



THE BIG STORY
GST

RISING COST OF COMPLIANCE

THE GOODS AND SERVICES TAX WAS INTRODUCED TO PROMOTE EASE OF DOING BUSINESS BUT FREQUENT AMENDMENTS AND ESCALATING PROCEDURAL EXPENSES OVER TIME HAVE TURNED IT INTO A GROWING BURDEN FOR ENTREPRENEURS

By **SONAL KHETARPAL** / Illustration by **TANMOY CHAKRABORTY**

In

December 2022, Muzaffarnagar-based entrepreneur Neeraj Kedia, managing director of zinc sulphate manufacturing firm Chakradhar Chemicals, received an unexpected notice from the Goods and Services Tax (GST) department, raising a tax demand of around Rs 95 lakh and interest of Rs 1.15 crore for the period from July 2017 to March 2018. It stated that the Input Tax Credit (ITC), which allows businesses to get reimbursement for the taxes they paid on their purchases, should not have been claimed by Kedia, as his supplier had not filed Form GSTR-3B, the monthly return to declare GST liabilities. The notice further alleged that Kedia had failed to file the form back in 2017. He was stunned. Like many small and mid-sized business owners, such a notice triggered not only a legal alarm but also operational disruption. Kedia responded swiftly, highlighting a key point: the Form GSTR-3B functionality wasn't even available on the GST portal at the time in question. The case was finally settled in September 2024. But addressing a show-cause notice years after is no easy task—it involves combing through old records, rechecking financial data and reconciling accounts. “You have to jog your memory, track down data from years ago and build your case from scratch,” Kedia explains.

Paperwork, though, is only part of the ordeal. Other hassles could include multiple visits to the GST office, pleading your case with officials and, finally, succumbing to the one solution that magically gets files cleared—paying a bribe. This is the common reality entrepreneurs encounter routinely, overwhelmed by the growing complexities of GST compliance and notices. However, of the more than 10 entrepreneurs INDIA TODAY spoke to, none wanted to go on record, for fear of retaliation.

GST was undoubtedly a landmark reform in India's taxation system. Founded on the principle of 'one nation, one tax', it was designed to promote ease of doing business. The regime streamlined a host of indirect taxes previously levied separately by the Centre and states, such as sales tax, excise duty, VAT, and central sales tax, thereby significantly reducing the compliance burden. GST also eliminated inter-state barriers, introduced IT-based compliance mechanisms, and minimised tax rate disputes, drawing more businesses into the taxpayer net and accelerating formalisation.

Under the earlier VAT and excise regimes, businesses often resorted to overbilling or underbilling to save on taxes that amounted to 18-20 per cent. Honest businesses found it difficult to compete, as others could sell their products for cash at significantly lower prices. GST changed that by reducing incentives for tax

evasion and creating a level-playing field, says Prashant Patel, director, R.K. Synthetics, an Ahmedabad-based dyes and chemicals manufacturer, and former president of the Federation of Indian Micro and Small & Medium Enterprises. Over time, businesses began to accept GST and saw its benefits. It is no surprise that GST collections have risen year after year, with net revenue touching Rs 19.56 lakh crore in FY25—an 8.6 per cent increase over Rs 18 lakh crore in FY24.

However, now that the system has largely stabilised, the government seems to be adding more rules, creating new challenges and reversing some of the progress made toward ease of doing business. Frequent amendments and increasing compliance requirements have added significant cost and burden, especially for Micro, Small and Medium Enterprises (MSMEs), which are resource-constrained to begin with.

GOOD, NOT SIMPLE, TAX

GST was meant to simplify taxation. However, in its current form, the system has become complex. This is because GST is levied on every transaction for intra-state supply of goods and services by both the Centre and state. The Centre levies what is called Central GST or CGST on intra-state supply of goods and services, while the states impose State GST or SGST. Integrated Goods and Services Tax or



CHANDRADEEP KUMAR

CASE STUDY

NEERAJ KEDIA

MD, Chakradhar Chemicals, Muzaffarnagar, UP

The businessman got a GST notice in Dec. 2022 for Rs 95 lakh in tax and Rs 1.15 crore in interest from July 2017 to March 2018, citing ineligible Input Tax Credit as his supplier hadn't filed GSTR-3B. The notice also said he hadn't filed the form, though it wasn't available on the portal then. The demand was nullified in Sept. 2024, after Kedia submitted his detailed reply.

