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# EMERGING ISSUES AND CORRECTIVE MEASURES FOR GST IN INDIA

**Ditya Jindal***
Email : dityajindal45@gmail.com

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## Introduction

The goods and services (GST) was implemented in July 2017. The government of India followed the Credo of "One Nation and One tax".It is an indirect comprehensive tax charged at a prescribed rate. The introduction of GST has been a transformative reform which aimed to create a unified tax structure, fostering economic growth, and simplifying the Indian complex tax system. While GST has significantly streamlined tax processes , it has also brought a series of emerging issues, which threaten its smooth implementation and efficiency.This research paper examines the key steps that are required to address and resolve these emerging issues, with a particular focus on the most pressing concerns that have surfaced in these past few years . By analyzing the root causes of these issues and suggesting practical solutions that have been proposed or implemented, this study aims to provide a comprehensive framework for overcoming current GST challenges.This paper will also explore how collaboration between the government, businesses, and tax professionals can facilitate a smoother GST experience for all stakeholders, ensuring greater compliance, reduced friction in the tax system, and a stronger foundation for India's economic future.

## Literature Review

1. **Vinay Kumar's paper, *GST – A Boon or Bane for India***, critically evaluates the impact of the Goods and Services Tax (GST) on India's economy. The paper explores GST's potential to streamline the tax system, reduce cascading taxes, and foster economic growth by creating a unified market. The research also highlights the limitations of GST. Furthermore, Kumar discusses that there is a need for a good IT system for smooth implementation of GST. Overall, Kumar's paper says that economists have predicted that GST will not be able to achieve its objective like decrease in the cost of production, increase in productivity, Economic growth etc.
2. **The research paper *Emerging Issues in GST Law and Procedures: An Assessment* by Diva Mehta and Sacchidananda Mukherjee, published in August 2021,** critically analyzes the evolving landscape of Goods and Services Tax (GST) law and its procedural challenges in India. The paper identifies key emerging issues in GST implementation, focusing on the complexities of compliance, the impact of frequent amendments, and the administrative difficulties businesses face. The paper concludes that the law's implementation has been marred by various operational difficulties that need addressing for GST to fully achieve its intended goals of simplicity and efficiency in the Indian economy.
3. **Govinda Rao's research paper, *Evolving Issues and Future Directions in GST Reform in India***, outlines the key challenges and future prospects of the Goods and Services Tax (GST) in India. Rao emphasizes that while GST has brought significant reforms to the Indian tax system. The paper highlights One of the major vacuums in Indian fiscal federalism is the absence of an effective institution for intergovernmental bargaining, the paper also highlights that there is a major need of immediate steps to increase the revenue productivity. He argues that One of the

major constraints in undertaking detailed research is the reluctance of the GST Council to share detailed data even for research.

## ISSUES AND SUGGESTIONS

**1. The Multiplicity of GST tax slabs in India** presents a significant challenge to the overall efficiency of the Goods and Services Tax system. With tax rates ranging from 5% to 28%, and some goods and services even exempt from GST, the complexity of these varied slabs creates confusion, increases administrative burden, and undermines the objectives of simplification that GST sought to achieve.
Firstly, the existence of multiple GST slabs increases the compliance burden for businesses. Different tax rates apply to different products and services, forcing companies to maintain detailed records and implement complex accounting systems to ensure the correct tax rate is applied. Small and medium enterprises (SMEs), in particular, find this burdensome, as they often lack the resources or expertise to manage such complexity, leading to higher operational costs and inefficiencies.
Secondly, the variety of slabs often results in confusion for both businesses and consumers. Products that seem similar may fall under different tax rates, leading to price disparities and making it difficult for consumers to understand the final price they are paying. This lack of transparency can affect consumer confidence and make businesses hesitant to set clear pricing strategies.
Moreover, the multiplicity of GST slabs discourages tax simplification, which was one of the core objectives behind the introduction of GST. Instead of streamlining the tax system, the large number of tax categories creates additional layers of complexity in tax collection and enforcement. This also leads to a rise in disputes over the classification of goods and services, further burdening the judicial system.

