

# Role of GSTN in Making India's Indirect Tax System Transparent

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## Abstract:

GST is one of the crucial tax reforms in India which was long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interest of various stake holders it was pending. Later on July 1<sup>st</sup> 2017 GST was implemented all over India. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy in to a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. GSTN is a national uniform utility which is expected to create a business friendly environment. It is the first of five proposed NIUs to inherit India's taxation and other financial IT services along with the Tax information network, expenditure information network, National treasury Management agency and New pension system. GSTN provides services directly to tax payers such as registration returns and payments through a 'common GST portal' and back-end services to the tax departments of the centre and the state on request. GSTN also collaborates with private third party service providers to create applications for GST related services and develops utilities for tax payer profiling and fraud detection. This paper highlights as to how GSTN helps the government in improving its fiscal health and make the tax collection system more transparent and making tax evasion difficult. The study also aims to know the advantages of GSTN in India's Indirect tax administration system.

**Key words:** Goods and Services Tax, Goods and Services Tax Network, National Information Utility, Government's Fiscal health and Fraud detection.

## Introduction

The word tax is derived from the latin word "Taxo, Taxare" which means 'To Asses or Estimate'. The government's most important source of income is tax revenue. The different types of taxes are direct and indirect tax.

## Direct Taxes:

When the burden of money is on the person who is obligated to pay tax, this type of tax is known as direct tax.

It is called direct tax because government collects tax directly from the person on whom the tax is levied. It is economical, elastic and equity.

### **Indirect Tax:**

In an indirect tax the initial money burden is on one person who is obligated to pay tax but the final burden or incidence is on some other person. Unlike direct taxes the person is not directly paying taxes. In indirect taxes one person shifts the burden to other person. It is elastic and can be levied on large number of commodities and people of all classes. Ex: GST

GST stand for Goods and Services Tax. It is a domestic trade tax that will be levied in the form of a value added tax on all goods and services-in practice with some exemptions.

In order to ensure that the tax burden is distributed according to the consumption of different individuals, it must be levied on the basis of the principle of destination, that is to say that the tax on a goods should go to the state in which the concerned consumer lives. This automatically takes place if the tax is levied at only the central level, or if the state is a unitary one with only one level of taxation. In a federation, there are special problems to be solved if GST is to be levied at the level of the states as well as the federal government.

### **Introduction of Goods and Services Tax Network (GSTN)**

GSTN is section 8 (under new companies Act, not for profit companies are governed under section 8), non-Government, and private limited company. It was incorporated on March 28, 2013. The government of India holds 24.5% equity in GSTN and all states of the Indian Union, including NCT of Delhi and Puducherry, and the Empowered Committee of State Finance Ministers (EC), together hold another 24.5 % . Balance 51% equity is with non-Government financial institutions. The Company has been set up primarily to provide IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders for implementation of the Goods and Services Tax (GST). The Authorized Capital of the company is Rs. 10, 00, 00,000 (Rupees Ten crores only).

### **Literature Review**

- Vasanthgopal (2011) in the article GST in India: A big leap in the indirect Taxation system discussed the impact of GST on various sectors of the economy. The article further stated the GST is a big leap and a new impetus to India's economic change.
- Seventy Third Report of standing Committee on Finance (2012-2013) The constitution (one Hundred Fifteenth Amendment) Bill, 2011.

- First Annual General Meeting Annual Report (2013-14) of Good and Service Tax Network.
- Nitin Kumar (2014) studied, “Goods and Service Tax – A way forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.
- NishithaGuptha (2014) in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may usher in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and State Government.
- Pinki, SupriyaKamma and RichaVerma (July 2014) studied, “Goods and Service Tax – Panacea for Indirect Tax system in India” and concluded that the new government in India is positiviev towards implementation of GST and it is beneficial for central government, state government and for consumers in long run if its implementation is backed by strong IT infrastructure.
- Second Annual General Meeting Report (2014-2015) of GSTN.
- The Institute of Companies Secretaries of India (ICSI) (2015) published a reference on Goods and Services Tax to provide the information on the concept of GST in detail.
- Indirect Taxes committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Service Tax (GST) which stated in brief details of the GSTN and its positive impact on economy and various stakeholders.

