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A Study on Reverse Charge Mechanism (RCM) under GST on Services in India

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ABSTRACT: The Goods and Services Tax is the name for the tax that the purchaser of an item or service must pay. It would be a comprehensive indirect tax on the production, exchange, and consumption of goods and services. In India, there is a VAT known as the GST (Goods and Services Tax), which is charged on the provision of both products and services. Under the slogan "one nation, one tax," the Indian government's main aim to eradicate the country's indirect tax regime system was the implementation of goods and services tax. The main objectives were to shield taxpayers from risk and combine all indirect taxes into a single system. The three different kinds of GST that are collected are as follows: centralized GST, State GST, and Integrated GST. Under GST law, there are specific steps for each of the following: registration, refunds, filing returns, electronic billing, entering tax credits, etc. They were identified as Goods and Services Tax (GST) compliances, and it was also indicated that they played a role in calculating the ratings for GST compliance. The GST had an impact on numerous businesses, but the Indian textile industry may have been the worst-hit. Not only is the textile industry one of the oldest, but it also makes up a disproportionately large amount of the worldwide economy. A questionnaire and in-person interviews were used to carry out this research. In this study, we will first look at the issue of GST compliance costs and the knowledge that staff of textile enterprises in Delhi/National Capital Region has with the issue. Second, we'll evaluate how other nations stack up against India's GST enforcement measures.

KEYWORDS: GST Compliance, Revenue, Awareness, India, E-invoicing, Input Tax Credit,

I. INTRODUCTION

The Goods and Services Tax is the name for the tax that the purchaser of an item or service must pay (GST). It would be a comprehensive indirect tax on the production, exchange, and consumption of goods and services. The GST would replace indirect taxes on goods and services that are now collected by the federal and state governments of India (except custom). Since the GST has no repercussions on the costs of goods and services at any point of their life cycle, indirect taxes have been eliminated as a result of the GST's consolidation of them in 2017. Since it would result in the creation of a single domestic market and the reduction of price volatility across the entire nation, the GST is a transformational reform for the Indian economy. As a result, it will be necessary to make adjustments to the entire indirect tax system to take into account changes in tax structure, tax incidence, tax calculation, tax payment, compliance, credit utilization, and reporting

Goods and Service Tax

Before diving into the technicalities of what the Goods and Services tax really is, let's start by taking a look at the tax system that India uses. There are two primary types of taxes that fall within the purview of the Indian government, and these are direct taxes and indirect taxes.

- a. **Direct Tax:** This refers to the portion of tax that is deducted directly from a person's wages. An individual's taxable income is comprised of their total earnings from all of their sources of income, including their wage, profits from their business or profession, gains on investments, and other income. When it comes to taxes levied directly on individuals, India has a system that is progressive. This means that as your income increases, so will the proportion of it that you are required to pay in taxes.
 - An individual or business pays direct tax to the body that collected it.
 - Income taxes, real estate taxes, and asset-based taxes are examples of direct taxes.
 - There are also indirect taxes, like sales taxes, where the buyer pays the tax instead of the supplier.

- b. Indirect Taxes: are a second kind of tax that may be levied on your purchases of goods and services. The costs associated with these fees are borne by the customers. When compared to taxes on non-essential products, taxes on needs are often lower. A kind of indirect tax is the Goods and Services Tax, which is an example of this type of tax. The GST, is responsible for consolidating all of the nation's many taxes and levies under a single, more understandable framework. Because of the 101st Constitutional Amendment Act of 2016, the federal government and the states are now both responsible for collecting taxes on purchases and transactions. As a direct consequence of this, the user is no longer subject to the cascade effect, and as a consequence of this, they bear a less financial load. A description of India's GST may be found in the country's constitution. In line with Article 366, GST was formed by the 101st Constitutional Amendment Act of 2016, which was passed in 2016. (12A). The phrase "products and services tax" is used to refer to any tax that is levied on the sale or supply of physical items or services (or both), with the exception of alcoholic drinks that are sold or given for human use.

This research intends to educate its readers on compliance with the Goods and Services Tax (GST) and related terminology while also analyzing the degree of knowledge on GST compliance among small textile enterprises. When referring to the system of taxes that is known as the GST, compliance with the GST is the backbone that assures simplicity and openness for all taxpayers. Compliance with the GST is required in order to achieve the goal of facilitating the early settlement of taxes owing and the effective management of GST payments moving forward. As a result of compliances, the system of indirect taxes has become increasingly digitalized since the introduction of the GST.

Objectives:

- ✓ To comprehend numerous tax compliances and grading of compliance under the GST system
- ✓ In order to evaluate the level of awareness or information about GST compliance held by small textile businesses in the Delhi NCR region.