“You have to jog your memory, track down data from years ago and build your case from scratch”

IGST is levied for inter-state supplies.

Further, every company must obtain a separate GST number for each state in which it operates. Each registration in turn requires the company to file two forms (GSTR-1 and GSTR-3B) and reconcile another (GSTR-2B) every month. So, if a company operates in 10 states, it must submit 20 forms monthly, amounting to 240 GST forms annually, according to Mumbai-based chartered accountant Kush Vora, partner at accounting firm SC Vora & Co who specialises in GST for MSMEs. In addition, two annual returns (GSTR-9 and GSTR-9C) must be filed by businesses exceeding a turnover of Rs 2 crore and Rs 5 crore, respectively.

New regulations are added every few months, making it harder for entrepreneurs to keep up. First came e-invoicing, which was made mandatory in August 2023 for businesses with a turnover above Rs 5 crore. Then, in October 2024, the government introduced the Invoice Management System on the GST portal, says Rajat Mohan, senior partner at Delhi-based tax consulting firm AMRG & Associates. “With changes happening every 6-8 months, most business owners no longer feel confident filing GST returns on their own. They’re forced to rely on professionals just to stay compliant.” For example, in 2023, the government issued notices to several MSMEs in Gujarat, demanding 18 per cent GST on the sale of leasehold industrial land with retrospective effect. This meant that any such land sold after July 2017—when GST was implemented—was now subject to the tax. There was no such provision under the previous VAT and Service Tax regimes.

Typically, when such significant amendments are introduced, the government ensures extensive communication through advertisements, circulars and newspapers. Quoting the finance ministry spokesperson, Shashank Priya, member-GST, Central Board of Indirect Taxes and Customs (CBIC), says the

CASES IN POINT

A few court rulings that lay bare the complex legal tangles of GST implementation

Dinesh Kumar Varma vs Sales Tax Officer, Class II AVATO/ Delhi High Court

THE CASE: Varma filed a case in December 2023 after receiving two orders in the same month—both demanding a tax liability of the same amount for the same period—from the same jurisdictional office

STATUS: In April 2024, the HC ordered both to be clubbed and re-adjudicated by one officer

Gujarat Chamber of Commerce & Industry vs Union of India/Gujarat HC

THE CASE: In 2023, the government sent notices to several MSMEs in Gujarat demanding 18% GST on the sale of leasehold industrial land with retrospective effect. They filed a case in July, stating that the sale was excluded from GST

STATUS: The court gave a favourable ruling in January 2025

Chief Commissioner of Central GST vs Safari Retreats/Supreme Court

THE CASE: The Input Tax Credit claim by Safari Retreats was blocked, stating that it was not admissible on construction of buildings. Safari Retreats filed the case first in the Orissa High Court in 2018, arguing that their purpose was to rent—a taxable service—and it should be eligible for ITC

STATUS: In October 2024, SC agreed with the company

Engineering Tools Corporation vs Assistant Commissioner (ST)/Madras HC

THE CASE: Filed in February 2024, because the buyer’s ITC was rejected, citing the supplier’s GST registration cancellation with retrospective effect

STATUS: In the same month, the court directed the authorities to reconsider the ITC claim

“The government should not be policing entrepreneurs. We need a system that helps improve productivity and clarity—not one that constantly looks for where we went wrong”

PRASHANT PATEL
Director, R.K. Synthetics, Ahmedabad, and ex-President, Federation of Indian Micro and Small & Medium Enterprises



GST Council and its subordinate bodies actively engage with industry and trade associations to ensure that recent amendments and clarifications are effectively communicated to MSME stakeholders. However, in the Gujarat case, though the GST provision technically existed, it was not clearly communicated to stakeholders. The Gujarat Chamber of Commerce & Industry moved the state high court, finally securing a favourable judgment in January this year.

Priya, though, defends the multiple changes. GST, he says, is a newer tax system and, like any large-scale reform, is in a continuous process of fine-tuning. “As the government, businesses and tax professionals interact with the system, many new issues, inefficiencies, or unintended consequences come up. Rules are then amended/clarifications issued to fix these gaps,” he adds.

