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CAPACITY: A CASE OF GOODS AND SERVICES
TAX IN JAMMU AND KASHMIR.**

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Disclaimer:

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List of Acronyms

ADG	Additional Director General
CED	Central Excise Department
CGST	Central Goods and Services Tax
CoC	Chamber of Commerce
CoI	Chamber of Industry
CIT	Corporate Income Tax
CIT	Corporate Income Tax
DoR	Department of Revenue
DCENF	Deputy Commissioner, Enforcement
e-way	Electronic way
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
GoHP	Government of Himachal Pradesh
GoI	Government of India
GoJK	Government of Jammu and Kashmir
GoP	Government of Punjab
GoUK	Government of Uttarakhand
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
GSVA	Gross State value Added
GTR	Gross Tax Revenue
IAS	Indian Administrative Service
INR	Indian Rupees
ICT	Information and Communication Technology
IT	Information Technology
ITC	Input Tax Credit
ICAI	Institute of Chartered of Accountants of India
IGST	Integrated Goods and Services Tax
J&K	Jammu and Kashmir
KAS	Kashmir Administrative Service
NACEN	National Institute of Customs, Excise and Narcotics
PIT	Personal Income Tax
PSC	Public Service Commission
SSB	Services Selection Board
SGST	State Goods and Services Tax
STD	State Taxes Department
UT	Union Territory
UTGST	Union Territory Goods and Services Tax
VAT	Value Added Tax

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Abstract

The Goods and Service Tax regime, implemented in the union territory of the Jammu and Kashmir with effect from July 2017, has been taken as a case to study the reasons for government organizations implementing any new policy reform as per established norms rather than switching to execution mode as per its requirements. The GST is being considered a major shift in the tax policy of India from the erstwhile VAT structure which was legislated and administered at state level. The implementation of GST on one hand led to fulfilment of political slogan of 'one nation one tax' and on the other hand revolutionized the indirect tax system by subsuming fifteen taxes, six national and nine sub-national, into one basket resulting in less compliance, time and administrative costs. However, while the GST policy as such is efficient and information and communication technology (ICT) driven, no attention has been paid to strengthen the tax authorities who have to regulate and administer the same. This study, therefore, assessed the capacity and readiness of the State Taxes Department to implement the Goods and Service Tax regime in Jammu and Kashmir. This aspect of the Department is assessed by analysing its capacity, agility and structure. The challenges faced by the State Taxes Department on these fronts were studied and corrective measures recommended. To achieve the results, a qualitative methodological approach was adopted by interviewing key informants from the Taxes Departments, Traders, members of Commerce and Industry Chambers. Quantitative data has been collected from websites of GST Council, Ministry of Statistics and Program Implementation, Government of India, Finance Ministries of different states to compare the GST collection at national level and in the neighbouring states of J&K. The findings of the study revealed that the State Taxes Department, J&K is lacking the capacity to implement GST due to its non-agility as the same is neither properly structured nor having capacity and a specialized service to administer it. Besides, the enforcement mechanisms adopted are too weak to result in deterrence amongst GST evaders. Thus, for successful GST implementation as per requirement of the policy, the state government needs to restructure the STD as per design of GST law, create specialized taxation service, focus on capacity building of officers of STD and strengthen the enforcement wing of the department.

Relevance to Development studies

Every development programme of the government is steered by the policy formulation and its implementation. In developing world especially India it has been seen that the policies are being implemented in established fashion rather than as per its requirements. Taking implementation of GST policy in J&K as a case study, the paper will look into the reasons for implementing any policy reform as per established norms rather than switching to execution mode as per its requirements. The paper will recommend necessary measures to address the issue. Hence the study is relevant to development studies.

Keywords

Goods and Services Tax, Value Added Tax, Input Tax Credit, Cascading, State Tax Officer, State Taxes Department, Union Territory, Central Excise Department

Chapter 1 Introduction, Background, Objectives, relevance and Methodology

1.1 Introduction.

It has been seen that the governments, at national and state level, off and on come out with different reform policies but instead of implementing the same as per its requirements, government organizations often follow established routines resulting inertia in policy implementation. To find reasons for such a practice, the study will analyse the implementation of the Goods and Services Tax (GST) reform in Jammu and Kashmir (J&K). The constraints hampering the implementing organization 'State Taxes Department' (STD) to switch over to the implementation process as per policy will be delved to recommend remedial measures.

1.2 GST Reform- an overview.

The Constitution of India in its seventh schedule provides a framework for the levy of taxes by the Union and State governments (Poddar and Ahmed 2009:13). Tax framework is based on separation of powers to avoid disharmony and minimize overlapping with taxes (ibid). Following this principle, the tax on income, corporate income, customs, property, manufactured products and services were to be levied by the Union Government and the States were assigned taxes on agricultural income, sales of goods, excise on alcohol, motor vehicles, passengers, stamp duties, electricity, professions, trade or employment, as an applied tax policy of India (ibid).

Since 1991, the tax policy of India, both direct and indirect, has been tried by the government of India to be reformed, rationalized and made simple. The reforms made in indirect tax policy post-1991 include reduction and rationalization of custom duties, expansion on the bases of service tax and unification of excise duties followed by a comprehensive reform in 2003-04 which led to the introduction of the Value Added Tax (VAT) in 2005 (Rao 2015:10).

VAT, replacing the Sales Tax and Central Excise Duties, was a prelude to the present GST. Implemented in around 160 countries of the world in one form or the other (Bird 2012), the GST accounts for one fifth of the world's tax revenue (Keen and Lockwood 2007).

India's reform strategy under GST, which is more focused on 'One Nation One Tax' for ensuring a free flow of goods and services across state borders, was recommended by 'Taskforce on implementation of Fiscal Responsibility and Budget Management Act, 2003 (Department of Revenue n.d.). Its important features are subsuming of fifteen indirect taxes, six national and nine sub-national, to have a unified tax regime in the country and ending cascading¹ of taxes.

Furthermore, to have unified tax regime, a central authority 'the GST Council' has been constituted to take every decision with respect to GST in India. The GST council consist of the Finance Ministers (FM) of all the states and Union Territories (UT) and union FM as its chairman. All the decisions are taken democratically with the Union and State Governments

¹ Means tax on tax. Under VAT due to non-availability of input tax credit to trader on interstate trade, the VAT was levied on total value of the good which included taxes already paid.

having 1/3rd and 2/3rd voting rights respectively. All the policy decisions regarding modification of GST law, its implementation, rate structure, threshold for registration, exemption is taken by it democratically. As per the voting powers any move not agreeable to states is bound to fail as every decision requires 3/4th of the weighted votes of the members present to pass.

1.3 J&K-Tax collections under GST.

Since its implementation, J&K has been witnessing an annual reduced tax collected of more than Indian Rupees (INR) 15 billion. The Union Government shall be compensating the States for any shortfall in GST collection till June 2022 only. This way all the states and UTs having GST collection deficit, at present, are not feeling any fiscal problem due to compensation transfers from Government of India (GoI) filling the gap. While the development and the poverty alleviation are on the top agenda of J&K Government, the decline in GST collection threatens to create problems for the UT after June 2022.

The study will focus on the tax administration of J&K- its capacity, structure and agility to perform 'engineering and management' functions of taxation (Rao 2015:4). Engineering of GST is about the methods of its application and the management is related to strategy and action adopted by STD to implement it (ibid). The tax administration in J&K is in the hands of generalist officers who are having tenure postings in the STD and are frequently transferred to other departments. The GST policy has been implemented by the STD with the same structure which was for the General Sales Tax of 1962 and the VAT Act of 2005. This is in contrast to the Central Excise Department (CED) of the Government of India (GoI) and the Commercial Taxes Department (CTD) of Karnataka or Punjab, having specialized services to implement and administer GST.

While the CED and CTD Karnataka has done well in GST collection, Punjab has suffered badly due its huge production base and exports leading to GST getting transferred to importing states asserted Under Secretary, GST Council. The findings of the study on these lines are discussed in detail in full dedicated chapters.

1.4 Statement of Research Problem.

Several studies have argued that the GST policy will result in an increase in indirect tax collection in India and J&K UT. NCAER (2009) mentioned that the GST will add to the GDP of India by a range of 0.90% to 1.70% as the ease of doing business, creation of common market and uniform tax structure will boost local and foreign investments thus leading to more GST collections. Kirty (2016) while describing VAT as a major stop at central and state level replacing central excise and state sales tax mentions that GST will lead to additional perfection by unifying markets and benefitting economy. Bhika (2017) mentions that the GST is going to increase the tax to GDP ratio and hence boosting economy.

Khurana and Sharma (2016) mentioned that the GST is consumer and producer friendly as ITC is available at all stages of supply chain thus, resulting in decrease of price of commodities due to end of cascading of taxes. Kumar (2014) has mentioned that GST will lead to improved revenue efficiency, reduction in prices of commodities, easy tax compliance and efficient control of tax evasions. Poddar and Mishra (2018) have indicated that GST will become a boom for Indian economy due to many factors such as the increase in demand and supply of consumer goods as the prices will come down due to an end to cascading of

taxes and control on black money as all transactions will have to be conducted electronically through GSTN.

Sehrawat and Dhanda (2015) on the other hand claimed that GST will lead to an increase in tax compliance and therefore increase in tax collections. Lourdanathan and Xavier (2017) asserted that GST will lead to revenue gain due to its wide tax base and efficient compliance system. The then FM of J&K, Mr Haseeb Drabu, ²declared about the gain of INR 15 to 20 billion to J&K UT annually from GST (Times of India n.d.). Likewise, the Institute of Chartered Accountants of India³ (ICAI) (n.d.: 4) also projected a gain of INR 15.80 billion annually. Shah and Tariq (2018) argued that GST will bear positive fruits for the economy of J&K by a gain of INR 15.8 billion annually.

Rao and Chakraborty (2010) while posing the question whether Central and State Governments would be able to get adequate revenue, at chosen rates under GST, have analysed the size of GST base in India and concluded that the major tax reform should include the electricity duty, passenger tax and real estate in addition to goods and service to widen the tax base for having adequate revenue.

However, some studies like Shefali (2016), Akanksha and Aastha (2016) have raised some concerns about its implementation in Indian context be it requirement of a strong IT network, cooperation of all states or robust administrative machinery. Likewise, while appreciating the reforms which the GST is going to bring in like uniformity in indirect tax rates, trade without barriers in the country, transparent tax processing, ease of doing business which would lead to boost to economy by foreign investments and local business, Tiwari and Singh (2018) mention that a strong and efficient infrastructure is required to implement this tax policy.

Mukherjee (2020) has analyzed the tax collection figures of all the states and mentioned that after June 2022 when the flow of compensation from GoI is going to end, the states and UTs are going to face a fiscal shock. Thus, an alarming situation is going to hit the state revenue receipts.

1.5 Study Gap.

Almost all the studies have focused on the advantages or disadvantages of the GST through different angles. These studies help in understanding the issues of tax compliance, common tax structure, ease of implementation, benefit to economy, tax collection gains, benefit to industries, traders and consumers and ease of doing business but no study has touched the core issue of implementation of the GST as per requirements of the policy, which is under implementation as per established style of General Sales Tax of 1962 or VAT of 2005. It has been seen that the government organizations follow the established styles of execution to implement the new reform policies instead of switching to the required style. To find the reasons for such a behaviour, the capacity development of the human resource responsible for implementation, augmenting sensing and action capabilities of the implementing organisations or changing their structure to make it as per requirements of the policy will be delved.

² He mentioned about this benefit in Legislative Assembly of J&K while discussing resolution on implementation of GST on 6th July 2017.

³ It is a reputed Institute conducting studies on Taxation and Fiscal matters at State and National Level.

Therefore, the study will focus on this knowledge gap as no such research has been conducted besides recommending required interventions to make STD successful in its implementation as per requirements of the policy. The study while filling this gap will act as a guide for the UT government for initiating and implementing any policy reform or analysing the success of any existing policy reforms and will also complement the studies already conducted by adding a new dimension.

1.6 Contextual Background.

The continuing insurgency, coupled with its major areas being hilly and bordering with Pakistan, small internal markets, poor connectivity and high costs of inputs has already deteriorated financial condition of J&K. Private sector contributes only 8.45% to Gross State Value Added (GSVA) of INR 1484.72 billion for the year 2018-19 at current prices⁴. Thus, with a small private sector base, the burden of generating economic activity is borne by the public sector. Due to ongoing insurgency, the UT is in backwardness trap of low economic activity, low employment and low-income generation. Also, due to negative investor perception, the UT has not succeeded in attracting the large and medium industrial houses to invest. All this has led to financial dependence on the union government in the shape of central grants and central share of taxes contributing 56% and 16% respectively to the budget which is INR 1014,28 billion for the year 2020-21 (Finance Department n.d.). The own tax revenue comprised 13% of the 2019-20 budget. The own tax to GDP ratio for the year 2018-19 has been recorded at 6.19% and for 2020-21 has been kept as 6.59% (ibid). The budget outlays of J&K and adjacent states are as under: -

Table 1: State Budgets

	INR in Billion				Million	INR
	2018-19	2019-20	2020-21	NSDP (2018-19)	Population 2011 Census	Per Capita Income (2018-19)
J&K	670,08	889,11	1014,28	1298,77	12,5	92334
Punjab	1268,89	1516,97	1548,05	4725,06	27,7	154313
HP	487,94	450,81	535,26	1333,03	6,8	183108
Uttarakhand	391,04	439,75	416,06	2218,78	10,01	198738

Source: Finance Department J&K, Punjab, Uttarakhand, HP and PTC News.

The J&K UT is next to Punjab in the budget outlays but having lowest per capita income due to having population more than HP and Uttarakhand and lowest Net State Domestic Product (NSDP) amongst all. J&K is also having lowest tax base of 102,863 taxpayers against 108,088 of HP, 168,486 of Uttarakhand and 356,210 of Punjab (GST Council n.d.) despite having population more than HP and Uttarakhand.

The tax reforms in J&K have taken shape side by side with the rest of India. Since 7th July, 2017, the UT of J&K implemented the GST with the rest of the country. The GST is applicable on all goods traders having an annual turnover of INR 4 million and service providers with INR 2 million. The GST is being administered by the CED and the STD concurrently as per the following arrangement:

⁴ Data provided by Directorate of Economics and Statistics, J&K.

Table 2: CED and STD Jurisdiction

CED	50% of the traders having turnover more than INR 15 million registered under VAT and migrated to GST.
STD	50% of the traders having turnover more than INR 15 million registered under VAT and migrated to GST. All traders having turnover less than INR 15 million. All the new registrations under GST regime.

Source: Author

As per this arrangement around 3500 traders are being administered by the CED and the remaining 99,363 by the STD. This difference in the jurisdiction of the two departments shows the importance of the STD with respect to GST collections in the UT of J&K as it has to administer 96.59% of the existing traders. The percentage will increase on addition of every new trader as all new registrations are to be administered by the STD.

1.7 Research Question.

For implementing a new policy reform, what makes government organizations to follow the established styles of execution rather than changing the same as per its requirements?

Taking implementation of ‘GST policy’ as a test case for study, this study also investigates:

1. What was its primary focus with specific reference to J&K,
2. What constraints are faced by the government departments while implementing a new policy, and
3. What measures are needed to make any new policy successful or reforms required to be carried out for successful implementation of any existing policy.

1.8 Justification and relevance of this research.

Taxation is the backbone of state building; it is the main mechanism to raise finances for the functioning of the state. It is the most important function of all the states and is the best way to measure the state’s capacity (Fukuyama 2013). It shapes economic development and also results in effective state (Bird 2015). While the economic development would lead to better education, employment and high income for public, the effectiveness of state leads to inclusive institutions, rule of law, security to citizen and accountability of public functionaries. But to have economic development at first place, a robust taxation system is required to accelerate tax collection and economic development enabling state to provide required and essential services to its citizens (Prichad 2010). Therefore, the developmental agenda of any state is dependent on the taxation system (Fjelstad and Moore 2008).

To achieve their developmental agendas in developing countries, the governments always remain focused on tax policy formulation and implementation. Being pivotal to nation building, the amount of the revenue collected by a country is directly proportional to success of a country. For OECD countries taxes as a percentage of the total government revenue is

85% and the same for lower middle income is 67% (Moore 2013). Likewise, the tax on goods and services in OECD countries as percentage of GDP is 11% while in lower middle income is 6% (ibid). To achieve the figures of OECD, Indian tax administration has to strive hard as its figures match the lower middle-income countries.

Taxation broadly revolves around two main issues, social contract related to tax bargaining between the State and the citizens and the institutions as a measure of capacity of the state to tax (Brautigam et al. 2008). The social contract forms bedrock for successful implementation of tax policy as in its absence the citizens avoid paying tax for not receiving returns in the shape of social goods and services (McCulloch et al.2020). Taxation being a covalent relationship between state and citizens, depends more on states ability to negotiate with citizens through the process of development and trust in tax authorities (Moore 2008). Listokin and Schizer (2013) argue that willingness of citizens to pay tax increases due to availability if sufficient public services.

Likewise, Torgler (2003) mentions that the tax payers trust in government leads to increase in willingness of citizens to pay tax. Thus, the ability of the government to deliver services and trust of taxpayers in tax authorities and government acts as morale booster for citizens to pay tax which is used by the former in carrying out developmental agenda (Symoniak 2010). The citizens are not inclined to pay taxes when they find deficiency in delivery of services or tax evaders going scot free (Rao and Kumar 2017). In the UT, due to less development and bad delivery of social goods and services, the tax bargain between citizens and the state is in bad shape.

