Indian Management Studies Journal 23 (2019) 51-62

Indian
Management
Studies Journal

Goods and Services Tax : Procedures and Challenges in Implementation

Sukhpreet Kaur* and Titus George**

** Lovely Professional University, Phagwara, Punjab*

*** Lovely Professional University, Phagwara, Punjab*

Abstract

Goods and Services Tax, which has been introduced in India, is a biggest tax reform by Indian Government. This tax is paid by the consumers of goods and services and collected and forwarded to the government by the business entities. The introduction of GST is one of the best things implemented by our Government, because the way of calculation is so adapTable and is very helpful to remove the cascading effect of tax. But on the other hand, implementation of GST which includes registration, invoicing, IT systems, updation of GSTIN, input tax credit arrangements etc. needs proper understanding of the procedures to be followed by the manufacturers. The present study is an effort to know about the procedures and challenges faced by the companies while implementing GST by taking into account the various cases of sole proprietorships and private companies.

Key Words

GST, SGST, CGST, IGST, UGST, Sole Proprietorship and Private Companies.

INTRODUCTION

Tax is a mandatory financial charge that is levied upon the tax payers (it can be an individual or other legal entity). This is the major source of revenue to the country which is used for the growth as well as the maintenance of public properties and services. Taxation can be categorized into two different types according to the Government of India : (1) Direct Tax and (2) Indirect Tax.

Indirect Tax is levied on the goods and services unlike direct tax which is imposed on income of individuals or companies. One of the major distinctions of Indirect Tax from Direct Tax is burden of indirect taxes can be reassigned or shifted by the tax payer to someone else. As we know, now all the indirect taxes - Central and State, both are submitted as per GST which is known as Goods and Service Tax.

From 1st of July 2017, we are following the new way of calculation of tax which is known as Goods and Services Tax or in short GST. The main distinctiveness of this tax is that it amalgamates at least ten types of indirect taxes at various stages into one. The tax rate is equally divided, and the tax amount will be given to the Central Government and State Government in equal proportions. The amount of tax given to the central government is known as CGST and the amount of tax given to the state government is known as SGST. In case of states which are union territories, the tax is known as UGST. The earlier tax system was not that effective as the GST. For example, if we take a company's tax calculation based on GST, we will first calculate the tax for the sales, then from that tax payable amount we will deduct the taxes paid by the company due to any of its expenses. This helps companies to avoid unnecessary repeated payment of taxes on the amounts for which they have already paid the tax. In this paper, a brief study on Goods and Services Tax (GST) system has been done by taking into consideration the cases at CA firm, Blessy M. Mathews.

SIGNIFICANCE OF THE STUDY

GST is said to be one of the best methods of dealing with tax. As we all know as a citizen of our nation, we have the responsibility of paying tax. In this project, we are dealing with the indirect tax payment system GST, which has been recently introduced in 2017. We must be aware about the system of GST. Especially, in case of starting a business the person must be aware about the indirect taxes and its rates. In case of GST, there are some refunds that are applicable for taxes but there are some procedures that the firms should follow. Losses like zero refund and fines in case of late return of tax, due to the unawareness about GST, can be avoided by learning about GST. Due to the forceful implication by law on tax payment, GST is supposed to be learned.

OBJECTIVES OF THE STUDY

- To understand the procedures and challenges in implementation of GST.
- To study about how to file GST in a sole proprietorship and private companies

GOODS AND SERVICES TAX

In any country, the primary concern of the government is to fulfill the needs of people through the development and providing a good and quality environment in economic and social level. So, we know that for the smooth running of all these, governments need to be get funded. Tax levied on the individuals or property owners is the main source of income to the Government. To avoid the indisciplinary and irresponsible way in payment of tax, the government made laws which made tax enforced by it.

