

Evaluating the Goods & Services Tax through system deficiencies in the Taxpayers' Portal

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1. Abstract

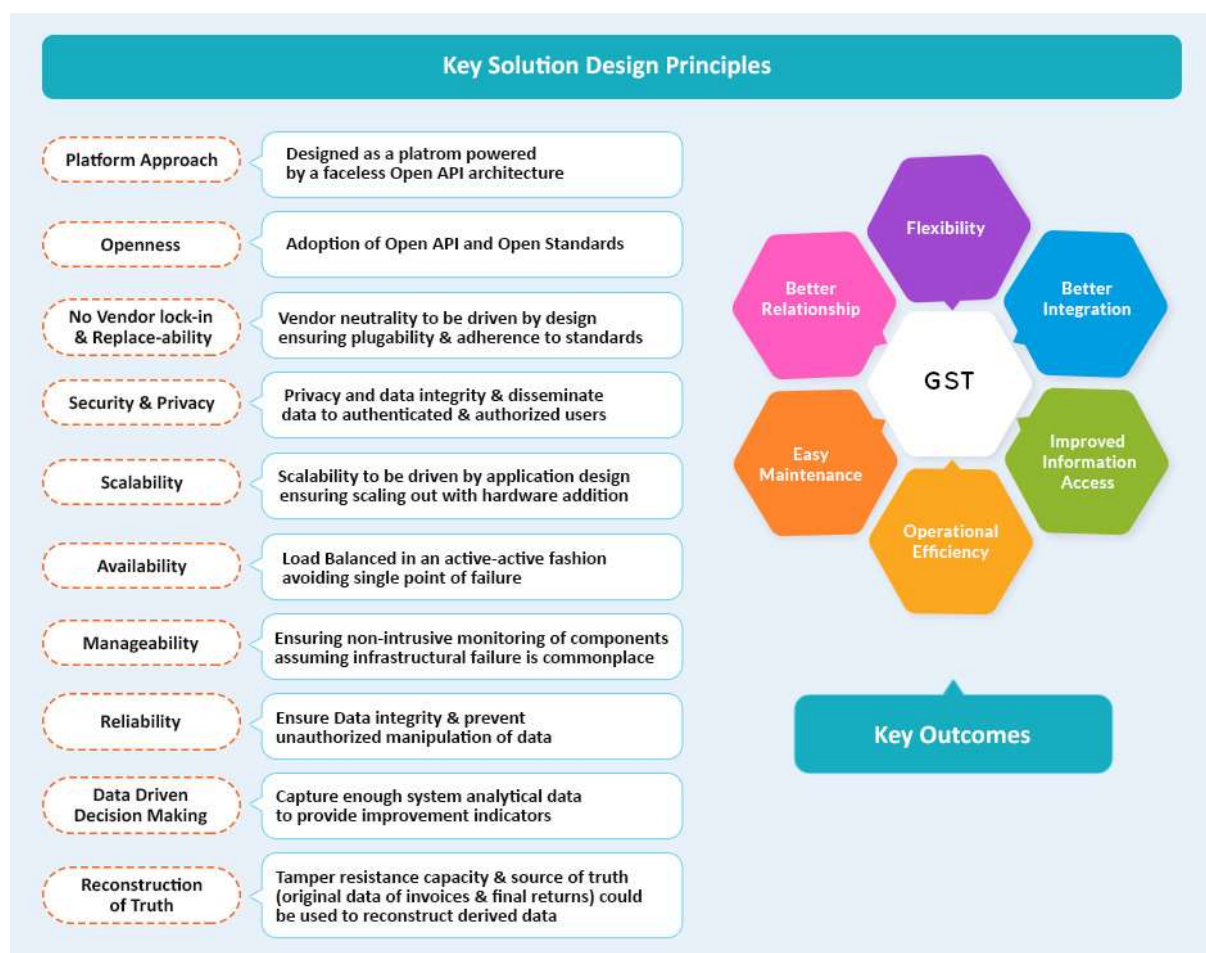
The Goods and Services Tax, introduced in the country in July, 2017 marked a completion of the transition towards a unified, consumption-based taxation system. Subsuming all major erstwhile taxes, GST has ensured creation of a unified national market through uniform taxation on the supply of goods and services. Uniformity of procedures, process automation using IT enabled systems, faster processing of refunds, non-obstructive movement of goods across state boundaries are some of its common advantages. However, concerns still remain about the frequent amendments to the law, the fiscal position of states in the post-compensation period, GST's impact on fiscal federalism, the role of the GST Council vis-à-vis the national and state legislative bodies, conflicting judgements by the judiciary on aspects of the tax law. These macro issues are hinged on the decisions of statutory and legal institutions, which are infrequent and often, piecemeal. These decisions and the subsequent amendments, in many instances, might impact only a class of taxpayers. However, the GST Taxpayer's portal is the common denominator for all GSTINs and any change in the portal impacts every taxpayer equally. Hence, this article attempts to evaluate the system deficiencies in the major modules on the GST Taxpayer's Portal based on broad based stakeholder consultations and the impact they have on three parameters- time, cost and ease of doing business. While highlighting the inadequacies, it also attempts to provide a solution to the same wherever applicable.