SIMPLIFYING GST

What the government, as per experts and business owners, can do to ease the multiple glitches in the taxation system



COSTLY, COMPLEX COMPLIANCE

MSMEs are required to file multiple GST returns for each state they operate in. They also have to invest in software tools for invoicing etc. All of it increases operational cost

SOLUTION Reduce the number of returns, tax slabs, and regularise them to ensure entrepreneurs can file GST themselves



RETROSPECTIVE NOTICES, LONG AUDIT WINDOWS

With a 6-year-plus audit window, notices are often sent years after the transaction

SOLUTION Reduce the time frame to a more reasonable period of 1-2 years



SUPPLIER-LINKED INPUT TAX CREDIT ISSUES

If a supplier’s GST registration is cancelled, the buyer is penalised for wrongly claiming ITC

SOLUTION Introduce a mechanism wherein the buyer doesn’t have to bear this liability



LACK OF CLARITY, DISCRETIONARY POWERS

Tax slabs for goods are categorised as per the HSN codes (e.g., caramel popcorn vs salted), leaving rules open to interpretation

SOLUTION Reduce tax slabs and eliminate provisions requiring officer discretion, as they create opportunities for harassment and exploitation



SCRUTINY BY MULTIPLE DEPARTMENTS

MSMEs can be scrutinised by several verticals—jurisdictional office, audit wing, anti-evasion team—for the same issue

SOLUTION Introduce a centralised, single-window scrutiny system within the GST framework to eliminate overlaps



LACK OF AWARENESS ABOUT RULES

New GST rules and compliance requirements often lead to confusion

SOLUTION Implement awareness programmes through government and industry bodies

SYSTEMIC CHALLENGES

Under the current GST regime, businesses are required to file three common returns in a month. The first is GSTR-1, a statement of total sales made, and the second is GSTR-3B, a record of net GST liability. The third, GSTR-2B, is a monthly auto-generated statement that captures the details of all purchases made in a given month. Businesses, essentially, get tax credit on the purchase of raw materials. So, once a seller files their sales return in their respective GSTR-1, the data automatically reflects in the buyer’s GSTR-2B, allowing them

to claim ITC on raw material purchases.

Simple as it sounds, the process is far from straightforward. The rigidity in the system makes it difficult for the less tech-savvy entrepreneurs to navigate the returns independently, says B.C. Bhartia, president, Confederation of All India Traders (CAIT), forcing them to hire professional services for the firm, which adds to their costs. “It is a clear case of a good law poorly implemented,” he says. For instance, since GSTR-2B form is system-generated and auto-populated based on the supplier’s filing of GSTR-1, any error or omission on the supplier’s part can

result in significant tax liability for the buyer for no fault of their own. Kedia demands a mechanism for entrepreneurs to report such discrepancies, with the government resolving them.

Citing another example, Kedia points out how if a supplier’s GST registration is cancelled, the authorities often issue a notice to the buyer for “wrongly claiming” ITC, calling the transaction a fake deal, instead of pursuing the defaulting supplier. “Why should an entrepreneur be penalised for issues with the supplier’s GST registration?” he asks. “The responsibility lies with the government to ensure that GST numbers are issued only to verified and compliant vendors. And if a GST registration is cancelled, such vendors should be barred from making sales altogether,” says Rakesh Chhabra of RAI Industries Association, Sonapat, Haryana. He emphasises that this is a common problem for MSMEs—many are accused of falsely claiming ITC. However, not everyone has the resources to challenge it in court.

Another big problem with GST is that it leaves too much room for interpretation. HSN (harmonised system of nomenclature) codes determine how products are classified; often, a single product can fall into multiple categories. Who can forget finance minister Nirmala Sitharaman’s popcorn math when, during the 55th GST Council meeting, she revealed that the ready-to-eat salty popcorn is taxed at 12 per cent, while the caramel variety would attract 18 per cent GST. “Even after seven years of GST implementation, so many products are still open to interpretation—with the Centre, the state and the entrepreneur each having their own way of reading the law,” says Bhartia. The bigger issue, he adds, is that there is no central authority to conclusively resolve these ambiguities. The government did set up the Authority for Advance Ruling (AAR) to help taxpayers seek clarification on tax matters. However, since each state has its own AAR with differing interpretations, it defeats the very purpose of ‘one nation, one tax’.

