



GST Propelling Digitalization in India: Faster Tax Compliance

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ABSTRACT

The implementation of the Goods and Services Tax in India has ushered in a significant digital transformation within the taxation ecosystem. The primary objective behind this transition to GST was to automate tax compliance procedures, resulting in simplified processes and increased generation of tax revenue. Digitization presents numerous advantages for businesses, particularly through the digitization of invoices, also known as e-invoicing. This process initiated with the introduction of digital payment methods and has subsequently led to a transformative shift in business operations. A notable innovation under GST is witnessed in document management practices, where there has been a transition from pre-authenticated excise bills to electronic invoicing systems which enable real-time transaction reporting. By embracing these digital tools, businesses are able to achieve error-free compliance while enjoying substantial benefits. Moreover, this shift towards digitization has greatly benefited not only Government bodies but also tax consultants by streamlining processes and promoting more efficient tax compliance mechanisms.

KEY WORDS

E-Invoicing, E-Way Bill, Dynamic QR, Automated Return Scrutiny, Electronic Filing, Data Triangulation.

INTRODUCTION

The implementation of the Goods and Services Tax on July 1, 2017 marked a transformative moment in India's tax landscape. GST, which is already

implemented in over 160 countries worldwide, has several advantages for India. Prior to its implementation in India, the presence of multiple indirect taxes at different stages along the supply chain complicated taxation system. GST is designed to streamline indirect taxation and aimed to create unity and offer numerous benefits. It aims to simplify the tax structure, reduce compliance costs and litigation through an uninterrupted chain of input tax credit transfers from one stage to another, enhances export competitiveness by eliminating cascading taxes on indigenous products and services, and promotes economic growth by facilitating resource allocation and promoting trade, business, and investment. This new comprehensive system consolidated multiple tax laws into a single framework, which was an impressive achievement considering India's diverse and federal nature. Since its introduction six years ago, the GST regime has successfully addressed issues such as double taxation, a low tax base and collection, and complexity in business transactions with its simplified tax structure.

The implementation of a centralized system for GST allows for efficient exchange of information between states and ensures consistency in taxation practices. A key component of this system is the goods and services tax network, which provides a common platform for generating e-invoices through authorized invoice registration portals. GSTN integrates various tax administration systems to streamline processes such as registration, return filing, and e-payment.

GST and Digitalization

The implementation of technology has played a crucial role in transforming document management, from pre-authenticated excise invoices to electronic invoices and real-time reporting under GST. The primary objective of implementing GST was to digitize tax compliance for ease of use and to increase tax collection effectively.

1. **E-Way Bill:** To address the issue of tax leakage, measures such as conducting e-way bill checks during transportation and issuing notices for discrepancies in return information have been implemented. From April 2018, the businesses required to generate E-waybill before goods dispatch for specified transactions.
2. **E-Invoicing:** In October 2020, e-invoicing was introduced for taxpayers with a turnover above INR 500 Crores. But from 2022 onwards e-invoices will become mandatory for taxpayers with a turnover above INR 10Cr. The introduction of e-invoices was aimed at combating tax evasion and improving efficiency by digitizing transactions. The implementation of the electronic invoice system in India by the Government and businesses is expected to bring greater business flexibility. The Invoice Registration Portal has been developed for validating and signing e-invoices, as well as facilitating transaction reporting and GST return filing. This included B2B and export transactions where digitally signed payloads are obtained from the Government System on a real-time basis using IRN and QR code technology.

In October 2021, the implementation of Dynamic QR for B2C Invoices is required for taxpayers with a turnover above INR 500 Cr. A central de-duplication facility has also been launched to prevent duplicate recordings of the same transaction. Connecting with the GST e-Way bill system solely for reporting common data would incur additional costs. Moving forward, the introduction of electronic invoice regime increased the adaptability of businesses during the COVID-19.

Subsequent to recent notifications from Central Board of Indirect Taxes and Customs, it was announced that businesses with a turnover of over ¹ 5 Crore during any financial year starting from 2017-18 are now required, as part of phase six implementation, to issue electronic invoices effective August 1st, 2023. Taxpayers are required to adhere to the implementation of electronic invoicing (e-invoicing) starting from the fiscal year 2022-23 and onwards, provided their e invoice limit or turnover exceeds the specified limit in any financial year between 2017-18 and 2021-22. It is important to note that the aggregate turnover will encompass the turnover of all GSTINs under a single PAN throughout India. In cases where the turnover in the previous fiscal year was below the threshold limit but has increased beyond it in current year, e-Invoicing would come into effect at commencement of next financial year i.e. FY 2023-24.