2. Introduction

The journey of half a decade that the Goods and Services Tax has traversed has been nothing short of remarkable. The smooth transition to the GST has been made possible due to the GST Network and its IT driven architecture. The World Bank has stated that the Indian GST is one of the most complex tax systems for compliance. To simplify a tax structure with multiple jurisdictions, multiple tax rates and slabs; for over half a crore taxpayers and tax administrations of 27 provincial governments was a mammoth task, that the GSTN ably managed. A single platform approach ensured that compliance was easier and monitoring of system upgrades had better outcomes. Despite a largely successful implementation, even after 5 years the taxpayers' portal suffers from some stress and inefficiencies. These may be due to poor understanding of user experience, insufficient directions from the GST Council, frequent amendments to the law and processes, absence of a feedback mechanism, complex tax architecture.

2.2 Role of the GSTN in transforming taxation

The system architecture of the GST Taxpayer's Portal is governed by some core philosophies which make it unique and suitably placed to address challenges in a diverse market like India's. Using open APIs and open software, the portal has established linkages with multiple tax portals of each state and UT. Integration with external agencies such as banks, CBDT, RBI was achieved by adopting a common platform approach. Role based data access and embedding sensitive data deep into the multi-tier system ensured data security while also providing ease of information retrieval based on relevance and need. Agile & Minimum Viable Product (AMVP) model was adopted to deal with frequent changes and minimise impact of change in one module on other associated modules. High concurrency, particularly on the last day of filing returns, has been handled through splitting of tasks and processes.



Source: Key Solution Design Principles, GST Network [<https://www.gstn.org.in>]

2.3 System Deficiencies in the GST Portal: An overview

The GST Taxpayer's portal is the first point of contact of any business with the Goods and Services Tax. All processes concerning this law have been developed as modules on the portal. In the sections that follow, we try to examine three modules with the most user interaction time along with the E Invoice Portal, which while being independent of the GST Taxpayers' Portal, is intimately linked with it through back end synergies for the transfer of data.

3. Registration Module

The process of registration in GST has been made completely paperless- from submission of documents online, to digitally signing the application, receiving and replying to notices against discrepancies or deficiencies, receiving the registration certificate. The only physical intervention was added in the form of verification of the principal place of business by tax officers where Aadhar authentication had failed, to mitigate growing instances of fake companies indulging in circular bill trading. Discounting the rejections of applications due to difference in interpretation of statutes by tax officers and the level of discretion placed with the tax administration in deciding the status of a fresh registration, the biggest problems are on account of Aadhar seeding of applications and amendment of specific fields.

3.1 Application and Amendment of Registration

Amendments made in the taxpayer's portal are not communicated to the E way Bill portal and the tax officers' portal. While this is rare, such inadequacies can result in enforcement action against taxpayers during EWB verifications. Pin code errors and failure to precisely locate an address on the map are other common issues linked with registrations.

Currently, the addition or deletion of Directors of a company is to be carried out for each GSTIN linked to the same PAN. An easier method would be to update the list of directors simultaneously across all registrations linked to the PAN if an amendment is effected in any one GSTIN. Alternatively, the data can be fetched from the MCA21 database as this will not require a request for amendment from the taxpayer.

4. Returns

The return filing in GST was envisaged as a sequential filing of three summary returns GSTR 1,2 and 3 interlinked with a two-way flow of invoices. However, since GSTR 3 could not be introduced, the GSTR3B was brought in as an interim measure, only to later become the default return as per recommendations of the Council in its 42nd meet. A New Return System was envisaged with two Annexures and one Return (RET01), however this amendment was never notified. The GST Return has turned into an organism that metamorphoses with every Council meeting with little clue about the final form it will eventually take. Currently, the most dynamic module on the portal, the it has seen an amendment in system modalities in every alternate month since inception.

4.1 GSTR 3B and GSTR 1

The changes proposed in CBIC's concept paper on GSTR 3B assure to address most of the difficulties raised by taxpayers. It proposes the auto population of data from GSTR1, allows for amendment to the return by providing amendment tables and linking them with amendments in outward supplies and eligible ITC declared in GSTR1 and 2B respectively, allowing negative values as inputs when the total value of credit notes issued exceeds the total value of invoices and debit notes, specific table entries for various categories of ITC etc. These proposed amendments render the GSTR3B dependent on the details mentioned in the GSTR1 and 2B as over 96 entries in the return will be auto populated against 53 to be entered manually. In this situation, it becomes imperative to identify the shortcomings in the GSTR1 returns.

