Digitalization of GST Compliance in India: An Analysis of Emerging Issues and Challenges

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Abstract

The Introduction of the Goods and Services Tax (GST) in India marked a significant transition toward a completely digital tax administration system. With the help of Goods and Services Tax Network (GSTN) features like online registration, return filing, e-invoicing, and e-way bills introduced through making indirect tax compliance a process driven by technology. While digitalization has improved transparency, accountability, and efficiency, it has also created challenges in operational, technical, and compliance. This study looks at the emerging issues in GST digital compliance, including technical glitches, cyber security risks, digital literacy gaps, compliance costs, and frequent changes rules. The paper concludes that even through digital GST compliance has strengthened tax administration, addressing infrastructural and policy-related challenges is essential for sustainable and inclusive growth.

Keywords: *GST, Digitalization, Tax Compliance, GSTN, E-Governance, India*

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Introduction

Digital transformation has changed government and taxation systems operate around the world In India; GST represents one of the biggest digital tax reforms. Unlike the old indirect tax reform, GST require taxpayers to register file returns, and make payments electronically.

The goal of digital GST reform is to improve transparency, cut down the tax evasion, and create a unified nationwide tax structure. However, rapid digital implementation has posed several compliance-related challenges, particularly for small and Medium Business and local traders.

Objectives of the Study

1. To look into how the GST compliance works digitally in India.
2. To find out new issues and operational challenges.
3. To understand how of digital compliance affects businesses.
4. To suggest measures for improving the GST digital ecosystem.

Research Methodology

Research Design: Descriptive and analytical

Data Source: Secondary data (government reports, GST portal publications, research articles)

Study Period: Post-GST implementation (2017 onwards)

Method of Analysis: Conceptual analysis and policy review

Review and Literature:

GST IN INDIA: ITS IMPACT ON INDIAN ECONOMY Dr. Neeta Deepaware 1& Dr. Shivangi Dwivedi2 (2022) Dept. of Commerce & Management Mangalayatan University, Jabalpur, (M.P.) Researcher studied the standards, targets and the consequences of the products and carrier Tax in India. Researcher studied only on secondary data collection various sources i.e. books, National and international Journals, government reports, publications from various websites etc.

A COMPREHENSIVE ANALYSIS OF GOODS AND SERVICES TAX (GST) IN INDIA MARUTHI M V, Assistant Professor, K.L.E.Society's S.Nijalinganppa College, Rajajinagar, Bangalre (2020). Researcher studied the GST taxation system evolution, concept of new taxation system, features, working, and differentiating the current taxation system in India v/s GST.

"Opportunities, Challenges & it's Impact of GST on Indian Economy". Dr. Sunil D. Waghmode Asst. Prof., Annasaheb Magar College Hadapsar, Pune. In her research opportunities and advantages of GST and find out the challenges faced by GST or examining the impact of GST on Indian economy.

GST: A REVOLUTIONARY STEP TOWARDS TAX REFORMS IN INDIA Sweety Deswal Assistant Professor, Department of Commerce, Maharaja Agrasen P.G. College for Women, Jhajjar, India (2019)

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researcher show the concept of Goods and Services Tax (GST) in India. And find out the benefits of GST after its implementation. He studied only on secondary basis for e.g Govt. report, books.

Digital Framework of GST Compliance

The digital system for GST rules in India, managed through the GSTN - Goods and Services Tax Network (GSTN) portal, facilitates a paperless, automated system for registration, return filing, and invoice matching. Key components include mandatory e-invoicing for large taxpayers, e-way bills for movement of goods, and AI-driven data analytics to detect evasion, aimed at reducing manual intervention and increasing transparency