**Suggested Policy : Simplification of GST Slabs**

A comprehensive policy reform that reduces the number of GST tax slabs would be beneficial for the Indian economy. Specifically, the GST structure could be simplified by consolidating the existing tax brackets, which currently include 0%, 5%, 12%, 18%, and 28%, into a more streamlined system with just 2 or 3 major slabs. Below are key components of this proposal:

1. **Introduction of a Dual Tax System (Basic vs. Luxury):**
   - Basic Goods and Services: A lower, single slab (e.g., 5% or 8%) could apply to essential goods and services. This includes everyday items like food, medicines, and other necessities. Essential sectors such as healthcare, education, and basic transportation could either remain exempt or be taxed at the lowest slab.
   - Luxury Goods and Services: A higher tax rate (e.g., 18% or 20%) should be applied to luxury goods, non-essential products, and high-end services. This includes items such as luxury cars, high-end electronics, and premium services that are typically consumed by higher-income groups.
2. **Elimination of Overlapping Slabs:** The current system includes overlapping slabs that often lead to confusion and administrative complexity. For instance, both 12% and 18% rates apply to different goods within similar categories, creating inefficiency. Streamlining these into fewer categories would improve clarity, reduce compliance costs, and eliminate scope for evasion.
3. **Rationalization of Special Rates:** Some items currently fall under special GST rates (e.g., 0.25%, 3%, and 28%), which complicate the overall structure. These special rates could be merged into the primary slabs to simplify the tax system and ensure consistency across the board. Special exemptions and subsidies for items like healthcare or education could be retained without the need for complex tax calculations.

4. **Gradual Phased Transition:** While implementing these changes, a phased transition would help businesses and consumers adjust to the new structure. This would also allow the government to assess the impact of the revised system and make necessary adjustments.
5. **Increased Use of Technology:** Simplification should also be complemented with enhanced digital infrastructure to ensure better compliance and transparency. A uniform tax system with clear categorization can be more easily monitored and enforced using technological tools, thus reducing evasion and improving revenue collection.

**Expected Outcomes:**

- **Lower Compliance Costs:** With fewer tax slabs, businesses, especially MSMEs, would find it easier to comply with GST regulations, reducing administrative burden.
- **Increased Revenue:** A simpler system would encourage more businesses to register and pay taxes, expanding the tax base and increasing revenue collection.
- **Fairer Distribution of Tax Burden:** By differentiating between basic necessities and luxury items, the tax burden can be more equitably distributed across different income groups.

**2. Ambiguity in the anti-profiteering provisions of the Goods and Services Tax (GST)** in India has emerged as a significant issue, particularly when it comes to ensuring that the benefits of reduced tax rates or input tax credits (ITC) are passed on to consumers. The anti-profiteering provisions, designed to prevent businesses from making undue profits following the implementation of GST, mandate that any tax reductions or benefits resulting from the new regime must be shared with the end consumer. However, the lack of clear and consistent guidelines on how to calculate and implement these benefits has led to widespread confusion.

One of the core issues is the lack of uniformity in interpretation. While the law expects businesses to pass on the benefit of tax reductions, there is no clear framework for determining the extent to which this should occur, nor is there a universally agreed method for measuring "profiteering." This leads to discrepancies in how businesses apply the benefits and how authorities enforce compliance. In practice, businesses often find themselves caught between the demand for lower prices from consumers and the complex calculation required to ensure that any tax benefits are passed on accurately.

The ambiguity is also exacerbated by inconsistent rulings from the National Anti-Profiteering Authority (NAPA), which is responsible for enforcing these provisions. In some cases, businesses face penalties despite genuinely attempting to comply, while in other instances, the benefits are not sufficiently passed on, leading to dissatisfaction among consumers.

**Suggested Policy : Anti-Profiteering Compliance Portal:**

1. **Standardized Calculation Tools:** The portal would provide businesses with standardized tools and templates to calculate and report how the benefits of tax rate reductions and ITC are passed on to consumers. These tools would be designed according to clear, government-approved formulas to eliminate any confusion around calculation methodologies.
2. **Submission of Compliance Reports:** Businesses would be required to submit their anti-profiteering compliance reports directly through the portal. These reports would include details of price adjustments, reasons for price changes, and documentation of how the tax benefits were passed on. This would ensure consistent reporting and facilitate easy tracking of compliance.
3. **Real-Time Monitoring and Audits:** The portal would allow tax authorities to monitor

businesses in real-time, enabling efficient audits and preventing the misuse of tax benefits. It would flag discrepancies or potential violations automatically, reducing the need for manual intervention and ensuring that corrective actions are taken promptly.