However, besides having a strong social contract between state and its citizens, to have better tax collection, a strong and efficient administrative model of tax authority is imperative to tax with independence and autonomy. Therefore, a proper tax collection authority or department is necessary to make tax efforts and engage the citizens in nation building. Tax performance of any country can be measured by the tax efforts made (Teera and Hudson 2004 and Le et al. 2012). Ratio of tax revenue and GDP indicates the tax effort (Le et al. 2012) and the same for J&K is 7.35%⁵ only compared to 10.9% at national level (Economic Survey n.d.).

To have better tax to GDP ratio, the robustness in tax efforts is imperative but same is expected from a highly agile, professional and properly structured tax authority. Bird (2004) mentions, “The best tax policy is worth little if it cannot be implemented effectively”. Therefore, States, to take on developmental agenda, are required to establish efficient administrative structures with enough capacity to implement the tax policy and make citizens participants of the development process (Symoniak 2010; Williamson 2005).

The tax authorities in developing countries are exceptionally weak with least capacity and unable to avoid evasion of taxes besides being corrupt. The employees of STD indulge in corruption in different ways like-not reporting the traders having turnover of more than INR 4 million per year, not checking the sales of traders and issuance of tax invoice to customers, allowing moment of vehicles with goods without proper bills, charging monthly rent from traders for going soft against them⁶. This leads to state’s failure to collect its due which is based on a bargain between citizens and state, which too is quite poor in the UT. Therefore,

⁵ Calculated by author using official data of Finance Department, J&K.

⁶ Practical experience of the author while serving as Additional commissioner, STD, Jammu and narrated by some traders.

it is least capacity to tax, corruption and bad shape of delivery of social goods and service to citizens which leads to crippling of tax bargain or citizen's consent to pay taxes.

The developing world especially India has another problem of huge informal economy and its difficult for already weak tax authority to tax it (Joshi et al. 2014). The contribution of informal, household and unincorporated sector to GSV of INR 1484.72 Billion of J&K at current prices for the year 2018-19 is 56%⁷. So, the government has to shift towards reforms in tax policy and administration with good governance to have legitimate taxes collected (Brautigam et al. 2008) from huge informal sector as well.

Therefore, keeping in view the importance of taxation in state building, the study will investigate the reasons for non-implementation of tax reform by the STD as per its requirements. The Government of J&K especially the Finance Department and the STD will be interested in knowing the answer. Their interest is obvious because of the decline in GST collection and the central government going to compensate for revenue losses only till June 2022. Based on the findings in this research there can be a scope for the STD to take required corrective measures at organizational level to safeguard GST revenue. The findings will also act as a beacon for other reform policy implementing agencies to assess their structures and capacities or other factors responsible for implementation of policies as per established styles rather than as per policy requirements.

The research is conducted in line with the general theories of organisational agility, capacity and structure holding the ground and same have been applied to know the reasons for non-implementation of the GST policy as per its requirements. The tax extraction capacity of the STD and the impediments it is facing to implement GST as per its requirements will be target areas to fill the research gap. The study will also recommend remedial measures to be taken by STD.

1.9 Methodology and Methods.

The quantitative data for this research is collected through secondary data sources, which includes but is not limited to internet search, government documents such as annual reports prepared by the ministries in GoI and GoJ&K, the budget document of J&K and India, Audit reports of the government, replies submitted by the government to the legislative assembly and the Parliament, GST Council and some data collected unofficially from the officers of STDs of Punjab, HP, Uttarakhand and Karnataka. The GST data of the UT of J&K, having generalist officers responsible for administering GST, is compared with that of Karnataka, having a specialist service doing the job, to assess the capacity of the both.

Qualitative approach has been applied to conduct research and data collection leading to trace out impediments faced by STD to implement GST as per its requirements, gap in capacities and organizational structure of STD. Semi-structured interview approach has been adopted to conduct the interviews of various stakeholders. Guiding questions are framed to start the semi structured interview leading to natural flow of conversation with an aim to extract interesting, unexpected and thought-provoking data. The interviewees were informed about the research and requirement of their consent. The research was conducted mainly at Jammu (winter capital) as due to COVID restrictions the movement to Srinagar, Kashmir (summer capital) was difficult.

⁷ Data provided by Directorate of Economics and Statistics, J&K.

The interviewees for the research consist of knowledgeable individuals from the STD, Central Excise Department (CED), Commercial Taxes Department (CTD) Karnataka, Traders, Members of Chamber of Commerce, J&K (CoC), Chamber of Industries, J&K (CoI), Institute of Chartered Accountants of India (ICAI), lawyers and some traders who are familiar with the GST policy and revenue collection in J&K. Being a member of Kashmir Administrative Service (KAS), it became quite easy for me to conduct thirty nine interviews of the following respondents: -

Table 3: Matrix of organizations and interviewees

S. No.	Organization	Positions	Date of Interview
1	Retired	Commissioner, STD, J&K	14/Aug/20
2	CED	ADG, Intelligence, West Bengal Zone, CED	12/Aug/20
3	CED	Commissioner, CED, Bihar	08/Aug/20
4	STD	Commissioner, J&K	05/Aug/20
5	STD	Additional Commissioner, Administration and Enforcement, Kashmir	25/Aug/20
6	STD	Additional Commissioner, Administration and Enforcement, Jammu	13/Aug/20
7	CTD	Additional Commissioner, Karnataka	15/Oct/20
8	STD	Deputy Commissioner, Enforcement, North, Jammu	04/Aug/20
9	STD	Deputy Commissioner, Headquarter	04/Aug/20
10	STD	Deputy Commissioner, Enforcement, Central, Kashmir	2 Sep. 2020
11	STD	Deputy Commissioner, Audit, Jammu.	1 Sep. 2020
12	STD	Assistant Commissioner	25/Jul/20
13	GST Council	Under Secretary	01/Aug/20
14	STD	STO	02/Aug/20
15	STD	STO	02/Aug/20
16	STD	STO	03/Aug/20
17	STD	STO	03/Aug/20
18	STD	STO	07/Aug/20
19	STD	STO	07/Aug/20
20	STD	STO	09/Aug/20
21	STD	STO	10/Aug/20
22	STD	STO	21 Sep. 2020
23	ICAI	President	11/Aug/20
24	STD	Inspector	04/Aug/20
25	STD	Inspector	05/Aug/20
26	STD	Inspector	06/Aug/20
27	STD	Inspector	06/Aug/20
28	STD	Inspector	07/Aug/20
29	STD	Inspector	07/Aug/20
30	STD	Sub Inspector	21 Sep. 2020
31	STD	Sub Inspector	21 Sep. 2020
32	ICAI	Chartered Accountant	12/Aug/20
33	CoI	President, J&K	28/Aug/20
34	CoC	Ex-President, Jammu	29/Aug/20
35	Trader	Tyre Re-treading, Jammu	16/Aug/20
36	Trader	Plywood and Hardware, Jammu	17/Aug/20
37	Trader	Foot ware, Jammu	18/Aug/20
38	Trader	Delhi	22/Aug/20
39	Tax Lawyer	Jammu	1 Sep. 2020

Source: Author

1.10 Scope and Limitations.

Due to COVID restrictions, social distancing norms and steep rise in infection cases, the research became a very difficult exercise to conduct. I had to wait for days together as the offices, which I had to visit to conduct interviews, were being shut due to detection of COVID positive individuals. The prevailing COVID infections and deaths created lots of hurdles in the conduct of research. Further due to the time and word constraints, the research got confined to the capacity of the STD to administer GST successfully. The research didn't enter into other dynamics such as: Corruption, evasion, fiscal federalism, tax rate reduction or centralization.

1.11 Organization of the thesis.

The study has six chapters. Chapter 1, already deliberated, is introductory discussion about the problem, study gap, methodology to be used to understand the puzzle, its scope and limitations. In Chapter 2, I introduce the J&K with special reference to its economy, administration and taxation system followed by theories to assess the capacity of the STD to administer GST reform as per its requirements. Chapter 3 and 4 and 5 are replies to the research on GST based on the analysis of quantitative secondary data and qualitative primary data. The final Chapter 6 is conclusion and policy recommendation based on the gaps found and also areas for future research on the topic.

Chapter 2 Background, Governance and Administration in J&K and Theoretical framework

2.1 Introduction.

In this chapter, the theoretical framework adopted to conduct this study and the governance system by generalist bureaucrats in the UT will be discussed. The taxation system in India with particular reference to the UT of J&K is delved in brief focusing on the generalist bureaucrats performing specialist job of GST collection in the UT in contrast to specialist services of taxation doing the same in Punjab, Karnataka and at government of India level.

2.2 Background.

2.2.1 Governance and administration in J&K: State's capacity and generalist bureaucrats.

The administrative model of the UT of J&K is on the pattern of models in other 28 states and 7 UTs of India. The administrative machinery is based on the Westminster model. All the 39 administrative departments, functioning as per the J&K Government Business Rules, are being headed by the administrative secretaries which belong to generalist services- Indian Administrative Service (IAS) and KAS.

In the field, the administrative departments have line departments and corporations functioning which are headed by Commissioners, Directors or Managing Directors. The administrative departments control, supervise, direct and release budget to the line departments and corporations to do mandated activities. Except the technical departments like engineering, accounts and treasuries, forest, agriculture, police all other departments are headed by the officers from generalist services which is IAS and KAS.

The IAS and KAS at national and UT level respectively is an extension of British Colonial administration (Dwivedi et al. 1989). The officers recruited to these services are vested with despotic powers leading to creation of a wedge between the state and the citizens (ibid). The extension of these services in India was required at the time of independence to manage the affairs of state but its continuance till date is hampering badly the effectiveness of the state. The continuance of the same till date is only because the members of these generalist services occupy the top positions in every government and offer resistance to any move to restructure the bureaucracy or carrying out of administrative reforms (ibid). The Administrative Reforms Commission constituted way back in 1966 missed that opportunity as it didn't touch the core issue of public administration or fundamental changes required to be made in Indian bureaucracy (ibid). Almost same was the situation with different committees and second Administrative Reforms Commission of 2005.

The tenure of any officer from these services on any post is temporary thus paving way for intrusion of politicians in the bureaucratic sphere leading to personal gain of both parties (Dasandi and Esteve 2017). Thus, the intrusive model of governance in India is suitable for both politicians and bureaucrats. The generalist service is hitting the state capacity to perform specialized or general functions due to the following drawbacks:

1. Limited tenure of two years on any post in any department makes the bureaucrats to start functioning by ‘muddling through and groping along’ or ‘management by experimentation’ (Behn 1988) without any accountability for failures. Sometimes they fail and sometime they succeed.

2. Due to frequent transfers, the institutional memory of the department gets badly hit. Besides, the creation of change leaders is badly hampered who would focus on reforms which are ensuring need, providing plan, building internal support, ensuring top management and external support and provision of resources and lastly institutional change (Fernandez and Rainey 2006).

3. The capacity building of officers has taken back seat as the generalist bureaucrats are not allotted specific departments to perform. Therefore, the concept of specialized trainings to make the officers specialists or domain experts is missing and the generalists continue to handle jobs requiring specialized knowledge and expertise.

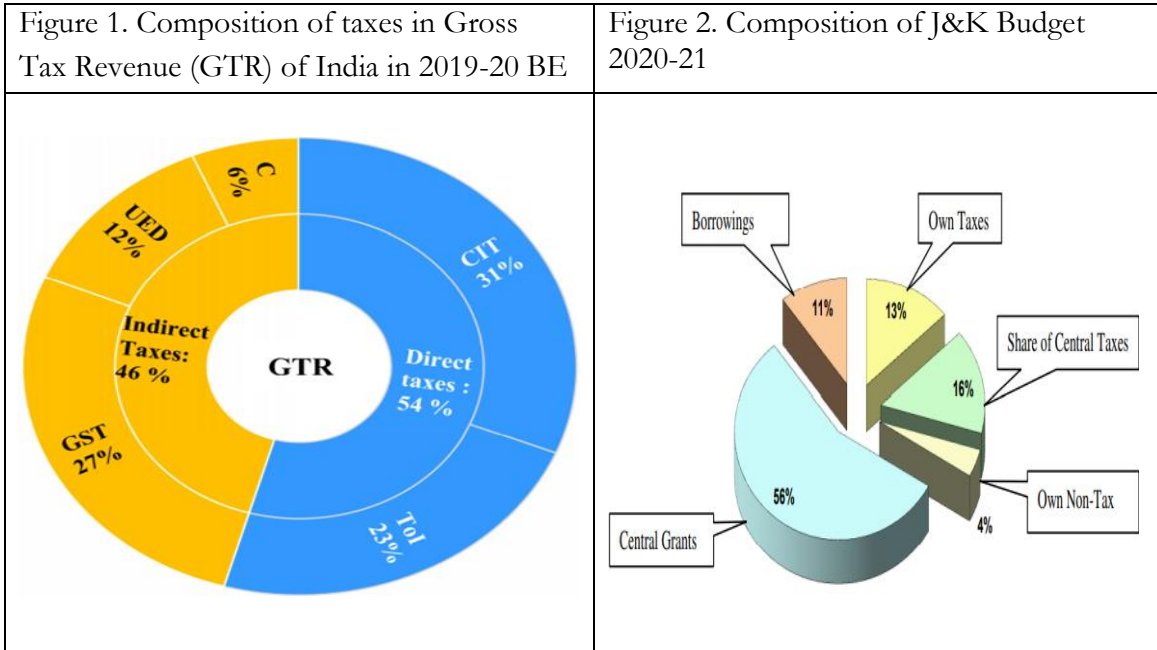
The above mentioned are some of the drawbacks of generalist service hampering the state’s capacity and effectiveness notwithstanding all functions being performed as per procedures and rules thus enriching state’s legitimacy (Hyden 2011). The STD J&K having officers from generalist KAS in operational core, middle line and strategic apex is doing specialized job of taxation which at national level is done by specialist Indian Revenue Service officers and in the states like Punjab and Karnataka by specialist taxation service officers. Thus, the study will focus on the GST collection capacity of the UT of J&K, the bureaucratic apparatus responsible for GST administration and to ascertain as to whether the same is suitable and capable for specialized job of taxation.

2.2.2 Economic structure of the J&K.

The economy of J&K is based on three pillars, ‘Agriculture, Tourism, and infant industries. The sectoral allocation of the primary, secondary and tertiary sectors to the economy, which was 47.40%, 12.90% and 39.70 in 1980-81, has shifted to 15.91%, 22.67% and 58.28% in 2017-18 respectively (Directorate of Economics and Statistics n.d.). The reasons for this change are low profit investment, infrastructural and technological gaps, non-lucrative price returns, attraction towards other professions and rapid urbanization. The GDP for the year 2020-21 has been pegged at INR 201.054 billion with INR 84.034 billion coming from government spending which comes from grants from GoI, central share of taxes and borrowings (Finance Department n.d.). Despite having potential to generate around 20,000 MW of hydroelectric power, only 3263.46 MW has been harnessed and the UT has to rely on import of power (Directorate of Economics and Statistics n.d.). The UT is endowed with forests, abundant water resources and paddy, maize, wheat, apple, apricot, saffron are the main agricultural produce.

2.2.3 Overview of J&K’s Tax System.

India including the UT of J&K has different types of taxes- personal and corporate income, goods and services, custom, property.



Source: (Economic Survey 2020:40)

(Finance Department n.d.:2)

Tax on Income (ToI): – Collected by the Central government (CG), it is applicable to employed people’s salaries subject to touching the threshold, fixed on annual basis. Out of the 54% share of the direct taxes in GTR of India for the year 2019-20, 23% constitutes the ToI (Economic Survey 2020:40).

Corporate Income Tax (CIT): – Collected by the CG, it constitutes 31% of GTR. The rate of CIT is 30%. However, those corporates having turnover up to INR 4 billion in FY 2017-18, have to pay only 25% (ibid).

GST: - Implemented with effect from July 2017, for the year 2019-20, it constituted 27% out of the total 46% of indirect tax revenue contribution to GTR. While for supply of goods and services tax rates – 5%, 12%, 18% and 28% exist with some exceptional rates of 3%, 1% and 2.5% for precious metals, affordable housing (ibid).

Union Excise Duties and Customs: - Union excise duties and customs, levied on petroleum products and imports, contribute 12% and 6% to the GTR respectively (ibid). In addition, states are also competent to levy excise duty on liquor which is one of sources of revenue for them, after GST. Property tax is also levied by the States, however, in the UT of J&K no property tax is being levied as on date. States also levy stamp duties.

2.3 Theoretical Framework.

As the study is focused on the successfulness of the STD to administer GST as per requirements of policy and collect tax on goods and services efficiently, the theories of capacity, agility and organization are relevant and thus chosen. The theories will guide in gauging the capacity, agility and appropriateness of the organizational structure of STD to administer GST as per its requirements.

