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A Critical Study of Overview on Goods and Service Act

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Abstract

This paper critically examines India's Goods and Services Tax (GST) Act—its objectives, structure, implementation, and impact on compliance, revenue, and stakeholders. By assessing theoretical underpinnings, legislative provisions, practical outcomes, and ongoing challenges, the study offers recommendations to strengthen an evolving tax regime.

Keywords

GST, Indirect Tax Reform, Revenue Neutral Rate, Input Tax Credit, Compliance, Digital Tax Systems

1. Introduction

Context: Fragmented tax framework pre-2017 (Central Excise, VAT, Service Tax).

Need for reform: Eliminate cascading, simplify tax landscape, unify market.

GST significance: Introduced on July 1, 2017, as a historic fiscal reform for indirect taxation across India.

2. Objectives of the GST Act

- Simplification and unification of indirect taxes
- Elimination of tax-on-tax (cascading effects)
- Creation of a transparent and efficient tax regime
- Enhanced ease of doing business and formalization
- Growth in revenue buoyancy and fiscal federalism
- **8. Literature Review**
- The introduction of the Goods and Services Tax (GST) in India has prompted significant scholarly attention due to its transformative impact on the indirect taxation system.
- **Kumar and Sareen (2018)** evaluated GST's influence on SMEs and found that while the tax reform promotes a unified market, compliance costs are disproportionately higher for small businesses. Their work emphasizes the importance of digital literacy and simplified filing systems.

- **Bagchi (2017)** analyzed the economic logic behind GST's design, particularly focusing on the dual GST structure and its implications for fiscal federalism. The author also critically assessed the impact on inter-state trade and the harmonization of tax rates.
- **NITI Aayog (2019)** offered an assessment of GST's performance, highlighting its role in widening the tax base and enhancing revenue predictability, but also noted the drawbacks of frequent rate changes and delays in refunds for exporters.
- **World Bank (2020)** lauded GST as a significant tax reform but flagged challenges in implementation, particularly with IT infrastructure and rate multiplicity, recommending convergence towards a simplified rate structure.
- **Singh & Gupta (2022)** conducted a multi-state empirical study, which revealed variations in compliance levels among SMEs, largely attributed to portal glitches and lack of tailored training programs.
- These studies underscore both the theoretical promise of GST and the practical bottlenecks that must be addressed through phased policy interventions and technological strengthening.

3. Structure & Key Provisions

Constitutional framework: Amendment to Article 368 and introduction of IGST, CGST, SGST

Tax design:

Dual GST model at the central and state levels

Horizontal Uniform Central Rate (12%) and higher slab rates (18%, 28%)

Input Tax Credit (ITC) system:

Seamless offset across purchases and supplies

Tax paid earlier to reduce tax liability downstream

Registration, invoicing, returns:

E-invoicing thresholds

Periodic returns (GSTR-1,-2,-3B,-9)

Anti-avoidance measures:

Reverse charge mechanism

Anti-profiteering provisions

Demand recovery and penal actions

4. Critical Analysis

4.1 Successes

Simplified multi-state flow of goods and services with minimal border check delays

Stronger tax base through digital trails and e-invoice

Boosted formal sector compliance

Revenue outperforming projections in initial years

4.2 Limitations and Challenges

- Complex rate structure: Four-tier slab, plus exemptions and compensation cess, causing compliance burden
- Return filing complexity: Voluminous forms, multiple periodic returns
- Technical glitches: Frequent glitches in GSTN portal
- Small and medium enterprises (SMEs): Struggle with compliance costs and IT literacy
- State center frictions: Compensation cess mechanism delays and state revenue concerns

4.3 Comparative Perspective

- *Compared to countries like Canada, Australia, and New Zealand, India's GST has comparatively complex slab structure and return regime.
- Best practices from benchmark GST systems involve fewer slabs, single monthly return, one unified portal.

5. Stakeholder Perspectives

- Government agencies: Incentivized by digital compliance; recognize need to rationalize rates and simplify returns
- SMEs: Mixed feedback—compliance burden and GSTN stability issues cited
- Consumers: Overall reduced prices for many goods; inflationary hiccups due to initial rate resets
- Academics/Economists: Focused debate on long-term revenue stability, neutral tax incidence, and domestic production boost

6. Policy Recommendations

1. Rate rationalization: Move to a two- or three-slab structure (e.g., Essential, Standard, Luxury).
2. Return simplification: Roll out the proposed Single or ANX return to reduce compliance cost.
3. Strengthening IT systems: Enhance GSTN portal uptime; timely resolution of e-invoice issues.
4. SME support: Awareness, training, and technology grants.

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5. Cess mechanism reform: Prompt compensatory transfers to states; consider eliminating cess after target fulfilment.
6. Periodic review: Annual impact assessment on producers and consumers to recalibrate rates and thresholds.

7. Conclusion

The GST Act represents a paradigm shift in Indian taxation: integrated, technology-enabled, and federal. While it has achieved significant improvements in streamlining indirect taxes and boosting collections, critical issues around complexity, compliance cost, technical robustness, and federal finances remain. Implementing targeted reforms—slab rationalization, simplified returns, fortified digital infrastructure, and SME empowerment—will help unlock its full potential as a pro-growth tax backbone.

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