### Objectives of the Study

- 1) To study the concept of Goods and Services Tax Network(GSTN) and its role in India’s Indirect Tax Administration system.
- 2) To understand how GSTN will help in making Tax evasion difficult in India.
- 3) To evaluate the advantages and challenges of GSTN
- 4) To furnish information for further research work on GSTN.

### Research Methodology:

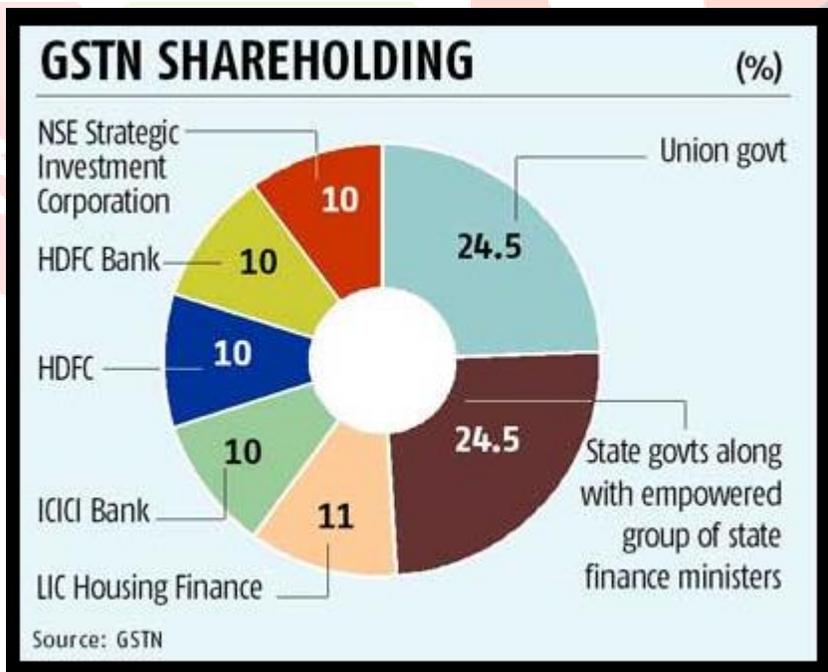
The study focuses on explanatory research based on secondary data collected from journals, articles, newspapers, magazines and publications from various websites which focuses on various aspects of Goods and services tax network. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

**Concept:**

Launch of GST needs mega infrastructural support including IT facilities. So far, the Centre and State indirect tax administrations worked under different laws, regulations, procedures and formats and consequently they have independent IT systems. Integrating them for GST implementation and bringing them under an entirely new indirect tax system and administration need fresh institutional arrangement. For this task, the government has created Goods and Services Tax Network (GSTN).

The Goods and Services tax Network (GSTN) is a non-government non-profit private limited company created for providing the front end and back end IT and infrastructural support for the working of GST. It is registered as a non-profit company under the New Companies Act in March 2013. Given its non-government nature, the shareholding is important. Here, the Governments – centre, states plus UTs hold 49% of GSTN. Central Government holds 24.5 % while the remaining governmental share of 24.5 % is held by states and UTs. It has an authorized capital of R. 10 crore to establish and operate the IT backbone of GST. The remaining 51% share is divided among five financial institutions – LIC Housing Finance with 11% stake an ICICI Bank, HDFC, HDFC Bank and NSE Strategic Investment Corporation Ltd with 10% stake each.

The following pie diagram shows the GSTN shareholding.



Through the shareholding looks non-government, governments have more say in the management of GSTN. The Central and the state governments together have seven members in the 14 member GSTN Board, including the Chairman. Private shareholders have only three members. The remaining three are

independent members and a board-appointed chief executive officer. This means that the strategic control of the company lies with government.

The GSTN as a back end infrastructural support mechanism has the main responsibility of providing a well-built IT infrastructure and the related services to the Central and State Governments, taxpayers and other stakeholders, for the implementation of GST. GSTN would be integrating the common GST portal and will be connected with the existing tax administration IT systems.

GSTN as a tax administration platform is deeply connected with the existing administrative mechanisms. The common GST Portal developed by GSTN will function as the front-end of the overall GST IT ecosystem. The common GST portal by GSTN will process applications for registration, payment, return and prepare MIS/reports.