As we know, there are two types of taxes one is direct tax and the other one is indirect tax. Goods and Services Tax or what we call as GST is an indirect tax. Let's see the difference between the direct and indirect taxes :

Table 1
Difference Between Direct and Indirect Tax

Direct Taxes	Indirect Taxes
Payer and the sufferer of the tax is one and same.	Payer of tax is not sufferer of the tax; the sufferer of the tax is not paying it directly to the government. (Example: The payer of the tax is the shopkeeper, but the sufferer is not the shopkeeper, the customers are sufferers. Shopkeeper is only a medium to pay tax to government.)
Rates of taxes are different from person to person.	Rates of duties are not different from person to person.
Tax is based on Income.	Tax is based on supply.
Entire revenue goes to Central Government of India.	Revenue of Central Government of India as well as State Government. (CGST & IGST)
Progressive Nature which means as the taxable amount increases, the tax rate will also increase.	Regressive Nature which means generally a tax that is applied uniformly to all situations, regardless of the payer.

Source : Directorate of Studies (2018), Indirect Taxation-Intermediate, First Edition, Kolkata : The Institute of Cost Accountants of India (ICAI), pp. 1.

GST will bring One Nation One Tax Market. It is providing wide and comprehensive coverage of input tax credit set-off, service tax set-off and subsuming many taxes. And also, studies say that efficient formulation of GST leads to revenue and resource gain for both center and state government. Amalgamating a large number of Central and State taxes into a single tax and allowing set-off of prior-stage taxes, it would mitigate the ill effects of cascading and pave the way for a common national market. Through the study, they got some positive responds and some negative feedbacks as the implementation has resulted in higher prices for goods and services and, thus, this tax may cause burden to people. GST is likely to increase the competitiveness of Indian goods and services in the international market and to boost Indian exports. GST would bring down the cascading & Tax burden on final consumers, prices will also fall, Consumption and demand would go up, investment would increase and as a result, GDP would go up.

GST could be the next biggest tax reform in India. This reform could be a continuing process until it is fully evolved. With GST the entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. When all taxes are integrated, it would make possible the taxation burden to be split equitably between the manufacturing and services. This helps in removing the economic deformations and brings about development among the common national market. Sound IT facilities and Net facilities in the country for properly managing the GST filing and related procedures. Benefits behind GST are, Lower Business Cost, Increase Global Competitiveness, Enhance Compliance, Reduce Red Tape, Equity, Fair Pricing to Consumers, and Greater Transparency. The effect will be of a long-run effect. Through implementing the GST, it helped to expand the tax base of the country. Previously tax regimes administration complexities and compliance cost were high. Thus, a simple, users-friendly and transparent tax system is required. GST is the best applicable measure for it. Reports say that GST can improve the GDP by 1% to 1.5%. Inter-state transactions, international trade, uniformity in market conditions, transparent system, but Central Government & State Government for that there should be effective implementation is required. Social awareness, formation of infrastructural facility, training to tax officer, co-ordination between central and state government is important. The disadvantages mentioned are the IT sector services of GST are given to a private company, so the safety is a question mark.

DUAL GST MODEL

There are two models available- one is Single Unified GST system in which there is only one tax applicable in the whole country and the other one, in India we go for the Dual GST model in which there are two taxes one is Central Good and Services Tax (CGST) and the other one is State Goods and Services Tax (SGST).

CGST - Central Goods and Services Tax

This is the tax amount imposed and collected by the Central Government for any of the purchase and sales of taxable goods and services.

SGST - State Goods and Services Tax

This is the tax amount imposed and collected by the State Government for any of the purchase and sales of taxable goods and services.

UGST - Union Territory Goods and Services Tax

This is the tax amount imposed and collected on taxable goods and services by the Union Territory Government. In India, there are 7 Union Territories in which 5 of them are without legislature and 2 of them (Delhi and Pondicherry) are with Legislature. So UGST is only applicable for those 5 Union Territories. Their GST consists of UGST + CGST. In case of the excepted 2 UTs SGST is applicable.

IGST - Integrated Goods and Services Tax

This is the tax amount imposed and collected by the Central Government for any of the purchase and sales of taxable goods and services between the states. IGST is the sum total of the CGST and SGST or UGST. But the overall collection of amounts is made by the Central Government.