Digital Components of GST Compliance

- **GSTN Portal:** It serves as the main technology system for all tax-related activities, such as registering taxes , tax payment, and submitting tax return .
- **E-Invoicing:** E invoicing is required for Business to Business transactions to create a unique Invoice Reference Number (IRN), with help in real-time reporting.
- **E-Way Bill System:** Electronic generation of permits for the moving valued over ₹50,000 are generated automatically and liked to GST portal.
- **Input Tax Credit (ITC) Matching:** This includes system for matching input tax credit where's suppliers to upload invoices, enabling buyers to claim ITC, which help insure better compliance and accuracy.
- **Digital Payments:** Encouraged to reduce tax evasion, providing a secure, efficient, and transparent methods to pay taxes.
- **AI and Data Analytics:** Used for identifying inconsistencies and fraud by examining the large amount of data

Emerging Issues and Challenges

A. Technical Glitches and System Overload

- **Portal downtime during peak filing dates:** During the time when the taxpayers submitting return many people try to access GST Portal at the same time This causes lot of traffic which can make a system work to hard leading to slower performance or ever making portal unavailable for short period
- **Slow refund processing:** Refund claims under GST may take longer to process due to a high volume of applications, technical issues, or verification procedures carried out by the Central Board of Indirect Taxes and Customs.
- **System errors in invoice matching:** The GST system matches invoice details between suppliers and buyers to verify **Input Tax Credit (ITC).** Sometimes, technical errors or data mismatches can occur during this process, leading to discrepancies or delays in ITC claims.

B. Digital Literacy and Accessibility

- **Lack of digital awareness among small businesses:** Many small businesses have minimum knowledge of digital tools and online systems. Which hinder their ability to use platforms like the GST Portal for filing returns, uploading invoices, and managing tax compliance
- **Rural internet connectivity issues:** In several rural areas, internet connectivity is slow or unreliable. Making it challenging for taxpayers to access online government platforms or complete GST-related tasks.
- **Reliance on intermediaries:** Due to limited digital skills or lack of access to technology, many small taxpayers rely on tax professionals or intermediaries to manage their GST filings and other compliance obligation.

C. Compliance Complexity

- **Multiple return forms:** Under the GST system, taxpayers must file various types of returns form such as **GSTR-1, GSTR-3B, and annual returns** via the GST Portal. The need to manage several return forms with distinct raises the complexity of compliance for businesses.
- **Frequent amendments:** GST laws and regulation are frequently updated through notifications and circulars issued by authorities such as the Central Board of Indirect Taxes and Customs. These regular changes demand that businesses remained consistently informed and their accounting and reporting procedures accordingly.
- **Strict penalty provisions:** The GST framework imposes strict penalties for late filing of returns, incorrect information, or non-compliance. These penalties can include late fees, interest on unpaid tax, and other legal consequences, making compliance more difficult for taxpayers.

D. Cyber security Risks

- **Risk of data breaches:** Digital tax systems store vast amounts of taxpayer data. If security measures are not adequately implemented, unauthorized individuals may gain access to sensitive information stored on platforms like the GST Portal.
- **Storage of sensitive financial information online:** Businesses are required to upload invoices, financial records, and tax details on digital platforms operated by the Goods and Services Tax Network. The online storage of such information necessitates robust cyber security measures to prevent unauthorized access and misuse.
- **Increased vulnerability to cyber fraud:** As tax processes become increasingly digital, taxpayers are exposed to risks such as such as phishing emails, fake GST notices, or fraudulent links aimed at stealing login credentials or financial details. Ensuring awareness and adopting secure practices are crucial in mitigate these threats.

E. High Compliance Costs

- **Investment in GST software:** Businesses usually need to buy or pay to accounting and GST-compliance software to handle risk like filing return, creating invoice, and preparing tax reporting through the GST Portal. This can make operating cost go up , especially for small companies.

- **Hiring professionals:**Because GST rules and procedures are quite complicated , many businesses hire tax advisors or chartered accountants to help with compliance. These professionals help to prevent mistakes and penalties but they also raise the total cost of staying compliant.
- **Continuous system upgrades:**
Since GST rules and reporting need keep changing. Businesses have to regularly update their accounting systems and software. Keeping this system compatible with the GST Network can result in extra expenses for the businesses.

