

## **GST MERITS AND DEMERITS**

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### **Abstract**

*In a federal structure, India’s determination to much-needed fiscal reforms has been widely applauded at its face value when she relinquished her previous complex and inefficient tax regime to embrace the long-awaited Goods and Services Tax (GST). It has been a significant economic move post-independence and requires validation of facts after its introduction. The present study aims to present a general macroeconomic analysis of the extent to which the adoption of GST has improved existing tax administration and resultant general economic well-being of a democratic political economy like India in light of innovation implementation theoretical perspective. Further, the study tried to determine how the stakeholders perceived such big-bang reform even after the three years of its adoption. The study attempted to assess to what extent the adoption of GST has indeed influenced the economy in general and citizens and/or consumers in particular while using a case-based qualitative inquiry.*

*The present research applied the situation–actor–process; learning– action–performance analysis framework for the case analysis. The facts reveal that India has observed a tremendous increase in tax base vis-a`-vis revenue collection. Yet, some efforts are desired to improve the low tax to GDP ratio, skewed GST payers base, negative stakeholders’ perception of GST (revealed through Twitter sentiment analysis), and the evil of tax evasion.*

*The other merits realized by the economy are presented as benefits to the consumers, MSMEs, improved ease of doing business ranking, and foster make-in-India and Aatmanirbhar Bharat move by the government.*

### **Introduction:**

The economic reforms in India after the 1990s pushed her growth as a globally integrated nation with remarkable improvements in terms of regulatory efficacy, macroeconomic stability, and geopolitical constancy (World Bank, 2019). Besides China in the Asian continent, India emerged as one of the fastest-growing economies in the last

few decades (Paul & Mas, 2016). Fortifying the topsy-turvy yet relatively sustained growth story, India has witnessed phenomenal indirect tax reform (Chikermane, 2018) in the past three decades and demonstrated economic resilience by embarking upon another breakthrough in July 2017. According to the experts, after liberalizing the Indian economy in 1991, the Goods and Services Tax (henceforth GST) is a significant taxation turnaround by the Indian government (Jha, 2019; Siddiqui, 2018).

India has traversed a long path to embrace GST as an excellent and long-awaited indirect tax reform aimed at one nation, one tax, and one market (GST Council, 2020a). The global experience revealed that GST has made the business processes more efficient than ever by simplifying the tax structure and reducing the number of state and central levies (Nutman et al., 2021).

GST is an indirect and destination-based tax. It appears to have influenced the consumers indirectly and directly impacted the businesses (Fernando & Chukai, 2018); however, its ripple effect is being felt across the three core sectors of the economy (Jha, 2019).

The present study aims to analyse the extent to which the implementation of GST has improved exiting indirect tax administration and the general economic state of a democratic political economy like India. The way stakeholders have perceived such big-bang economic reform after three years. A theoretical perspective of innovation implementation was applied, citing the context and knowledge gaps concerning a public policy measure in a developing economy.

### **Advantages and Dis-advantages of GST**

Implementation of Goods and Services Tax (GST) was one of the long awaited fiscal reform and due to various reasons it was only hanging around and could not circumvent the obstacles for substantially long period of time so much so that people started saying that the reform may not see a light of the day. However, all that is history now and we are lucky to witness the eventual implementation of this tax reform and today we stand at a timeline of 200 days’ post GST implementation. At this juncture, we need to understand that GST could eventually become a reality only because of the various advantages it brought along. Of course, no reform can be full proof and so is GST and therefore the implementation of GST had its own dis-advantages with few being inherent and intrinsic to the idea of GST, few due to the structure in which it is brought and a lot

being due to the manner in which it is implemented which could have been largely avoided.

While we take a stock of GST as of today, we need to acknowledge the efforts taken by government in making it much simpler from the time first model GST code was released in June 2016 to today when we are at the brink of 200 days post its implementation. While we take a deeper dive in understanding the advantages and disadvantages of GST, we need to appreciate the fact that this being a transactional tax its advantages and disadvantages cannot be equated for all. For instance, it is possible that one sector or industry is largely benefitted due to implementation of GST while other sector or industry has taken the exactly opposite position.