BENEFITS OF GST

- **No Cascading Effect of Tax :** Earlier, we were recalculating the tax over the amount which we previously calculated the tax. Which means we were paying tax on tax also. Now, under GST, we are only calculating the tax amount of the increased amount only in every stage. This gives the benefit to avoid cascading effect of tax.
- **Burden is Only on the Final Consumer :** While I'm doing the internship one client came, he was actually doing his business

without registering his business. He didn't register in the GST also. He came to get consulted about the new system. Till date, for the overall sales he is having a tax. While purchasing, then also, he is having a tax which he can collect from the consumers. When he got consulted from us, he came to know that, all the suppliers at each stage will avail credit, for all the GST paid on the purchases of goods and services. And thus, he can set-off this credit against the GST payable on the supply of Goods and services made by him.

- **Uniformity of Taxes Across the States :** The tax rates for a product in all the states came to one and same after the implementation of GST. This pave the way for an integrated economy at the national level.
- **Reduction in Tax Burden Lead to the Increment in Competitiveness of Indian Products in the International Market :** As the tax rate decreased, and also due to set-offs and all helped the people to decrease the cost and also the formalities and all. Which ultimately lead to the increment in the competitiveness of Indian products in international market at cheaper rates.
- **It Improves Economic Growth :** Average tax burden on trade and industry is likely to come down, which is expected to reduce prices, resulting in more consumption which leads to increase the production. GST will boost domestic demand, create more opportunities for domestic business and this will help in job creation in the economy.

LIMITATIONS OF GST

- **Increased Costs Due to Software Purchase :** Businesses have to either update their existing software or need to purchase GST, supported software. And also, the need of giving training to the employees for an efficient utilization of new billing software.
- **Less Awareness About GST and its Rules :** Awareness about GST is unavoidable in case of a business person. because it can lead to huge loss at the end of the day. Let me explain, a practical case we dealt in the office.

  A person came to file GST for his Travel Agency. So, we checked his previous payment status. As per his turnover, first of all he didn't want to register for the GST. But he did it before one year.

And till the date he didn't file. He doesn't want to pay anything, but as he is registered, he is supposed to file Nill returns for every month. The issue was, he is supposed to file a Nill report and due to unawareness about this he paid Rs.48000 as fine only. He even can't cancel the registration without payment.

Like this, in his case only commission was his income and due to unawareness about the GST and its filing he was forced to pay fine nearly a 0.5 Lakh Rupees.

- **SMEs will have a Higher Tax Burden :** Smaller business, especially in the manufacturing sector will face problem under GST. Earlier only businesses whose turnover exceeds Rs.1.5 cr. Had to pay excise duty. But now, any business whose turnover exceeds Rs.20 Lakh will have to pay GST.
- **New Tax Rates and Immature Government System Lead to Huge Loss for SMEs :** As we know, there are two sides for a coin. One side is of advantages and the other side is of disadvantages. Like that many people suffered huge losses due to the implementation of GST. Let me discuss one news article I read about this loss about two persons :

  A. Sunder Rajan and V. Suresh Babu, are from Kozhikode District, in Kerala. They are not against tax payment or like any sort of illegal activities. But now they are in debts for Rs. 1 Crore due to GST. They started a business of manufacturing footwears. For that they took loan for 50 Lakhs. Four years before they started business and it was running smoothly, they manufactured 3000 footwears a day. At this time the GST is implemented. As per GST, all the footwears below 500 Rupees are of 5% GST, but the sole (Polyurethane Sole) of the shoe and the glue and its thread at the top, all these are having 18% as tax. Government offered they will return the difference in the tax rate, but it didn't happen. The footwears which were already out for the sale also got delayed to get paid ultimately lead to stoppage in repayment of the loan and made them the debtors of Rs. 1crore.

