

GST Administration & Management Issues - Problems Faced By Small Businesses

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I. Introduction:

Every Nation needs money to function and meet the needs of its citizens. Tax collection is one way of revenue generation for the Government. Tax rate must be optimum to ensure the citizen are not burdened not Government is starved for funds. Tax collection must be transparent, tax avoidance must be very difficult and tax payment process must be hassle free.

The very purpose of Tax Reforms is to make Tax collection easier, to make it hassle free for the tax payer, to make the tax calculation easier for payer and verifying officials and ensuring collection happens in time with almost zero tax avoidance.

GST was proposed as an alternative to the many taxes and seen as a solution for assessment, payment and collection of trade related taxes. After years of dilly dallying GST was ultimately rolled out in June 2017. Taxation is now destination based. Every transaction can now be traced from producer to the consumer. One tax structure has replaced the various taxes, and will simplify tax regime in the long run and also lead to better tax collection and compliance.

Implementation is the key to success of GST. The growth of ICT has the biggest role to play in proper implementation and success of GST.

This article aims to look at the problems faced by small businesses and entrepreneurs who have to file GST returns.

II. Methodology:

Discussions with 5 businessmen, one Chartered Accountant, one Tax Consultant and watching the online return filing process at one of the firms form the basis of the narration in this article.

Applicability of GST: Broadly speaking firms with turnover of Rs.20 Lakhs or more OR those dealing outside their state have to file GST Returns. This limit is 10 Lakhs in some states.

GST Returns: Minimum 37 returns have to be filed every year. 3 returns per month and 1 annual return per state in which transactions have taken place. Strict deadlines are to be met and since all work is online on the GSTN (GST Network) missing deadlines requesting extension of deadlines on humanitarian grounds is ruled out. A heavy penal fee is the way out.

The problems faced by such small traders and businessmen are:

- A) Lack of computer literacy: Small business or shops which provide larger scale employment is usually run by not highly educated persons who are mostly non computer savvy find it difficult to manage the tax filing themselves. They have neither been properly trained nor explained how to use the website properly.
- B) High cost of filing returns through Professional Tax Consultants or Chartered Accountants: Costs eat into margins. The consultants have to be extra careful and diligent. Due to sheer large number of clients, they have to work continuously. They have begun to charge lot more than earlier for filing returns of their clients. Unless the margins or turnover of clients is high the small traders businesses will not remain sustainable.
- C) Problems with Network, Internet and Electric Supply: Despite of the growth of ICT the problems of seamless internet connection in smaller towns and rural areas continue. Electric Supply is still an issue in many places. Last date rush compounded with these creates an atmosphere of anxiety among businessmen and the tax practitioners. Many business hours, at times, are lost due to these problems.
- D) Online Payment Issues: Bank Networks are down many times and also due to slow process the payments are not processed properly. Not receiving Acknowledgement from recipient i.e., Tax Department immediately, generation of payment acknowledgement after some days of payment, on rare occasions reverting of funds after few days resulting in failure of payment, are the problems. Payment failure information received after last date is passed leaves the timely payer on par with non return filers. Late fees and interest are to be unnecessarily borne by the firm.