The point that we need to take home is that many advantages and disadvantages of GST can be closely understood only when its impact is measured industry or sector wise. For example, Logistics, Automobile, Construction etc. are few sectors which have been largely benefitted by implementation of GST whereas Banking, Tourism, North-East Manufacturers etc. are the sectors which faced a sparsely adverse effect. Without divulging into impact of GST and its advantages/ disadvantages at sector or industry level, this article brings about the general advantages and disadvantages that are widely applicable to all the sectors, industries and consumers in common. The list of advantages and disadvantages in GST can be very long, but herein we look at some of the major ones as explained below:

#### **Advantages under GST:**

- a) **Boosts Foreign Investment and improves overall investment climate:** Tax litigation in certain high profile cases under income tax act has contributed to a large extent in creating a very downbeat perception of our country’s taxation system and many allegations were raised over its certainty. Reluctance to invest was developing due to country’s regulatory and bureaucratic complexities. In this tax environment, many foreign investors felt it much to better to shut and go rather than to continue dealing with it. However, GST has given a new hope and the past bad memories are slowly fading a bit. The mere implementation of GST and the serious efforts made by government in simplification of GST has developed a strong positive perception of India’s taxation system world-wide. This is also evident by increasing growth rate of our economy, increase in FDI’s, stock markets

being in consistent boom, Secondary and territory sectors increased contribution to GDP of the country.

- b) Single assessing authority:** One of the important change that businesses will see in the GST regime is that they need not have to deal with multiple tax authorities. Like in the earlier tax regime, a person would have to approach multiple tax authorities like Central Excise, VAT, Service Tax etc. Multiple registrations were required to be taken under each of the laws, returns were to be filed and assessments, appeals etc. would have to be faced multiple times on the same business transactions over and over again. In GST, one of the bold steps taken by government is pruning of tax authorities to one meaning thereby assessee will be either be registered with the Central tax authorities or with the State tax authorities and not with both, this shall ease the entire tax assessments and reduce complications that were faced earlier.
- c) Increased certainty/ Reduced litigation:** Under earlier indirect tax regime, the main reason for tax litigation was due to lack of clarity in the law that makes it susceptible to multiple interpretations, Further, the existence of multiple taxes on the same tax base led to existence of conflicting opinions from both centre and state tax authorities across the country which has contributed to multiplicity of litigation. Under GST regime, as majority of the indirect taxes such as Excise, Service Tax, Value Added Tax (VAT) etc. are subsumed and as the tax base of GST regime is kept very wide with much pruned exemption list, therefore, it will result into a single streamlined taxation and reduce litigations at large.
- d) Erosion of parallel economy:** With some bold reforms like submission of invoice wise information through electronic mode, fairly lower tax rates, system of compliance ratings being given to all the businesses, a nation-wide e-way bill system, Concept of auto-matching of vendor/ customers invoices and seamless flow of input taxes credit etc. could lead to many businesses voluntarily coming into the tax compliant zone rather than continuing with the ways and means of tax evasion. The structure of GST is such that non-compliant and unorganized businesses would find it difficult to survive while the tax compliant businesses will flourish. Under

this scheme of things, GST would help in cutting down the parallel economy to a great extent.

- e) **Reduced corruption:** For the first time in the history of a taxation system of this country, we have already witnessed that hardly any assesses had to pay bribe to obtain registration under GST. Now, this the big change that we are immediately seeing which was just not possible for many in the earlier tax regime. Under the GST regime, the interaction with the tax authorities would be minimized such that entire flow of communications would happen electronically through the common portal which would automatically stem way for reduced corruption.
  
- f) **Increase in employment opportunities:** After implementation of the new tax regime, the possibilities of job expansion in the Indian economy has increased as GST is a promising opportunity. It is learnt that the need for skilled accountants and tax consultants has increased substantially. The procedural compliances in GST has also given many free-lancers a main source of occupation.

