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9. Introduction to Digitalization of Goods & Services Tax (GST) in Indian Financial System

Pradip Kumar Mandal

Assistant Professor,
Dept. of Humanities
Budge Budge Institute of Technology (BBIT),
Nischintapur, Budge Budge, Kolkata.

Abstract:

The direct tax system in India is undergoing a relatively small but equally significant upheaval as a result of the mandatory electronic filing of tax returns for those earning over Rs. 5 lakhs. The GST Network (GSTN), a digital platform where data relating to input sales, output purchases, and tax returns are recorded, serves as the foundation for the GST system as a whole.

The platform hosts the original invoices; therefore, the system makes sure that every enterprise's revenue and expenditures are completely transparent. The principal objective of this paper is i) To cognize the concept of GST ii) To study the mechanism of GST iii) To evaluate the advantages and challenges in Digitalization of GST iv) To furnish information for further research work on GST. There were a wide variety of taxes imposed on goods and services in our nation by both the federal and state governments. Currently, the State governments levy some of these taxes, while the Central Government imposes others. Instead of all these taxes, how wonderful would it be if there was just one fixed tax rate?

Introduction of Goods and Services Tax (GST) to replace the previous multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment.

The Goods and Services Tax (GST) is one indirect tax for the whole nation, which will make India one unified common market. With the introduction of GST, there would be a significant step of the new beginnings in Indian financial system. Amalgamating several central and state taxes into a single tax will mitigate cascading or double taxation, to remove cascading effect of taxes and provide a common nation-wide market for goods and services, India is moving towards introduction of Goods and Services Tax (GST).

Conclusions: *This paper presents an overview on Digitalization of GST concept, explains its features along with its mechanism. The paper is more focused on advantages of GST mechanism and challenges faced by India in execution.*

Keywords:

GST, Indirect Tax, Cascading, Mechanism of GST.

9.1 Introduction:

India's prior indirect tax structure was incredibly complicated. The Central and State Governments imposed numerous different kinds of tariffs on goods and services. We were required to pay "Entertainment Tax" just to see a movie. Value Added Tax (VAT) was a tax that we had to pay while buying goods and services. Additional taxes included Excise, Import, Luxury, Central Sales, and Service taxes. But wouldn't it be good if there were only one single tax rate in place of all these levies? In India, all products and services are subject to an indirect tax known as Goods and Services Tax (GST). One of the major tax reforms implemented to date aims to levy taxes consistently under the tenet of "one country, one market, one tax." It is the single largest tax on goods and services in India. The GST was implemented all at once, uniting the Indian economy. The Goods and Service Tax Act was approved by the Indian Parliament on March 29, 2017, and it became effective on July 1 of that same year. GST is a tax on products and services that is applied from the point of manufacture to the point of purchase. This taxation method is used in more than 160 nations.

9.2 Journey of Digitalization of GST In India:

The tax code in India was quite complicated. In the 1980s, there was a clear need for tax reform, and in the 1990s, consideration of a GST system became more popular. The bullet points below provide a sense of chronology for the arduous journey that GST in India had to travel.

A. Following careful consideration by his economic advisory panel, which included former Reserve Bank of India (RBI) governors C Rangarajan, Bimal Jalan, and I.G. Patel, the Atal Bihari Vajpayee government of India made the Goods and Services Tax (GST) proposal in 1999.
B. To create a GST model for an intricate nation like India, former prime minister Atal Bihari Vajpayee formed a team with the assistance of the former finance minister of West Bengal, Asim Dasgupta.
C. The committee chaired by Asim Dasgupta was also tasked with looking into the logistical and technical prerequisites for the GST's effective implementation. The back-end technology that was being looked into is referred to as the GST Network, or simply GSTN.
D. In 2014, after the formation of Government led by Prime Minister Narendra Modi, Former Finance Minister Arun Jaitley introduced the GST bill in the Parliament.
E. In 2015, the former Finance Minister set the deadline of April 2017, to introduce Goods and Services Tax (GST).
F. On March 29, 2017, the Lok Sabha passed the Central Goods and Services Tax Bill (CGST), the Integrated Goods and Services Tax Bill (IGST), the Union Territory Goods and Services Tax Bill (UTGST), and the Goods and Services Tax Compensation Bill. Following GST Council approval, these bills were adopted by the Lok Sabha.
G. The measures described above were approved by the Rajya Sabha on April 6, 2017, and six days later, on April 12, 2017, they became law.
H. After the passage of various GST laws at the Central and State levels, on 1st July 2017, Goods and Services Tax was Launched all over India.