- E) **Multiple Websites:** Various returns related to be filed are not available in single site. An instance is payment of Profession Tax. While Profession Tax of employees – monthly or quarterly, is paid through one site, the annual Profession Tax of the firm has to be paid through GST site. Instead of providing link in Profession Tax website for Annual Profession Tax payment the link has been made available in GST site. Traders have not been informed about it and the 24*7 Call Centre of the Department is difficult to reach as calls are not answered for long time. Search in the website leads to wrong sites leaving the traders exposed to make payments to fraudulent entities.
- F) **State wise server facility not available at central site:** This creates huge traffic flow through same route and congests the network.
- G) **Costly Software:** The cost of Computer, power backup and the original Operating System and basic software is very high. Add to this the cost of Tax or Accounting Software which is higher and recurring, the Capital Investment required is very high especially for the small businesses. Providing free tax software along with training in filing returns and maintaining basic accounts could go a long way in helping the small firms.
- H) **Trade with Unregistered Businesses:** Small businesses with under Rs.20 Lakh turnover need not register for GST. Trade with such firms by registered dealers puts the burden of seeking tax credit on the registered firms. RCM – reverse charge mechanism and computation of input tax credit becomes a big task as all billing documents relating to transactions have to be collected and paper work has to be done by registered firms.
- I) **Lack of clarity when tax rate of commodity is changed:** When tax rates of items are changed the businessmen are finding it difficult and also confusing as to how to deal with the stock held by them. They do not have clear idea of how the input credit change has to be collected or got reimbursed depending on increase or decrease of the tax rate.
- J) **High Late Fes and Interest:** Though the Late fees has been decreased from Rs.100 per day to Rs.25/- per day for missing the dead line it is still quite high. Interest for delayed payment is also kept high at 18% per anum. Many traders do not know that when there is no transaction they have to file Nil Return and end up paying high penalty the next month. The System does not allow filing of further current returns till the earlier return is filed. This has a cascading effect on the late fees and interest.
- K) **Firms with turnover near 1.5 Crore per anum:** Firms registered with State which exceed their expected turnover and cross the 1.5 Crore limit and not aware as to how and where to file their further returns. Similarly those registering with Center and falling short of Rs.1.5 Crores are confused as to if they have to file returns once again with state GDST site.
- L) **Multiple Returns for transaction with each state:** The number of returns increases as the transaction with number of states increases as separate returns have to be filed for transaction with each state separately. A firm which deals with 3 states as well as locally has to file 12 returns for the month. The businessmen do not know if once they deal with a state do they have to file Nil Return for the state from next month if they do not deal with the state or if they are exempt from filing return if they do not deal with that state in future? Proper awareness of such technical aspects must be created. The System requires filing Nil Returns for future months even if deal is done only once and no transaction is done in future.
- M) **Buyer Beware:** The purchasing firm has to check that the selling firm has properly noted and correctly entered his Registration Number so that the buyer gets the correct input credit. Entering wrong Register Number is quite common as many small businesses have very similar names and correcting such errors is not easy and needs lot of manual paper work and verification from officials. All the firms – seller, actual buyer and the buyer shown erroneously have to spend lot of time in getting the errors corrected.
- N) **Problem in Uploading the Returns:** The limited time period to file returns and the slow unreliable internet connection is a hurdle. Many times the data entered is lost as pages get struck or refreshed.
- O) **Amendments to returns filed are not working:** The option to amend the return filed, to correct any error after filing is not working. This is a cause of anxiety among both firms and tax practitioners as they are not sure how the officials will look at such mistakes and what kind of penalty would be imposed. And since correction cannot be carried out by the firm the errors are continued despite their existence being known.
- P) **Software not working as expected:** The purchase details based on the three monthly returns R1, R2 & R3 which should have been displayed online for every registered firm is not available making it difficult for reconciliation. Errors by sellers will cause difference in input credit claims and reconciliation would be tough later.

Solutions:

- A) **Training:** Provide proper training and booklet describing use of website and all its features.
- B) **Support:** Provide subsidized PC with preloaded Bharat OS and Tax/Accounting Software so that there is uniformity, people find it easy to learn using the software and businesses do not unnecessarily spend on these. Their Capital is better utilized in stocks and productive investments.

- C) Accommodate Genuine Problems: Any payment reverted back should be treated as submitted and firm be allowed to file the return before next months' filing without being penalized.
- D) User Friendly Software: Single Website allowing the user to choose his state and listing various taxes alphabetically will reduce congestion. The design of the websites must be more user friendly and simple for neo computer literates to use it.
- E) Visual Effects Usage: Display the Taxes that one needs to pay with their last dates without creating confusion to the site user.
- F) Update Hardware and Network: Providing State option in the server and allocating hardware and network resources in tune with the needs of states would solve the problem to a great extent and also make the process faster as data retrieval would be faster due to state specific search.
- G) Communicate: Send automated reminders to firm for filing returns in time.
- H) Easy Nil Returns: Have a single button click option for filing Nil Return. This option can also be made operational by sending SMS of Nil Return from Registered Mobile Number.
- I) Responsiveness: Presently many numbers, those beginning with 080 to which calls are made do not respond. Call Centers must have more lines to solve problems in realtime and respond fast.
- J) Update Software: Filing returns for interstate transactions must be made easier. Instead of having separate returns for transaction with each state, the options of filing such details through single return can be designed easily. Upgrading the software and designing forms by using basic inputs of number of states dealt with during the month can easily address the problem. This would save time and volume of data.
- K) Amendment Option: The option of correcting errors i.e., filing amended or updated returns must be activated for at least one month duration.
- L) Date Extension: System should either automatically or administratively allow extension of last date if there is network problem or connectivity problem in particular places.
- M) Encourage Compliance: For a period of one or two years Penal Fees for minor delay in filing returns, amending returns must be exempted or kept minimal and tax avoidance must be dealt strictly. The Officials must clearly distinguish between Tax Avoiders and those willing to comply and deal accordingly.

III. Conclusion:

In the long run GST will be successful in achieving its objectives. Currently there are glitches and problems that can be addressed. It is important for the Tax Departments to keep track of the problems faced by the businesses in complying with the GST requirements. Problems must be addressed immediately and recurrence avoided. Implementing the GST was a bold move – a necessary move. Unless implemented the all the problems would never be known and a perfect solution and consensus on such issues is rarely possible. With time the system will be refined and become successful, if the problems are addressed.

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