INNOVATION IN ACTION: GST COMPLIANCE IN THE DIGITAL ERA

Abstract

The introduction of the Goods and Services Tax (GST) in 2017 brought a major change to India's indirect taxation system by replacing multiple indirect taxes with a single tax structure. GST compliance has shifted from a largely manual, paper based process to a technology driven digital system. The adoption of e-way bills, e-invoicing, GSTR-2B, ERP integration etc has streamlined tax compliance and improved the accuracy of Input Tax Credit claims. These digital measures have reduced tax evasion, improved transparency, and made tax administration more efficient.

This article explores how GST compliance has changed from traditional manual procedures to a technology driven system. It focuses on the role of data analytics and artificial intelligence (AI) in making compliance more efficient. But several challenges continue to exist, including technical issues, limited awareness among small businesses and concerns regarding data security.

The paper examines the evolving role of CMAs in digital compliance and recommends stronger digital infrastructure and simpler compliance to improve profitability, working capital management and business competitiveness.

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Introduction: Evolution of India's Tax System

The implementation of the Goods and Services Tax transformed India's indirect taxation system by replacing several indirect taxes including VAT, excise duty and service tax, with a unified tax framework. This reform reduced the cascading effect of taxes and simplified tax administration.

The introduction of GST in India in 2017 brought significant changes to the country's indirect tax system. It introduced a digital approach to tax compliance. Before GST, businesses mainly relied on paper records and manual procedures for tax compliance. With the introduction of GST, most compliance activities shifted to an online system, where businesses maintain digital records, upload invoices, and file returns within the prescribed time. As the GST Network has developed over the years, it has made tax administration faster, more transparent, and more efficient.

Before the introduction of GST, businesses maintained paper records, preserved invoices, and recorded transactions manually in their accounting books. With the introduction of digital technologies, the compliance process has become largely automated. This shift reflects the theme of "Innovation in Action" where automation, data analytics and integrated software have reduced manual errors and improved the ability of tax authorities to monitor compliance. In this changing environment, CMAs play and important role in helping businesses meet compliance requirements and make effective use of digital systems.

Concept of GST Compliance

GST compliance refers to the process of following the provisions of the Goods and Services Tax law. With the adoption of digital technologies, most compliance activities are now carried out online, making the process more systematic and transparent.

The key components of GST compliance include -

- **Registration: -** Businesses crossing the prescribed turnover limit are required to obtain a unique Goods and Services Tax Identification Number (GSTN).
- **Invoice Generation: -** Issuing GST compliant tax invoices with mandatory details such as the supplier's GSTN, Harmonised System of Nomenclature (HSN) code and applicable tax amount.'
- **Return Filing: -** Filling periodic GST returns, including GSTR -1 for outward supplies and GSTR-3B for summary tax liability.
- **Tax Payment: -** Calculating and settling exact tax liabilities within due dates to prevent compliance flags.
- **Record Maintenance: -** Maintaining books of accounts and other prescribed records in accordance with Section 35 of the CGST Act, 2017.

Effective GST compliance helps businesses to:-

- Avoid interest, penalties and legal disputes.
- Ensure smooth business operations.
- Improve credibility with tax authorities and business partners.

Digital Transformation in GST

The establishment of GST brought a strong digital platform through the Goods and Services Tax Network (GSTN) which serves as the online system for GST registration, return filing, tax payment and other compliance activities. The shift from manual procedures to an online system has made GST compliance more organised, reduced processing time and improved transparency in tax administration.

The major features of this digital transformation are:-

- **Centralized Online Portal:** All the functions—including registration, return filing, tax payment and other GST related services are carried out through the GST portal.
- **Process Automation:** Activities such as return preparation, tax calculation and reconciliation are supported by automated systems reducing manual effort and errors.
- **Software Connectivity:** Many businesses connect their accounting or ERP software with the GST portal making data transfer easier.
- **Transaction Tracking**: Digital reporting helps tax authorities identify errors or mismatches in transactions at an early stage.

GST Digital Flow

Invoice → IRP → GST Portal → GSTR-1 → GSTR-2B → GSTR-3B → ITC → Audit

Key Innovations in GST Compliance

Several digital developments have made GST compliance easier and improved the way taxes are managed.

A. E-Invoicing System and the 30-Day Reporting Requirement

Under Rule 48(4) of the CGST Rules specified taxpayers must upload their invoices to the Invoice Registration portal (IRP). Once the invoice is verified the portal generates an Invoice Reference Number (IRN) for each invoice.

Key benefits -

- **Coverage of Taxpayers:** The extension of e-invoicing to businesses with and annual turnover of Rs.5 crore or more has increased the use of digital invoicing among medium sized enterprises.
- **The 30-Day Reporting Requirement:** Eligible taxpayers are required to report invoices to the IRP within 30 days of the invoice date. This requirement discourages delayed or backdated reporting and helps

maintain accurate transaction records.

