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GST in India: A Case Study on Comprehensive Indirect Tax Reform and Digital Governance

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Situation

Annamalai is the owner of Nobel electricals Private limited. He also registered his company under GST act after it launched in India. The business is to sell the electrical appliances across multiple states in India and adapt to the new tax system with basic compliance knowledge. As demand increased for the product the company automatically expanded its supplier base and product range. GST input tax credit was claimed based on purchase invoices received from vendors. Return filing continued but no detailed reconciliation was done between invoices and portal data. During the periods of internal record keeping it became irregular. Some GST returns were filed late and so there are some differences appearing between sales records and GST returns. New product variants were launched but due to limited understanding of GST 2.0 classifications some items were wrongly assigned HSN codes resulting in lower GST being charged on outward supplies. Meanwhile ITC input tax credit mismatches increased because several suppliers failed to upload correct data. Annamalai received a notice from the GST department

pointing out:

● Excess input tax credit claimed

● Short payment of Goods and service tax due to wrong classification

● Differences between annual returns and the books of accounts

The notice demanded tax payment, interest, and penalties on the company under financial and legal stress. After receiving the GST notice, Annamalai came to know that the issue required professional clarification. He met Ashok who was his auditor and submitted all GST returns, purchase invoices, and financial records for review. The auditor examined the documents to identify mismatches in input tax credit and tax classification errors.

Annamalai addressed the issue to his auditor Ashok, asking that he wants some clarification on GST. Ashok started the conversation with him.

Before the implementation of GST India followed a complex indirect tax system in which the Central, State, and local governments levied different taxes independently. The Central Government imposed taxes such as Central Excise Duty on manufacturing, Service Tax on services, and Customs Duty on imports while the State Government imposed Value Added Tax on sales, Central Sales Tax on inter-state trade, Entertainment Tax, Luxury Tax, and Entry Tax. Because these taxes were applied at different stages of production and distribution without seamless input tax credit, it led to a cascading effect of taxes, increased compliance burden, lack of uniformity across states, higher prices for consumers, and

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barriers to free movement of goods, which ultimately made the pre GST tax regime inefficient and complicated. Anamalai asked about, during the implementation stage of GST and after the implementation of GST. For that Ashok answered in a detailed way.

The implementation of the GST in India marked one of the most clear fiscal reforms since Independence fundamentally restructuring the country's indirect tax framework. It is aimed to integrate a fragmented tax system into a unified national market. In the initial phase the sudden transition from a multi tax regime to a destination based consumption tax created compliance shocks, particularly for small and medium enterprises. Businesses struggled with frequent amendments to GST laws, multiple tax rate slabs, and complex return filing requirements.

GST is required for coordination between the Central and State governments to challenge India’s federal structure. State Government fears on the revenue losses due to the shift from origin based taxation to destination based taxation. Although a five year compensation mechanism was introduced the economic downturns happens during the COVID 19 period created fiscal stress for states. Differences in policy between the Centre and states often led to disagreements in the GST Council, raising questions about fiscal autonomy.

GST produced important long term economic benefits. It successfully eliminated the cascading effect of taxes. The reform contributed to the formalization of the economy, as businesses were incentivised to register in order to claim input tax credit. Over time, GST improved tax transparency, increased voluntary compliance, and strengthened revenue collection through technology driven monitoring and electronic invoicing systems.

After the implementation of the GST, India experienced a major transformation in its indirect tax system and overall economic environment. GST replaced multiple central and state taxes such as Excise Duty, VAT, Service Tax, CST, and Entry Tax with a unified tax structure consisting of CGST, SGST, and IGST, creating a single national market under the principle of One Nation One Tax. Although there were initial challenges such as technical issues with the

GSTN portal, compliance difficulties, frequent rate revisions, and adaptation challenges for small traders, the government gradually simplified procedures, introduced composition schemes, rationalised tax slabs, and strengthened the system. It also stabilized government revenue collection in the long run and supported economic formalization, making GST one of the most significant structural reforms in India’s tax and economic framework.