The National Informatics Centre has announced a new requirement for taxpayers with turnovers exceeding Rs. 100 Crore. Beginning on July 15th, 2023, these taxpayers will be mandated to use Two-factor Authentication when logging into both the e-invoicing and e-way bill systems.

In an effort to enhance convenience and efficiency, the Goods and Services Tax Network recently unveiled the “e-Invoice QR Code Verifier” app on Google Play Store. This user-friendly application allows users to easily verify e-invoices by authenticating the information embedded in the QR code against that printed on the invoice itself. The availability of an iOS version is expected shortly.

3. **Automated Return Scrutiny for GST Returns:** The Central Board of Indirect Taxes and Customs has recently implemented an advanced system for scrutinizing GST returns. This automated module, integrated into the ACES-GST backend application, utilizes data analytics and risk parameters to identify discrepancies and potential risks in the tax returns of registered taxpayers. This innovative module aims to bolster tax compliance by minimizing manual intervention. By automating the scrutiny process, central tax officers are able to efficiently analyze GST returns while maintaining a non-intrusive approach. In cases where non-compliance is detected, alerts are automatically generated for timely action. One key objective behind implementing this automated return scrutiny system is to improve communication and collaboration between tax officers and taxpayers. By streamlining these processes through digitalization, it creates a more efficient ecosystem that fosters effective dialogue between both parties involved in ensuring accurate tax filings. Overall, with its utilization of cutting-edge technology such as data analytics and electronic invoicing systems (e-invoicing), this module represents a significant leap forward in enhancing tax management efficiency while also promoting transparency within India’s taxation framework.
4. **Electronic Filing of GST forms and returns:** With the implementation of the Goods and Services Tax law, businesses were compelled to adapt to technology, particularly electronic filing of GST forms and returns. This new regime replaced multiple indirect tax laws that were predominantly focused on traditional physical compliance procedures. Under the new system, businesses are required to submit their forms and returns through online platforms. Regular reconciliation of sales and input tax credit has become essential for compliance with GST regulations. As a result, many businesses have turned towards cloud-based systems for seamless, precise, and efficient management of GST obligations.
5. **Data Triangulation and Aadhaar Authentication:** The Government is actively investing in the development of a framework that enables data triangulation to improve system effectiveness and efficiency. For example, integrating income tax and GST databases allows for comparison of transactions reported on both platforms. Form 26AS information can be compared with GSTR-1 filings, while FASTag data and e-way bill filings are also cross-referenced. Mandatory Aadhaar authentication provides a single reference across various Government databases.
6. **The B2C Invoices “Mera Bill Mera Adhikar Scheme”:** The “Mera Bill Mera Adhikar Scheme” is a newly introduced Government reward scheme that is currently being implemented on a pilot basis in three states and three union territories. This scheme operates through equal contributions from both the Centre and the respective states. For this fiscal year, a fund of Rs. 30 Crore Rupees has already been allocated by the Centre and States for this purpose. The primary beneficiaries of this scheme are end consumers who will have opportunities to participate in monthly and quarterly draws for cash rewards. To promote transparency and accountability among residents and customers, the Government has implemented this program scheme specifically targeting vendors serving predominantly in the business-to-consumer (B2C) market segment. Under this program, B2C invoices are promptly registered on a designated Government portal where buyers can select a reference number. This reference number not only serves as an identification code but also offers buyers an opportunity to participate in a lottery-like draw at the end of a specified period. The primary objective behind this initiative is to enhance compliance standards within the industry.