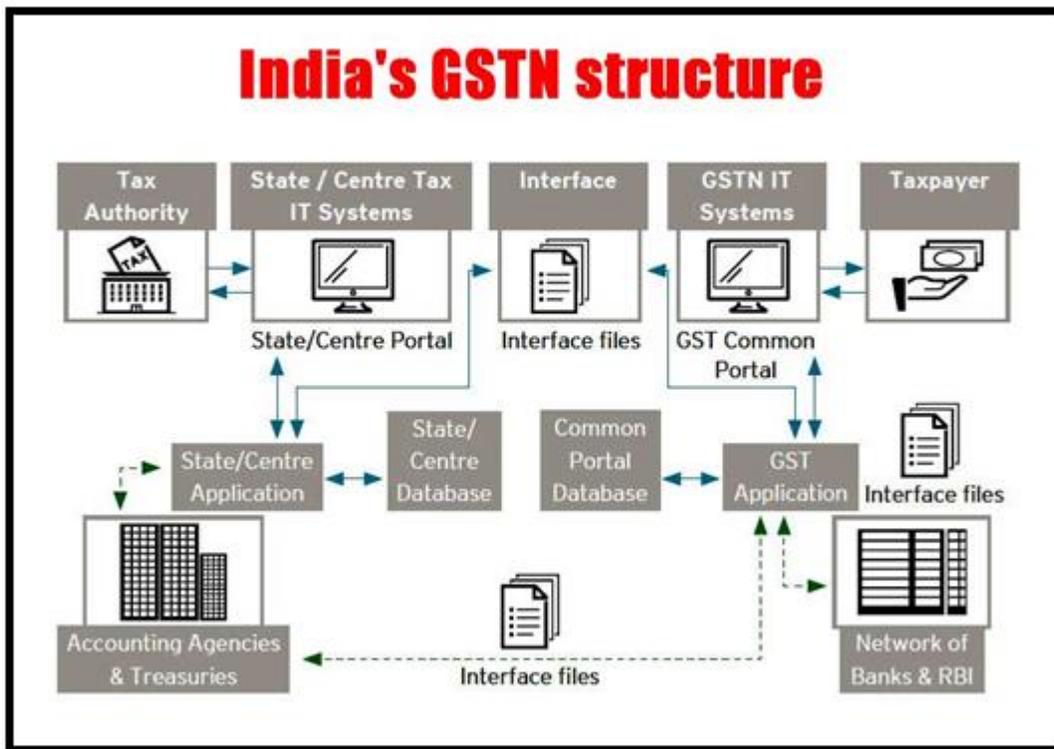
Similarly, the IT systems of CBEC (Central Board of Excise and Customs) and State tax Departments will function as back-ends. The work of back-end operation is to handle tax administration functions such as registration approval, assessment, audit, adjudication etc.

### **GSTN – How it works in India**

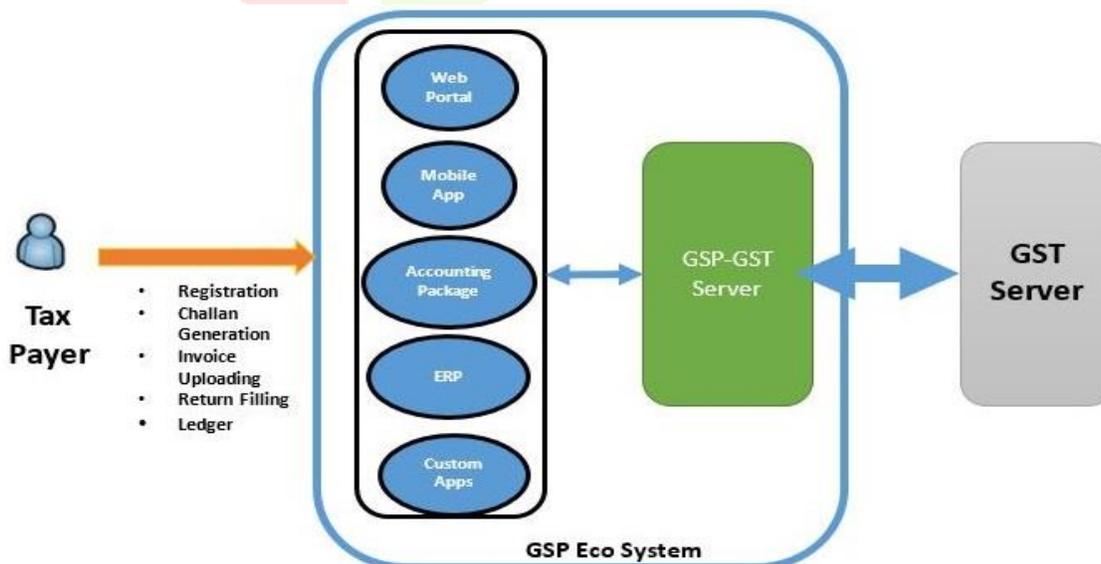
GSP or GST Suvidha Providers are third party IT vendors who develop the web or mobile base interfaces for taxpayers to interact with the GST network.