9.3 Objectives of Digitalization of GST:

The major objective of digitalization of GST was

- to digitize tax compliance to make the process simpler and attain an effective rise in the collection of tax.
- the development of a single market in India with a unified tax structure. (One Nation, One Tax, One Market)
- iii) to broaden the tax base by enticing more taxpayers and raise tax revenue.to simplify tax return procedures through common forms and avoidance of visiting tax departments.
- to provide online facilities for payment of taxes and submission of forms. Goods and Services Network (GSTN), a robust Information Technology system has been created for the operation of GST.

9.4 Types of Taxes Are to Be Subsumed (Clubbed) In the GST:

The Empowered Committee of State Finance Ministers, which deliberated on the tax and its implications, has recommended what all taxes are to be subsumed in the GST:

Goods and Services Tax (GST) would replace the following taxes currently levied and collected by the Centre:

- Central Excise duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs, commonly known as Countervailing Duty (CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Cesses and surcharges in so far as they relate to supply of goods or services

Goods and Services Tax (GST) would replace the following taxes currently levied and collected by the State:

- State Value Added Tax (VAT)
- Central Sales Tax (CST)
- Purchase Tax
- Luxury Tax
- Entry Tax (All forms)
- Entertainment Tax (not levied by the local bodies)
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- State cesses and surcharges insofar as far as they relate to supply of goods or services.

9.5 Mechanism of GST:

A. HOW GST is Working?

A product has to go through different stages before it reaches the end consumer, and there are several taxes applicable throughout this process. However, this situation will change in the GST regime. Here's an illustration to understand how:

Stage- I: Manufacturing:

Utilizing the 5% GST that is applicable and the manufacturing of garments as an example. The business spends INR 1,000 on basic goods, plus GST of INR 50 (5% of INR 1,000).

He then adds his own value of INR 100 to the raw materials while the product is being made. The item's gross value now stands at INR 1,100. Now, INR 55 (5% of 1,100) is the total tax paid on the creation of the clothes. Under the current tax code, the manufacturer would have to pay a tax of INR 55, but under GST, he can deduct some of his tax because he previously paid it when he purchased the raw materials.

Therefore, the final GST that the manufacturer will incur will be of INR 5 (total tax amount till now **minus** the tax he has already paid) i.e., **INR 5** (55-50)

Stage -II: Wholesale; In this instance, the garment is sold from the manufacturer to the wholesaler for a total price of INR 1,100, which includes INR 55 (5% of 1,100) for GST. The wholesaler then adds his value (or margin), which is 100 INR, bringing the total to 1,200 INR (1,100 + 100). 5% of 1,200 equals 60 INR in total taxes, which is the ultimate sum. Similar to the manufacturer, the wholesaler may deduct this tax from the tax he has already paid when buying the items from the producer. In light of this, the wholesaler's ultimate GST would be INR 5 (60 - 55).

Stage-III: Retailer: At the end of the process, the retailer pays the wholesaler INR 1,200 for the apparel, which includes INR 60 (5% of INR 1,200) for GST. He adds his value, or margin, of INR 100, bringing the total cost of the goods to INR 1,300.

The shopkeeper can offset the INR 65 (5% of 1,300) GST that would otherwise apply because he has paid a tax when he purchased the goods. The final GST incidence for the retailer would be INR 5. (65 - 60). In the end, since the shop will sell the item for INR 1,300, the consumer will only have to pay INR 65 (5% of 1,300) in GST. The amount would have been significantly higher.

B. GST Mechanisms for Different Types of Transactions:

Case -I: Sale in one state, resale in the same state (i.e For Intra-State Transactions):

Suppose, there is a flow of goods from Kolkata to Durgapur. It is an intrastate sale, thus both CGST and SGST will be taxed. The goods are then resold in Jalpaiguri via Durgapur.

Again, CGST and SGST will be taxed because this is a sale that takes place within a state. The increased sale price will increase tax obligations. Reselling includes claiming the input CGST and input SGST credit, and the remaining taxes are paid to the appropriate governments. Both CGST and SGST will be collected by the seller from the customer, and CGST would be deposited with the State Government.

Case –II: Sale in one state, resale in another state (i.e For Inter-State Transactions):

Consider the movement of products from Durgapur to Pune (outside the state). As a result, IGST will be charged. The central government receives the entire IGST. Both input taxes are taken into account while calculating the IGST. However, it is clear that the SGST never reached the central government, yet credit is still given. The heart of GST is this. The state government transfers the credit to the central government in order to make up for the loss that the central government suffers as a result.

IGST Mechanism:

There won't be a third tax, the IGST, in addition to the SGST and CGST. The GST is only a mechanism to make sure that the final SGST goes to the consumer state and to keep an eye on the flow of goods and services between states because it is a destination-based tax. The rate of CGST plus SGST will match the rate of IGST.