2.3.1 Capacity.

Defined as ‘ability to perform appropriate task effectively, efficiently and sustainably’ (Grindle and Hilderbrand, 1995: 445) or ability to perform function, solve problems and to achieve objectives in a sustainable manner (Fukuda-Parr et al. 2002) of any organization, capacity is of paramount importance for desired results. Any new policy which is to be implemented by any organization requires conducive action environment, institutional capacity to implement and perform, efficient task network, robust and agile organizational culture and a capable human resource as suggested by Grindle and Hilderbrand (1995).

For success of any policy, the implementing organization requires conducive action environment comprising ‘political stability with legitimacy’, ‘developed human resource’ and better economic conditions to steer the policy implementation to success coupled with strong institutional capacity which is better service condition of the employees regarding their recruitment, career progression, salary, working conditions, incentives for performance and accountability for underperformance, monitoring and evaluation (ibid). In addition, set of organizations intricately to achieve policy objectives forms task network and communication and coordination amongst these organizations affects the performance of policy under implementation (ibid). Further, ‘structure, processes, resources and management styles’ of organization, forming organizational culture, impact the implementation of any policy as the same affect the goals, work, authority relations and incentive structure (ibid). And the human resource capacities of the employees of the STD for GST implementation are highly important which are examining and conducting assessments, audits, investigations, arrests, legal knowledge, commitment to team work (ibid). It is well understood that if the organization responsible for implementing any law or policy lacks required capacity, the result will be policy failure.

2.3.2 Organizational Agility.

Luna et al., (2014) defines Agile governance as under:

Agile governance is the ability of human societies to sense, adapt and respond rapidly and sustainably to changes in its environment, by means of the coordinated combination of agile and lean capabilities with governance capabilities, in order to deliver value faster, better, and cheaper to their core business.

Defined as ability of organization to sense change and react to the changed environment appropriately, agility is an important factor for success of firms. (Overby et al. 2005: 215). The changes brought in environment can be due to change in laws and policies or technological advancement. In my research, the STD of J&K is facing the changed environment due to change in tax regime from VAT to GST. This shift from VAT to GST from 2017 onwards has necessitated change in the strategic and operating conditions of the Department. But the question remains as to whether the Department has the ability to feel the changes brought in by the new law and capacity to react appropriately to the changed circumstances (Overby et al. 2005: 295). Dove (2002) describes agility as ability of an organization to develop in changed circumstances to take on new challenges. He mentions two important organs of agility as ‘response ability’ and ‘knowledge management’ (ibid). The former is the physical action of the organization while the latter is the intellectual ability of organization to sense the spots erupted due to changed circumstances to be acted upon (ibid).

Overby et al. (2005: 298) while discussing agility lays stress on the ‘dynamic capability’ ‘market orientation, and ‘strategic flexibility’ of organizations to be successful. While ‘dynamic capability’ is the ability of an organization to restructure itself to take on changed circumstances, ‘market orientations’ is its ability to gathering and dissemination of vital information of changed circumstances in the field by the organization (ibid). Lastly, the ‘strategic flexibility’ is pro-action or reaction of organization to threats or opportunities or changing conditions (Grewal and Tansuhaj in Overby et al. 2005: 298) and thus having capacity to deliver by way of ‘surprise management’ (Ansoff 1980). While the proactive moves lead the organization to innovate, the reactive moves make it to stand in the action arena with full strength (Overby et al 2005: 299). The study will analyse in detail the agility of the STD in the GST regime.

2.3.3 Organizational theory.

Composed of rules and roles, an organization is based on the prime principle of who is expected to do what and how (Scott 1981) and its members are assigned tasks to achieve the goals. The tasks assigned are in relation to territory, purpose, function or clientele served (Gulick 1937). ‘Operating Core’, ‘Middle Line’ and ‘Strategic Apex’ form basic parts of organization (Egeberg 2003) performing defined tasks to achieve goals. While the basic work of producing the products or services is done by the ‘Operating Core’, the ‘Middle Line’ comprising of technostructure, supporting staff and managers coordinate the affairs of the organization and supervise the operators directly and the ‘Strategic Apex’ besides supervising all affairs of organization, manage its relationship with environment and strategy formulation to maintain pace with changing environment (ibid). At the ‘Operating Core’ level the STD has Sub Inspectors, Inspectors, STOs, ACs, who are generalists, at ‘Middle Line’ the DCs and Additional Commissioners and at ‘Strategic Apex’ the Commissioner, who are generalists as well. The details are as under:

Table 4: Hierarchical structure of STD.

S. No.	Name of the Post	Strength	Level	Method of recruitment
1.	Commissioner	1	Strategic Apex	Deputation from KAS (2 yrs. tenure)
2.	Additional Commissioner	3	Middle Line	Deputation from KAS (2 yrs. tenure)
3.	Deputy Commissioner	19	Middle Line	Deputation from KAS (2 yrs. tenure)
4.	Assistant Commissioner	9	Middle Line	Deputation from KAS (2 yrs. tenure)
5.	STO	107	Operating Core	50% from KAS (2 yrs tenure) and 50% from Inspectors
6.	Inspector	298	Operating Core	All graduates eligible for recruitment through an examination.
7.	Sub-Inspector	331	Operating Core	
8.	(IT/ Accounts/ Legal/ Statistics)	42	Technostructure	Deputation from other departments (2 yrs. tenure)
9.	Other functionaries at all levels	1202	Supporting Staff	Some recruited directly on the basis of an examination and some get promoted as per seniority.

Source: Author. Official data from STD J&K

The theory focusses on interrelationship between the individual member and the organization, its business environments be it internal or external. Therefore, for the current study/research, the theory is important to assess the performance of the employees of the STD to achieve the goals, results of the actions performed, monitoring mechanisms and decision making. (March and Simon 1958). Besides making understand the efficacy of the GST policy viz a viz the organizational structure of the STD as the organization effects the functioning efficiency of the individual members (Egeberg 2003) while its effectiveness and efficiency is relative to its size.

2.4 Conclusion.

In this Chapter, after brief introduction of J&K with special reference to its administration, economy and taxation system I have discussed theories of organizational agility and capacity to assess the ability of STD to implement the GST reform as per requirements of the policy. While the theory of agility will be utilized to examine the response of STD to the changed environment of taxation, the theory of capacity will be utilized to assess the capacity of STD as organization and its human resource to implement GST. Further, the theory of organizational structure will be used to assess the appropriateness of the existing structure of STD for implementation of GST. Therefore, the theories will act as guiding principles to unpack the ability of the STD to sense the change, feel the spots erupted and act proactively or reactively to implement GST as per its requirements rather than the established style.

Chapter 3 GST in J&K: Its focus and comparison with neighbouring states.

3.1 Introduction.

This chapter focusses on the findings addressing the main focus of the GST reform. The section has three main parts. The first section seeks to understand the primary focus of the GST regime with specific reference to UT of J&K. The following section will focus on the GST collection at national level and in the three adjoining states of J&K and a comparative analysis of J&K with them. The final section will be the overall summary and conclusion.

3.2 The focus of GST reform

Tax reforms are conceived and implemented to have sustainable tax revenue by making the tax collection process cheap and tax payer friendly (Fjeldstad and Moore 2008; Prichard 2010). Due to federal structure, India adopted dual GST whereby tax is levied concurrently by the governments at the centre and state/UT level on goods and services as Central GST, State GST and Union Territory GST (Kumary L. and Mathew n.d.). Interstate transactions of goods and services are levied as Integrated GST (ibid).

Although there was no other option under law with the J&K government to delay or stop its entry into the GST regime, the reason for entry advocated by the government was predicted gain of INR 15 to 20 billion annually, improvement in revenue collection, efficiency, ease of doing business, trader friendly and easily implementable because of being IT driven besides ending multiple taxation systems. While promulgating the GST reforms the following benefits were envisaged by the UT government:

3.2.1 Efficiency in Revenue Collection.

Every tax reform brings in efficiency in revenue collection which is pivotal for development (Mascagni et al. 2004). It was envisaged that the self-assessing IT module of the GST reform will definitely increase revenue collection due to huge consumption base of UT and less productions cum exports. The UT, struggling with law and order problem, tensions on borders with Pakistan and ongoing conflict, has already suffered much due to poor infrastructure to collect taxes. The GST being run through ICT lowered the financial costs, time costs and thus easing the process of tax administration.

While the GST was thought to bridge the gaps between the STD and the CED by having seam-less access to common database, the communication between the two authorities would result in capacity building of STD. The online grant of registrations, filing of returns was end to the era of middlemen which was prevalent during previous tax regimes which was considered a rot in the system (GST Council n.d.). Besides, it was envisaged that the issuance of fake bills prevalent in previous regime would end in the GST era being IT driven as the manufacturer of goods has to claim ITC for raw material bought by him and that's only by ensuring proper purchase of the same (ibid).

The concept of IT driven auto generation of returns for the buyer the moment the seller files his return was the main slogan of the GST to match the sales and purchases, and thus no need of manual checking (ibid). However, due to glitches in GSTN the auto comparison/

matching of sales and purchases between the seller and buyer (B2B) has not matured till date. It was envisaged that the tax administration would become easy and smooth as multiple taxes get replaced by single tax backed by robust IT system ending rent seeking resulting in better tax compliance, transparency (ibid). The consumer was considered to benefit as single tax without any cascading would result in lowering of inflation by decrease in indirect tax burden on consumers (ibid).

Due to high tax rate of 28% on luxury items and basic consumable goods at 0% rate, the tax democracy will lead to percolating benefits to lower strata of population (ibid). The business class will get benefitted due to easy tax compliance mechanism as the GST is based on self-assessment and thus leading to non-interference in their business by tax authorities (ibid). With all these benefits in hand, the UT of J&K entered the GST regime.

3.2.2 Increase in Revenue.

Social and economic benefits or improvement in tax administration is the basic motto of the tax reform policy (Rao 2014:1). The UT of J&K entered the GST regime with the intention of bringing efficiency in tax administration as the same will be administering GST in close coordination with CED⁸, which is considered efficient and specialist having full capacity to deliver. Weak tax administration impedes the state's ability to collect taxes (Fjeldstad and Semboja 2001) and leads to growth of informal economy (Emran and Stiglitz 2005) and therefore to have a strong tax authority in place, the UT of J&K considered the time of GST implementation throughout India a useful window opening despite political dimensions of losing financial powers to make tax laws enshrined under the (now annulled) constitution of J&K⁹.

Studies conducted prior to implementation of GST have shown that the UT would have an annual increase of tax collection of INR 15 billion due to increase in tax base, taxes coming from service sector and benefit of being consumption state (Chartered Accountants of India n.d.; Shah and Tariq 2018). Contrary to the findings recorded, the UT has witnessed a steep fall in collection of GST revenue and is relying on compensation being received from GoI.

3.2.3 Integrity.

For having economic growth, environment is required to be conducive and there should be political and social stability, which is possible only where there is trust between Government and its citizens (Carsten 2005). For building the trust, transparency and accountability are of paramount importance and pivotal for efficient economy (ibid) and without transparent tax administration, the tax collection is bound to suffer as the same adds to the trust deficit. Therefore, an inefficient, corrupt and incapable tax administration machinery is a disincentive for tax payers (Gloppen and Rakner 2002).

The GST regime, due to its ICT mechanism, brought integrity to the tax authority as their power to withhold registration or conduct assessments is gone. The check posts at the entry point to the UT of J&K at Lakhanpur, where the entry tax was levied on goods and was considered a hub of corruption, stands abolished. The businessmen are having sigh of

⁸ The then FM mentioned while discussing resolution on implementation of GST on 6th July 2017 in J&K Legislative Assembly.

⁹ The then FM 6th July 2017 in J&K Legislative Assembly.

relief as there is seamless transport of goods from other states to UT of J&K without any barrier. It is this unhindered transport of goods which in due course is going to end the trust deficit between the taxpayer and the Government, resulting taxpayers also following the path of honesty and integrity¹⁰.

However, the ITC frauds, fake invoices, under billing to suppress tax, suppression of sales by traders, keeping bill amount below INR 50,000 to get rid of e-way bill as every e-way bill gets automatic entry in electronic cash ledger are some of the tactics prevalent resulting in loss of GST revenue. The following table shows the GST evasions reported in J&K: -

Table 5: Enforcement Activities

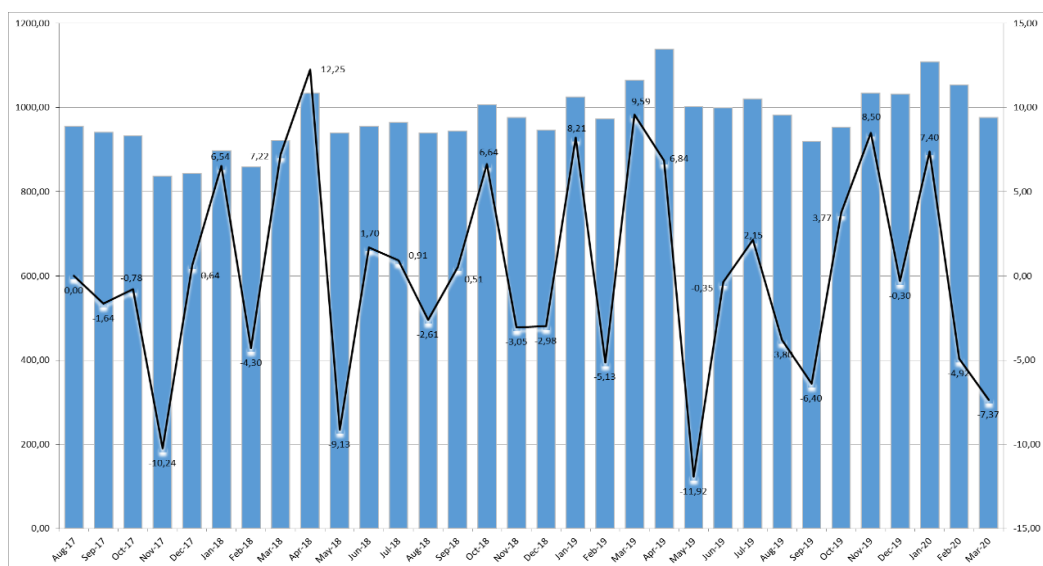
Year	No. of cases detected	(INR in millions)
		Amount involved
2017-18	No enforcement done to ensure implementation of GST	
2018-19	144	13.70
2019-20	2640	78.01

Source: Author-Data from STD J&K

3.3 Revenue Collection under GST.

At national level the month wise GST collection till march 2020 is showing lot of fluctuations. The expected increase in collection of taxes due to increase in tax base and GDP is not there. The figures are as under:

Figure 3: GST Collections at National level.



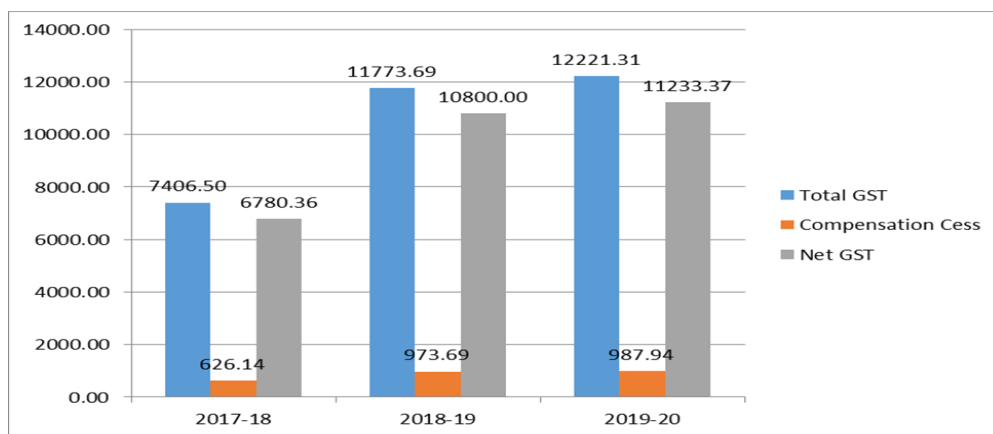
Source = Author. Data from GST Council

¹⁰ President, ICAI, Jammu, interview on 10th August 2020 at Jammu.

The above table shows that for 13 months out of 32 months of GST till march 2020, the collection is less than that of august 2017 despite the annual GDP growth of 11.08%, 11.95 and 7.20 for the years 2017-18, 2018-19 and 2019-20 at current prices respectively. Kumary L and Mathew (2019:9) ascribes the shortfall to lack of understanding of return filing under GST, technological glitches and reduction of rates. However, low GST collections despite increase in tax base, inclusion of services in tax net and increasing GDP pose a serious question about the capacity of the STDs to collect tax which includes the lack of understanding about GST law, organizational agility, capacity, professionalism and structure of the STDs.

The GST collection mentioned in Figure 2 includes the compensation cess being levied by the central government on sin goods like Tobacco, Luxury Cars to compensate the States/UTs in case of GST shortfall till June 2022. The net GST collection at national level without compensation cess is as under: -

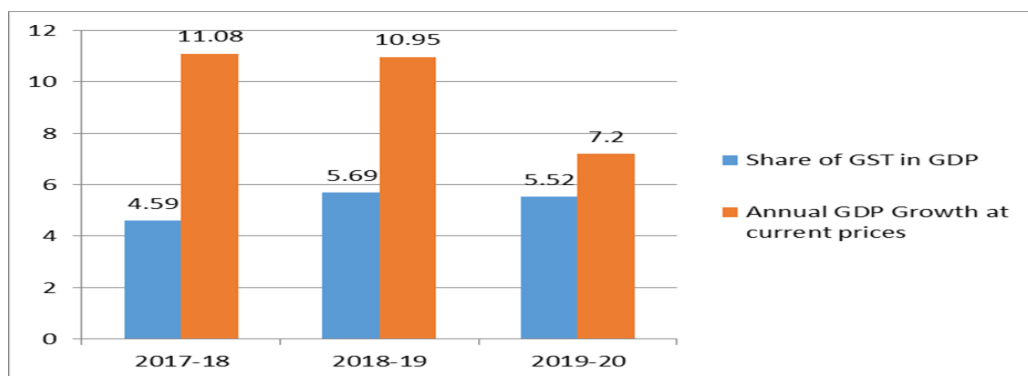
Figure 4: Net GST Collections at national level.



