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Change in accounting ecosystem due to implementation of GST in Indian Economy

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Abstract

The implementation of the Goods and Services Tax (GST) in the Indian economy has brought about significant changes in the accounting ecosystem. This study explores the impact of GST on the accounting practices, systems, and roles of various stakeholders in the accounting profession. The findings reveal that the implementation of GST has necessitated adjustments in tax compliance processes and systems. Accounting professionals have had to update their knowledge and skills to understand the intricacies of GST and ensure accurate and timely compliance. The introduction of GST has also resulted in changes in financial reporting practices to align with the new tax structure. Technology adoption has played a crucial role in the changing accounting ecosystem due to GST. Organizations have embraced accounting software and digital platforms to automate tax compliance, generate GST returns, and maintain updated records. This shift towards technology has enhanced efficiency, reduced errors, and improved transparency in accounting processes. The role of accounting professionals has evolved in the GST era. They have transitioned from being primarily record-keepers to strategic advisors, guiding businesses in tax planning, GST optimization, and ensuring compliance with the ever-changing GST regulations. The expertise of accounting professionals in GST has become essential for businesses to navigate the complexities of the tax regime.

Keywords: Goods and Services Tax (GST), financial transactions, accounting practices

Introduction

The Goods and Services Tax (GST) is a comprehensive indirect tax reform implemented in the Indian economy in July 2017. This significant tax reform has brought about substantial changes in the accounting ecosystem, impacting various stakeholders and reshaping accounting practices and systems. The introduction of GST replaced multiple indirect taxes levied by the central and state governments with a single unified tax structure. It aimed to streamline the taxation system, eliminate cascading taxes, and create a common national market. This transition has had profound implications for businesses, accounting professionals, technology providers, and regulatory authorities. The implementation of GST has necessitated adjustments in tax compliance processes, requiring businesses to reconfigure their accounting systems and procedures. The new tax regime requires organizations to accurately calculate and report their tax liabilities, maintain proper documentation, and submit regular GST returns. This has prompted significant changes in the way businesses record, track, and report financial transactions. The accounting profession has also undergone a transformation in response to the GST implementation. Accounting professionals have had to upgrade their skills and knowledge to understand the nuances of GST laws and regulations. They play a critical role in assisting businesses with GST compliance, providing advisory services, and ensuring accurate financial reporting in alignment with the new tax structure. The role of accounting professionals has shifted from being traditional bookkeepers to strategic advisors, guiding businesses in tax planning and optimizing GST benefits. Technology adoption has been instrumental in managing the complexities of GST compliance.

Accounting software, digital platforms, and automation tools have become indispensable for businesses in generating GST invoices, maintaining GST registers, and preparing GST returns.

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Fig 1: Show GST One Nation, One Tax!

These technological advancements have increased efficiency, reduced manual errors, and facilitated seamless integration with government portals for timely compliance. The changes in the accounting ecosystem due to GST implementation have both opportunities and challenges. On one hand, the shift towards a unified tax structure and increased technology adoption enhances transparency, simplifies tax compliance, and promotes ease of doing business. On the other hand, businesses and accounting professionals have had to adapt to new processes, invest in technology infrastructure, and continuously update their knowledge to stay compliant with evolving GST regulations. This study explores the impact of GST on the accounting ecosystem, including tax compliance, financial reporting, technology adoption, and the evolving role of accounting professionals. By examining the changes and challenges faced by stakeholders in the accounting profession, we can gain insights into the transformation of the accounting ecosystem in the GST era.

Need of the study

The need for the study on the change in the accounting ecosystem due to the implementation of GST in the Indian economy arises from several factors:

Significance of GST: The implementation of GST is one of the most significant tax reforms in the history of India. It has fundamentally transformed the taxation system and had a profound impact on businesses and the accounting profession. Understanding the specific changes in the accounting ecosystem resulting from GST is essential to comprehensively analyse the effects of this reform.

Implications for Businesses: GST implementation has imposed new compliance requirements on businesses. They need to adapt their accounting systems, processes, and reporting mechanisms to comply with the new tax structure. Studying the changes in the accounting ecosystem can provide insights into the challenges and opportunities faced by businesses in managing GST compliance.

Role of Accounting Professionals: The role of accounting professionals has evolved with the introduction of GST. They have become crucial in assisting businesses with GST

compliance, providing advisory services, and ensuring accurate financial reporting. Examining the changes in the accounting ecosystem sheds light on the emerging responsibilities and skill requirements for accounting professionals in the GST era.

Technology Adoption: GST implementation has spurred the adoption of technology in accounting practices. Businesses are relying on accounting software, digital platforms, and automation tools to streamline GST compliance processes. Studying the changes in technology adoption within the accounting ecosystem provides insights into the benefits and challenges associated with this technological transformation.

Policy Implications: The findings of the study can inform policymakers and regulatory authorities about the impact of GST on the accounting profession. It can assist in assessing the effectiveness of the tax reform, identifying areas of improvement, and formulating policies to enhance GST compliance and simplify accounting practices.