Annamalai asked about the core problem of IIT and GST 2.0 that he got on GST, Ashok answered that, Input Tax Credit (ITC) under the GST framework is one of the most important pillars of the system, designed to eliminate the cascading effect of taxes and ensure that tax is levied only on value addition at each stage of supply. ITC refers to the credit of GST paid on inputs, input services, and capital goods used in the course or furtherance of business. A registered taxpayer can deduct this credit from their GST liability on outward supplies and pay only the balance tax.

When Input Tax Credit (ITC) is correctly claimed, it is credited to the taxpayer’s Electronic Credit Ledger and can be used to pay GST liability in a fixed order. First, IGST credit is used to pay IGST, and any remaining IGST credit can then be used for CGST and SGST. CGST credit can be used only for CGST and IGST, while SGST credit can be used only for SGST and IGST. Cross utilization between CGST and SGST is not allowed. For certain high risk taxpayers, Rule 86B applies, which restricts the use of ITC beyond 99 percent, making it mandatory to pay at least 1 percent of tax liability in cash in specific cases. Compliance is more important in ITC because the GST works on an invoice matching system. Generally ITC is allowed only if it appears in GSTR 2B, so if the supplier does not upload invoices or fails to pay

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GST the buyer of ITC gets blocked. If there are any wrongly claimed ITC is recoverable along with the interest or in cases involving fraud the penalties are imposed under Sections 73 and 74.

GST 2.0 refers to the proposed second phase of the evolution of the Indian Goods and Services Tax system which is aimed at correcting the structural weaknesses of the original 2017 framework while making compliance simpler, technologically stronger, and economically more efficient. The core idea behind GST 2.0 is to create a more transparent, predictable, and taxpayer friendly indirect tax while plugging revenue leakages and strengthening trust between taxpayers and authorities. One of the major pillars of GST 2.0 is return system reform moving towards a more automated, real time invoice based compliance environment where invoice matching becomes seamless, fake billing and genuine taxpayers are not harassed. With the expansion of electronic invoicing, centralized data analytics, and enhanced GSTR 2B the government envisions a system where ITC availability becomes automatic, less disputable, and more accurately linked to actual tax payment by suppliers. GST 2.0 also focuses heavily on simplification for small businesses by reducing unnecessary filing burdens and strengthening composition. Easing the input tax credit procedures, promoting digital compliance tools and making the system become more user friendly.

Another important vision of GST 2.0 is rate rationalization. The idea is to reduce the number of tax slabs and remove inconsistencies, so the rate structure becomes more logical and easier to apply so it minimises classification disputes. Proposals such as merging the 12 percent and 18 percent slabs into a single moderate rate and ensuring uniformity across the states are often discussed although the final decisions depend on the GST Council. GST 2.0 also focuses strongly on policy and legal stability. This includes building a stronger dispute resolution mechanism, bringing uniformity in advance rulings, setting up GST across the country, speeding up refunds for exporters and issuing clearer guidelines on complex areas such as ITC restrictions, place of supply rules, and cross border digital transactions. In addition, GST 2.0 aims to strengthen technology and data intelligence by using AI based analytics, transaction trail mapping, and PAN linked monitoring to detect suspicious activities without causing hardship to genuine taxpayers. Another long term objective is to gradually expand the tax base with discussions often pointing toward the future inclusion of sectors like petroleum under GST.
Anamalai smiled, because he gained some insight on the GST phases, the ITC in GST and GST 2.0. Annamalai thanked Ashok for the grateful information which he provided to clear the doubt of him.

Annamalai returned to the company with some clear full mind and deliver the information to all his employees and colleagues to take the regarding problem to the successful solution.

Question to be asked:

1. What is the solution for the problem faced by Annamalai?

2. Comparison of before and after implantation of GST.

3. Challenge faced while implantation of GST.

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