

Challenges of GST in India

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Abstract

The Goods and Services Tax (GST) is one of the most ambitious tax reforms in India's economic history. Introduced on July 1, 2017, it aimed to replace the complex and multi-layered indirect tax structure with a unified tax regime across the country. GST subsumed a range of state and central taxes, facilitating a common national market and enhancing transparency and compliance. However, despite its intended benefits, GST has faced numerous implementation and operational challenges, including compliance issues, technical difficulties, multiple tax slabs, and sector-specific exemptions. This paper provides a comprehensive analysis of the need for GST, its impact on the Indian economy, advantages, and the challenges and issues that hinder its success.

Keywords: GST, Indirect Taxation, Indian Economy, Tax Compliance, Input Tax Credit, Economic Reform, Tax Administration, Small and Medium Enterprises (SMEs)

Introduction

The Indian taxation system before GST was marked by a plethora of taxes levied by both the central and state governments, resulting in a complex and inefficient system. These included excise duty, VAT, service tax, luxury tax, octopi, and entry tax, among others. The multiplicity of taxes led to a cascading effect, where tax was levied on tax, increasing the cost of goods and services.

The introduction of GST was a response to these inefficiencies, aiming to create a unified tax structure, increase transparency, improve compliance, and reduce the overall tax burden. As a destination-based tax, GST is levied at the point of consumption rather than origin, bringing uniformity across the country.

Objectives of the Study

1. To examine the rationale behind the introduction of GST in India.
2. To analyse the impact of GST on the Indian economy.
3. To identify the key advantages and challenges faced during GST implementation.
4. To highlight unresolved issues and propose policy recommendations.

Need for GST Model in India

Elimination of Cascading Effect

One of the primary motivations for introducing GST was to eliminate the cascading tax effect. Under the earlier system, tax was levied on every stage of the supply chain without adequate provisions for input tax credit. GST allows seamless credit across the supply chain, thereby reducing the cost of production and increasing competitiveness.

Simplification of Tax Structure

India's pre-GST tax system was one of the most complexes globally. GST simplified this by consolidating various indirect taxes into a single tax, reducing compliance costs for businesses.

Creation of a Unified National Market

GST removed interstate barriers and created a common market, allowing free movement of goods and services across India. This has led to increased efficiency in supply chains and reduced logistics costs.

Enhancing Revenue Collection

By broadening the tax base and improving compliance through digital mechanisms, GST has the potential to enhance government revenue in the long run.

Impact of GST on Indian Economy

Positive Impacts

Formalization of the Economy

GST has encouraged formalization, especially among small and medium enterprises. Mandatory registration and compliance requirements have brought many previously unregistered businesses into the tax net.

Boost to Logistics and Manufacturing

The abolition of check posts and streamlined transportation has reduced travel time and costs, benefiting logistics and manufacturing industries.

Ease of Doing Business

With a single tax system and online registration, GST has made it easier for businesses to comply with tax regulations, enhancing the overall business environment.

Negative Impacts

Initial Disruptions

The transition to GST caused significant disruptions, especially for small businesses unfamiliar with digital compliance systems.

Inflationary Pressures

In the short term, GST led to price increases in certain sectors due to reclassification of goods into higher tax slabs.

Revenue Shortfalls

States experienced revenue shortfalls, leading to tensions with the central government regarding compensation mechanisms.

Advantages of GST

One Nation, One Tax

GST unified the Indian market under a single tax regime, fostering ease of trade and interstate commerce.

Seamless Input Tax Credit

Businesses can now claim credit for tax paid on inputs, which was not possible under the old system, reducing the effective tax burden.

Reduction in Tax Evasion

With stringent reporting and reconciliation measures like e-invoicing and e-way bills, tax evasion has been curtailed significantly.

Encouragement to MSMEs

While initial compliance posed a challenge, MSMEs have benefited from simplified schemes like the composition scheme and threshold exemptions.

Transparency and Automation

GST is administered via a technology-driven platform (GSTN), which promotes transparency, minimizes human interaction, and improves accountability.

Challenges for GST

Technical Glitches

The GST Network (GSTN) faced significant issues during the early months, with portals crashing, errors in return filings, and difficulty accessing credits.

Compliance Burden

Small businesses struggle with multiple return filings every month (GSTR-1, GSTR-3B), reconciliations, and maintaining digital records.

Multiple Tax Slabs

India's GST has four primary tax slabs: 5%, 12%, 18%, and 28%, leading to classification disputes and confusion. Most countries with GST have a single or dual rate system.

Delays in Refunds

Exporters and businesses dealing in input-heavy sectors often experience delays in receiving refunds, affecting their working capital.

Lack of Awareness

Even years after implementation, many small traders and businesses lack adequate understanding of GST compliance requirements.

State Autonomy and Revenue Sharing

The compensation mechanism and revenue-sharing formula have led to tensions between the Centre and states, especially during periods of economic slowdown.

Other Issues

Sectorial Exclusions

Important sectors like petroleum, real estate, and alcohol remain outside the ambit of GST, creating partiality and limiting the effectiveness of the reform.

Litigation and Classification Issues

Multiple slabs and ambiguous product classifications have led to legal disputes and inconsistencies in tax treatment across states.

Political Differences

Frequent changes in GST rates due to political considerations undermine the stability and predictability of the tax system.

Administrative Challenges

The dual GST model (CGST + SGST) leads to overlap in responsibilities and complications in enforcement, especially during audits and assessments.

Conclusion

GST has undoubtedly transformed the Indian taxation system by promoting uniformity, digitization, and compliance. It has created a transparent and formalized economic environment that benefits the long-term interests of the country. However, to fully realize its potential, on-going challenges—especially related to compliance, refunds, classification, and technology—must be addressed with policy stability, simplification, and training. A single-rate GST with minimal exemptions and seamless administration could elevate India's indirect tax system to global standards.

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