  This is only a single case that came in newspapers. There are a lot of cases like this around us. Efficiency of our government processes is needed to be increased.
- **It Increases the Operational Cost :** As we know, the GST is changing how the tax we paid. So, business will now have to

employ tax professionals to be GST compliant. This will gradually increase costs for SMEs, as they incur additional costs for hiring experts.

FILING OF GST

In case of filing, it is according to the business the GST rates are being decided. There are many changes that came to the rates of tax for different products. Filing can be done in 2 different ways. We can opt quarterly filing of GST or we can opt for monthly return filing. Monthly return filing is mainly targeting only for the business which are having a turnover of more than 1.5 crores in a year. Other businesses can opt for the quarterly return filing of GST. There are actually two types of filing in GST, one is GSTR-1 and the other one is GSTR-3B. According to the purchase and sales of the business we have to file these.

GSTR-3B

GSTR-3B is a monthly or quarterly return which should be filed by the registered dealers. It contains only the details of the outward supplies of the business. Means the sales of the business but the difference from GSTR-1 is, in GSTR-3B we are only giving the total consolidated amount of the taxes of all outward supplies of the business. In case if the turnover is more than 1.5 Crore, we have to file GSTR-3B on monthly basis. In the case when the turnover is less than 1.5 Crore, quarterly filing is enough.

We have to file GSTR-3B before filing GSTR-1. At the time of filing we will see separate rows which categorize the whole outward supplies of the company. Like, Outward Taxable Supplies, Nil Rated, Zero Rated, Non-GST Outward Supply, Inward Supplies are liable to reverse charges.

CATEGORIES IN TAX RATES

Outward Taxable Supplies

It is the consolidated amount of the outward supplies. The amount must be the sum of the products sold, having GST tax rates allotted by the government.

Nil Rated or Exempted Outward Supplies

This includes the consolidated amount of the outward supplies in which the sold items are not having a tax rate for current time and there is a chance in future for these products to be allotted with some tax rates.

Zero Rated Outward Supplies

This includes the consolidated amount of the outward supplies in which the sold items are having 0% GST.

Non-GST Outward Supplies

It is the consolidated amount of the outward supplies in which the sold items are not having any GST. And in future also it will remain the same.

Inward Supplies Liable to Reverse Charges.

To understand this, we have to know about RCM or Reverse Charge Mechanism. For example at CA firm, M. Mathews & Associates, one client i.e. ARK Cashews came for his audit. While vouching his bill, it was noticed in one of his purchase bills that the bill was of ARK Cashews only, but it was a purchase bill. The reason behind this was that in case of any of the purchases from an unregistered dealer, they don't have any bills and they will not collect any tax. They just take the amount of the item. So, in this case, the company is supposed to make a purchase bill for them and the company itself will pay the tax amount for the purchase to government. So, the system is, tax which is needed to be submitted by the seller is now paid and submitted by the buyer.

So, at the time of filing the tax for sales, we have to show the consolidated amount of these types of purchases, too, because we are paying these taxes from our side.

INPUT TAX CREDIT

The second major thing to be considered before filing of GSTR-3B is ITC. As we know at the time of purchase, we are already paying an amount as tax. So, in here we are getting a benefit of ITC which means at the time of payment we only need to pay the amount less the consolidated tax amount that we have already paid at the time of purchase. The ITC amount will be shown automatically.

GSTR-1

GSTR-1 is a monthly or quarterly return which should be filed by the registered dealers. It contains only the details of the outward supplies of the business which means the sales of the business. Then what is the difference between GSTR-3B and GSTR-1? The difference is as we discussed earlier in GSTR-3B, we are only showing the consolidated amount (Tax Amount) of the total outward supplies took place. But, in GSTR-1 we are showing each and every sale as per the sales bills we have. Here also, we will record the sales in the same categories as we discussed in GSTR-3B.

Here comes one practical issue. A client which is a hospital, the issue in this place is we can't enter each and every outward supply in the GSTR-1 as per the bills, because there are 'n' number of transactions which happen in a day and we are filing this in a month. So, in case of business to customer transaction there is no need of entering all the sales.