Functions of GSTN:

- a) Facilitating registration;
- b) Filing and forwarding the returns to Central and State tax authorities;
- c) Computation and settlement of IGST;
- d) Matching of tax payment details with banking network;
- e) Providing various Management Information System reports to Governments.
- f) Analysis of tax payers profile; and
- g) Running the matching engine for input tax credit.



Goods and Services Tax Network (GSTN) is expected that the GSPs shall provide the tax payers with all services mentioned in addition to maintaining their individual business ledgers (sales ledger and purchase ledger) and other value added services around the same. Another important service expected from GSPs is the automatic reconciliation of purchase made and; entered in the purchase register and data downloaded in the form of GSTR – 2 from the GST portal. In addition there will be sector-specific or trade specific needs which the GSPs are expected to fulfill. The conceptual diagram depicting the same is as given below.



While the GST system will have a G2B portal for taxpayers to access the GST system there will be a wide variety of tax payers (SME, Large Enterprise, Small retail vendor etc.,) who will require different kind of facilities like converting their purchase/sales register data in GST compliant format, integration of their Accounting packages/ERP with GST system. Similarly, the specific needs of an industry of trade could be met by GSP. In short, the GSP can help the taxpayers in GST compliance through their innovative solutions.

### **Role of GSTN in India's Indirect Tax System**

- Integration of the common GST Portal with the existing tax administration systems of the central/state governments and other stakeholders.
- Provide common PAN based registration, enables returns filing and payment processing for all states on a shared platform.
- Facilitation, implementation and set standards for providing services to the tax payer through common GST portal State governments and other stake holders.
- Build efficient and convenient interface between with tax payers to increase tax compliance.
- Carry out research, study best practices and provide training to the stakeholders.

### **Challenges of GSTN**

- Inability of taxpayers to access the GSTN system.
- Extremely slow response rate of the system.
- Slow response time for resolving various errors faced by the taxpayers for their respective returns.
- No facility to rectify the inadvertent errors in the returns
- Passwords for 60,00,000 dealers.
- Connectivity between ERP system and GST portal.

### **Key Findings**

- The broad framework of GST Model proposed for India now being clear, well-designed & well-functioning Information Technology (IT) infrastructure facility would be a precondition and pre-requisite for smooth administration of taxpayers, processing of returns, controlling collections, making refunds, auditing taxpayers, levying penalties etc. in the new regime. On the IT front, all stakeholders had agreed for a common PAN – based taxpayer ID, a common return, and a common challan for tax

payment and therefore a common portal providing three core services (registration, returns and payments) would ease compliance.

- GSTN has been set up with the following objectives to act as a pass through interface for dealers.
  - 1) Integration of the common GST Portal with the existing tax administration systems of the Central/State Governments and other stake holders.
  - 2) Facilitation, implementation and set standards for providing services to the tax payer through common GST portal State Governments and other stake holders.
  - 3) Build efficient and convenient interfaces between with tax payers to increase tax compliance.
  - 4) Carry out research, study best practices and provide training to the stakeholders
- GSTN has been entrusted with the responsibility to develop, operate and maintain a common GST portal which would provide a common and shared IT infrastructure between Central & State Governments, Banks, CBEC, Reserve Bank of India etc. For the purpose of simplicity for taxpayer uniformity of tax administration, it is also proposed to have digitization of all documents and automation of related processes such as common PAN- based registration, common standardized return for all taxes (with different account heads for CGST, SGST,IGST) common standardized challan for all taxes (with different account heads for CGST, SGST, IGST) etc. Each tax authority will have full flexibility in using his data for in-house automation, integration, and enforcement.

## Conclusions

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