Source: Author.

The GST collection for the year 2017-18 is only from July onwards (09 months). If the subsumed tax figures of INR 1071.48 billion, collected in India from April to June, is added to it, the figures come to INR 7851.84 billion. The annual share of GST in the GDP will be as under:

Figure 5: GST and GDP at National level.



Source: Author.

The figures above show an increase of only 1.1% in share of GST in GDP despite an annual growth of 10.95% during 2018-19 at current prices of 2011-12 series. However, there is a decline of 0.17% in share of GST in GDP in 2019-20 despite annual growth rate of 7.20% at current prices. In normal course the annual increase in share of GST in GDP should have been 14% as the Central Government had envisaged the same while calculating the compensation to be given to the states at protected revenue of 2015-16 (7% for annual GDP growth, 3% inflation and 4% tax buoyancy due to increased tax base) (GST Council n.d.). The GST collection is not as per projections and expectations at national level as during 2018-19 the indirect tax collection fell short of BE by 16% due to shortfall in GST revenue (Economic survey n.d.) and almost similar position is at the state/UT level.

Under VAT, all the states used to collect tax separately at a uniform rate of 12.5% and central government collecting its own VAT on goods at production stage at different rates makes it quite difficult to compare the GST collection with VAT collection at national level. As the GST started on 1st July 2017, the real comparison of taxes collected under it can be from 2019-20 onwards only as 2018-19 was the first full year under GST. Against a total collection of INR 10800.0 billion in 2018-19, the collection for 2019-20 was 11233.37 billion, thus an increase of 3.85% only.

3.3.1 Revenue collection in the UT of J&K and Adjacent States.

To have analysis of the GST collection in the UT of J&K, I find it imperative to have it analysed with the GST collection in the adjacent states. I selected the useful state of HP – a hilly state with least industrial base, Uttarakhand- a hilly state similar to HP and Punjab- a plain state with lot of industries and agricultural economy considered as one of the best states of India. Brief profile of the three states and their GST collection is as under: -

Map 1: J&K, HP, Punjab and Uttarakhand.



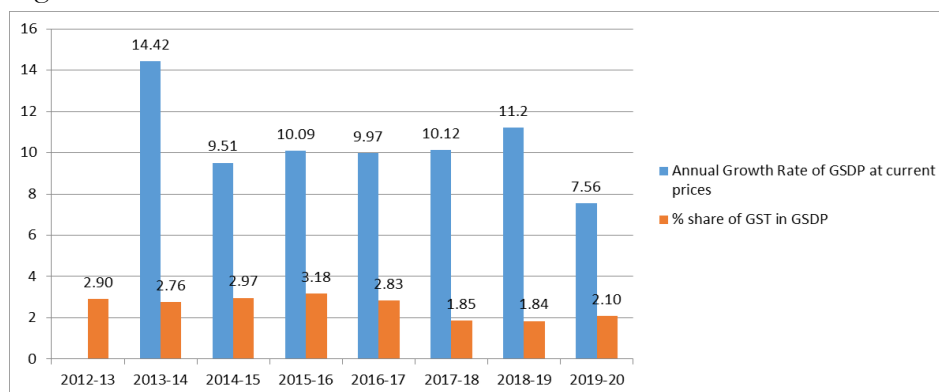
Source: (MapsofIndia n.d.)

3.3.1.1 Himachal Pradesh.

Situated in north of India, adjoining J&K, Punjab and Uttarakhand and sharing border with china, Himachal Pradesh has hilly terrain, higher costs of development, less resources

for industrial activities and high cost of living putting it at disadvantageous position. The state has a population of 6.8 million as per 2011 census with literacy rate of 82.80% (Economics and Statistics Department n.d.). Agriculture is the main source of income followed by Tourism (ibid). The industrial and the service sectors have taken center stage as during 2018-19 they contributed 44.03% and 43.33% to the GSVA at current prices (ibid). The agricultural sector contributed 12.64% (ibid). The state ranks 21st with respect to its contribution to national GDP (ibid). The year wise indirect tax collected from subsumed taxes into GST from 2012-13 to 2016-17 and GST from 2017-18 is as under: -

Figure 6: GST and GSDP of HP



Source: Author.

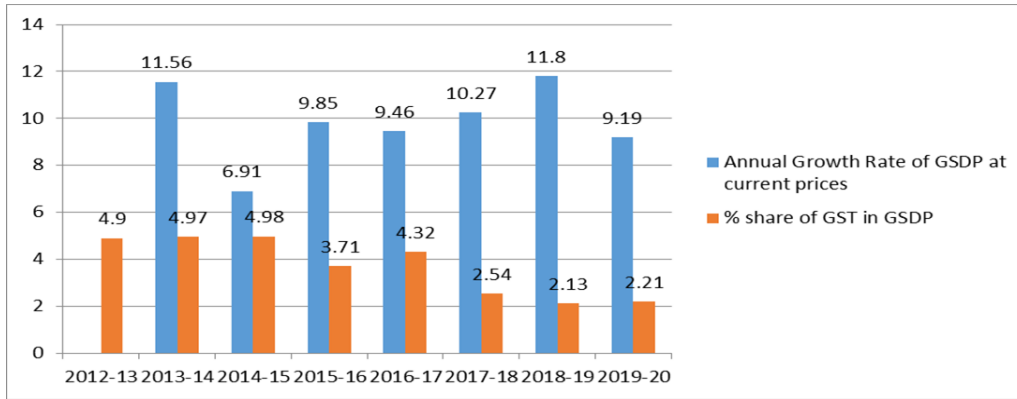
Against the protected revenue of INR 36.34 billion for the year 2015-16, the state has not till date surpassed the 2015-16 mark in GST collections. The state is meeting the gap from compensation paid by the central government. The percentage share of GST in GSDP at current prices has declined since implementation of GST.

3.3.1.2 Punjab.

With a population of 28 million as per 2011 census, Punjab is agricultural and industrial hub in North India with 26% of population having agriculture as livelihood due to high mechanization (Government of Punjab n.d.). Huge industrial sector of the state contributes 25% of GSVA (ibid). The service sector has given boost to economic activities resulting in employment generation (ibid). Literacy rate is 76.7% with per capita income of INR 166,830 in comparison to 134,226 at national level (ibid). The state ranks 15th with respect to its contribution to national GDP (ibid).

The GST collection for the state has become bone of contention as the state has shown steep decline in GST collection and is relying on the compensation from GoI. Like HP, Punjab has also not crossed the protected revenue mark of INR 144.71 billion since implementation of the GST, despite increasing GSDP. The year wise indirect tax collected from subsumed taxes into GST from 2012-13 to 2016-17 and GST from 2017-18 is as under: -

Figure 7: GST and GSDP of Punjab.



Source: Author.

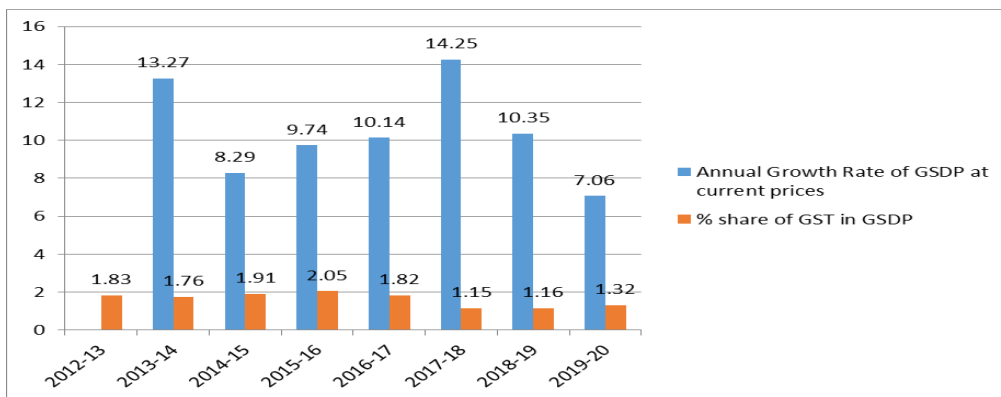
The percentage share of GST in GSDP at current prices has declined since implementation of GST. However, one of the main reasons for decline of GST collections in Punjab, as mentioned by Under Secretary GST Council, is its huge production base and exports due to which the GST flies to the importing cum consuming states and the center.

3.3.1.3 Uttarakhand.

Sharing borders with Nepal and China, population of the state is 10.1 million as per 2011 census with a literacy rate of 79.63% (Directorate of Economics and Statistics Planning n.d.). Agriculture, Tourism and small-scale industries are main source of livelihood for the population (ibid). Limestone, Marble, Phosphate, Dolomite, Magnetite, Copper and Gypsum are mineral deposits in the State (ibid). The per capita income of the state is INR 194,293 and the state ranks 20th in India with respect to its contribution to national GDP (ibid).

However, Like Punjab and HP, Uttarakhand is also relying on the compensation from GoI. The State has not touched the protected revenue of INR 49.61 billion since implementation of GST.

Figure 8: GST and GSDP of Uttarakhand.



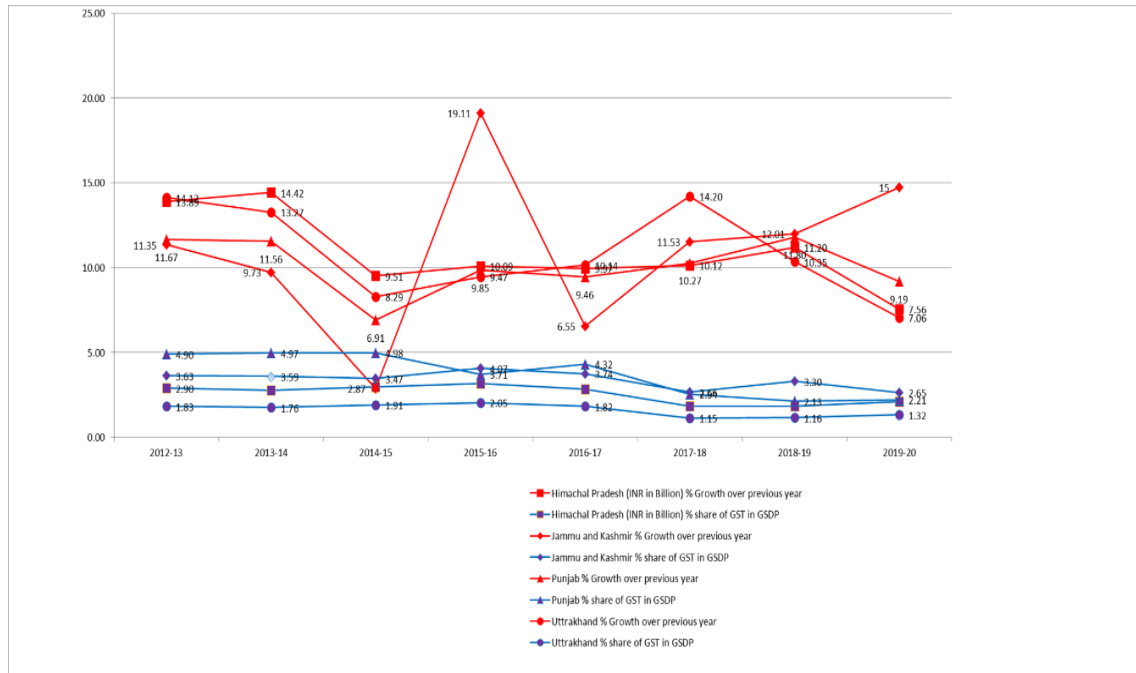
Source: Author.

The percentage share of GST in GSDP at current prices has declined since implementation of GST.

3.3.2 Comparison of GST revenue of J&K with adjacent States.

To have comparison of GST collection of three neighboring states- Punjab, HP and Uttarakhand with J&K, the tax collected on subsumed goods and services from the year 2012-13 has been taken.

Figure 9: GSDP growth and GST of states.



Source: Author.

As is evident in all the four states the share of tax on subsumed goods and GSDP has considerably decreased from 2017 onwards despite the average GSDP growth of all the states being around 10 to 11%. The protected revenue and the target of GST revenue collection with 14% annual cascading growth for 2012-22 1nd 2022-23 is as under: -

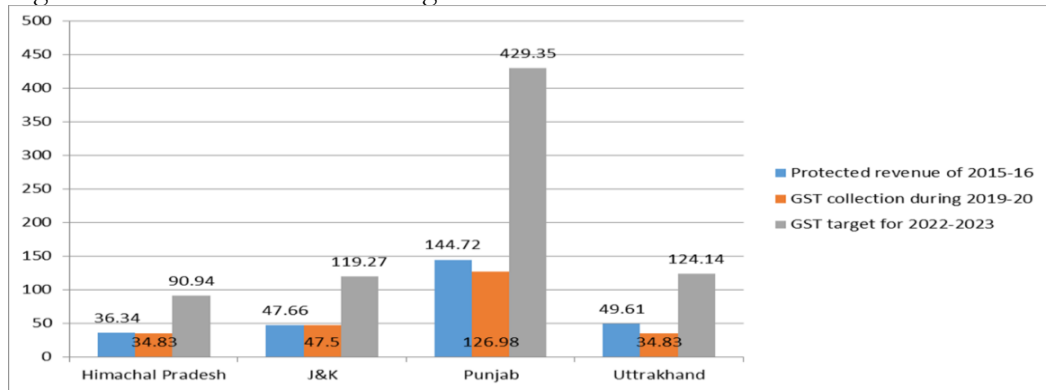
Table 6: GST Target in 2021 and 2022.

INR in Billion

States	Protected revenue of 2015-16	GST collection during 2019-20	GST target for 2021-22	GST target for 2022-23
HP	36.34	34.83	79.77	90.94
J&K	47.66	47.50	104.62	119.27
Punjab	144.72	126.98	376.63	429.35
Uttarakhand	49.61	34.83	108.90	124.14

Source: (Mukherjee 2020).

Figure 10: Protected GST and targets.



Source: Author.

From above table it is clear that the three states and J&K have not touched the protected GST figure of 2015-16 during 2019-20 and there seems no chance for J&K and adjoining states to achieve the GST targets of 2022-23 as for achieving the same the GST collections have to increase around 300% in Punjab and Uttarakhand and 200% in J&K and HP against the figures of 2019-20.

3.4. Conclusion.

The chapter starts with discussion on focus of GST reform in J&K; which is about bringing efficiency in revenue collection, increase in revenue and integrity. While the GST has brought in efficiency through its ICT module of implementation but the increase in revenue and integrity has not matured. This decline in GST collection and rampant evasions by traders coupled with the corrupt practices of the tax authorities are pinching the state coffers. The GST collection at national level is analysed and it has been found that the same are not in commensuration with the annual GDP growth. The GST collection grew by meagre 3.85% during 2019-20 despite GDP growth of 7.20%. The GST collection of J&K is compared with its adjoining states of HP, Uttarakhand and Punjab and it is found that despite being economically and industrially strong the GST collections in Punjab are also in bad shape. One of the reasons argued for the same is exports of the industrial products leading to transfer of GST collected to importing states and the centre. The condition of HP and Uttarakhand is almost similar to J&K despite the latter having lowest tax base amongst all. The decrease in share of GST in GSDP post GST implementation in all three states and J&KUT is quite alarming. All the states and the UT have to increase GST collections by 200% to 300% to be able to achieve the GST targets of 2021-22 and 2022-23 and in failure a severe fiscal shock is waiting to hit them post June 2022 when compensation from GoI is going to stop.

Chapter 4 Impediments to GST Collection

4.1 Introduction.

This chapter focusses on the constraints faced by government departments while implementing any new policy reform as per its requirements. The chapter discusses the constraints in three parts. The first section focusses on organizational capacity, the second section on organizational agility and the third on structure of the STD. A comparison will be drawn with the state of Karnataka, which has performed quite well in GST collection. The final section will be the overall summary and conclusion.

4.2 Least Capacity Building and Lack of Specialized Service to administer GST.

Edeberg (2003) mentions ‘specialization’ as one of the key features of any organization for successful implementation of any policy. Any organization has five basic parts- ‘operating core, middle line, strategic apex, Technostructure and Supporting Staff’ (ibid). The ‘Operating Core’ of the organization which is responsible for production of services is required to be specialist and professional as it is ‘heart of every organization’ (ibid). In case of the STD the generalist Sub Inspectors, Inspectors, STOs and ACs form the operating core performing the functions of tax administrators. Same is the condition of middle line and strategic apex. Except the Sub Inspectors, Inspectors and promoted 50% STOs, all others have a fixed tenure of two years. But the promoted 50% STOs also move out of the STD on their next promotion as they also become members of the KAS. This way there is no permanent specialized and professional Taxation Service as such.