ITC is only required for the business people because we know that the business people do the GST filing, so, they need to pay the tax amounts. If "A" has a business of selling spare parts and "B" is a person who creates machines and sells. "A" sells spare parts to "B". At the time of filing GSTR-1, "A" will show as per his bills outward supply to "B" and the tax amount collected from "B" for that supply. At the time of filing GSTR-3B "B" will check that whether in GSTR-2 (Because to "B" it is a purchase) It is showing or not. As "A" already filled GSTR-1, it will be showing in GSTR-2 of "B" which means "B" can claim the ITC for what he had paid to "A". This is a business to business transaction. In case of a business to customer transaction, customers don't need the ITC. So, in GSTR-1 also, only a consolidated amount is required for the business to customer transaction.

GST IN SOLE PROPRIETORSHIP AND PRIVATE FIRMS

The norms and rules which are given by the government, the firms are not fully aware and updated about it. These things are affecting them in a negative way. In the sense many of the firms need to pay the penalties, many had loss due to unawareness of the reimbursement of the amount. Various sole proprietorships and private companies like Khadim Shoe Mart, ARK Cashews, Aroma Medical Center, Madathil Cashews, Pothys Garments Private Ltd., S&K Spare Parts Pvt., Shanmugam Bakers, Thomson Bakers, Kallada Travels, P&G Travel Agency etc. were personally visited and various cases came into the picture. It is found that one sole proprietorship firm which was making shoes, had huge loss in the business. After the GST came, it was paying 18% tax for the shoes and the glue and its' thread at the top but the tax slab for the shoes under ?500 is only 5%. So, they can't recover the amount they paid as tax for the raw materials. As they took loan to start the business it was not possible for them to pay out the loan as they are in loss. This is only one example. There are many firms suffering due to this. They already payout, too, much tax for the raw materials but due to the inefficiency in the allocation of these taxes they are having losses in the business. All these are some drawbacks they are facing which can be rectified once it is properly presented to the concerned people and make some changes in the system to avoid these drawbacks. On the other hand, there are many firms which are very much satisfied with the GST. Because the tax amount and the cascading effect are being expelled from the system, they only need to pay a nominal tax which is very transparent also. And the system is very easy once they get a proper idea, there are firms in the market which are welcoming the changes with open hands.

CONCLUSION

GST has been newly implemented in Indian economy; most of the people are unaware about the procedures and rules about GST. Through the study it can be concluded that although GST is not that satisfactory in case of SMEs, but the advantages of GST are more than its disadvantages. Its major benefits are avoiding cascading effect of tax, reduction in tax burden lead to the increment in competitiveness of Indian products in the international market, it improves economic growth and also GST implementation leads to make the tax base wider. But as we all know it is newly implemented, the overall system is not running smoothly as it is said. It will take time for getting adjusted with the new system. There are many cases in which people are suffering due to GST implementation but will surely help in the economic growth of our country.

References

A. J. Thakare (2017), Goods and Service Tax (GST), *Vidyabharati International Interdisciplinary Research Journal*, Vol. 6, Issue 1., pp. 115-116. [Available at http://www.viirj.org/Conferences/vbmvamt/commerce.pdf Viewed on 5/6/2018]

Board of Studies (2017), *Taxation - Indirect Taxes : Section-B,* Publication Dept. on the Behalf of Institute of Chartered Accountants of India, Edition : July, 2017, pp. 01-30.

