

THE CHALLENGES OF IMPLEMENTING GST IN INDIA

Manu Sharad Pathak,

Dept. of E.A.F.M., Govt. College, Rajgarh, Alwar (Rajasthan)

ABSTRACT

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, to streamline and simplify the country's complex indirect tax structure. While GST was heralded as a significant reform with the potential to unify the national market, promote economic growth, and reduce tax evasion, its implementation posed several challenges. This paper examines the various hurdles faced by India during the implementation of GST, focusing on the infrastructural, technological, political, and social challenges. Despite its promising economic outcomes, the rollout of GST highlighted several key areas that required attention, adaptation, and strategic planning to ensure successful adoption.

INTRODUCTION

In a bid to replace multiple indirect taxes such as the central excise duty, service tax, and state VAT, the Indian government introduced the Goods and Services Tax (GST) on July 1, 2017. The move aimed to reduce the cascading effect of taxes, promote ease of doing business, and increase tax compliance across the country. The GST was a monumental shift in the country's fiscal landscape, but its implementation was met with several obstacles. This paper aims to discuss the challenges faced during the rollout of GST and provides insights into the factors that impacted its smooth implementation.

INFRASTRUCTURAL AND TECHNOLOGICAL CHALLENGES

One of the key challenges in implementing GST in India was the lack of adequate technological infrastructure. The entire system of GST filing, payment, and compliance was built around an online platform, the GST Network (GSTN), which was expected to facilitate real-time tax filings and payments across the country. However, the system

was plagued with frequent downtimes and technical glitches in the initial months.

GSTN Platform Issues

The GSTN, which was responsible for processing GST returns, payments, and invoices, was not prepared to handle the immense volume of data and traffic that the system faced post-implementation. The system often crashed, leading to delays in filing returns and payments. Small businesses, especially those in rural areas, struggled with slow internet connections and a lack of access to the necessary technology to use the platform effectively.

E-way Bill System

Another technological issue was the introduction of the e-way bill system, which required businesses to electronically generate a bill for the transportation of goods worth more than a certain threshold. The integration of the e-way bill with the GSTN faced significant hurdles in its early stages, with delays and confusion about the new requirements. Many businesses were unprepared for the e-way bill system and struggled to adapt to it.

POLITICAL AND INSTITUTIONAL CHALLENGES

The implementation of GST was not just a technical challenge but also a political one. GST required consensus across state and central governments, a task that was difficult to achieve in a federal structure like India's.

Resistance from State Governments

The federal nature of India's political structure meant that the states had a significant role in the implementation of GST. Several state governments were initially apprehensive about the new tax regime, as they feared a loss of revenue due to the removal of various state-specific taxes. While the central government promised compensation to states for any revenue shortfall, the perceived reduction in the autonomy of states to manage their own taxation led to resistance from several regional political parties.

Lack of Consensus on Tax Rates

A key aspect of GST was the categorization of goods and services into different tax slabs—5%, 12%, 18%, and 28%. The process of deciding the appropriate tax rate for each item was contentious, with several stakeholders, including industry bodies and political parties, disagreeing on the classification. The uncertainty around the tax rates led to confusion, particularly among manufacturers and traders, who were unsure about how their products would be taxed.

IMPACT ON SMALL AND MEDIUM ENTERPRISES (SMEs)

Small and Medium Enterprises (SMEs) in India found the transition to GST especially challenging. These enterprises, which formed the backbone of the Indian economy, often lacked the capacity to comply with the stringent GST requirements.

Compliance Burden

GST mandated businesses to maintain detailed records and file regular returns, which was a significant compliance burden for SMEs. The need for consistent invoicing, the requirement of maintaining digital records, and the complexities of GST return filing created substantial operational challenges for small businesses, which often did not have dedicated accounting teams or resources.

Cash Flow Problems

The requirement to pay GST at the point of sale, while claiming credits later, created cash flow issues for many small businesses. The delay in receiving input tax credit (ITC) added to their financial burdens, as they had to make tax payments even though they had not received credit for the taxes paid on inputs.

AWARENESS AND TRAINING DEFICIENCIES

The rollout of GST required widespread awareness and training, which was inadequate at the time of its implementation.