**Dis-advantages:**

- a) **Not a one nation one tax in spirit:** An ideal GST would have been one where only one law would have been framed and only one authority would have been assigned with the accountability of framing, governing and regulating the GST law. However, contrary to what was expected, we presently have 31 legislations governing the entire framework of the law which is definitely not one nation one tax. In other words, Gujarat GST law is different from the Maharashtra GST law and if a person is doing business in both the states then he has to take separate GST registration in both the states, file separate GST returns, maintain multiple state wise accounts and get the tax assessed by each state authority separately which compromises the basic structure of the GST that was expected so much so that many experts have started claiming that this GST is not a tax reform but it is just an old wine in an old bottle with a new label.
  
- b) **Multiple Tax rates:** Presently there are 7 standard tax rates and multiple rates of cess provided for various goods and services which only open the Pandora box of

classification disputes and unnecessary confusion. The nightmare of HSN codes is still prevailing in the industry and trade with many not having any clarity and following the incorrect coding system. This may lead to unnecessary issues being faced by businesses at a later date in the form of tax demands with interests and penalties. A single rate or a dual rate GST system would have been more appropriate than the present one with varied tax rates.

c) **GST Portal issues:** The complete electronic means of reporting transactions in GST is a good idea but it would have been better if the same is implemented with proper system in place. GST was implemented without the portal being fully ready and functional with businesses facing multiple issues in obtaining registrations, cancelling registrations, filing GST returns etc. Even as the government looks to resolve the glitches of the GST Network, the efforts don't seem any beneficial as while the old issues get addressed, the new issues crop up. Since, GST in general demands detailed reporting of transactions through this portal and sub-standard functioning of the portal is only leading to high time, money and resources being spent by businesses on unproductive compliances.

d) **Hurried implementation of law:** GST is known as the largest tax reform since independence, it is seen that government has somehow hurried its implementation, while many business houses and tax experts warned government of its implementation on 1st of July 2017 and suggested to implement the same from 1st of October 2017 or a little later but without paying any heed, government went ahead with its implementation. Resultantly, it is seen that there was confusion amass among industry, trade, professionals and also government officials. Even today, there are many aspects of GST which lack clarity. Now, as a damage control mechanism, every time and again a new notification, press release, circulars, orders, tweets are issued leading to frequent changes in the law which is only adding to the confusion. This has been one of the biggest setback and disadvantage which GST has brought that could have been easily avoided if more patience in its implementation was shown.

- e) **Working capital blockage:** Working capital is the fuel of every business, it is the money available for your company's day-to-day operations, and it reflects the short-term financial health of the company. Exporters have face the brunt of working capital to the core with refunds being blocked so much so that even today post 200 days of implementation of GST, exporters are not able to smoothly claim refunds, same is the position for traders who are not able to claim the transitional benefit due to non-availability of the required forms on the portal. Further, in service sector, tax rate will be 18% under GST as compared to 15% under earlier regime leading to increased blocking of working capital for certain businesses where the credit period is high.
- f) **High compliance burden:** Compliance under GST is very high due to filing of three tax returns in a month. Not only that if a person is doing business in multiple states then it needs to obtain multiple registrations for each state and separate GST returns needs to be filed for each state. This structure of GST has increased compliance burden and it is causing pain mainly for compliances mainly for small businesses which cannot spend high costs on support functions such as accounting and taxation etc.
- g) **Elimination of local tax incentives/ schemes:** In earlier tax regime many investments based tax incentives were given by central and state governments to make the area business friendly and encourage investments by virtue of fiscal policies. With implementation of GST, it is seen that the tax incentives in indirect taxes are no more made available by the governments and the earlier existing tax incentives have also been discontinued and pruned. This has caused a huge worry to industries which have set up its business in various states especially in north eastern states based on various tax incentives promised by the governments. The continuance of such tax incentives in the GST regime in a new form are not more lucrative and causing high concerns over viability of such setup.

**Conclusion:**

Having discussed various advantages and disadvantages of GST, we need to acknowledge the government's efforts in bringing GST and the seriousness that is being

shown in simplifying the same. At this juncture, we need to realize that everything has its pros and cons and taxation system is no exception to it but those businesses which prepared and planned the transitional phase of GST well have been able to reap the benefits of advantages and trimmed down the dis-advantages to the minimum. As the saying goes ‘Success comes to those who acts first’.

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