Clear Tax Team (2018), *GST Benefits- Advantages and Disadvantages of GST* [Available at https://cleartax.in/s/benefits-of-gst-advantages-disadvantages#inc Viewed on 14/07/2018]

Clear Tax Team (2018), *GSTR1: Return Filing, Format, Eligibility & Rules* [Available at https://cleartax.in/s/gstr-1 Viewed on 15/07/2018]

Directorate of Studies (2018), *Indirect Taxation - Intermediate,* First Edition, Kolkata : The Institute of Cost Accountants of India (ICAI), pp.01. [Available at http://icmai.in/upload/Students/Syllabus2016/Inter/Paper-11-NEW-GST.pdf viewed on 16/06/2018]

D. P. Parate (2017), Goods and Services Tax (GST) - Impact, Challenges and Opportunities, *Vidyabharati International Interdisciplinary Research Journal,* Vol. 6, Issue 1, pp. 104-106 [Available at http://www.viirj.org/Conferences/

vbmvamt/commerce.pdf Viewed on 5/6/2018]

Eva Van Leemput & Ellen A. Wiencek (2018), The Effect of GST on Indian Growth, *International Finance Discussion Paper,* pp.01-09 [Available at https://www.federalreserve.gov/econres/notes/ifdp-notes/the-effect-of-the-gst-on-indian-growth-20170324.pdf Viewed on 5/6/2018]

Kerala Goods and Services Taxes Department (2017), *Handbook on Departments GST - THINGS to DO,* First Edition, Kerala : Goods and Services Taxes Department., pp.3-36 [Available at https://keralataxes.gov.in/2017/08/25/know-gst/ viewed on 15/06/2018]

Lourdunathan, F.; and Xavier, P. (2016), A Study on Implementation of Goods and Services Tax (GST) in India : Prospects and Challenges, *International Journal of Applied Research,* Vol. 3, Issue 1, Part 1, pp. 626-629 [Available at http://www.allresearchjournal.com/archives/2017/vol3issue1/PartI/3-1-42-650.pdf Viewed on 5/6/2018]

M. N. Moharil (2017), Goods and Services Tax (GST), *Vidyabharati International Interdisciplinary Research Journal,* Vol. 6, Issue 1, pp. 113-114 [Available at http://www.viirj.org/Conferences/vbmvamt/commerce.pdf Viewed on 5/6/2018]

M. R. Ingle (2017), Goods and Services Tax (GST) : Its Features, Benefits and Impact, *Vidyabharati International Interdisciplinary Research Journal,* Vol. 6, Issue 1, pp. 117-119 [Available at http://www.viirj.org/Conferences/vbmvamt/commerce.pdf Viewed on 5/6/2018]

N. D. Patil (2017), Goods and Services Tax : Challenges and Opportunities, *Vidyabharati International Interdisciplinary Research Journal*, Vol. 6, Issue 1, pp. 111-112 [Available at http://www.viirj.org/Conferences/vbmvamt/commerce.pdf Viewed on 5/6/2018]

Padhuka (2017), *Padhuka's Ready Reckoner on GST,* First Edition, Chennai : Guru Krupa's Institute of Management, pp. 01-25.

S. B. Kadu; and M. K. Gawande (2017), Goods and Services Tax, *Vidyabharati International Interdisciplinary Research Journal,* Vol. 6, Issue 1, pp. 6-8. [Available at http://www.viirj.org/Conferences/vbmvamt/commerce.pdf Viewed on 5/6/2018]

Simran R. Kalyani (2017), Study on Impact of GST in India, *Research Dimensions,* Vol. 7 Issue 2, pp. 35-38 [Available at http://researchdimensionsjournal.com/material/issue.pdf Viewed on 5/6/2018]

S. Muthupandi; and Dr. A. Joseph Xavier (2017), Awareness of Implementation of Goods and Services Tax (GST) Among College Students in Sivakasi, *IJESC*, Vol. 7, Issue 4, pp. 11065-11070. [Available at http://ijesc.org/upload/6959f5136347b59539bab9ec373fa5c9.Awareness%20of%20Implementation%20of%20Goods%20and%20Services%20Tax%20(GST).pdf viewed on 5/6/2018]

Yogesh Garg; and Jyoti Gupta (2017), An Exploratory Study on Evolution & Implementation of GST in India, *3rd International conference on Innovative Trends in Science, Engineering and Management,* pp. 240-244 [Available at http://data.conferenceworld.in/YMCA7JAN17/P240-244.pdf Viewed on 5/6/2018]