- **Direct Benefits:** E-invoicing improved the accuracy of GST return filing, reduces the possibility of fake invoices and facilitates better reconciliation of Input Tax Credit.

B. GSTR-2B and Input Tax Credit (ITC) Compliance

Under GST, Input Tax Credit (ITC) is linked to GSTR-2B instead of purchase records, making ITC claims dependent on supplier compliance and encouraging timely return filing by both parties.

ITC Validation:

- ITC is now based on GSTR-2B data.
- If the supplier does not file GSTR-1 within the prescribed time, the corresponding ITC may be available to the buyer.
- This ensures strict compliance by both suppliers and recipients.

Impact on Business:

- Delayed ITC increases working capital needs, affects cash flow, and raises business costs.
- Timely GST compliance supports better financial management.

Supplier Evaluation:

- Many companies now evaluate suppliers based on their GST compliance.
- ERP systems are widely used to monitor supplier's return filing status.
- Businesses prefer vendors who regularly file returns on time.

C. E-Way Bill System & Logistics Automation

The e-way bill system was introduced to monitor the movement of goods and is mandatory for transporting consignments above the prescribed value.

Automation of E-Way Bills:

- The integration of E-invoicing with the e-way bill system is an example of innovation in action, reducing manual effort and improving GST compliance.
- It significantly reduces the risk of tax evasion
- It ensures accurate and verifiable documentation of goods movement.
- It supports quicker and smoother transportation of goods.

Improved GST Compliance:

- Integration between systems reduces duplicate data entry.
- It enhances operational efficiency and reduces compliance burden.
- It lowers the cost of compliance.
- Professionals can focus more on logistics planning instead of correcting errors.

D. Advanced Accounting: Tally and ERP Integration

Businesses use ERP software like Tally and SAP for GST compliance. These systems are connected with daily accounting systems. This offers several practical benefits:

Automatic GST Accounting:

- GST ledgers (IGST, CGST, SGST) are created and maintained automatically.
- Tax balances are calculated by the system, reducing manual work.
- Data is directly linked with the GST portal through Application Programming interfaces (APIs)

Continuous Reconciliation:

- ERP systems help compare accounting records with **GSTR-2A/2B** on a regular basis.
- Any mismatch can be identified early, allowing businesses to make corrections before filing returns.

Data Integration:

- Data flows automatically between accounting software and GST portal.
- This improves the accuracy of GST records and reduces the chances of data entry errors.

E. Artificial Intelligence and Predictive Auditing

The government uses AI tools like **BIFA (Business Intelligence and Fraud Analytics)** for GST monitoring. These tools help in risk-based checking of taxpayers. This is an example of innovation in action.

AI helps to identify:

- Unusual or suspicious transactions.
- Circular trading networks designed to inflate turnover.
- Mismatches between generated E-way bills and reported GSTR-1 returns.

Role of Cost Accountants:

- Professionals are expected to leverage similar analytical tools for internal verification and control.
- This process is commonly referred to as a **"shadow audit."**
- It enables early identification of discrepancies and compliance gaps.
- Errors can be corrected before notice or litigation.
- This ensures robust and proactive compliance.

Comparative Analysis: Traditional vs Digital GST Compliance

The table below shows the main differences between traditional and digital GST compliance.

Aspect	Traditional Compliance (Pre-GST)	Digital Compliance (GST Era)	Benefit
Record Keeping	Paper records and manual accounting	Digital record with Electronic tracking	Fewer errors & easier audit.
Return Filing	Multiple paper-based or partly online returns	Fully online (GSTR-1, GSTR-2B, GSTR-3B)	Quicker and simpler filing.
Input Tax Credit (ITC)	Based mainly on taxpayers' declarations and supporting documents	Based on invoice details reflected in GSTR-2B	Better accuracy and reduced incorrect claims
Invoice Reporting	No time-bound digital validation	E-invoicing with IRN within 30 days	Stronger audit trail
Monitoring	Periodic manual checks by tax officials	Continuous digital checking	Better compliance & less evasion
Reconciliation	Month-end manual process	Regular Reconciliation	Improved accuracy
Payment & Interest	Manual calculation	Automatically calculated on net tax liability	Transparency in cash flow impact

This comparison shows how GST has made tax compliance simpler, faster, and more technology-driven.

Managing Working Capital: Interest and Penalty Calculus

GST compliance directly impacts cash flow and working capital, with interest on tax liabilities automatically computed in GSTR-3B.

Net Liability Calculation:

- Interest is levied only on the net tax payable after considering the Electronic Cash Ledger.
- This minimizes manual calculation errors.