4. **Consumer Feedback Mechanism:** The portal would also include a feedback section where consumers can report instances of suspected profiteering. This would help authorities identify problematic areas and take timely corrective action.
5. **Training and Educational Resources:** The portal would provide businesses, especially SMEs, with easy access to educational materials, webinars, and training programs that explain the anti-profiteering provisions and how to comply effectively.

**Expected Outcomes:**

1. **Reduced Compliance Ambiguity:**
   With a clear, standardized framework, businesses will have a consistent and transparent method for calculating and demonstrating compliance, reducing confusion and preventing arbitrary interpretations of the law.
2. **Lower Risk of Penalties:**
   By providing businesses with clear guidelines, the risk of businesses inadvertently violating anti-profiteering provisions and facing penalties will decrease, leading to better adherence to the law.
3. **Fairer Consumer Pricing:**
   The standardized approach will ensure that consumers consistently receive the intended benefits of GST rate reductions, leading to fairer pricing across industries.
4. **Increased Business Confidence:**
   Clear rules will help businesses comply with anti-profiteering provisions without fear of inconsistent enforcement, fostering a more business-friendly environment and encouraging smooth economic transactions.
5. **Enhanced Transparency and Trust:**
   A structured framework will build consumer trust by ensuring that businesses pass on tax benefits transparently, while also making it easier for regulatory authorities to track and enforce compliance effectively.

**3. Delayed ITC refunds** the ITC mechanism is central to the GST system, allowing businesses to offset the tax they pay on inputs against the tax collected on outputs. For many businesses, particularly exporters and those in capital-intensive sectors, timely ITC refunds are crucial for maintaining liquidity and cash flow. However, delays in processing these refunds have become a major concern. Businesses often face long waiting periods before receiving their rightful credits, primarily due to bureaucratic inefficiencies, technical glitches in the GST portal, and discrepancies in documentation.

For SMEs, the delays in receiving refunds mean that a substantial portion of their working capital remains tied up, which can lead to cash flow problems, delayed payments to suppliers, and in some cases, even operational disruptions. Exporters, who are already working with thin margins, are especially vulnerable, as blocked ITC refunds can hinder their ability to stay competitive in international markets. Compounding the problem of delayed refunds is the issue of penalties for belated filings. Under the GST system, businesses are required to submit their returns within specified timelines. However, the intricacies of the system, including numerous forms, compliance requirements, and frequent changes in regulations, make it difficult for businesses, particularly those without dedicated tax teams, to stay compliant.

A simple mistake or missed deadline can result in hefty fines and interest, putting additional pressure on struggling businesses. While the penalties are designed to enforce discipline and encourage timely compliance, they often end up penalizing those who are already grappling with system complexities or external factors such as delayed refunds. For SMEs, which typically lack the resources to hire tax experts, the cumulative effect of delayed refunds and penalties can be devastating, sometimes pushing them into financial distress.

**Suggested Policy: "Fast-Track ITC Refunds and Penalty Amnesty Scheme"**

**1. Fast-Track ITC Refund Processing:**

The government can set up a dedicated mechanism for prioritizing and fast-tracking the processing of ITC refunds, particularly for businesses in key sectors such as exports, small businesses, and industries with high capital expenditure. This can be done by:

- Creating a separate refund processing unit: This unit would specifically handle ITC refund claims with a focus on reducing processing times. For example, refunds for small and medium-sized businesses and exporters could be processed within 30 days, compared to the current waiting period which can stretch beyond three months.
- Automation and AI-based systems: By incorporating more advanced automation, the system can flag and approve claims more efficiently, reducing delays caused by manual verification and human errors.
- Fast-Track Refund for Exporters: A separate digital platform for exporters, offering automatic verification of claims with direct transfers to their bank accounts, can be introduced. This would ensure that exporters get refunds promptly to maintain their liquidity.