The GSTR1 captures all B2B and export invoices from the Invoice Registration Portal. However, it is observed that a percentage of such invoices are not directly fetched but are required to be entered manually. Similarly, details of shipping bills are to be entered manually in the said return whereas an easier solution would be to fetch the data from the ICEGATE portal and auto populate the exports data. Debit notes, credit notes and amended invoices must be linked to the parent invoice for tracking ITC eligibilities. The HSN Summary in the returns can be calculated by the portal based on details entered in part A of the GSTR1 if HSN details are recorded alongwith the outward invoices. However, this has not been implemented yet. GSTR1 does not permit any amendments to the values of exempt, nil rated or non-GST supplies once entered.

A long-standing request from taxpayers has been to permit direct API integration of the taxpayers' accounting system with the GSTN for fetching returns data for validation and pre-checks. This will eliminate errors and also ensure faster and increased compliance.

4.2 GSTR 2A/2B and Input Tax Credit

Extending the issue of lack of system integration between GSTN and ICEGATE, it is observed that the details of bills of entries are not recorded in the GSTR 2B from the details fed in ICEGATE. Bills filed through Free Trade Warehousing Zone are also not fetched and have to be added manually. Both the IRN details from GSTR1 as well as the HSN details are currently not reflected in the GSTR2B.

5. Refunds

The full impact of the ITES driving the Goods and Services Tax can be best appreciated when we analyse the functioning of the GST Refund module. Compared to the average duration for processing refunds in the earlier tax systems, which would be months as a norm, most refunds under GST are sanctioned within the statutory time limit of 60 days, with a large percentage of refunds being sanctioned in anywhere between 7 and 30 days. The facility of communicating errors or deficiencies in the application through electronic Deficiency Memos as well as communication of Show Cause Notices through electronic form RFD 08 ensures that interaction between taxpayers and tax officers is kept to a minimum. The GST also introduced new categories of claiming refunds viz. refund of accumulated ITC due to inverted duty

structure and refund of excess payment of cash. In the past five years, the process of filing for refunds has been legally and procedurally cemented, so that today both the refund applicants and the tax officers scrutinising the applications are sufficiently educated and well versed with the process.

The deficiencies in the Refund module, can therefore, be best evaluated from the UX (User Experience) design perspective. The complaints from applicants are largely on account of design flaws in the portal and not necessarily regarding the legality of the process. The greatest casualty due to these design flaws is time, which is of great essence for businesses.

The facility of withdrawing refund applications was a novel feature, however, in many instances it was noticed that applicants were barred from filing refunds for the same period if applications had been withdrawn earlier. This glitch has since been corrected. Returns attached to the application as annexures can currently be downloaded only as PDF files and not as MS Excel sheets. While this blocks any post- editing, it also disallows any useful data analysis. The various declarations under Rule 89 can be standardised as E forms and access may be granted to registered Chartered Accountants to directly upload and sign their declarations on the Refund module.

A persistent issue has been the recredit to the applicant's ledger the amount that has been rejected by the tax officer. The requirement of submitting the declaration for accepting the refund order in order to have the amount credited back to the ledger has created difficulties and delays in issuing the PMT03. A simpler solution would be an automatic recredit of the rejected amount irrespective of the applicant's intent to prefer an appeal against the order.

7. E Invoice

The E Invoice system was introduced in India under the Goods and Services Tax architecture from October, 2020. What started as a mandatory compliance measure for the largest category of taxpayers i.e. those with an annual aggregate turnover more than 500 crores has over the years been progressively extended to businesses with lower turnover thresholds. Since, its inception the Invoice Registration Portal (IRP) developed by National Informatics Centre has registered over 200 crore B2B and export invoices. As of September, 2022, over 4 lakh GSTINs have been onboarded onto the E Invoice system and are regularly generating and registering electronic invoices.

7.1 E Invoice IRP: A leap in the right direction

E Invoice entails a host of advantages, both for the tax payers as well as for tax administrators. It saves time and the need for additional documentation by auto population of data from the taxpayer's accounting software to the IRP and E way bill portals while simultaneously feeding the data to the GSTN for populating the monthly returns of both the supplier as well as the recipient. This also minimises errors, ensures standardisation and interoperability between businesses and makes the reconciliation of credit easier. For tax officers, the macro data

captured by the IRP allows for data analysis for effecting policy decisions while specific information for risky registrations help tackle the menace of circular trading or fake invoicing. Looking at the general trend over the past GST Council meetings, it would not be surprising if the thresholds are decreased further to include all B2B transactions.