F. Working Capital Constraints

- **Delays in Input Tax Credit:**Many business facing working capital issues when there are delays in claiming or receiving **Input Tax Credit (ITC)** via the GST Portal. If ITC is not shown or processed on time, companies may have to pay taxes using their own money. Which can temporarily tie up their working capital.
- **Supplier non-compliance affecting buyers:**Under GST, buyers can claim Input Tax Credit if the supplier correctly submits returns and reports all invoices. If the supplier does not follow the GST filing rules, the buyer might lose the credit they are entitled to. This process is handled by the Goods and Services Tax Network, and when a supplier doesn't comply, it can cause financial difficulties for the buyer by reducing available working capital.

Positive Outcomes of Digital GST

Despite challenges like technical glitches and compliance complexity, the digitalization of GST has brought several significant benefits:

- **Increased transparency:**The GST Portal keeps a clear record of all transactions, making it harder to hide or not report sales. This helps businesses tax authorities see things more clearly.
- **Reduced tax evasion:** the digital GST system uses automated invoice matching and requires regular return fillings, which makes it harder to underreport sales. This helps the Central Board of Indirect Taxes and Customs fight tax evasion more effectively.
- **Real-time invoice tracking:**Taxpayers can check their invoices and **Input Tax Credit (ITC)** as they happen, Which helps ensuring accuracy in reporting and quicker settlement of accounts.
- **Broader tax base:**Digitalization has allowed more businesses, including small and medium enterprises, to register under GST, expanding the overall tax base and increasing government revenue.
- **Faster interstate trade:**Standardized digital processes and e-way bills make it easier to transport goods across states, cut down on delays and make interstate trade more efficient.

These outcomes demonstrate that, while challenges exist, digital GST significantly strengthens compliance, efficiency, and transparency in India's indirect tax system.

Findings

- **Digital GST compliance has significantly formalized the tax system:**The introduction of digital GST via the GST Portal has included most businesses, particularly those in structured sectors, within the formal tax system, Which has enhanced transparency and accountability.
- **MSMEs face higher compliance burden compared to large enterprises:**Small and medium enterprises often lack resources, trained personnel, or digital infrastructure, making it more challenging to meet GST filing, invoice reconciliation, and reporting requirements compared to large businesses.
- **Technological infrastructure needs continuous improvement:**Portal slowdowns, system glitches, and processing delays highlight the need for robust IT infrastructure, regular updates, and enhanced server capacity to handle growing volumes of taxpayers.
- **Policy stability is crucial for effective compliance:**Frequent amendments in GST laws and notifications can increase confusion and compliance costs. Stable and clear policies allow taxpayers to plan effectively and reduce errors, benefiting both businesses and the tax administration.

Suggestions

1. **Simplify return filing procedures:**Streamlining the process for filing **GSTR-1, GSTR-3B, and other returns** can reduce errors and make compliance easier, especially for MSMEs with limited resources.
2. **Improve GST portal capacity and server efficiency:**Upgrading servers, enhancing portal performance, and preventing downtime can minimize delays during peak filing periods on the GST Portal.
3. **Provide digital literacy training for MSMEs:**Conducting workshops, online tutorials, and support programs can help small businesses understand digital filing, invoice management, and ITC reconciliation, reducing dependence on intermediaries.
4. **Strengthen cyber security protocols:**Implementing robust security measures, regular audits, and awareness campaigns will protect sensitive taxpayer data from breaches, fraud, and phishing attacks.
5. **Ensure policy stability and reduce frequent amendments:**Maintaining consistent rules and minimizing frequent changes in GST regulations allows businesses to plan better, reduces compliance confusion, and lowers the risk of penalties.

Conclusion

Digitalization of GST compliance in India represents a transformative step toward modern tax administration. While it has enhanced efficiency, transparency, and accountability, challenges such as technical disruptions, digital divide, compliance costs, and cyber security concerns remain significant. Strengthening IT infrastructure, simplifying procedures, and enhancing taxpayer education are essential to ensure smooth and inclusive GST compliance in the digital era.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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