Treasury Management Advantage:

- Interest is system-generated and non-editable.
- Timely tax payment is essential to avoid additional costs and penalties.
- Effective planning supports better cash flow management

Operational Milestones and Timelines

- Invoice generation → IRN (within prescribed time)

- GSTR-1 → 11th of next month
- GSTR-2B → 14th of next month
- GSTR-3B → 20th of next month

Delays may result in:

- Interest
- Penalties
- Loss of ITC

Challenges in Digital GST Compliance

Although the GST system is now digital, businesses still face a few common challenges.

- **Technical Problems:** At times, the GST portal may slow down or become unavailable, affecting the timely filing of returns.
- **Limited Digital Awareness:** Some small businesses and taxpayers especially in rural areas are still learning how to use the online GST system.
- **Compliance Requirements:** Filing returns on time, maintaining records, and keeping up with GST requirements can be time-consuming.
- **Frequent Changes in Rule:** Changes in GST laws and notifications require businesses to update their accounting and compliance practices.
- **Data Security:** Since GST information is stored online, businesses should protect their financial data from unauthorised access and cyber risks.
- **Three-Year Time Limit for Filing GST Returns**: Under Sections 37(4) and 39(11) of the CGST Act, GST returns cannot be filed after 3 years from the original due date. After this period, taxpayers may lose the chance to claim eligible Input Tax Credit (ITC).

Role of the Cost and Management Accountants (CMA) in GST

CMAs assist businesses in meeting GST requirements, keeping proper financial records, explaining GST rules, and supporting business decisions.

CMAs and GST compliance:

1. GST Advisory and Compliance:

- Providing guidance on GST provisions and compliance requirements.
- Help businesses follow GST rules more effectively.

2. Data Accuracy and Reconciliation:

- Ensuring accuracy of GST returns.
- Reconcile accounting records with GST data.
- Maintain digital records required for audits and regulatory compliance.

3. Technology Support:

- Assist in using ERP systems like Tally and SAP.
- Help in system integration and automation.
- Encourage the use of digital tools for GST compliance.

4. Cost and Pricing Analysis:

- Analyse the impact of GST on costs and profits.
- Analyse the effect of blocked Input Tax Credit.
- Support better pricing decisions.

5. Risk Management:

- Review supplier GST compliance.
- Identify areas that may lead to notices or penalties.
- Suggest practical measures to improve compliance.

CMAs help businesses follow GST rules, maintain financial records, and use digital tools for compliance.

Suggestions

The following suggestions may help improve GST compliance and make the digital system more effective for businesses.

Upgrade GST Portal Infrastructure:

- Enhance system stability and speed.
- Increase server capacity.
- Minimize disruptions during peak filing periods.

Targeted Training and Awareness:

- Conduct regular training programs.

- Focus on small and medium businesses.
- Improve digital literacy and compliance levels.

Simplification of Procedures:

- Streamline return filing processes.
- Eliminate unnecessary steps.
- Reduce compliance burden.

Policy and Rule Stability:

- Tax authorities should minimize frequent, minor amendments to rules and rates.
- Ensure a predictable tax environment for long-term business planning.

Promote Automation:

- Encourage use of affordable software tools.
- Small businesses should be supported in adopting technology.
- This will help them integrate easily with the GST system.

Conclusion

GST has transformed the manner in which indirect taxes are administered in India. The adoption of digital technologies has simplified compliance, strengthened transparency and improved the accuracy of tax reporting. Systems such as e-invoicing, GSTR-2B, e-way bills and ERP integration have enabled businesses to comply with GST requirements more efficiently while reducing manual errors.

Despite these developments, challenges such as technical issues, frequent regulatory changes and limited digital awareness among smaller businesses continue to require attention. Addressing these concerns will further improve the effectiveness of the GST framework.

Ultimately, the theme "Innovation in Action" confirms that GST compliance has evolved beyond a clerical function into a technology-driven sStrategic asset. The role of Cost and Management Accountants has also evolved considerably. In addition to ensuring statutory compliance, CMAs now assist organisations in using digital tools, analysing data and improving internal controls. As technology continues to develop, finance professionals will play an increasingly important role in helping businesses adapt to changing compliance requirements. In this environment, effective use of technology, combined with professional judgement, will remain essential for achieving sustainable and efficient GST compliance. MA

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Congratulations!!!

CMA (Dr.) Prasenjit Roy

Heartiest Congratulations to CMA (Dr.) Prasenjit Roy, presently working as Joint Advisor (Finance), West Bengal Electricity Regulatory Commission was awarded with Ph.D. in Management by Vidyasagar University, Midnapore, West Bengal on his Doctoral Thesis titled *"An empirical study of IPO under-pricing during 2006 to 2021: Evidence from Indian stock market"* on 06.02.2026.

The career of CMA (Dr.) Prasenjit Roy spans over 28 years in Finance, Accounts and Regulatory Affairs in the Power Sector. The successful completion of the doctoral research marks an important academic milestone in his professional career.

We wish CMA (Dr.) Prasenjit Roy the very best for all his future endeavours.