II. LITERATURE REVIEW

GST COMPLIANCE

The purpose of GST compliance is to ensure the timely payment of taxes and to facilitate the management of future tax payments. Compliances have contributed to the increased digitization of the indirect taxes system after the implementation of the GST.

GST compliance includes the following components:

- Registration under GST system
- Invoices, Credit and Debit Notes
- SE-invoicing
- Maintaining Records and Auditing
- Time incurred during supply
- Area of supply
- Reverse Charge Mechanism
- Input Tax Credit
- Billing and return and refund Fillings related process
- Job Work
- E-Way

The GST system divides bills that need to be registered into a number of different categories, which are as follows:

- ❖ Based on Aggregate Turnover
- ❖ Voluntary Registration

Registration based on aggregate turnover : - If a supplier's yearly income from selling all goods and services reaches 10 lakh Indian Rupees (INR) for suppliers located in special category states and 20 lakh Indian Rupees (RS) for suppliers located in all other states, then the supplier is obliged to register.

Voluntary Registration : Individuals are not legally required to register, but they have the option to do so if they so want. As a result, business owners who are exempt from registration may still claim the credit for taxes paid. When it comes to selling over state lines, businesses who are registered for GST have fewer constraints. Therefore, it increases

access to markets for micro, small, and medium businesses. It's possible that these smaller and medium-sized firms may use an e-commerce platform to sell their wares online as well. Under the old tax system, it was not as obligatory for small textile enterprises in the Delhi-National Capital Region (NCR) to use the portal registration method, therefore they have claimed a lack of knowledge about this. Compare this to the current tax regime, GST. If a corporation is eligible, it must register. If they are not registered, they may run into problems with payments, refunds, product deliveries, and other logistics.

Debit and Credit Notes :

Credit Note: In the following scenarios, the vendor of the products or services in question may issue a credit note:

- When the taxes assessed on the invoice exceed the actual tax paid during that time.
- When the consumer sends the purchased item back to the retailer.
- Discrepancy discovered in supplier-provided items.

Debit note:

Suppliers must provide a debit note where the value of a taxable supply or the tax charged on an invoice submitted is less than the true value or tax due in respect to such supply. If a debit note is issued, it must be included in the relevant monthly report for that month. A single credit or debit note may be used to settle many separate bills.

E-Invoicing:

Electronic invoicing (e-invoicing) and a rapid response (QR) code system have been implemented by the GST Council for some types of businesses. E-invoicing, or electronic invoicing, is the practice of sending a digital invoice for goods and services provided by a legally recognized business. It's when you submit a regular bill to the GST system, and the latter returns an invoice reference number (IRN) and a QR code.

Applicability: - Any registered person whose total revenue in any previous financial year (beginning with 2017-18) is more than 50 crore is required to submit an e-invoice and create an IRN for any supplies made to other registered persons (i.e., B2B transactions) or exports of QR.

You cannot cancel an electronic invoice in part. Cancellation of the whole thing on IRP (Invoice Registration Portal) must be done within that time frame. E-invoices on the GST website will be updated to reflect new regulations.

Inward and outward supplies of goods and services & Input tax credit availed: - According to the legislation, all registered organizations are required to keep records of all items and services that enter and exit the nation and to keep those data up to date. Every business that provides a service is required to keep meticulous records of the resources and labor that go into running their operations. The taxpayer is responsible for attesting to the correctness of the reconciliation statement on their own rather than relying on Chartered Accountants or Cost and Management Accountants to do it on their own. Taxpayers who have a yearly revenue of up to 2 crore Indian Rupees will not be required to file a GSTR-9 or 9A form during the next fiscal year (FY), which will begin in 2020-21. Taxpayers who have a yearly consolidated revenue of more than 5 crore Indian Rupees will be required to file a reconciliation statement using Form GSTR-9C beginning in the next fiscal year of 2020-21.

Reverse Charge Mechanism:

The onus for paying taxes often falls on the individual providing the goods or services. However, in some instances, the onus of paying taxes is passed on to the receiver of the aforementioned products or services. Taxes may be remitted by the receiver using a process called "reverse charge mechanism."

Situations covered under Reverse charge mechanism

Procurement of notified supplies : On the basis of a reverse charge, the government has published a list of vendors (products and services) for whom the receiver is accountable for paying tax. Purchase of Defined Goods Made by a Defined Registered Individual When a provider not on the government's approved list sells or provides a service for a set of predetermined items or activities, the government will notify a certain group of registered individuals.

Input tax credit :- is a term used in the Goods and Services Tax (GST) law to refer to any tax (CGST, SGST, or IGST) paid by the recipient on any delivery. This entails the goods and services tax (IGST) paid on imported goods and services, as well as taxes paid via the reverse charge technique, but does not include composition levies.