Necessity and Benefits of Digitalization in Indian Tax System

- The necessity of Digitalization in the Indian tax system is evident as it opens up opportunities for numerous entrepreneurs, rather than just a few larger companies aiming to reach the global market. To ensure competitiveness and compliance with tax regulations, these businesses require accurate data insights. By gaining profound insights into potential leakages in input tax credit and consequential working capital losses, they can make well-informed decisions to address any gaps that may exist.
- From the perspective of tax authorities, digitization empowers them to proactively identify inconsistencies or leakages at a transactional level. With access to vast amounts of data at their disposal, authorities can effectively detect and prevent fraudulent activities from occurring. Furthermore, the inclusion of Information Technology within the Goods and Service Tax Network would serve to clarify and streamline processes. Digital processes enable the Government to effectively monitor non-compliance issues.
- The introduction of a unified e-way bill system across the country presents numerous advantages for businesses and transporters. These initiatives have alleviated taxpayers from the burdensome tasks of enduring long queues and copious paperwork.
- The online portal facilitates the seamless transfer of invoice information to both the GST portal and the e-way bill portal, ensuring real-time data updates. This eliminates tedious manual data entry when filing GSTR-1 returns and generating part-A of e-way bills, as all relevant information is automatically transmitted by the Invoice Registration Portal directly to the respective portals. Furthermore, it provides regulatory authorities with better visibility into the invoicing process while offering suppliers and recipients improved transparency.
- The implementation of e-invoicing and the integration between Government portals has led to improved invoice validation, signing, and transaction reporting for GST. This move towards real-time reporting has simplified the sharing of invoice data among businesses. This integration of real-time reporting with e-invoicing has streamlined communication of invoice information among different companies.

Hence, digitizing GST compliance has emerged as a mutually beneficial arrangement for both taxpayers and the Government. It has streamlined the movement of goods across states within India under GST regulations.

Suggestions

- To ensure smooth development of the GST, it is crucial for the Government to prioritize the development of Information Technology/Infrastructure across India (Agrawal, 2019). This includes establishing a unified e-invoicing system that adheres to standardized formats and reduces manual processing time. By embracing this system, businesses can enhance their efficiency and streamline their operations.
- Adequate communication channels need to be established between various stakeholders involved in invoice generation and verification processes. Additionally, advanced technologies like peer-to-peer communication networks can be explored to facilitate swift exchange of signed e-invoices between parties involved in transactions. By prioritizing proper communication protocols within an efficient e-invoice ecosystem, businesses will benefit from enhanced compliance quality and improved transparency throughout supply chains nationwide.
- To facilitate the digitization of GST compliance in India, it is imperative for tax authorities to leverage emerging technologies like artificial intelligence and machine learning. These technologies can significantly enhance their capabilities in detecting and preventing instances of tax fraud. Additionally, they can efficiently analyze and process the substantial volumes of data generated by GST transactions.
- Investing in robust cyber security measures are crucial to safeguarding the integrity of digital tax compliance systems and protecting taxpayers' sensitive data from cyber threats and potential breaches.
- To effectively streamline the digitalization of GST compliance in India, it is imperative that the Government takes proactive measures to provide sufficient training and support to taxpayers and businesses in

adopting e-invoicing and other digital tools. Implementing a comprehensive education and awareness program will ensure that all stakeholders possess a thorough understanding of the advantages and procedures associated with digitizing GST compliance. This concerted effort towards knowledge dissemination will contribute to smoother implementation processes across all sectors.

CONCLUSION

The e-invoicing system brings about significant advantages in terms of reporting and efficiency. By uploading invoices on a common portal, businesses can benefit from real-time data transfer to both the GST portal and e-way bill portal. This seamless authentication process not only speeds up data transfer but also automatically populates GSTR-1 forms. The use of e-invoices has the potential to improve tax compliance and alleviate issues related to tax fraud. For instance, a technology-intensive program called Digital Invoice Customs Exchange utilizes invoice encryption to securely exchange data between trading partners at both local and international levels. This system also notifies relevant authorities about the specifics of all transactions, helping address asymmetries in tax evasion. Additionally, by adopting e-invoices, businesses can streamline their accounts payable processes and reduce manual steps traditionally involved in these tasks. Optional data fields within e-invoice policies can also be leveraged to provide more detailed information during trade transactions. To further promote transparency and accountability in business-to-consumer (B2C) markets, the Government is implementing an incentive scheme known as Mera Bill Mera Adhikar Scheme for B2C Invoices.” Real-time data sharing between vendors and purchasers enhances compliance efforts, allowing for timely recovery from non-compliant vendors by purchasers in the supply chain.

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