SILOED APPROACH

While GST is a completely digital system, the scrutiny and resolution processes are offline. CA Rajat Mohan points out a glaring issue: “Take the example of Gameskraft, which received a GST notice worth Rs 20,000 crore, or Zomato, which was slapped with a demand for Rs 803 crore in outstanding tax. Even to file an appeal, the company must first deposit 10 per cent of the demand with the government. No entrepreneur has that kind of cash just lying in the bank,” he says. What’s more, any notice above Rs 5 crore carries the risk of compulsory arrest. “Big corporates can hire top lawyers and fight it out in court. But even mid-size firms don’t have that kind of bandwidth or deep pockets to manage prolonged litigation,” he adds.

Adding to the complexity is the fact that there are state and central GST departments. And within each, there are different wings such as the jurisdictional office, the anti-evasion wing and the audit team; they do their scrutiny independently and send notices. “Each vertical follows its own set of parameters, which are not aligned with one another. As a result, businesses often find themselves being assessed by multiple GST departments from the Centre or state or both simultaneously for the same issue,” says CA Kush Vora. Take a recent case in the Delhi High Court: in Dinesh Kumar Varma vs Sales Tax Officer, Class II AVATO, Varma received two orders (December 17 and December 25, 2023), both demanding a tax liability of Rs 15,53,240, and pertaining to the same tax period—July 2017 to March 2018. What is ironic is that two different officers within the same jurisdictional office had raised it.

“Of the 100 companies we handle each year, we’ve dealt with approximately 350 GST notices over the past 3-4 years on their behalf. As a result, our salary costs have risen by 50-70 per

cent in the past three years, primarily due to the workload from GST notices,” says Vora. Naturally, this increase has been passed on to the MSMEs—Vora’s firm has raised its retainer fees for GST clients by 30 per cent.

Several MSMEs confirm that while audits and raids conducted by the CGST department are generally done after due diligence, the same cannot be said of SGST departments,

they threatened to seal the factory. “It was pure extortion. We had no choice but to comply,” he says. At 3 am, the company deposited Rs 75 lakh with the department just to keep the factory operational. “While raids are intended to curb evasion, often they are conducted solely based on preliminary findings. Also, the way they are carried out equates business owners with criminals, which can severely damage a company’s reputation and business,” he rues.



“There is too much rigidity, which makes it difficult for non-tech entrepreneurs to navigate the GST returns independently, resulting in the increased cost of professional services for the firm.... Good law with poor implementation”

B.C. BHARTIA
President, Confederation
of All India Traders

where harassment remains common. A company in Uttar Pradesh is currently fighting a case, in which 7-8 officials from the SGST department arrived at its factory, demanding Rs 2 crore in GST liability—without providing any explanation—and even threatening with an FIR and arrest. “Thankfully, our GST consultant knew the law and clarified that an FIR cannot be registered for a GST notice involving less than Rs 5 crore,” says the owner on condition of anonymity. However, the ordeal didn’t end here;

THE ORDEAL OF AUDITS

The GST audit period can extend up to 5-6 years after the end of the financial year. That’s a very long window—accountants change, staff changes and memories fade, says Chhabra. In contrast, he points out customs cases cannot be reopened after three years. Similarly, for taxpayers with annual incomes under Rs 50 lakh, the audit window is limited to three years. “So, why not apply a similar rule here?” he asks. CBIC’s compliance management department didn’t respond to INDIA TODAY’s queries on raids and show-cause notices. Chhabra suggests that the government consider reducing the audit period gradually to four, then to one. “In today’s age of AI and automation, discrepancies can be flagged in real time. There’s no need to leave files open for years—it only leaves room for harassment,” he adds.

Running a business and keeping it profitable in these uncertain times is no mean feat. Despite this, businesses have to constantly fight the system to prove that “entrepreneur *chor nahin hai*”. Sitharaman has reiterated that the government is working towards creating a trust-based compliance system for businesses. But, as Patel says, “The government should be supporting entrepreneurs, not policing them. We need a system that helps improve productivity and clarity—not one that constantly looks for where we went wrong.” The FM needs to heed their plea. ■