During data collection, lack of adequate capacity building of the staff of the STD and lack of specialized service to administer the GST has been found as another impediment GST. The tax payer himself is also required to have capacity, which they lack, to use the GSTN for self-assessment, filing returns and depositing GST¹¹. The overall incapacity of the stakeholders involved in tax deposition and tax administration is damaging the GST to GSDP ratio of the state. The staff of the STD, which acts as agent for the UT government being principal, is less trained besides being generalists.

The staff of the STD acts as instrument of the state to implement GST and therefore acts as agents for financial prosperity of UT. Fukuyama (2013) while laying focus on tax extraction capacity of state mentions the same as its ultimate power and such power is possible only when the bureaucracy administering taxation is trained, professional and specialists. The high tax to GDP ratio is symbol of a capable bureaucracy which in the case of J&K is missing. An STO mentioned:

In the fourth year of GST implementation we still don’t know how the GST returns are to be filed by the tax payers. In such a situation it is understandable that we lack even basic capacity. We have not undergone any investigative training to detect the evasions. Just basic law has been taught and we are left to implement the new tax system without any tools or knowledge.

¹¹ Author field work.

Findings further lead to the fact that the staff selected for the STD is not having any special knowledge of finance, economics, audit or taxation. Any graduate can apply for the post of sub-inspector or Inspector and will be selected on the basis of graduate level combined examination for different posts in varied departments. Just one-month training is imparted to them that too by serving STOs, who intimated that they don't have practical knowledge of GST barring a few, and then are posted in different circles to do the specialized task of taxation. At STO level, the officers are appointed either by promotion of Inspectors or KAS Officers who are posted for a period of two years only. The recruitment of KAS Officers is also on the basis of a graduate level examination conducted by the J&K PSC. An STO stated:

50% of the STOs come from KAS and have fixed tenure of two years. We are posted in GST circles or in other wings of the department such as Recovery, Audit, Appeal without any training. We learn from one another or from the senior officers if he/she knows the GST. The senior officers like DC, Additional Commissioner, and Commissioner also come from KAS or IAS and they also are for two years. The department is getting done a specialized job of tax collection by generalists. The two years tenure of every officer has ruined the STD and the government must create a special service like IRS for CED to handle GST administration.

The routine transfer after every two years from the department, recruitment based on graduation in any stream, no training apparatus in place and generalists performing taxation duty is causing huge loss to the UT as the 'ability to perform the appropriate task effectively, efficiently and sustainably' is badly hit (Grindle and Hilderbrand, 1995). If the human resource of the STD J&K is compared with that of Karnataka, we find the latter having specialized and professional officer's dealing with specialized job of tax collection and results of the same are positive results in GST collection. The Additional Commissioner, Head Quarter, CTD, Karnataka mentioned:

We have a very vibrant and strong taxation service doing indirect tax collections for the last forty years. Except Commissioner and two officers at Joint Commissioner level who come from IAS, all others are from Karnataka Taxation Service. We have skills, capacity to foresee, investigate and arrest the evasions. We have Fiscal Policy Institute which besides conducting research and studies on fiscal, taxation and economic matters provides regular trainings to officers at regular intervals. The fresh staff recruited is imparted training for two years about all functionalities of the department. The process is in place for the last forty years and capacity building is given top priority.

However, the situation is contrary in J&K to what we see in Karnataka. There is no institute to impart training to its officers, no research is being conducted on taxation and there is no specialized service. The lack of specialized service not only impedes the GST implementation but also hits the institutional memory and accountability mechanisms. If the situation continues like this and the tax buoyancy remains as it is, the UT is going to be hit by a fiscal shock after June 2022 when the compensation from GoI is going to end. The DC, Audit and inspections who had joined six months back replacing another officer from KAS Service mentioned as under: -

We don't know how to conduct the audit. There is no prescribed manual to conduct audit of any business unit as is prescribed by CED. Under VAT regime this office used to conduct audit of the assessment orders issued by the STOs under J&K VAT Act. But now we have to conduct audit of business units and we lack capacity. No training has been imparted to us. I don't know what to do. We have to scrutinize the balance sheets prepared by CAs and we don't have capacity.

Another STO mentioned:

The Act provides for arresting evaders. Candidly speaking neither we have capacity to arrest any evader nor know the procedures and protocols to be followed after arrest. The biggest deterrent of the GST is neither implemented till date nor is any expectation. On the other hand, the Enforcement wing of CED off and on arrests evaders and proceeds against them in criminal courts. As we lack this capacity, the traders are least scared of this provision of law.

This shows how the STD is struggling with generalists doing job of taxation that too without any formal induction training.

Some officers¹² posted in Kashmir mentioned the constraints faced by them due to prevailing law and order problems due to political instability. As for Grindle and Hilderbrand (1995), the political stability, economic capacity and development of human resources is the first and foremost dimension to analyze capacity of a state. In case of UT of J&K all the three are in bad shape and economically the UT is all dependent on Central Government funding. Kashmir valley always faces law and order problems leading to unconducive action environment and with less developed human resource the tax morale of the population is very low.

The President of Chartered Accountant Association of India, J&K mentioned as under:

-
We invited the Commissioner and Additional Commissioner to our Institute many times to address us and guide us on some issues. They never agreed only because they themselves are not conversant with GST. As CAs we are facing large difficulties, what would be position of a common trader.

The above statement doesn't speak only about less human resource capacity but also weak task network in the action arena. Another STO from Kashmir Division mentioned: -

During the VAT regime reviews were being conducted upto the level of STOs by the then Hon'ble Minister of Finance on regular basis to keep watch on tax buoyancy. Since implementation of GST no review has been conducted. We have no liaison with the CED authorities although both STD and CED implement GST. Despite implementing the same law, the employees of STD are having less salary than the CED. Our offices are in bad shape. We don't have enough furniture; washrooms are in bad shape and there are no incentives for performance or disincentives for underperformance.

The above comments from various stakeholders tell upon the weak institutional capacity of the STD to implement/enforce the GST law. While capacity building of the Sub Inspectors, Inspectors and 50% STOs may prove fruitful, as they remain posted in the STD for quite a time, the capacity building of KAS officers, forming 'operating core, middle line, strategic apex', (Edeberg 2003) will remain a challenge given their short tenure in STD. The above discussion makes it clear that the STD is performing its duty in an unconducive environment in Kashmir valley, has poor task network as it has even failed to develop contacts with the CED despite directions from Finance Secretary, GoI¹³, has weak organizational capacity with generalist bureaucrats performing specialist job of taxation that too without enough capacity building resulting in non-implementation of GST as per its requirements.

¹² DC, Enforcement North and Additional Commissioner, Kashmir

¹³ Finance Secretary, GoI note dated 10.09.2018 (Appendix 13)

4.3 Lack of Organizational Agility.

The other impediment to revenue collection by the STD is its non-agility to the changed taxation environment. Agility, being sensing, adapting and rapidly responding to the changed environment to deliver effectively and swiftly, (Luna et al. 2014) is of paramount importance for the STD to collect GST as per targets fixed. However, the study found that the STD is still in the VAT mode of tax administration and the officers and the staff are pressing the traders to file the due tax return on monthly, quarterly or annual basis without any investigation, audit or examination of the same. All the twenty two officers from operational core and middle line, who were interviewed, mentioned that even after three years of GST implementation, the STD has not made a shift in its functioning style which is required as per GST law. One of the STO mentioned:

First and foremost, the STD is functioning in VAT mode without any direction. The officers don't command anything except ensuring filing of monthly returns by the traders. We don't know whether returns filed are correct or not. The GSTN software is not working for all functionalities and the Department is still in VAT mode.

The STD is facing changed circumstances due to change in taxation law but as per study the ability to sense the change is missing, which is an important factor for its success (Overby et al. 2005: 215) and in absence of ability to sense the spots erupted due to change in environment, the STD cannot react or respond (Dove 2002). The study shows that the STD has not gained the intellectual ability to sense the change brought in by the GST regime and therefore the STD is in the action of muddling through and groping along (Behn 1988).

An agile organization possesses well developed sensing capabilities, conducts "research and development", gathers intelligence reports from markets which results in detection of change in environment by the said organization due to new legal/regulatory change (Overby et al. 2005). The detection or sensing change in environment leads the organization to acquire 'strong strategic and operating capabilities' to do proactive or reactive actions (ibid) and the STD is having acute deficiency of these capabilities. An STO mentioned:

STD and CED are implementing the GST in the UT jointly, but till date we have had no interaction with the CED. It should have been there to know about evasions and frauds being committed by the traders as the CED is having expertise and capacity to sense, gather intelligence and act. We don't even know where are their offices located in J&K.

This shows that the STD has not even communicated with the CED till date about the implementation strategies to be followed despite clear directions from Finance Secretary, GoI, for creating joint mobile squads by STD and CED to conduct enforcements, in his report about GST in J&K. In normal course both departments should have developed a strong communication mechanism to track evasions, address glitches and ensure a joint mechanism of conducting enforcements. On this count the STD has failed to sense this important required change in operations and the CED as well.

Furthermore, the GST policy was considered to have mechanism of self-policing which is automatic matching of B2B sales. Due to technical glitches, the same didn't take place and the GST is in its 4th year of implementation. Its due to this aspect of GST the Lakhanpur check posts on UT border were closed to ensure free movement of goods and services. In absence of auto matching, the STD should have taken action to safeguard its GST collections

and stop evasions by either re-establishing check-post or developing any other suitable mechanism to arrest the evasions. An STO mentioned:

The check post at Lakhanpur was abolished in view of the fact that GST will bring self-policing mechanism. As the same has not happened till date and the UT having no check post, except a few officers positioned there checking 2 vehicles out of around 2500 vehicles entering the UT on a daily basis, the evasions are bound to happen.

Karnataka tackled the similar situation with an efficient manner asserted Additional Commissioner, Head Quarter, CTD, Karnataka (ACHQCTD). He claimed that they closed the check posts at state borders but the moment it was sensed by them that the auto policing of GST is a distant dream and there are high chances of GST evasions taking place, Enforcement Wing of Commercial Tax Department (CTD) of Karnataka established mobile check posts on state highways to stop evasions. But this was possible only because Karnataka has well established taxation Service having full capacity to sense the change and act or react, the organization is properly structured with split divisions of administration, enforcement, audit and appeal, the officer stated. This all shows the agility to foresee and reaction by CTD, Karnataka which is lacking in STD. The ACHQCTD, Karnataka mentioned:

In absence of auto policing of GST, we further strengthened the already strong enforcement wing of the department. We constituted large number of mobile squads and mobile check posts. All this paid. Heavy penalties were imposed on evaders and vehicles confiscated. We invented the e-way bill module which later got implemented in whole India. Not only this we divided the traders as per turnover in three categories of-top, middle and bottom. The top traders are being monitored by Commissioner and Additional Commissioner, the middle one by Joint and DCs and the bottom one by Assistant Commissioners and Commercial taxes Officers (CTO).

The above averments made by the officer get tested by the fact that the GST collection of Karnataka is quite good despite they are also relying on compensation. The figures for J&K and Karnataka are as under: -

Table 7: Share of compensation in gross GST of Karnataka and J&K

INR in billion					
State	RUP- 2015-16	Heads	2017-18	2018-19	2019-20
Karnataka	361.44	Net GST Collected	418.91	680.09	689.12
		Compensation Received	62.46	107.54	144.96
		Total GST	481.37	787.63	834.08
		Compensation as percentage of total GST collections	13.01%	13.65%	17.37%
J&K	47.66	Net GST Collected	37.05	51.39	47.50
		Compensation Received	11.37	14.62	31.85
		Total GST	48.42	66.01	79.35
		Compensation as percentage of total GST collections	23.48%	22.14%	40.13%

Source: GST Council.

The above figures show that the Karnataka is much ahead of J&K in GST collections as they have surpassed the protected revenue of 2015-16 and their share of compensation in total annual GST collection is much less than the J&K UT. The situation in UT of J&K is quite alarming as for 2019-20 the compensation comprises 40.13% of the total GST collections. This all is due to poor sensing ability of the STD. President, Chamber of Industries, Jammu mentioned:

The J&K STD couldn't sense till date that the shortfall of GST in Punjab due to export of manufactured goods should have resulted in GST gain for J&K being importer. About 30 to 35% of traded goods enter the UT illegally. There is no check. And due to this the already ailing industry of J&K is at the verge of collapse as the illegally traded goods from Punjab are cheaper than the goods manufactured in J&K.

Almost similar was the response of Ex-President of Jammu Chamber of Commerce:

The inaction of the STD to check evasions and pilferage on one hand hit the trade of honest businessmen and on the other hand the UT is losing GST. The STD is lacking capacity, knowledge, staff and will to arrest the evasions. The STD even didn't coordinate with other departments to ensure GST registration for regulated trades like medical shops. All blame is on STD. No one will agitate if a GST evader is penalized.

A GST lawyer mentioned:

GST is ICT based but why there is no common software for traders to make sales and purchases which would get updated as and when modifications are made in GST law. If we can sense requirement of the same why not STD or GST council.

The above averments reveal lack of sensing and action capability of STD. One of the causes of this phenomenon is the tenure of just two years of a generalist officer from KAS as STOs and ACs, who are part of operating core, as they neither try to take any risk nor experiment any innovation which leads to non-agility of the Department. An STO mentioned:

We are never asked to suggest anything whether its amendments to the policy or operational mechanisms. Whatever comes from top is to be implemented irrespective of the fact whether that is required, possible and practicable or not. The top officers are also helpless as everything flows from GST council. This central body decides everything and hence the STDs of the UT is at a halt.

The lack of powers to take decisions at ground level as per requirements to get better results is an important factor keeping the STD in inertia. The law, the rules, the tax rates, the software, everything flows from GST council and hence is acting as a roadblock to have agility in the functioning of STDs. Not only this, it has made the officers of the STD lethargic. They wait for agenda of the GST council meeting, read that, attend the meeting and obey the orders, said an officer¹⁴ of the department. Another STO mentioned:

We don't know much about the evasion mechanism adopted by the traders except a few detected by the Department till date. We neither have any mechanism to gather intelligence and study current trade operation nor is there any direction from top to do that. On this count we are helpless.

¹⁴ Assistant Commissioner, STD, J&K.

The study reveals that there is no mechanism to gather reports from market which is a prerequisite for sensing any change in environment due to change in tax policy. In absence of sensing capability, the STD is still in VAT mode. A trader mentioned:

By the time the Department will understand the GST and the market operations, evasion worth trillions of INR would take place. At present the evasion is rampant and the honest traders are facing its brunt. ITC frauds, circular trading, shell companies issuing invoices, fake invoices, under billing, single e-way bill for multiple ferries are some examples. STD is in deep slumber and the evaders are having feast.

An officer of the department acknowledged what the trader mentioned. He maintained that:

The Department is still in VAT mode. The officers down below STOs, Inspectors, sub-inspectors, Senior Assistants and Junior Assistants are not assigned any job. The STO is the proper officer to conduct every action. On an average every STO has about 2000 dealers under him to be monitored. How he can gather intelligence, conduct inspections, issue demand notice, start recovery and defend appeals.

An Inspector of the Department while narrating the level of inertia of the STD mentioned:

We were appointed as Inspectors in 2018 and have to pass examination for confirmation in service. It's amazing that our syllabus of examination is still of VAT regime. We are not studying GST as that's not part of exam syllabus.

Another Inspector mentioned:

The website of the department is still of VAT regime. Except a few uploading of GST notifications done in 2017, there is no updation of fresh notifications issued on it. It's useless website¹⁵ and we suffer badly because there is no source to keep ourselves updated about modification in GST law, rules and notifications of rates of goods and services.

The study also found an interesting fact about functioning of seven Deputy Commissioner of Enforcement (DCENF), who only check goods in movement and don't check the business premises on the pretext of having neither authority nor powers under section 67 and 71 of the J&K SGST Act 2017, which only Commissioner or Additional commissioner can delegate to them. The author showed the DCENF North Jammu and Central Kashmir the order issued by Commissioner, STD in 2017, empowering them under sections 67 and 71 of the SGST Act. The officers were astonished and mentioned that they had been given impression that they don't have powers. The DCENF, North, Jammu mentioned:

This is strange that till date we have not been informed about this order. There is no website of the department where we can find these orders. Its amazing that no body from top asked us to do this duty. Not only this we neither have any infrastructure nor funds and drawing and disbursing powers¹⁶ till date. We can't even purchase a pen.

¹⁵ <https://jkcomtax.gov.in>

¹⁶ Powers to utilize funds for drawing salary and purchasing office equipments/ fuel form official vehicles.

The agility of the STD depends on its sensing the environment change caused by the GST law and responding with strong strategic and operating capabilities (Overby et al. 2005) but same is possible only when the officers are encouraged to take risks in conducting inspections, enforcements, audits and are appreciated. The failure to detect any evasion should not go against the officer in any manner. In case this mode is adopted, it will lead the officers acquiring in-depth practical knowledge of the GST operations and will also result in innovations to detect economic offences by them. The findings also lead to understand that the STD has not been restructured as per the new law and there is no proper work distribution from top to bottom level employee. Almost 80% of the employees are lower functionaries, who are not assigned any role in new regime coupled with fixed tenure of two years of the officers from KAS forming operational core of the department which has halted the sensing and action capability of the STD. The lack of sensing ability in STD has halted all further processes in action arena which are capability to restructure itself 'dynamic capability', ability to gather and disseminate information 'market orientation' and taking actions 'strategic flexibility' (ibid). The study found that the STD lacks agility to sense and take on changed circumstances and the department finds its place in quadrant IV of 'Limited' with low sensing / low response capability as suggested by Overby et al. (2005).

