	Old System	Comment
Sales within the state	State GST & Central GST	VAT & Excise / ST	Under the new system, a transaction of sale within the state shall attract two taxes: SGST (which goes to the State), and CGST (which goes to the Centre)
Sales outside the state	Integrated GST	CST & Excise / ST	Under the new system, a transaction of sale from one state to another shall have only one type of tax, the IGST – which is collected by the Centre

Eventually, it leads higher revenue efficiency. A growing distrust between the Centre and the states does not bode well for our democracy. To be sure, the current economic situation, which caused this crisis, is indeed extraordinary. The Indian economy will witness a contraction, of at least 5% this year. Revenue collections will miss projections made in February, before the pandemic spread. However, GST's problems go back to the pre-Covid-19 period. While most people agree that a unified tax was desirable (this continues to be the case), its revenue-generating abilities were grossly overestimated initially, especially because slabs have gone through constant revision.

**Challenge**

The Goods and Service Tax (GST) system or the revolutionary tax system after a decade of intense debate came to fruition and existence three years ago. It has tried to enable a tax mechanism, which is likely to bring more revenue to the government, with end to end. It was expected that the activity of tax theft would go away under Goods and Service Tax regime in order to benefit both governments as well as the consumer. In reality, that extra revenue that the government was expecting to generate would not come from the consumers pocket but from the reduction of tax theft which may benefit in future developments.

One of the major objectives of GST is to widen the tax base of the country by bringing this sector under the tax

net. However, instead of aiming to achieve this over a period of time, it could be suggested that India made an error by immediately fixing a low threshold, thereby bringing tens of thousands of small businesses under the tax net all in one go. With the implementation of GST, all manufacturers with a turnover above INR 2 million have been made liable to register for, and collect and pay, GST. In spite of compensation in the form of the ITC, the requirement to levy GST on all their supplies and to comply with the tax laws has caused considerable disruption among MSMEs. (Banerjee: 2017)

It has studied that there are numerous penalties and offences under GST, principles of which are also mentioned by law. Due to A person can be arrested for certain GST related offence by authorised CGST or SGST officer. Also, as refunds take time may lead to the involvement of corruption. Though, The Modi government is taking certain initiatives to find solutions to the challenges and trying its best to simplify and rationalize the GST regime.

As, GST was introduced to the country to reduce the tax burden on producers and foster growth through more production. Though the tax structure has tried to solve major issues relating to the taxing in India, the reform has many challenges. The government on several occasions, has given clarifications to reduce ambiguities and make the process smooth and easy. Overall in the longer term, it is not aligning the system of business with the GST regime could have multifold impact on the

business. The overall intent of the GST is laudable, this tax reform has brought new hurdles for MSMEs in conducting the business. The MSMEs have to take registrations in each such state from where they are making a supply.

Also, It is too difficult to assign MRP to handmade products like local shoes, Banarasi Sarees, etc. Most small artisans are illiterate and therefore unable to write MRP on their products and/or do any paperwork. Dealers are confused about how to rates such products. Small businesses that have a small turnover and need not pay GST face trust issues. Buyers demand bills from even those sellers who are exempted from GST. Without proof of a certificate of GST exemption, small shop owners find themselves stranded and immobile. (Mittal: 2020)

The GST rollout it seems was done with very little homework both at operational and technical ends. For the time being, the GST Council needs to pay heed to grow public as well as taxpayer grievances. It must take note of the fact that policy must be designed to reduce the compliance burden on the taxpayers. Compliance strategies must include compulsory education and assistance programs and risk-based audit programs. It must also run a communications campaign that enlightens the various effects as well as benefits of GST amidst businesses, consumers and important intermediaries. But conclusion leads overcoming the challenges relating to GST implementation, the tax reform had a long-term impact on the country's GDP growth, ease of doing business, expansion of trade and industry in the country making it a significant economic power.

## Conclusion

The Goods and Services tax, 2017 has been a mixed blessing to the Indian economy with different sectors going through gains or pains. The FMCG sector, the pharmacy are likely to gain, with the auto, banking, real estate etc. may undergo short term pain in terms of the framework of GST. The changing rules and regulations of GST in terms of its facilitation for linking to the economic growth through demand and supply will be a factor, likely to affect the success or failure of GST framework in India. The journey has just started in all

the states of India, except Jammu and Kashmir, but its variations in the taxes under GST on different grounds will be a litmus test for the government of India to effectively carry out the Goods and Services Tax in India. In a nutshell, it depends on the government on how to boost up the capacity of the lesser-endowed participants such as the small- scale manufacturers, businesses and traders. The tax officials have to find ways for making simple the overall compliance cost and other necessary changes for the betterment of the masses. The government is making all efforts to build up a nation with a simple, transparent and corruption-free taxation system but if we are looking for fruitful result then the entire country has to work together as a whole towards making it successful.

Critics argue about the feasibility of implementing GST. The policy reforms itself shall not accelerate the exports environment, unless an effective ground level assessment is done with proper feedback. But one should always remember that there is no reform that is perfect. It is important that we should make beginning to start and then gradually improvise the same in due course of time. GST Council has been proactively meeting to streamline GST law with the mainstream Indian economy. This is towards achieving the popular Government-laid Initiatives and schemes too. It has been bringing regular changes in the tax rates towards the effective functioning of the one tax, one nation ( GST).

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