By addressing the need for studying the change in the accounting ecosystem due to GST implementation, this research can contribute to a comprehensive understanding of the implications of the tax reform. It can provide valuable insights to businesses, accounting professionals, policymakers, and researchers in navigating the accounting landscape in the GST era and optimizing the benefits of this transformative tax reform.

Literature Review

Agburu JI, Anza NC, *et al.*, (2017) ^[1]. Small and medium-scale enterprises (SMEs) face numerous challenges in today's competitive business environment. To overcome resource constraints and increase operational efficiency, many SMEs adopt outsourcing strategies. This study aims to investigate the effect of outsourcing strategies on the performance of SMEs. The research focuses on identifying the key outsourcing areas and analyzing their impact on various performance indicators, such as cost reduction, quality improvement, innovation, and customer satisfaction. Through a comprehensive literature review, the study explores different outsourcing strategies commonly

employed by SMEs, including IT outsourcing, manufacturing outsourcing, and business process outsourcing. It examines the potential benefits and risks associated with each outsourcing strategy, taking into account the unique characteristics and limitations of SMEs. Banham H, & He Y, (2014) ^[2]. The study will examine the roles played by accounting professionals in SMEs, such as financial reporting, budgeting, tax compliance, and business advisory services. It will explore the challenges faced by accounting professionals when working with SMEs, including resource constraints, limited financial literacy, and varying levels of organizational maturity. Additionally, the study will investigate the benefits that SMEs derive from their relationship with accounting professionals, such as improved financial management, enhanced access to financing, and increased compliance with regulatory requirements. The findings of this research are expected to provide insights into the dynamics of the accounting professional-SME relationship, shedding light on the factors that contribute to successful collaborations. The study will identify best practices and strategies that can enhance the effectiveness of accounting professionals in supporting SMEs. Furthermore, the research outcomes will inform the development of training programs and policies aimed at strengthening the capabilities of accounting professionals to better serve the needs of SMEs.

Egiyi MA, (2020) ^[3]. Outsourcing accounting functions has become a prevalent practice among organizations seeking to streamline operations, reduce costs, and access specialized expertise. This study has explored the risks and benefits associated with outsourcing accounting functions, shedding light on key considerations for decision-makers. The analysis of the risks has revealed potential challenges in outsourcing accounting functions, including data security and confidentiality concerns, loss of control over critical financial processes, and communication and coordination issues. These risks should not be overlooked and require careful evaluation and mitigation strategies. Implementing robust data protection measures, establishing clear communication channels, and conducting thorough due diligence when selecting outsourcing partners are essential steps to minimize these risks.

Deshmukh AK, Mohan A, *et al.*, (2022) ^[4]. The implementation of the Goods and Services Tax (GST) in India was a significant tax reform that aimed to simplify the indirect tax structure and create a unified market across the country. It replaced multiple state and central taxes with a single tax, streamlining the taxation process and promoting ease of doing business. The implementation of GST in India involved the integration of various stakeholders, including the government, businesses, and technology providers. SAP, a leading enterprise resource planning (ERP) software provider, played a significant role in supporting organizations in adapting to the new tax regime. SAP's ERP solutions helped businesses automate tax compliance, manage transactions, and generate accurate GST returns.

Impact of GST on the Indian Economy

Simplified Tax Structure: GST replaced multiple indirect taxes like excise duty, service tax, and sales tax with a single unified tax. This simplified tax structure reduced the complexity of the tax system and made it easier for

businesses to comply with tax regulations.

Boost to Manufacturing and Trade: GST eliminated cascading taxes, where taxes were levied on taxes, resulting in increased production costs. With the implementation of GST, the cost of manufacturing and trading goods reduced, leading to increased competitiveness and growth in these sectors.

Increased Tax Compliance: GST introduced a transparent and efficient tax collection mechanism. With the use of technology and online filing of returns, tax evasion became more difficult. This resulted in increased tax compliance and revenue generation for the government.

Removal of Inter-State Barriers: Before GST, different states had different tax structures, making it cumbersome for businesses to operate across state borders. GST unified the tax rates across states and eliminated entry barriers, facilitating the movement of goods and services across the country.

Development of a Common Market: GST aimed to create a common market by integrating the Indian economy. This integration eliminated inter-state check-posts and reduced logistical inefficiencies. It helped businesses expand their operations and reach a larger consumer base, leading to overall economic growth.

Impact on Prices: GST had both positive and negative effects on prices. While some goods and services witnessed a decrease in prices due to the elimination of cascading taxes, others experienced an increase in prices due to the revised tax rates. Over time, the impact on prices became more balanced, and the overall inflation rate remained stable.

The implementation of GST in India had a significant impact on the economy by simplifying the tax structure, boosting manufacturing and trade, increasing tax compliance, removing inter-state barriers, developing a common market, and influencing prices.

Impact of GST on various Sectors

The implementation of Goods and Services Tax (GST) in India has had varying impacts on different sectors of the economy. Here are some of the sector-wise impacts of GST.

Manufacturing and Trading Sector

Simplification of tax structure and removal of cascading taxes have reduced the cost of production, making manufacturing and trading more competitive.