**2. Penalty Amnesty for Genuine Delays:**

The government can offer a "Penalty Amnesty Scheme" for businesses that have missed deadlines due to genuine reasons, such as system glitches, sudden changes in regulations, or unforeseen circumstances. Under this scheme:

- Grace Period for Filing: The government can allow a one-time, extended grace period (e.g., 30-60 days) for businesses to file overdue returns without facing penalties. During this period, businesses would be able to rectify any past mistakes without incurring fines.
- Reduction in Penalties: For businesses that fail to file on time but demonstrate genuine intent to comply, the government could reduce the penalties significantly or waive them entirely if the delay was caused by factors like technical errors, changes in law, or force majeure situations.

**Expected Outcomes:**

1. **Improved Liquidity for Businesses:** The fast-tracked ITC refund processing would provide businesses, especially exporters and SMEs, with quicker access to funds that can be reinvested into operations, leading to improved cash flow and operational efficiency. This would be particularly beneficial for small and medium-sized businesses that rely heavily on ITC refunds to maintain financial stability.
2. **Increased Compliance:** By offering a penalty amnesty and easing the burden of fines, businesses will be more likely to come forward and correct their past mistakes. This will encourage greater voluntary compliance, particularly among SMEs, who may have been avoiding the GST system due to fears of punitive action for minor delays or errors.
3. **Enhanced Trust in the System:** Businesses will gain confidence in the government's commitment to addressing their challenges. A more transparent and business-friendly approach

would foster trust in the GST system, making businesses more willing to invest and expand their operations, which in turn would boost the broader economy.

4. **Reduced Tax Evasion and Uncertainty:** By simplifying the penalty structure and ensuring a more predictable ITC refund cycle, businesses will have less incentive to underreport or evade taxes. This would improve the overall compliance rate, resulting in better tax collections for the government.
5. **Boost to Export Competitiveness:** Exporters, who are particularly dependent on timely ITC refunds, will benefit from faster processing and reduced financial strain. This will make Indian exports more competitive on the global stage, encouraging growth in this crucial sector.

**4. Technical Glitches in GST Portal** The GST portal, intended to serve as the central platform for tax filings, refund claims, and compliance verification, has frequently faced technical glitches, including slow processing times, error messages, crashes during peak filing periods, and difficulties in uploading required documents. For businesses, these technical issues translate into costly delays. Companies that rely on the timely filing of returns and the seamless processing of Input Tax Credit (ITC) refunds often find themselves stuck in a cycle of errors, unable to meet deadlines and, in some cases, incurring penalties for delayed filings due to no fault of their own.

These technical failures disproportionately affect SMEs, which often lack the resources to hire tax professionals or invest in sophisticated IT infrastructure. In many cases, business owners or their small teams face considerable frustration as they try to resolve portal issues while managing their day-to-day operations. The repeated breakdowns not only disrupt business processes but also erode trust in the GST system. For these enterprises, which operate on thin margins, even minor delays can have a cascading effect on cash flow, and penalties for filing errors or late submissions further compound the problem. The larger businesses, with dedicated compliance teams, can manage the technical glitches with more ease, but the delay in receiving ITC refunds and the imposition of fines for late filings still have a profound impact on their cash flow and planning. Exporters, in particular, are highly vulnerable to these issues, as delays in refund processing can severely hinder their ability to stay competitive in global markets. Moreover, the recurring nature of these technical glitches creates an environment of uncertainty. Businesses, especially those in competitive sectors, may find it challenging to make long-term financial decisions if they cannot rely on the timely processing of their tax obligations. While the government has continuously updated and revamped the portal, the persistence of these issues points to a lack of sufficient infrastructure or proper testing of the system.

**Suggested Policy: "GST Portal Stability and Support Enhancement Initiative"**
**Key Components of the Policy:**

1. **Robust Infrastructure and Regular Testing:** The government can partner with leading technology providers to strengthen the IT infrastructure supporting the GST portal. This would involve conducting regular stress tests, load testing, and system upgrades to ensure the portal can handle high traffic volumes, particularly during peak filing seasons. The platform's architecture would be optimized to minimize downtime, prevent crashes, and ensure seamless processing of GST returns, ITC claims, and refunds.
2. **Dedicated Helpdesk and Technical Support:** A specialized, 24/7 helpdesk should be established to assist businesses facing portal-related issues. This helpdesk would not only address technical issues in real-time but also guide businesses through troubleshooting,

document uploads, and system errors. A ticketing system would be introduced to track complaints and ensure timely resolution. In addition, businesses could be provided with regular updates on system maintenance schedules and known issues.