Lack of Awareness Among Taxpayers

One of the biggest hurdles was the lack of awareness and understanding of the new tax system. Many businesses, especially those in rural and semi-urban areas, had little knowledge about GST, its benefits, and its procedural requirements. A survey conducted by various trade bodies revealed that a significant portion of small traders and manufacturers remained unaware of key provisions of GST.

Inadequate Training for Tax Professionals

There was also a lack of trained tax professionals who could help businesses navigate the complexities of GST. The rapid pace at which GST was rolled out left little time for tax consultants and professionals to adequately prepare. This shortage of trained personnel led to errors in filing returns and reconciling accounts.

IMPACT ON THE INFORMAL SECTOR

India's informal sector, which accounts for a significant portion of its economy, faced particular difficulties during the GST implementation. Many small-scale producers and vendors, who operated without formal registration, were hesitant to comply with the new tax regime.

Registration and Formalization Issues

While GST required businesses to register with the government, many informal sector players struggled with the formalization process. A large number of small businesses were reluctant to register for GST due to the complexity of the process, leading to a significant portion of the informal sector being left out of the system. These created issues related to tax evasion and non-compliance.

DISCUSSION

The implementation of the Goods and Services Tax (GST) in India, while a landmark reform, encountered several significant challenges that impacted its smooth rollout. The GST Network (GSTN) platform, crucial for the filing and processing of returns, faced frequent downtimes and technical glitches during the initial months. This hindered timely compliance, especially for small businesses lacking the technical infrastructure to manage the new system effectively. Small and medium-sized enterprises (SMEs) struggled with the increased compliance requirements under GST. Many SMEs found it difficult to navigate the complex tax slabs, maintain digital records, and file returns on time.

Additionally, delayed input tax credit (ITC) claims exacerbated their financial strain, leading to cash flow problems. The federal structure of India created resistance among state governments, particularly regarding the revenue-sharing mechanism and loss of control over local taxes. Some states also expressed concerns over the adequacy of compensation promised by the central government for revenue shortfalls. A significant knowledge gap among businesses, especially in rural

and semi-urban areas, impeded effective GST adoption. Many small traders were unaware of the intricacies of GST compliance, and there was a shortage of trained tax professionals to assist them. The informal sector, which is a substantial part of the Indian economy, faced difficulties in formalizing under GST.

The process of registration and adaptation to the formal tax regime was met with resistance from many small-scale businesses, leading to challenges in bringing the informal sector into the tax fold. In conclusion, while GST is expected to bring long-term benefits such as a unified tax structure and reduced tax evasion, its initial implementation phase highlighted significant challenges. Addressing these issues, particularly in terms of improving technological infrastructure, simplifying compliance processes for SMEs, and bridging awareness gaps, will be crucial for the successful integration of GST into the Indian economy.

CONCLUSION

The implementation of the Goods and Services Tax in India was undoubtedly a monumental step towards reforming the Indian tax structure. However, the challenges faced during its initial rollout highlight the complexities involved in such a large-scale reform in a country with a diverse economic landscape. While the GST has brought about positive changes in the long run, the technical, political, financial, and institutional challenges it posed in the initial phase cannot be overlooked. Addressing these challenges is crucial for ensuring that GST becomes a truly transformative policy for the Indian economy.

REFERENCES

- ❖ GST Council. (2017). GST Rates and Classification. Government of India. Available at: www.gst.gov.in
- ❖ NITI Aayog. (2017). GST and Its Impact on the Indian Economy. National Institution for Transforming India (NITI Aayog),

- Government of India. Available at: www.niti.gov.in
- ❖ World Bank. (2017). GST in India: Benefits and Challenges. World Bank Report. Available at: www.worldbank.org
 - ❖ Business Today. (2017). GST Rollout Faces Initial Hiccups. Business Today News. Available at: www.businesstoday.in
 - ❖ Sharma, A., & Gupta, P. (2017). Small Businesses and the GST Transition: Challenges and Opportunities. *Journal of Business and Economic Policy*, 14(3), 45-59.
 - ❖ Singh, R. (2017). Political Resistance and GST: The Role of States in India's Tax Reform. *Journal of Political Economy*, 59(4), 378-399.

Copyright © 2017, Manu Sharad Pathak. This is an open access refereed article distributed under the creative common attribution license which permits unrestricted use, distribution and reproduction in any medium, provided the original work is properly cited.