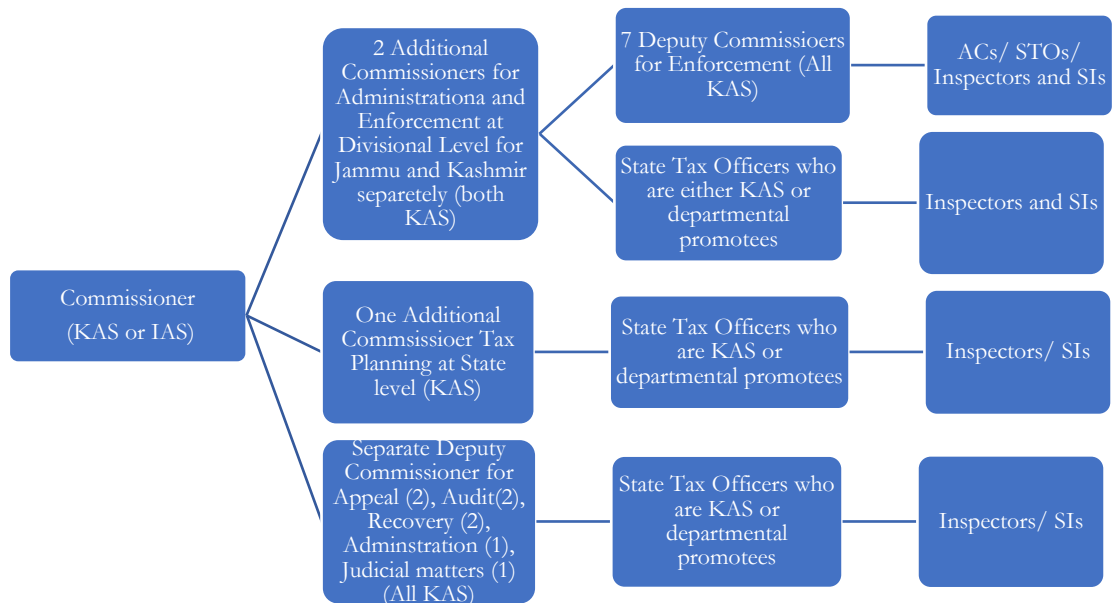
4.4 Organizational Structure.

Tax policy comprises three inter-dependent components namely architecture, engineering and management (Rao 2015:4). While architecture is about design of the policy, engineering is about 'mechanics of applying the design' and the management is related to 'implementation strategy and action' (ibid). In action arena the engineering and the management aspects of the GST are to be looked by the STD. For successful implementation of any policy, the organization needs appropriate 'structure, processes, resources and management styles' (Grindle and Hildebrand, 1995) coupled with the design of the policy to be simple, the system transparent and easy to administer (Rao 2015).

However, the effective administration of the GST, which is well designed, simple and transparent, is hindered by lack of appropriate structure of STD, which is shaping the behavior of the officers and thus effecting their efficiency. While the overall capacity of any government is measured by the level of its decisions based on merit, qualification of its agents, output and bureaucratic autonomy (Fukuyama 2013), the efficiency of an organization depends on its size, specialization, demography of its members and location where it is situated (Egeberg 2003).

One of most important facets of the tax policy tripod is its management and same is possible only when the structure of the organization is as per requirements of the policy with professional human resource. In absence of the same, the GST due to its self-enforcing nature will cover only formal sector and that too B2B transactions only as same are recorded transactions (Emran and Stiglitz 2005) but at present the self-policing mechanism has not been enforced. The different hierarchical levels of the STD are as under: -

Figure 11: Organizational chart of STD.



Source: Author.

The CED, administering GST at national level, is vertically specialized organization but with split divisions of Executive, Audit, Appeal, Intelligence and Training headed by a separate Commissioner, who draw their powers from the Act.

In contrast, the STD of J&K is a vertically specialized organization, with generalist human resource, with all the powers vested in the Commissioner who is at 'strategic apex'. The Additional Commissioners and the DCs form the 'middle line' and oversee the functioning of the 'operational core'. The 'operational core' is the heart and soul of the GST which has to implement the same. But the structure of the organization and multitasking at every level, lack of powers and absence of vertically split divisions are hindering the 'engineering and management' aspect of the GST. The DC Audit, Jammu mentioned: -

I have not conducted any audit till date as section 65 of the Act empowers Commissioner to order an audit of any registered business. In addition, we don't have capacity to do audit. Audit wing is considered unimportant by the employees of the department. Only employees at the verge of retirement, lazy or lethargic are posted here. They don't have any specialized knowledge or training to conduct audits neither do I.

On the other hand, the Additional Commissioners and below them the STOs are doing executive functions as well as enforcement duties. This way the job of STO has become quite tough. One of the STOs mentioned: -

STO of a Circle has to look after registrations, amendment to it, monitoring returns, conducting enforcement, preparing audit assessments, conducting recoveries, passing refund orders, preparing replies for appeals filed and preparing information to be submitted to higher authorities. We are overworked while the STOs with other DCs are enjoying.

The above discussion depicts the poor organizational culture in the STD due to its inappropriate structuring. The GST law has been formulated in due consultation with the STDs of all the states and UTs but the pivotal role has been played by the CED. The fields

formations of the CED are in line with the requirements of the Act, as the four wings of the department are headed by four Commissioners who are vested special powers by the Act itself and neither require any delegation of authority nor orders. The Karnataka has also followed a similar model and the results of GST collection are quite encouraging. The Additional Commissioner, Head Quarter, CTD, Karnataka mentioned:

The CTD of Karnataka, headed by Commissioner, has vertically split divisions of Administration, Enforcement, Audit and Appeal each headed by a separate Additional Commissioner. Below the Additional Commissioners, the Joint Commissioners, DC, Assistant Commissioners and CTOs function who report directly to Additional Commissioner while acting independently within their respective jurisdictions.

This organizational structure of the Karnataka Tax authority is almost in line with the CED and thus is agile in its functioning and has capacity to collect taxes. Contrary to this the STD's Commissioner is vested with all powers and it is up to him to delegate powers, direct conduct of audits or order inspections and enforcement. Likewise, are the two Additional Commissioners dealing with both administration and enforcements. It seems that, with the intention of not losing any power, at the time of re-organization of the department, post GST implementation, the Commissioner of STD proposed creation of 6 extra DCENFs under him in addition to already existing two with no other major structural change, said an officer of the STD¹⁷. The current organizational structure being vertical without split divisions is hampering the implementation of GST law as all functions are being conducted under one Commissionerate and in normal course how the same authority conducts self-audit is quite amazing said an officer of the department¹⁸.

4.5. Conclusion.

The study found the lack of capacity, organizational agility coupled with lack of specialised service to administer GST and the current organizational structure of STD not being as per requirements of GST policy as main impediments to implementation of GST as per its requirements. Besides some technical glitches in GSTN resulting in non-functionality of auto comparison/ matching of B2B sales and purchases, which was one of the main slogans of GST, is impeding its implementation. The STD is lacking the sensing ability to notice the spots erupted due to change in tax policy and hence no pro-action or reaction is visible. The lack of sensing ability has made the STD lethargic, inefficient and weak. The incapacity to administer GST by generalists especially in the operational core and frequent transfers of officers to and out of STD has deteriorated the professionalism required by a tax authority. The study found that the GST is being implemented by the STD following the age-old style of General Sales Tax and VAT implementation model. For having changed implementation style, the GST policy requires an agile tax authority having specialised service with full capacity and having structure as per requirements of GST. The GST collection of Karnataka, having properly structured tax authority with specialized service has been compared with J&K and it has been found that a robust policy will fail if the organization implementing it is not agile, lacking capacity and professional human resource or is improperly structured.

¹⁷ STO, STD, Jammu.

¹⁸ Assistant Commissioner, STD.

Chapter 5 GST and Revenue Growth – Solutions

5.1 Introduction.

This chapter focusses on the measures needed to make implementation of any new policy successful and as per its requirements. The first section focusses on changing organizational structure followed by creating specialized service and capacity building and lastly strengthening enforcement mechanism. The final section will be the overall summary and conclusion.

5.2 Changing Organizational Structure.

Performance of any organization is dependent upon its correct structure (Drucker 1989). Child (1988) emphasizes, for good performance of any organization, a perfect design to allocate responsibilities, functions, decision making, control and co-ordination is imperative. Although there can't be a perfect structure as the organizations have to change as per environment, policy or client behavior and same is with the STD, but a well-suited structure as per the requirements of the policy in vogue can't be dispensed with.

The STD being an economic organization, therefore, requires restructuring to have efficient management of the GST resulting in economic efficiency, job satisfaction and morale of its workforce (Mullins 2005). The well-suited structure of the STD which would encourage officers to participate in tax collection process is the first step towards efficiency. As we saw in the previous chapter, the STD is a vertically specialized organization with the Commissioner, forming 'strategic apex', vested with the powers of executive, audit, enforcement, recovery and appeal functions thus lacking the vertically split division for carrying out special functions as existing in CED or CTD Karnataka.

Although in 2018, post implementation of GST, re-organization of the STD¹⁹ was conducted, but the same remained confined to addition of 6 more DCENFs coupled with change in nomenclature of some posts replacing the word 'Commercial Tax' with 'State Tax'. The department has not evolved over time despite change in tax regimes except creation of few posts or change of nomenclature. An STO mentioned:

I am in the department for the last 25 years. I saw nothing being done to achieve efficiency by streamlining/ restructuring the organization as per requirement of new laws or doing something for human resource development. The structure of the STD is as per requirements of General Sales tax Act of 1962 and we are implementing GST as per that mode.

The tax circles²⁰ created way back in 1970, are functional till date except with addition of few more. The Audit offices of the department are functioning as per requirements of previous laws. By this we can measure the agility the STD will be having with respect to sensing change in environment after GST implementation and required action taking capacity. With a tax base of 102,863 traders, the jurisdiction of audit and recovery wings, considered as a deterrent weapon of the tax administration, is as under: -

¹⁹ Vide Government order No. 465-FD of 2018 Dated 06.11.2018.

²⁰ A well demarcated territorial area having markets and trade premises under an STO irrespective of the nature of traders except for industries where specific circle exists.

Table 8: DC Audits-Staff and Jurisdiction.

Post	Staff under them	Territorial Jurisdiction	No. of dealers
DC Audit, Jammu	1 STO 3 Inspectors	10 districts of Jammu,	51,559
DC Audit, Kashmir	1 STO 3 Inspectors	10 districts of Kashmir,	51,304

Source: Author-Official figures of STD.

The above-mentioned staff of audit offices used to function under VAT regime as at that time they had to conduct audit of the assessment orders issued by the STOs. Under GST regime they have to conduct audit of at least 10% of the traders in a fiscal year meaning that each office has to conduct at least 5100 audits in a year. Normally we get around 290 working days in a year and therefore the audits to be conducted per day comes to 18, which is impossible said DC, Audit Jammu. Further the staff is having no capacity to perform the specific functions that too under command and orders of one Commissioner vested with all powers, unlike vertically specialized divisions in CED and CTD Karnataka headed by separate Commissioners and Additional Commissioner respectively, one can visualize the performance of the STD said an officer²¹. An officer of the CED mentioned:

Whole country is divided in different zones and every zone has five Commissionerate's of Executive, Audit, Appeal, Enforcement and Trainings separately. Each Commissionerate performs its functions independently in full coordination with others. The audit conducted by Audit Commissionerate, in case of non-settlement by the audited party, is sent to the executive Commissionerate for execution and recovery. The appeals against tax and penalties imposed by the Enforcement Commissionerate or Audit Commissionerate are to be filed with the Appeal Commissionerate. The Enforcement and Intelligence Commissionerate is only after collecting information from market and detecting tax evasion cases, while the Executive Commissionerate looks after the registrations, return filing, technical issues, recovery and policy matters. The Training Commissionerate looks after capacity development of the officers. This way all the human resource in all the Commissionerate's gain special capacity leading to creation of specialized workforce. The CED is already having a specialist service of IRS and those recruited at lower levels end their career in CED only.

The above structure of the CED seems in line with the requirements of the GST law. The vertically specialized split divisions, due to having one specific job to perform, are experts and keep adding to domain knowledge and provide better environment to learn to fresh recruits entering the CED. Further, the inter-divisional competition in CED leads to creation of checks and balances which is missing in the STD. An organization with generalists in its every level especially 'operating core' may not be having required agility which is product of strong sensing capabilities, acumen to research and gather intelligence from markets to take actions. Agility is expected from a professionally structured organization with highly trained, skillful and specialist human resource, which the STD lacks. It is therefore imperative to restructure the STD on the pattern of CED to imbibe the culture of domain specialization,

²¹ Additional Commissioner, STD, Administration and Enforcement, Kashmir.

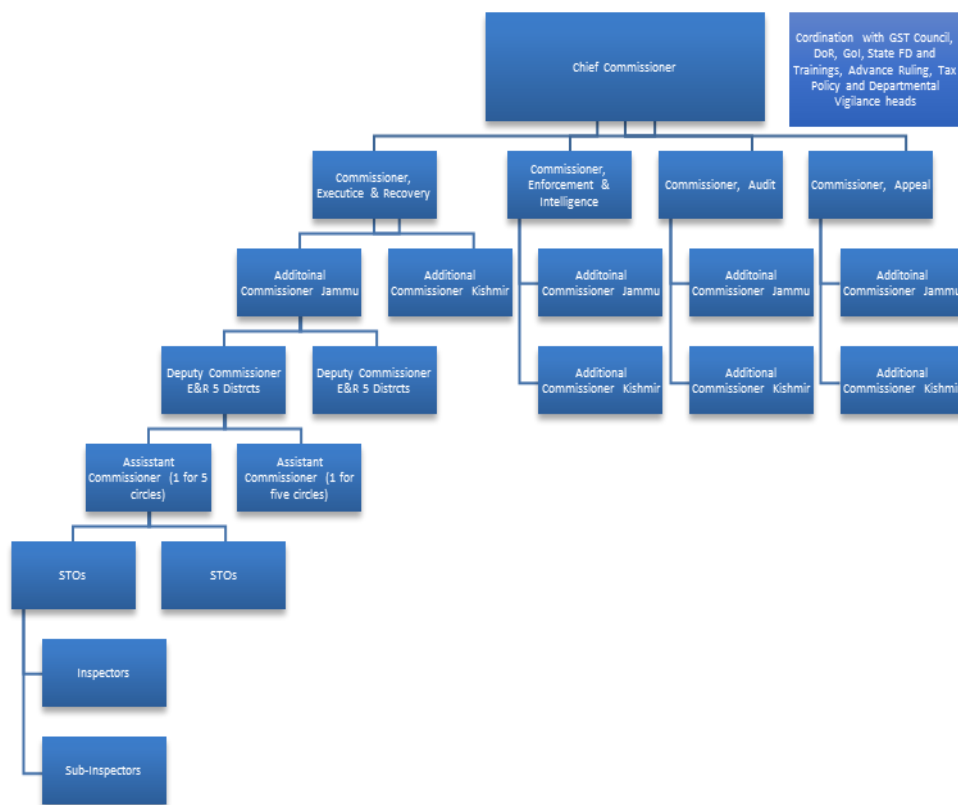
check and balance mechanism coupled with inter wing competition leading to organizational agility, professionalism and efficiency.

An STO supported the above-mentioned structure:

How can we expect the STD to be agile when structurally it is not suitable for GST regime? How can you expect us to do executive functions as well as enforcement and audit duties? There should be separation of powers and functions. Once started, you will see a sea change. There will be a focused approach to all the spheres of tax administration. Every sphere will be having a special wing to deal that exclusively and thus they will sense the change and act accordingly.

The proposed structure is as under: -

Figure 12: Proposed organizational structure of STD.



Source: Author

There should be separate Commissionerate or Additional Commissioner for: - 1. Executive and Recovery, 2. Intelligence and Enforcement, 3. Audit and 4. Appeal. All Commissioners or Additional commissioners shall be drawing their powers from the J&K SGST Act, 2017 and shall act independently under Chief Commissioner or Commissioner who will be responsible for trainings, coordination with the GST Council, Finance Ministry of the UT and GoI, advance rulings and anti-profiteering. Every Commissionerate shall function as a separate wing with full coordination and communication with other Commissionerate's. Below the Commissioner or Additional Commissioner in every wing should be an Additional Commissioner or Deputy Commissioners respectively. There should be one DC for 5 districts in each division except in case of enforcement where existing units need further

strengthening. Below the DCs should function one Assistant Commissioner for every five Tax circles. Every Circle should be headed by an STO and below him Inspectors and Sub-inspectors. This proposed structure of the department which is in line with the CED and CTD Karnataka will make the STD agile and efficient as every wing will perform special functions and in due course the islands of specialization will emerge in the STD.