GST has facilitated smoother movement of goods across states, eliminating inter-state barriers and reducing logistical inefficiencies.

However, small and medium-sized enterprises (SMEs) initially faced challenges in adapting to the new tax regime due to compliance requirements and technological advancements.

Services Sector

GST brought services under a unified tax structure, eliminating multiple service taxes that existed previously.

Service providers, such as IT companies, professional services, and hospitality industries, experienced changes in tax rates and compliance procedures.

The service export sector benefitted from a zero-rated tax structure, making services more competitive globally.

E-commerce Sector

GST introduced specific provisions for e-commerce platforms, making them responsible for collecting and remitting taxes on behalf of sellers.

The tax compliance burden increased for e-commerce companies, especially those operating across different states.

However, the implementation of GST also streamlined the taxation process and provided a level playing field for traditional retailers and e-commerce sellers.

Real Estate Sector

The real estate sector underwent significant changes due to GST, replacing multiple taxes like VAT, service tax, and stamp duty.

The implementation of GST led to increased transparency and reduced tax evasion in the sector.

However, the initial period witnessed a slowdown in the real estate market as buyers adjusted to the new tax rates.

Agriculture Sector

Basic food items like grains, fruits, and vegetables are exempted from GST or taxed at a minimal rate, ensuring affordability for consumers.

However, some agricultural inputs and machinery face higher tax rates, impacting the cost of farming.

Consumer Goods Sector

The FMCG (Fast-Moving Consumer Goods) sector witnessed changes in tax rates, resulting in both price reductions and increases depending on the product category.

The elimination of cascading taxes lowered the cost of production for consumer goods manufacturers.

Some luxury goods and items categorized as sin goods (such as tobacco and alcohol) experienced higher tax rates.

It's important to note that the impact of GST on sectors can vary over time as the tax system stabilizes and businesses adapt to the new framework.

Impact of Goods and Services Tax on Consumers

The impact of Goods and Services Tax (GST) on consumers can be summarized in the following ways:

Change in Price Levels: GST has the potential to impact the prices of goods and services. Some products may become cheaper, while others may become more expensive, depending on the specific tax rates assigned to different items. The impact on price levels varies across different sectors and product categories.

Elimination of Cascading Taxes: One significant benefit of GST for consumers is the elimination of cascading taxes. Cascading taxes refer to taxes imposed on taxes, which can lead to inflated prices. With the implementation of GST, the tax system becomes more streamlined, and the cascading effect is eliminated. This can potentially result in reduced prices for consumers.

Increased Transparency: GST promotes transparency in the tax system. Consumers can now see the tax amount they are paying for a product or service separately on the invoice or bill. This transparency helps consumers understand the tax implications and ensures that they are not being charged excessive taxes.

Input Tax Credit (ITC): GST allows businesses to claim Input Tax Credit, which means they can set off the tax paid on inputs (raw materials, goods, services) against the tax liability on the final product or service. This benefit can potentially lead to cost savings for businesses, which can then be passed on to consumers in the form of lower prices.

Simplified Compliance: GST aims to simplify the tax compliance process for businesses, which can indirectly benefit consumers. When businesses find it easier to comply with tax regulations, it reduces the administrative burden and costs associated with tax compliance. This, in turn, can contribute to lower operating costs for businesses, potentially translating into lower prices for consumers.

Impact on Essential Items: The GST structure typically provides relief for essential items like food grains, basic healthcare, education, and some essential services. These items may be exempted or taxed at lower rates, ensuring affordability and accessibility for consumers, particularly for the economically disadvantaged sections of society.

It's important to note that the impact of GST on consumers may vary depending on factors such as the specific tax rates, the sector, and the market dynamics. While some consumers may benefit from reduced prices or enhanced affordability, others may experience slight price increases for certain goods or services. The overall impact on consumers depends on the specific circumstances and the broader economic factors at play.

Conclusion

The implementation of the Goods and Services Tax (GST) in the Indian economy has brought about significant changes in the accounting ecosystem. This study has explored the impact of GST on accounting practices, systems, and the roles of various stakeholders, providing valuable insights into this transformative period.

The analysis reveals several key findings regarding the change in the accounting ecosystem due to GST implementation. The introduction of GST has necessitated adjustments in tax compliance processes, resulting in changes to accounting systems, procedures, and reporting practices. Businesses have had to adapt their accounting practices to accurately calculate and report their tax liabilities, maintain proper documentation, and submit GST returns in a timely manner.

The accounting profession has undergone a transformation in response to GST. Accounting professionals have upgraded their skills and knowledge to understand the complexities of GST laws and regulations. They play a crucial role in assisting businesses with GST compliance, providing advisory services, and ensuring accurate financial reporting aligned with the new tax structure. The role of accounting professionals has evolved from traditional bookkeeping to strategic guidance and support in tax

planning and optimizing GST benefits.

Technology adoption has been instrumental in managing the complexities of GST compliance. Accounting software, digital platforms, and automation tools have become essential for businesses to streamline GST-related processes. This shift towards technology has increased efficiency, reduced manual errors, and facilitated seamless integration with government portals for compliance.

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