It is no less than a tech miracle that in a country with such varying stages of development, financial literacy and technology penetration, the E Invoice system has been accepted widely, within a short time. During a limited survey conducted by the author of businesses in Tamil Nadu that have onboarded onto the E Invoicing platform after 1.10.2022, 64% respondents stated that the shift happened without any additional cost, 14% found that it had in fact reduced their compliance cost while 22% stated that small initial investment was required. In response to a question on the biggest benefit of E Invoicing in their opinion, over half the respondents chose auto population of data, while the rest were equally divided between standardisation and auto generation of E way bill.

7.2 E Invoice IRP: The Hiccups

Despite a relatively successful initial run, the Invoice Registration Portal faces from certain shortcomings. A sole IRP suffers from two inherent limitations- the inability to handle sudden surges in volume and traffic and the complacency that stems from monopoly. While few more IRPs have been permitted to operate, they have not become functional yet. The APIs provided by the IRP are few in number and not customisable. While the transition was easier for companies with their in-house accounting softwares, smaller taxpayers with limited capital and manpower will face challenges in making the shift. While tools such as Bulk Generation tool and GePP On/Off have been provided by the IRP, their adoption remains weak due to lack of awareness and initial handholding. Of the businesses surveyed, more than three quarters stated that they had not attended any training on E Invoice.

The other major concern is regarding amendment, cancellation and storage of invoices. The IRP acts only as a conduit and does not store or archive any data, resulting in the loss of any JSON file within a short duration from the archives. Amendments to invoices are not permitted, whereas the cancellation window of 24 hours is also very short. Amendments through GST returns for cancelled invoices, entails issuance of a credit note; thus, increasing the compliance burden. Extending the cancellation window beyond the current 24 hours, will significantly reduce these issues. Archival data must store the IRN details for retrieval by the supplier at any point of time while also allowing access of inward IRNs to all recipients. The Fetch E Invoice API must be provided to allow the recipient to fetch the inward IRNs from the IRP.

Missing fields in the E Invoice Schema leads to manual entries while filing the GSTR 1 returns. Shipping bill details are currently being entered manually in the returns by the taxpayers as the data is not available while registering the invoice. An alternate arrangement, as discussed in the earlier sections, would be to seamlessly link the GST Portal and Indian Customs' ICEGATE portal so that shipping bill data can be fetched automatically. The schema also does not have separate fields to capture TCS, insurance, freight and other charges. E invoice schema does not capture supplies made under delivery challans. This is particularly of concern

to businesses making continuous supply of goods under delivery challans and generating invoices subsequently.

An invoice which is issued without an IRN and a valid QR code shall be treated as invalid under Rule 48(5) of the CGST Rules. The natural corollary is that the recipient will be denied the eligibility to avail credit on such invoices. Sec 16 of the Act is currently under heavy legal stress as it penalises the recipient for the procedural non-compliance of the supplier. Rule 48(5) will add further to the disruption of credit chains and the flow of working capital. Concurrently, there is no alternative suggested for the situations when the IRP is not functioning due to routine system maintenance or other technical issues.

8. General Observations

Authorities for Advance Ruling in different states have pronounced conflicting verdicts on same issues. In view of this, the demand for a common central AAR for businesses having a pan India presence becomes critical. Demands have also been raised to permit trade associations and industry bodies to raise requests before the AAR on behalf of all its members. While acceding to these demands may have statutory complications and might be an infringement on the federal autonomy of states, the GST Council may be advised to consider this demand in the interest of large taxpayers.

The portal has shown signs of stress during the peak return filing period i.e. between the 16th and the 20th of the month. To avoid this, a staggered date structure may be introduced for filing the GSTR3B returns based on the taxpayer's turnover and nature of inward supplies.

There is a steady increase in the frequency of judicial verdicts on various subjects linked to GST over the past one year and the numbers are only bound to grow. In such situations it becomes difficult for a taxpayer to keep track of all such judgements. The CBIC may introduce a tab in its Tax Information Portal listing all such judgements for the ease of retrieval and academic reference.

9. Conclusion

The system deficiencies discussed so far have the greatest relative impact on MSMEs as they have constraints of cost, manpower and technology. Every addition to the compliance obligations proportionately reduces the ease of doing business for MSMEs. With increased technology adoption by small businesses, the solution to increased tax compliance lies in simplification of processes through the use of IT tools. The GSTN may institute a regular stakeholder feedback mechanism to collate grievances. While UX (User Experience) Design is a rage for commercial e solutions, its adoption in government-driven platforms is nascent. It is also hoped that in the subsequent Council meetings the return filing system shall be concretised, so that robust systems can be created. Inclusion of all categories of invoices B2B, B2C, B2G in the mandatory ambit of E Invoice shall make capturing of data extremely easy and hence, this change too is hoped for. The Goods and Services Tax has achieved many milestones in the past 5 years, there are many more left to achieve.