The state of Karnataka has organizational structure as proposed above and the Department is agile with capacity to collect GST. The construction of e-way bill system²² for movement of goods is the success story of the agility of the CTD Karnataka which is now under implementation in whole India. This happened only because of strong sensing and action ability of the vibrant enforcement wing of Karnataka CTD, said Additional commissioner, HQ, CTD, Karnataka. He further maintained that due to specialized split divisions in CTD, the human resource acquires specialized training and thus making them innovative and dynamic. The statement is testified by the GST collection figures of Karnataka as well, which are quite good in comparison to J&K.

Thus, the reorganization of the STD J&K is must and it is required to be done as soon as possible to avoid post June 2020 fiscal shock. The reorganization of STD would lead to special work distribution amongst all the wings of the department which would add to the knowledge and experience of the staff leading to specializations which currently is missing. In addition, there is a need for creation of specialized circles in every wing of the STD looking after specific trades/services. For example, there should be separate circles for Contractors, Restaurants, Hotels, Transporters and Transport Companies, Cement Traders, Steel and Hardware Traders, Garment Traders, Footwear Traders, Salons and Spas. Not only this a special circle for outside traders making exports to J&K is required to be created to check veracity of all such traders, their return filings, turnovers. This circle has to work in close coordination with the respective state tax authorities to nip the evil of GST evasion in the bud by backward tracking of trade chain. By adopting this way of administering GST, the STD will gain super specialization in minute fields of trade and services which will make sensing change in environment easy and will lead to officers striving for innovation to tackle such changes. An STO informed:

On basis of specific information, we inspected a hotel and found that the owner was running the same on a cancelled GST number. He had collected GST worth INR 4 million and evaded the same. How can we lay hands on such fraudulent traders? Either we need to have strong intelligence wing or trade specific circles. The present system of area specific circle is faulty and can't help in detecting GST evasions. At least the enforcement circles should be trade specific.

The creation of trade specific circles and reorganization of the STD should go side by side to have fruitful implementation of the GST as this will help in backward and forward tracing of evaders which at present is missing. An STO mentioned:

We catch evader and just impose penalty. There is no forward or backward tracing of the tax evaders. We need to go deep to unearth the unholy nexus. We have to contact our counterparts in Punjab, Delhi and other states for initiation of inspection against such traders and simultaneously check the whole business of evader in J&K. That can be possible only when we have trade specific circles where we can develop data base of all the traders, their activities

²² Every shipment valuing more than INR 50,000 requires an e-way bill for movement from one place to other. This way sales are electronically recorded.

and have a list of honest traders. This mechanism is required for successful implementation of GST otherwise we are going to lose heavily.

The above discussion leads to the conclusion of restructuring the STD on proposed lines immediately to protect GST revenue.

5.3 Need for special taxation service and capacity building.

The STD administering the GST consists tangible resource of employees, funds, IT system, infrastructure and vehicles and intangible resources of legal authority to tax, perception of taxpayers about its fairness, transparency and integrity, its enforcement capacity coupled with morale and commitment of employees (Gill 2000:29). While all other tangible resources are easy to arrange, the capacity building of the human resource has always remained on back seat in the STD. Being main input to the STD, it provides output through transformation process which is interaction of tasks, formal organizational arrangements, informal organization or culture (ibid:9). Skill level, specialization, morale and commitment of human resource of any organization is critical for its success (ibid:10).

As mentioned in the previous chapter, the human resource is recruited for the STD at three levels – One at State Taxes Officer level either from Jr. KAS Officers or from promotion of Inspectors and other recruitment at the level of Inspectors and Sub-Inspectors. All the three levels are filled on the basis of a common graduate level examination conducted by the J&K PSC and J&K SSB. No special qualification is prescribed for sitting in the examination except graduation. After selection at Jr. KAS level, the officers are imparted a general training for one year and after that they can be posted in any of the 18 departments mentioned in KAS Rules for a maximum period of two years. On the other hand, the Inspectors and Sub-Inspectors are imparted one-month training before they are posted in STD. This method of recruitment has made the way for entry of generalists in the STD for performing specialist's job of tax administrators. The tax administration being the backbone of the government is required to act as a strong instrument of state and therefore is required to have specialized skills to administer taxation laws. An STO mentioned:

It's strange that officers from KAS are posted in the STD for two years and replaced by their colleagues. Even the Sub Inspectors and Inspectors who get promoted to the level of STOs have no next level in STD except to join the KAS on promotion and leaving the department. By this method of recruitment and career progression how can we become specialists. It's always in our mind that we will be leaving the department and so is the case of all KAS officers. This has deteriorated the tax collection efficiency of the department.

As discussed in the previous chapter, the operational core of the department, which has to administer the GST, is full of generalists STOs from KAS and others promoted from Inspectors and Sub Inspectors. An Assistant Commissioner mentioned:

The problem is short tenure of officers in STD and no permanent service. How can an officer be imparted long training to acquire specialization when we know he is going to get transferred or is not going to remain part of the STD till retirement? This is main reason that the STD has no training institute under it. There is no calendar for imparting trainings to the officers in Institutes in different part of the country.

Contrarily, the CED administering the GST at national level is having specialized service of IRS. After qualifying general graduate level examination, they are imparted training on

taxation for one year at National Academy of Customs, Indirect Taxes and Narcotics, Delhi and posted subsequently. That type of recruitment is also flawed as the required skilled human resource is not recruited. However, once appointed they are imparted special trainings to become career tax professionals and same applies to lower functionaries as well. Similar is the case of CTD Karnataka having a specialized taxation service. The operational core, the middle line and strategic apex is in hands of specialists except the Commissioner and two joint commissioners coming from IAS, said Additional Commissioner, Head quarter of CTD Karnataka.

The Commissioner, STD, J&K mentioned that the STD has many a time in past proposed creation of specialized taxation service but same has not been agreed by the government for unknown reasons. He further claimed that the STD can't afford to be effective with generalists doing the job of tax administration.

GST being run through ICT and self-assessing, requires human resource having studied Accounting, Auditing, Taxation, Commerce and like subjects at graduate and post-graduate level. The STD has to, therefore, redraft the recruitment rules and fix special qualification of having degree in commerce, taxation, accountancy, audit and law for selection to the posts of State Taxes Officers, Inspectors and Sub-Inspectors. The new service created should be named as 'State Taxation Service' and the officers recruited at the level of Sub-Inspectors/Inspectors or State Taxes Officers should be having promotion prospects till the post of Chief Commissioner or Commissioner. However, for the existing employees in the Department, a special training is required to be started in different batches in the field of law / accountancy / auditing/ taxation/ commerce. Further, the KAS officers on deputation to the STD may be given option of absorption in the service till retirement and they should also be imparted special trainings. By this way a specialized taxation service will be created which will result in GST implementation efficiently and as per its requirements.

5.4 A strong Enforcement mechanism.

If the tax evasion is not dealt effectively, it results in more people joining the course of tax evasion (Torgler 2005). However, those following the procedures and paying taxes is only because they believe that it is the right thing to do (Joshi et al 2013:11). But, if the evaders go scot free, those paying tax also shift the track (ibid:11). Therefore, a strong enforcement mechanism is very essential for collecting the taxes efficiently. As per the 'deterrence model' formulated by Allingham and Sandmo, increase in probability of detection or the penalty if detected reduces tax evasion (Slemrod 2015:5). The STD has to, therefore, strengthen the existing enforcement wings, by providing them required human resource, vehicles, electronic gadgets such as mobiles to check online the status of traders. But this all is possible only after restructuring the STD as per the proposed lines otherwise a strong enforcement wing is not possible. The DCENF, North Jammu and Central, Kashmir mentioned: -

We don't have required vehicles to conduct enforcement activities. We lack proper office, staff, area to park the vehicles for inspections/ checking, go downs for keeping confiscated goods. We are managing all these affairs at our own level.

At present 3 posts of DCENF are vacant and charges are given to be looked after by nearest DCENFs. Similarly, 3 post of DCs (Recovery, Audit and Appeal), 30 posts of STOs, 81 Inspectors and 144 posts of Sub Inspectors are also lying vacant at present²³. This is only

²³ STD, J&K official data.

because generalist KAS officers are posted in the STD for a fixed tenure and recruitments and promotions not being made on regular basis. While replying about shortage of staff the Commissioner STD mentioned that till August 2020, five posts of DCENF were vacant and enforcement was suffering badly. As and when a special taxation service is created and the STD restructured, the problem of shortage of staff coupled with less capacity and non-agility are going to fade away. The present shortage of staff is badly effecting enforcement activities. An STO mentioned:

We are facing shortage of staff at Kathua. Daily almost 2500 goods vehicles enter the UT. We can hardly check 2 vehicles per day. There are other smaller roads also from where vehicles enter J&K but we can't check them.

The strong enforcement machinery is very important essentially in districts of Kathua and Samba as all the trade goods vehicles enter the state from these districts through national highway connecting Jammu with Delhi via Punjab. If the entry of goods is not checked, once it enters the markets in J&K, it is very difficult to trace the chain of sale and purchase said an officer:

The traders have developed different modes to evade tax. We see bills valuing less than INR 50,000/- to avoid e-way bill generation as the E-way bill generation leads to electronic recording of sales and purchases against the respective GST numbers. Some shell companies charge commission of 1 to 2% for issuance of bills at Delhi. Such companies neither file returns nor exist, just vanish after some time. Some traders take risk of transporting goods without any bill as they know that less than 1 % goods vehicles are put to check at Kathua and same is the position in Samba.

One of the traders mentioned:

The probability of being caught and punished is quite less and therefore we take chance. Even if one vehicle is detained, we earn good amount in other vehicles which run without being noticed.

Another trader mentioned:

Traders are selling goods to customers for consumption without issuing tax invoices. However, to file returns they have to show their sales and thus have to issue tax invoices. For this, they sell tax invoices of goods sold to contractors on payment of some commission. This way they get double benefits. The contractors also get proper bills to get ITC.

Another trader mentioned:

An honest trader is in total loss in GST. The STD has no capacity to check the illegal activities of fraudulent traders. How is it possible for a trader to purchase goods worth say INR 1 million and sell at same value? This is just to utilize the ITC paid and not to pay anything above that on value addition. Such traders just balance their purchases and sales, utilize ITC for paying GST, and are enjoying the incapacity of STD. These traders have employees to be paid monthly salary, they have to pay rent of premises, electricity dues, have to gain profit also and the question arises in no profit scenario how they manage all this? Is there any reply from STD? But we honest traders are suffering badly and there is no one to help us.

This shows that the traders know the enforcement capacity of the department and are taking every benefit of it. By utilizing ITC only for payment of GST, and no tax being paid for value addition, the UT would be suffering huge GST losses. Another trader mentioned:

We want to do business honestly but the problem is at Delhi. The suppliers there don't issue bills and accept cash only. For getting bills we have to approach the companies doing that business. Such companies have offices at Delhi and in Jammu as well. This way we get goods delivered at Jammu on payment of some commission. We are helpless.

The situation of evasions mentioned by the tax officials and traders makes it necessary to have a strong enforcement mechanism as the state is largely consuming goods without any sound production base. Another State Taxes Officer, who has dealt an unusual case mentioned.

We intercepted a vehicle with valid bills and goods from a trader Company in Delhi to its sister concern Company at Jammu. On verification it was found that the Companies are non-existing. They had already conducted a business of around INR 16 million till the time they were trapped and in the trapped consignment there were goods worth INR 5 million. The goods along with vehicle are still under confiscation with the STD.

Such modes adopted by traders to evade tax in an economy with huge informal sector of manufacturing and sales, requires the UT of J&K to have a dedicated and robust enforcement and intelligence wing to ensure collection of every penny under GST and that is possible only after having changed the structure of the organization on proposed lines and creation of a specialized service. The state of Karnataka is having good results of GST collection due to strong enforcement wing of the CTD, which after closure of state check posts, created mobile check points on state highways and mobile squads to stop evasions. In an enforcement exercise conducted by the STD J&K in 2019, the daily sales of 70 unregistered restaurants in 10 districts of Jammu division were recorded for one week by the tax officers. It was found that 59 crossed the threshold of annual turnover of INR 2 Million. The total annual turnover calculated on mean sales was INR 222,508,260 thus entailing GST liability of INR 11,125,404 annually @ 5%²⁴. Conducting of similar trade specific exercises requires a strong, separate and well-equipped enforcement wing with tangible resources like vehicles, mobile gadgets to check e-way bills, enforcement allowance and proper security cover in a restructured STD, otherwise the GST losses are bound to happen.

5.5 Conclusion.

The chapter impresses for having the required change in the structure of the organization in line with the requirements of the GST law to make the STD agile and efficient with concurrent creation of 'specialized taxation service' and delinking it from the KAS or IAS to imbibe professionalism, specialization and accountability. The creation of specialized service will provide permanent and specialist human resource to STD which till date is missing. Absence of these features has led the STD implementing the GST as per General Sales Tax of 1962 or VAT mode. There is strong and emergent need of having strong enforcement mechanism in place in view of the non-availability of auto comparison/ matching of sales and purchases between the seller and buyer (B2B) on GSTN till date which was showcased as self-policing mechanism of GST. Besides the different types of GST evasions taking place make it necessary for STD to create trade specific circles which would lead to specialization

²⁴ Conducted by author as Additional Commissioner, State Taxes, Jammu in May 2019.

of officers resulting in vibrant sensing ability and action. The Karnataka state is a good example to take lessons from as the CTD is agile, has specialized service for collecting GST with a strong enforcement wing leading to its implementation as per requirements of the policy which ultimately resulted in good GST buoyancy.

Chapter 6 Conclusion

It is established that the GST is being implemented by the STD following the established styles of execution rather than changing the same as per requirements of the policy because of being neither agile to sense, act or restructure itself in changed environment nor is properly structured. Furthermore, the STD being structurally suitable to erstwhile General Sales Tax of 1962 and VAT of 2005 with no specialized service, has led to unprofessional handling of taxation by the generalists coming from KAS and IAS for a short tenure without any accountability.

The organizational agility, capacity and structure of the STD, J&K is compared with the CTD, Karnataka, having done quite well in GST collections. It has been found that the latter is more agile organization with specialized service having capacity to collect GST and is properly structured as per the requirements of GST policy. Similar is the case of CED as well. Due to these factors, the implementation of GST by both the organizations seems as per requirements of the policy.

In absence of self-policing mechanism of GST, there remains a strong challenge to its implementation, which the STD has not sensed till date. The STD has not till date sensed the fact that the loss of GST to Punjab, an industrial giant in northern India, due to tax flight to importing states should have resulted in tax gain for J&K being an importer of goods from Punjab. The non-agility of the STD in sensing the changed environment and actions required to be taken, its incapacity and structure not as per requirement of GST law are the main reason for rampant GST evasions which as per President, Chamber of Industries, Jammu are around 30 to 35% of total trade. Instead of an increase, as envisaged by the UT government, there is acute shortfall in GST collections and a fiscal shock is awaiting from June 2022 onwards.

The paper has replied the focus of GST reform in J&K. GST policy implemented to bring integrity, efficiency and increase in GST revenue has not shown desired results for the reasons of being implemented in the established style due to unprofessional and generalist bureaucrats lacking capacity in an organizational structure not as per the GST design.

The constraints faced by the STD while implementing GST include lack of organizational agility, lack of capacity to implement GST regime by generalist officers and the organizational structure of the STD not as per the requirements of GST law. All these factors have led to GST implementation in the established General Sales Tax of 1962 or VAT of 2005 style resulting in loss of revenue. It's amazing that despite the known fact of non-availability of automatic matching of B2B Sales and purchases, the STD has not augmented the enforcement infrastructure. A retired Commissioner of GST mentioned:

In absence of auto matching of B2B transaction how can STD afford to not have strong enforcement wing. That's the only lifeline to survive and without that the tax losses are bound to happen.

Therefore, the paper impresses for an immediate and urgent need of re-structuring of the STD as per the requirements of law (structure proposed), creation of specialized taxation service to have full time specialists employed for tax administration and making the enforcement wing strong and robust by providing all required tangible and intangible resources resulting in implementation of GST by the STD as per requirements of the policy.

The study has found that the GST is being implemented by the STD J&K without making any structural reform or organizational restructuring to suit the GST policy. Besides, the system of generalists doing the specialist job that too of tax collections, has not been changed and the model of administration as was under implementation in old tax regimes is functional at present. All the levels of the organization be it strategic apex, middle line or operational core, the generalists with least capacity and accountability are manning the tax administration. This all has led to administrative inertia, lack of sensing and action capability and thus resulting in implementation of GST as per established style leading to decrease in GST collections.

The paper has highlighted the organizational and capacity gaps in the STD and without addressing the same the GST implementation as per requirements of policy will remain a challenge and daunting task. However, there can be some other reasons as well like corruption, political will, lack of motivation, rate cuts, end of cascading of taxes, informal sector, threshold for registration, which I leave for future researchers to study.

The GST implementation in J&K was taken as a test case to understand the reasons for the government organizations following established styles of execution rather than changing the same as per policy requirements. It has been found that while the government comes out with robust, efficient and ICT based reform policies for implementation but no heed is paid to the capacity building of the human resource or changing structures of the implementing organizations as per requirements of the policy, which ultimately leads to policy failure or in some cases a partial success. Thus, an overhauling reform is prerequisite whereby the existing system of generalist without capacity and training is changed to specialists performing specialist jobs and changing archaic structures of implementing organizations to suit the policy design for its smooth and successful implementation as per policy requirements.