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) for all interstate sales of goods and services. The IGST system will enable the easy transfer of input tax credits across States. Following the adjustment of the IGST, CGST, and SGST credits from his purchases (in that sequence), the interstate seller would pay IGST to the Central Government on the sale of his products. The SGST credit used by the exporting State to pay the IGST will be transferred to the Centre. While paying his output tax debt (CGST and SGST) in his home State, the importing merchant would claim credit for IGST. The IGST credit utilised to pay the SGST will be transferred by the Centre to the importing State.

C. Registration Mechanism Proposed Under GST: For

- **Existing dealers**: Existing VAT/Central excise/Service Tax payers will not have to apply afresh for registration under GST.
- **New dealers**: Single application to be filed online for registration under GST.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. 4. Each dealer to be given unique ID GSTIN.

D. Registration Mechanism Proposed Under GST:

The Centre and State Governments would both benefit from a shared return under GST.

The GST business operations for filing returns have eight forms specified. Only four forms would be used by the majority of average tax payers to submit their taxes. As follows:

- Return for supplies
- Return for purchases
- Monthly returns and
- Annual return
- Small taxpayers who have opted composition scheme shall have to file return on quarterly basis.
- Filing of returns shall be completely online. All taxes can also be paid online.

E. Proposed Payment of Tax Mechanism Under GST:

- Online banking, credit/debit cards, NEFT/RTGS, checks, and cash payments can all be used to make payments.
- No paper is produced at any point during the electronic payment procedure.Single point interface for challan generation- GSTN
- Common challan form with auto-population features
- Use of single challan and single payment instrument
- Common set of authorized banks
- Common Accounting Codes

F. Invoicing:

GST has its own set of rules and regulations regarding invoice structure and issuance. It is essential because it will only allow the purchaser to claim ITC if an authentic invoice is issued. E-invoicing is a well-known rule that has been imposed on businesses.

G. ITC Reconciliation:

The two most beneficial and detrimental aspects of GST are, respectively, the Input Tax Credit (ITC) and the almost monthly reconciliation. To appropriately claim an ITC in GSTR-3B, GSTR-2A and GSTR-2B data must be compared.

The automation that technology brings to the table will reduce the laborious task of reconciliation to a few minutes, freeing the user to focus on the critical study of decision-making. It is also time-consuming to monitor if the company's suppliers have accurately uploaded their GSTR-1 so that it may be automatically filled up in the company's GSTR-2A. Technology has the advantage of enabling prompt notifications and entity information to be provided to all relevant providers.

H. Way – Bill:

Rule 138 of the CGST Regulations, 2017, which governs the concept of an E-way bill and details its significance and particular procedures for issuing one, also explains its significance. Along with e-way bills, the transporter's vehicle must also be equipped with an RFID tag. The information entered into the device is therefore broadcast on the official website each time a car passes an RFID tag reader on a roadway. Pen and paper are ineffective for using this technology. The compliance procedure will be made more effective by the use of live tracking software and E-way invoice comprehension software.

I. **Compliance:**

A single login programme may be used to handle the whole GST compliance channel, making compliance incredibly quick and easy. It is possible to do tasks like return uploading, data integration, tax payment, and record maintenance. Businesses can benefit from GST technology by being reminded of the deadline, enabling data integration, and streamlining tax payments.

9.6 Benefits of GST:

Simplicity and low operational costs are two of the most desired characteristics of any tax system. In this particular area, the VAT system has utterly failed. Different VAT rates, registration requirements, Negative Lists for excluded goods, and compliance regulations apply in every State. Businesses must invest a lot of time, money, and effort into navigating this enormous web. The following advantages can be anticipated with a uniform set of laws and fees throughout all states:

A. For business and industry:

- A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- The GST will guarantee that indirect tax rates and structures are uniform across the nation; as a result, GST will make conducting business in the nation tax neutral, regardless of the location chosen. A system of seamless tax credits throughout the value chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- The cost of locally produced goods and services would be reduced by the inclusion of significant Central and State taxes in GST, complete and comprehensive setoff of input goods and services, and the gradual elimination of Central Sales Tax (CST). Indian exports will benefit from this as it will make Indian goods and services more competitive on the global market. It reduces taxes on manufactures. hence it increases their business and make them more competitive at national and international level.

B. For Central and State Governments: -

- Backed with a robust end to end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.
- All assesses will feel comfortable under GST as the compliance cost will be lowered, as opposed to maintaining extensive records, returns, and reporting under numerous separate statutes. It creates India as a single market.
- It taxes goods and services at the same rates so many disputes are eliminated on tax matter.
- According to our Union Finance Minister, GST will add 2 percent to the National GDP.