NEW RETURN SYSTEM :

On or around October 1, 2020, the GST Council will begin the new return filing process. Form GST RET 1, Form GST RET 2, and Form GST RET 3 are the return forms that are currently being considered for implementation, and the

annexures will be included in FORM GST ANX-1 and FORM GST ANX-2. Among the many noteworthy features of the new return system are the following:

- The possibility of adjusting returns is plausible.
- The purchaser may check the invoices at any time of the month, day or night, as they can be posted at any time of the month. It is unnecessary to submit the purchase receipts.
- The reporting of six-digit HSNs for supply to registered persons is mandatory for taxpayers with a yearly total income of more than INR 5 crore (B2B).

E-way Bill :- Before transporting products with a value of more than INR 50,000, information must be submitted (Rule 138) and an E-way Bill must be generated.

- i) in relation to a supply,
- ii) for reasons other than supply, or
- iii) Part A of FORM GST EWB-01 must be electronically completed by any registered person who is subject to GST because of an inbound supply from an unregistered person.

Once the registered person gives the transporter the go-ahead, the transporter may fill out Part A of FORM GST EWB-01 online and submit it via the common portal; the site will then generate a unique number. If the goods being transported are supplied by an e-commerce operator or delivery service, that business may complete Part A of FORM GST EWB-01; if the necessary authorization is received from the shipper, a unique number will be generated on the aforementioned website. When goods are being sent from a principle in one state to a job worker in another state, the principal or registered job worker is responsible for creating the E-way Bills, regardless of the amount of the consignment. Registered recipients have 72 hours from the time they receive the E-way Bill to accept or reject the package.

If he does not confirm or reject the E-way bill within 72 hours, he is deemed to have approved it. All state and territory jurisdictions recognize bills issued in accordance with this regulation and rule 138 of their respective GST regulations. If he does not accept or reject the E-way bill within 72 hours, he is considered to have approved the measure. Any bill issued in accordance with this regulation or rule 138 of any state's GST laws is recognized in all jurisdictions.

GST Compliance Rating : Each taxable entity is assigned a compliance rating based on how well they follow GST regulations; this rating is equivalent to a performance ranking. It doesn't matter what kind of business it is or how much money it makes, this rule will always hold. For instance, a scale from 1 to 10 may be devised, with 10 representing the highest level of compliance and 1 being the lowest. The GST Department assigns a rate to each registered tax payer, and that rate varies depending on the payer's compliance record. Each taxpayer will be given a score that is updated on a regular basis and will be available to see by the public online.

Following factors affecting GST compliance rating:

- GST Returns filling time to time.
- Payment of GST taxes,
- GST tax, fine, and other accrued expenses must be paid on time.
- Proper documentation and recording is mandate under GST laws rules.
- Promoters of historical records is needed for managing compliances.

The GST authorities may periodically request audits or inspections to confirm certain aspects of GST compliance, in addition to timely GST compliance. As a consequence, the company's compliance rating may be affected by factors such as whether or not tax invoices are sent in a timely fashion, whether or not tax payable amounts are correctly determined, whether or not returns are reconciled, and so on.

Importance of GST Rating

It improves the business by bringing the GST system's procedures into the open. Additionally, this is to everyone's profit, including the company, its customers, its creditors, and the government. Compliance records will assist us immediately grasp a business and its financial stability. The promoters and other interested parties benefit from this information since they may learn where they can make changes to better ensure that they are compliant. How will my company be rated for GST?

To sum up, we can state that a firm's GST compliance rating will aid in improving fundamental operations and functioning, increasing recruitment rates in every organization, and boosting customer happiness. At this time, CIBIL scores may only be evaluated for credit reasons by financial institutions like banks. As a result, the CIBIL scores cannot



be made public due to restrictions imposed by the public domain. The GST compliance ratings will be made available to the public. All kinds of stakeholders, including clients, employees, creditors, suppliers, and investors, would have access to a business's GST compliance score. Therefore, if the firm has a poor GST compliance rating, it will need to boost credit, enhance recruitment of staff and sales, etc. How Can a Company Improve Their GST Compliance Rating? Refunds will be given only to firms who had an average grade of 5 or above. If a company receives an 8 out of 10 for compliance, For example, 80% of their total refund will be available to them in a preliminary form right away.

III. RESEARCH METHODOLOGY

This information was gathered from secondary resources. There is enough and appropriate material accessible on the subject of the chosen companies in the Delhi NCR area. Questionnaire surveys and email exchanges provided the bulk of the main data. The hypothesis testing and Chi Square approach were used to examine the correlation between the two variables. The research relied on secondary data gathered from a variety of sources, including government papers, journals, and the internet.

