



Mains Marathon

Day 48: What are the key achievements of the Goods and Services Act (GST) in the last five years and highlight the major challenges with the GST System. Discuss (250 Words)

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Approach / Explanation / Answer

Approach

- Start your answer by giving a brief about GST
- Discuss the achievements of the GST
- Discuss the reforms needed in the GST
- Conclude suitably

Answer

Half a decade ago, on July 1, 2017, India welcomed its biggest change in its indirect tax system with the Goods and Services Tax (GST), which revamped the country's entire indirect tax structure and significantly modified tax administration and compliance.

Achievements of the Goods and Services Act (GST)

(a) Digitization in compliance: Automation of tax compliances by the government has been a massive win and has worked efficiently, especially in comparison with the erstwhile regime. This has been possible because of the introduction of a 'one-stop-shop' portal i.e. the GST Network (GSTN), for all compliances under GST.

(b) Use of technology tools: The first phase was focused on building the core functionalities needed by taxpayers and officers. With that in place, GSTN's next focus was to leverage technology and data available to improve compliance, detect frauds and support policymaking. To this end, GSTN formed a Business Intelligence and Fraud Analytics (BIFA) unit in March 2019, which employed artificial intelligence and machine learning to develop the BIFA tool which has emerged as one of the major triumphs in the last five years of GST.

(c) Cooperative federalism: The GST Council is a true testament to the fiscal federal and consensus-based structure, which is a cornerstone of the GST regime. The central and state governments have been working together on critical legal issues.

(d) Enlargement of the tax base: In general, GST has reduced the overall indirect tax burden on

consumers and made Indian products more competitive in international markets. There has been a phenomenal enlargement of the tax base, resulting in increased revenue collection.

(e) GST eliminates the cascading effect of tax: GST is a comprehensive indirect tax that was designed to bring indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier. Cascading tax effect can be best described as 'Tax on Tax'.

Areas of improvement

(a) Need for unlocking credit: The purpose behind implementation of GST was to ensure seamless tax credits across the entire value chain without any losses. However, the credit restrictions carried forward from the erstwhile regime add to cost of businesses, blocking precious working capital for companies. The issue of inverted duty structure also continues to be a hurdle as a refund of input services is currently not allowed.

(b) Dispute resolution: While much has been accomplished in terms of technology and compliance, legal disputes relating to GST are still at a nascent stage. There have been multiple instances of inconsistent judgments passed by regional advance ruling benches. Such contrary judgments have resulted in unnecessary litigation for several businesses.

(c) Expanding GST tax network: With petroleum outside the ambit of GST, a large part of the economy is still outside the tax net. Inclusion of petroleum products under the GST net would reduce costs for companies as taxes would then become fully fungible.

(d) Use of Blockchain Technology: While GSTN has revolutionized the GST landscape, blockchain technology has enormous potential to resolve glitches and improve efficiency in GSTN, since the unreliability of the GST network for small businesses at remote locations still continues to be a challenge.

(e) Taxation of Virtual Digital Assets: The government, in its recent Budget, also announced that cryptocurrencies would be taxed under income tax at a rate of 30%. The GST law on supplies related to NFT, on the other hand, does not (yet) provide any explicit guidance in this area.

(f) Ease of doing business (EODB) changes: While technology under GST has kept pace with the requirements of government and industry alike, compliance provisions are still playing catch-up. For instance, the GST law requires the setting up of a principal office in each state where supplies are made from.

Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits.

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