C. For the Consumer:

- Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country are too high but under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices, which will benefit consumers.
- The GST would increase output, create more job possibilities, and promote economic inclusiveness; it is definitely a long-term policy.

9.7 Limitations of GST:

The GST is a very good type of tax. However, for the successful implementation of the same, we must be cautious about a few aspects. Following are some of the factors that must be kept in mind about GST:

A. Firstly, it is really required that all the states implement the GST together and that too at the same rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law.
B. Rather than being based on origin, the GST is destination-based. In such cases, the destination of the commodities must be easily discernible. Considering that it can be challenging to pinpoint the location of a service, this will be challenging in the case of services. As a result, this should be handled carefully. More awareness about GST and its advantages has to be made, and professionals like us really have to take the onus to assume this responsibility.
C. Both the federal government and the state governments will exercise dual control over every enterprise. In turn, compliance costs will increase. Since the mechanism is still complicated, it cannot completely eliminate black money and tax evasion.
D. There is fierce opposition because the states will lose autonomy over how much they can charge.
E. Businesses are opposed to the legislation because it requires them to submit precise sales records at the state and federal levels.

9.10 Possible Challenges in Implementing GST in India:

To implement the GST System, our country might face some challenges which are given below:

A. GST Rate: While a GST council is anticipated to work on establishing a GST rate, it will be difficult to agree on a consistent rate of taxation. The taxation rate may be viewed differently by producing and consuming states.
B. Compensation to States: The Union government will make up the lost revenue to the states as a result of the switch to the GST. There isn't a set formula or procedure for arriving at an exact number, though

C. Cooperation from State Govt.: GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues. So, the co-operation from state governments would be one of the key factors for the successful implementation of GST

D. GST Compensation: Some States may experience a decline in revenue in the initial years as a result of the change from an origin-based to a destination-based indirect tax system. The Centre has agreed to cover all of the States' losses for a five-year term in order to aid them during this transitional period. In order to compensate States for revenue loss due to the implementation of the goods and services tax for a five-year period, clause 19 has been added to the Constitution (122nd) Amendment Bill, 2014, on the recommendation of the Goods and Services Tax Council.

E. Accounting Systems: There is a need for training on a new accounting system for the cadre of Chartered accountants, Tax advisors, Tax bureaucrats, and similar professionals. Significant institutional and technological capacity building will be needed for this. Additionally, a new accounting system needs to be adopted by retailers, whole sale merchants, small general store proprietors, and other stakeholders. Small traders, who often are not accustomed to a reliable account keeping system, may face major difficulties using this method.

9.11 Impact of GST In Indian Economy:

A. As a result of the GST, online booking, tobacco, and insurance premiums have increased in price; however, staple foods like edible oil, wheat, rice, and lentils, as well as four-wheelers and electric goods, have decreased in price.

B. Prior to the implementation of the GST, each state in India operated independently due to its own tax laws. However, under the Two-tiered One Country-One Regime, there is only one tax that is applied nationwide, making transportation easier and reducing investor anxiety due to the regularization of the Indian market under a single tax. Tax collection will go up because many people came under the tax loop, so the chances of bribes as well as people cannot escape from it.

C. In comparison to the commerce sector, the service industry is anticipated to be more negatively affected by the implementation of GST.

D. GST will lower the price of goods that citizens are purchasing and it will increase the demand; economically, if demand increases production increases and it leads to job opportunities and reduces unemployment, it will reduce corruption because it will be checked in both the central and state governments.

E. The economy expanded 7.4% in 2017–2018, the first year the GST was in effect; this is somewhat higher than the 7.2% growth seen in 2016–2017 but lower than the 7.8% growth seen in 2015–2016.In comparison to the commerce sector, the service industry is anticipated to be more negatively affected by the implementation of GST.

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9.12 Conclusion:

Support for the implementation of GST has been shown in 150 different countries, and it will help the Indian services sector. The nation's economy will benefit from it, and it will surely increase GDP, but it may take some time before the results become apparent because economic growth may not accelerate immediately away. We might infer from this that the introduction of GST will benefit producers and consumers by enabling them to deduct their input tax. It is expected that the good and services tax will balance out government authority. Under this system, the bad behaviour of avoiding paying taxes will cease, allowing the government and customers to prosper. That strengthens and stabilizes the Indian economy. The price of a variety of products and services has decreased due to the reduction in tax rates on a variety of goods and services. As a result, the products are now more reasonably priced, which has increased demand and, in turn, production. This will accelerate economic growth. In order to improve the quality of life in India, the 28% GST Council has also concentrated on discouraging the consumption of such sin items by placing them in the highest tax bracket.

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