HYPOTHESIS TESTING AND ANALYSIS

H0: There is no significant association between awareness and compliance cost

H1: There is a significant association between awareness and compliance cost

Case Processing Summary

	cases					
	valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Awareness Compliance Cost	55	100%	0	0%	55	100%

Awareness Compliance Cost Cross Tabulation

Count

		Compliance Cost			Total
		2	3	4	
Awareness	2	6	5	0	11
	3	6	8	10	24
	4	3	5	12	20
Total		15	18	22	55

Chi-Square tests

	value	df	Asymp. sig (2-sided)
Pearson Chi-Square	11.479	4	.022
Likelihood Ratio	15.120	4	.004
Linear-by-Linear Association	9.722	1	.002
N of Valid Cases	55		

a. 3 cells (33.3%) have expected count less than 5. The minimum expected count is 3.00

Figure 1 : Analysis Report

p value = .022 < 0.05=α, the level of significance

Consequently, we cannot accept Ho. In light of this, we can state with 95% certainty that there is a very substantial correlation between Awareness and Compliance Expenses.

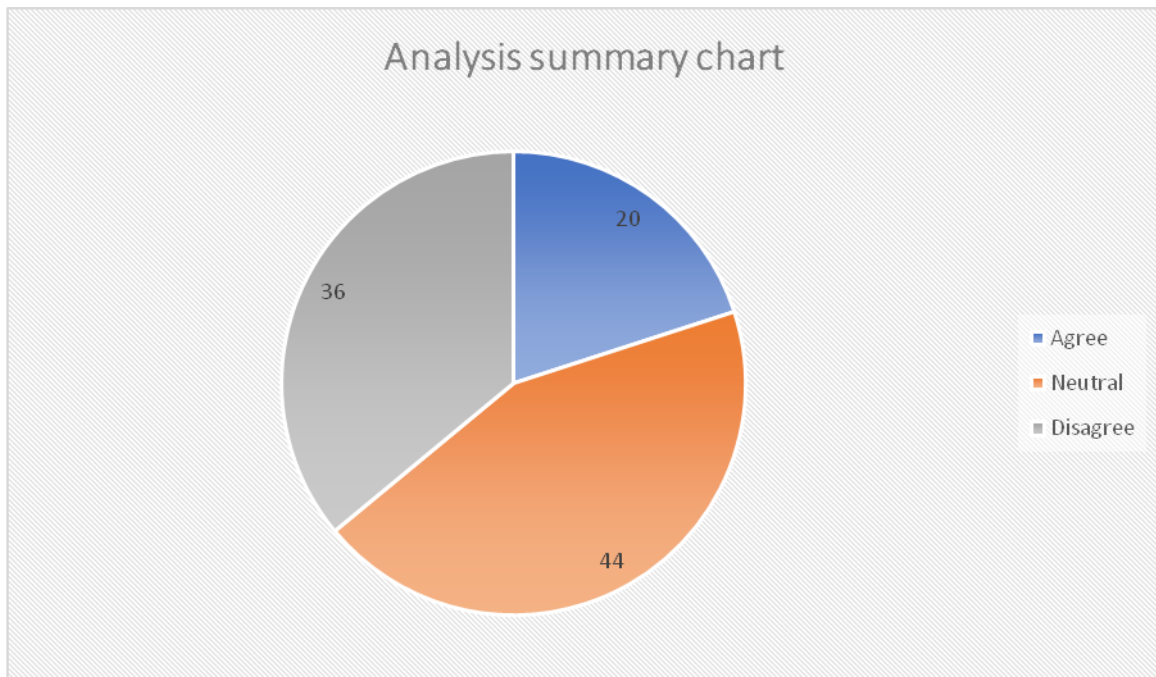


Figure 2: Analysis Summary Chart

According to the data shown in the preceding pie chart, 44% of the enterprises surveyed admit to being "neutral" about the new taxation system and its associated compliance costs and procedures for goods and services tax (GST). Second, 36% of those polled disagree, meaning they do not think that GST compliance has improved the present tax system by increasing its clarity and making it more convenient for taxpayers. Compliances appear to be a challenging and time demanding process for the textile enterprises in the Delhi-NCR area, and this indicates a lack of information about compliance cost along with this GST system. Finally, 20% of respondents answer "Agree," indicating agreement that GST compliance has improved transparency and convenience in the present taxing system.

IV. CONCLUSION

The purpose of this article is to provide an overview of the various concepts and terms associated with GST compliances. The second objective is to survey textile businesses in the Delhi-National Capital Region to gauge their level of familiarity with the Goods and Services Tax (GST). We may infer from the comments that the GST system is beneficial for all parties involved, but that the GST Council of India has to do more to educate the textile industry on the system's rationale, advantages, and implementation.

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