3. **Automatic Grace Period for Filing Delays:** In case of genuine technical glitches on the GST portal that result in delayed filings or submissions, the government should offer an automatic grace period for businesses. During this period, businesses would be allowed to file their returns without incurring penalties or interest. The grace period could be extended based on the severity of the technical issues, providing businesses with the flexibility to comply without facing punitive consequences.
4. **Real-Time System Alerts and Transparency:** The portal could incorporate real-time system alerts and communication features to notify users of technical issues or system downtimes. Transparent communication regarding system maintenance schedules, errors, or delays would allow businesses to plan their filings accordingly and avoid last-minute rushes. Additionally, the system could send timely reminders for upcoming filing deadlines or document submissions to ensure businesses stay compliant.
5. **Testing and Feedback Mechanism:** To further improve the portal's performance, the government could implement a beta-testing framework, wherein businesses and tax professionals can provide real-time feedback about the portal's functionality. These insights would help identify problem areas before they become widespread issues, and the system could be updated accordingly.

**Expected Outcomes:**

1. **Increased Reliability and Trust in the GST Portal:** By addressing the recurring technical glitches and strengthening the system's infrastructure, the government would significantly improve the reliability of the GST portal. This would restore trust among businesses, encouraging better compliance and reducing frustration related to system errors.
2. **Reduced Business Disruptions:** The technical support and helpdesk would enable businesses to resolve portal-related issues more efficiently, reducing downtime and disruption to their operations. As a result, businesses would be able to meet filing deadlines with greater ease, improving overall compliance rates.
3. **Enhanced Cash Flow for SMEs:** The automatic grace period for filings delayed due to technical failures would prevent small and medium enterprises (SMEs) from incurring penalties and interest charges. This would alleviate the financial strain on SMEs, improving their cash flow and enabling them to continue operations without the added burden of unexpected tax liabilities.
4. **Increased Efficiency and Compliance:** The strengthened portal infrastructure, along with proactive support and transparency, would encourage businesses to comply with GST regulations on time. Businesses would have greater confidence in the system and be more likely to submit accurate returns and claims, leading to improved tax collections and greater overall compliance with the GST framework.
5. **Reduction in Taxpayer Complaints and Legal Disputes:** The provision of a grace period for genuine delays and the transparent communication of system issues would reduce the number of legal disputes, complaints, and grievances filed by businesses. This would help the government address the concerns of taxpayers more effectively, improving the overall relationship between the tax authority and businesses.

**Conclusion**

In summary, the issues confronting the Goods and Services Tax (GST) in India, from the multitude of tax slabs and uncertainty of anti-profiteering rules to delayed refund of Input Tax Credit (ITC) and technology issues in the GST portal—demonstrate the imperative for sweeping reforms. The suggested policies to simplify GST slabs, boost anti-profiteering compliance, expedite ITC refunds, and render the GST portal stable are not just managerial changes; they reflect a strategic move towards a more streamlined, transparent, and business-friendly tax scenario.

By unifying tax slabs, we can lower compliance costs, increase transparency for consumers, and ensure equity in tax allocation. The creation of a specific anti-profiteering compliance portal would harmonize calculations and reporting, building confidence between consumers and businesses.
Accelerating ITC refunds and introducing a penalty amnesty scheme would ease cash flow constraints on businesses, especially SMEs and exporters, to help them compete in a competitive environment. Lastly, strengthening the infrastructure and support systems of the GST portal would make it reliable and efficient, minimizing disruptions and promoting a culture of compliance.

Collectively, these reforms can not only rationalize the GST system but also boost economic growth, increase taxpayer confidence, and bring about a more balanced tax environment. As India continues to develop its tax structure, keeping these changes as priorities will be important in attaining the original goals of GST—simplification, transparency, and fairness—ultimately leading to a strong and resilient economy.

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