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Appendix 1

Matrix of Interviewees

S. No.	Organization	Name Mr/ Mrs	Positions	Date of Interview
1	Retired	P. I. Khatib	Commissioner, STD, J&K	14 August 2020
2	CED	A. U. Rehman	ADG, Intelligence, West Bengal Zone, CED	12 August 2020
3	CED	S. A. Faisal	Commissioner, CED, Bihar	8 August 2020
4	STD	Pridhuman. K. Bhat	Commissioner, J&K	5 August 2020
5	STD	Manzoor Ahmed Bhat	Additional Commissioner, Administration and Enforcement, Kashmir	25 August 2020
6	STD	Rifat Kohli	Additional Commissioner, Administration and Enforcement, Jammu	13 August 2020
7	CTD	Padmakara R. Kulkarni	Additional Commissioner, Karnataka	15 October 2020
8	STD	Sunaina Mehta	Deputy Commissioner, Enforcement, North, Jammu	4 August 2020
9	STD	Mansoor Choudhary	Deputy Commissioner, Headquarter	4 August 2020
10	STD	Ghulam Jeelani	Deputy Commissioner, Enforcement, Central, Kashmir	2 Sep. 2020
11	STD	Kanchan Bala	Deputy Commissioner, Audit, Jammu.	1 Sep. 2020
12	STD	Waseem Raja	Assistant Commissioner	25 July 2020
13	GST Council	Sarib Sehran	Under Secretary	1 August 2020
14	STD	Arvind Sawhney	STO	2 August 2020
15	STD	Neeraj Sharma	STO	2 August 2020
16	STD	Anissa Nabi	STO	3 August 2020
17	STD	Mohammed Riyaz	STO	3 August 2020
18	STD	Anju Anand	STO	7 August 2020
19	STD	Azhar Amin	STO	7 August 2020
20	STD	Deepali Kanna	STO	9 August 2020
21	STD	Sandeep Gupta	STO	10 August 2020
22	STD	Naresh Koul	STO	21 Sep. 2020
23	ICAI	Shalay Razdan	President	11 August 2020
24	STD	Sameer Ahmed	Inspector	4 August 2020
25	STD	Ajay Bhat	Inspector	5 August 2020

26	STD	Chandni Saini	Inspector	6 August 2020
27	STD	Menu Mehnaz	Inspector	6 August 2020
28	STD	Rajesh Sharma	Inspector	7 August 2020
29	STD	Sachin Gupta	Inspector	7 August 2020
30	STD	Yogeshwar Saini	Sub Inspector	21 Sep. 2020
31	STD	Surinder S. Pawar	Sub Inspector	21 Sep. 2020
32	ICAI	Tarsem Jasrotia	Chartered Accountant	12 August 2020
33	CoI	Lalit Mahajan	President, J&K	28 August 2020
34	CoC	Rakesh Gupta	Ex-President, Jammu	29 August 2020
35	Trader	Name hidden	Tyre Re-treading, Jammu	16 August 2020
36	Trader	Name hidden	Plywood and Hardware, Jammu	17 August 2020
37	Trader	Name hidden	Foot ware, Jammu	18 August 2020
38	Trader	Name hidden	Delhi	22 August 2020
39	Tax Lawyer	Nitin Gupta	Jammu	1 Sep. 2020

Appendix 2

Guiding questions for employees of Tax Organizations

1. What effect did the GST have on revenue collection in J&K/ your state from July 2017?
2. What was the main focus of the tax reform?
3. What are the impediments faced by your organization in GST collection?
4. What needs to be undertaken to make tax policy more responsive to revenue growth?
5. How can tax reforms in J&K state be translated into positive change for the UT?
6. What are the missing links in order to have a complete tax reform?
7. How did the implementation of GST work?
8. What was your role in it?
9. What were the challenges you encounter during the process and how were they addressed?
10. What challenges remain unresolved?
12. Did you participate in a training or other capacity building activity in the period of research/the tax reform that you were involved in?
13. Was the training as per requirements of the new GST law i,e focusing on detection and investigation of tax?
14. If yes, was it useful? If not, why not?
15. What would be your main recommendation for policy makers with regard to reforming the tax system to increase tax income sustainably?
16. What is needed to implement this recommendation?
18. What is the weakness/ strength of the Goods and Services Tax policy?
19. How can your organization assist in increasing revenue growth in J&K?
20. What needs to be done by your organization to strengthen the enhancement of revenue growth in J&K?

Appendix 3

Guiding questions for employees of Trade Organizations/ Traders/ Tax consultants

1. What are the challenges you encounter in paying your taxes?
2. What needs to be undertaken to make tax policy in J&K more responsive for tax payment?
3. What could be your main recommendation for policy makers with regard to reforming the tax system to make tax compliance smooth?
4. What is the weakness/ strength of the GST?
5. What are its new aspects of taxation under GST policy?
6. What assistance do you need from government to facilitate the payment of taxes?
7. Do u think that GST will end evasion of taxes?
8. Are the punishments under GST deterrent?
9. Is STD helping you whenever you require assistance?
10. What do u think about tax evasions? Should STD act against evaders?

Appendix 4
Gross State Value Added of J&K at current prices (2018-19)

Industry and Institutional Sectorwise Gross State Value Added at Basic prices for the year 2018-19 (1R) at Current Prices					
S. No.	SECTOR	(Rs. Lacs)			
		GSVA Public Sector	GSVA Private Corporate Sector	GSVA Unincorporated / Household Sector	Total GSVA
1	Agriculture, forestry and fishing	93395	0	2484006	2577401
1.1	Crops	61020	0	1449524	1510543
1.2	Livestock	0	0	804575	804575
1.3	Forestry and logging	30933	0	188942	219875
1.4	Fishing and aquaculture	1442	0	40966	42408
2	Mining and quarrying	44	0	30279	30323
3	Manufacturing	39943	958918	189502	1188364
4	Electricity, gas, water supply & other utility services	829836	1442	7988	839267
4.1	Electricity	678210	1442	0	679652
4.2	Gas	0	0	123	123
4.3	Water supply	140624	0	7731	148355
4.4	Other utility services	11002	0	135	11137
5	Construction	344713	0	882930	1227643
6	Trade, repair, hotels and restaurants	51644	73398	1474487	1599529
6.1	Trade & repair services	45842	36130	1391128	1473100
6.2	Hotels & restaurants	5802	37268	83359	126429
7	Transport, storage, communication & services related to broadcasting	73806	106362	805203	985371
7.1	Railways	23304	0	0	23304
7.2	Road transport	5534	82171	563252	650958
7.3	Water transport	0	0	0	0
7.4	Air transport	0	24190	0	24190
7.5	Services incidental to transport	12469	0	1195	13664
7.6	Storage	0	0	0	0
7.7	Communication & services related to broadcasting	32499	0	240756	273255
8	Financial services	476115	0	0	476115
9	Real estate, ownership of dwelling & professional services	1323	778	1825378	1827479
10	Public administration	2636613	0	0	2636613
11	Other services	726262	114084	618788	1459134
12	GSVA at basic prices	5273694	1254982	8318562	14847238
13	Product Taxes				1280877
14	Product Subsidies				371997
15	State Domestic Product				15756118
16	Population ('00)				140640
17	Per Capita (Rs.)				112032

Appendix 5

GST Collections at National level.

INR in Billion

GST Collection at National Level			
Month/Year	2017-18	2018-19	2019-20
Apr	0	1034.59	1138.65
May	0	940.16	1002.89
Jun	0	956.10	999.38
Jul	215.72	964.83	1020.83
Aug	956.33	939.60	982.03
Sep	940.64	944.42	919.17
Oct	933.33	1007.10	953.80
Nov	837.80	976.37	1034.91
Dec	843.14	947.26	1031.84
Jan	898.25	1025.03	1108.18
Feb	859.62	972.47	1053.66
Mar	921.67	1065.77	975.97
Total	7406.50	11773.7	12221.31

Source: Author- Data from GST Council.

Appendix 6
Net GST Collections.

INR in Billion

	2017-18	2018-19	2019-20
Total GST	7406.50	11773.69	12221.31
Compensation Cess	626.14	973.69	987.94
Net GST	6780.36	10800.00	11233.37

Source = Author. Data from GST Council

Appendix 7
GST and GDP at National level.

INR in billion

Year	Net GST collected	GDP at Current Prices	Share of GST in GDP	Annual GDP Growth at current prices	Inflation
2017-18	7851.84	170983.40	4.59%	11.08%	2.4%
2018-19	10800.0	189712.37	5.69%	10.95%	4.86%
2019-20	11233.37	203398.49	5.52%	7.20%	7.66%

Source = Author. Data from GST Council and Ministry of Statistics and Programme Implementation (MoSPI).

Appendix 8

GST and GSDP of HP

INR in Billion

Year	GSDP at current prices	Annual Growth Rate of GSDP at current prices	GST Collected	% share of GST in GSDP
2012-13	828.20		24.03	2.90%
2013-14	947.64	14.42	26.20	2.76%
2014-15	1037.72	9.51	30.86	2.97%
2015-16	1142.39	10.09	36.34	3.18%
2016-17	1256.34	9.97	35.59	2.83%
2017-18	1383.51	10.12	25.62	1.85%
2018-19	1538.54	11.20	28.44	1.84%
2019-20	1654.72	7.56	34.83	2.10%

Source: Official documents of Government of HP and MoSPI.

Appendix 9

GST and GSDP of Punjab.

INR in Billion

Year	GSDP at current prices	Annual Growth Rate of GSDP at current prices	GST collected	% share of GST in GSDP
2012-13	2977.33		145.87	4.90%
2013-14	3321.46	11.56	165.05	4.97%
2014-15	3551.01	6.91	176.81	4.98%
2015-16	3900.87	9.85	144.71	3.71%
2016-17	4269.88	9.46	184.41	4.32%
2017-18	4708.33	10.27	119.59	2.54%
2018-19	5263.76	11.80	112.18	2.13%
2019-20	5747.60	9.19	126.98	2.21%

Source: Official documents of Government of Punjab and MoSPI.

Appendix 10

GST and GSDP of Uttarakhand.

INR in Billion

Year	GSDP at current prices	Annual Growth Rate of GSDP at current prices	GST collected	% share of GST in GSDP
2012-13	1316.13		24.03	1.83
2013-14	1490.74	13.27	26.20	1.76
2014-15	1614.39	8.29	30.86	1.91
2015-16	1840.71	9.74	36.34	2.05
2016-17	1951.92	10.14	35.58	1.82
2017-18	2140.33	14.25	25.61	1.15
2018-19	2458.94	10.35	28.43	1.16
2019-20	2623.33	7.06	34.83	1.32

Source: GST council, official documents of Government of UK and MoSPI.

Appendix 11
GST comparison of States.

INR in Billion

Name of State/ UT	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
HP	24.03	26.20	30.86	36.34	35.58	25.62	28.44	34.83
J&K	31.65	34.37	34.09	47.66	46.68	37.00	51.39	47.50
Punjab	145.87	165.05	176.81	144.71	184.41	119.59	112.18	126.98
Uttarakhand	37.61	43.45	47.95	49.61	59.34	25.61	28.43	34.83

Source: Official documents of J&K, Punjab, HP and Uttarakhand.

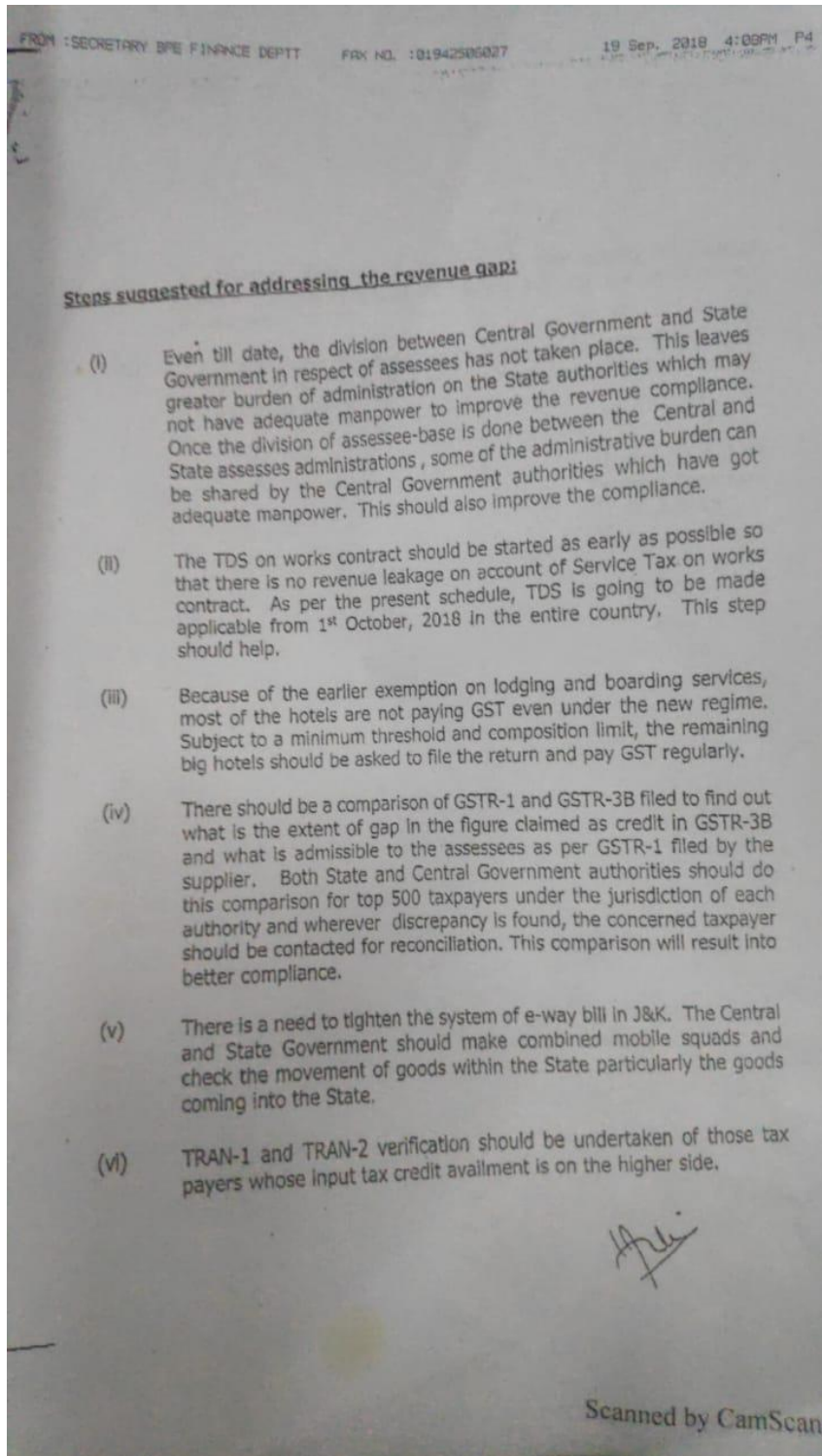
Appendix 12
GST and GSDP analysis of States.

INR in Billion

State	Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Himachal Pradesh	GSDP	828,2	947,64	1037,72	1142,39	1256,33	1383,51	1538,44	1654,72
	% Growth over previous year		14,42	9,51	10,09	9,97	10,12	11,2	7,56
	Subsumed and GST collected	24,03	26,2	30,86	36,34	35,59	25,62	28,44	34,83
	% share of GST in GSDP	2,9	2,76	2,97	3,18	2,83	1,85	1,84	2,1
Jammu and Kashmir	GSDP	871,37	956,18	983,66	1161,02	1262,3	1422,92	1586,88	1798,66
	% Growth over previous year		9,73	2,87	13,07	8,72	12,72	11,52	13,34
	Subsumed and GST collected	31,65	34,37	34,09	47,66	46,68	37,05	51,39	47,5
	% share of GST in GSDP	3,63	3,59	3,46	4,1	3,69	2,6	3,23	2,64
Punjab	GSDP	2977,3	3321,46	3551,01	3900,87	4269,88	4708,33	5263,76	5747,6
	% Growth over previous year		11,56	6,91	9,85	9,45	10,26	11,79	9,19
	Subsumed and GST collected	145,86	165,05	176,8	144,71	184,41	119,59	112,18	126,98
	% share of GST in GSDP	4,9	4,97	4,98	3,7	4,31	2,53	2,13	2,2
Uttarakhand	GSDP	1316,1	1490,74	1614,39	1771,63	1951,24	2228,3	2458,94	2632,33
	% Growth over previous year		13,27	8,9	9,47	10,14	14,2	10,35	7,06
	Subsumed and GST collected	24,03	26,2	30,86	36,34	35,58	25,61	28,43	34,83
	% share of GST in GSDP	1,83	1,76	1,91	2,05	1,82	1,14	1,15	1,32

Source: Author and official documents of Governments of J&K, Punjab, HP and Uttarakhand and MoSPI.

Appendix 13. Report of Finance Secretary, GoI on STD J&K and GST

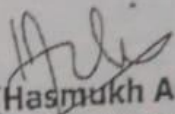


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19 Sep. 2018 4:09PM

- (vii) A percentage check, say of about 10%, of new registrants by way of physical verification should be carried out, on the basis of risk assessment.
- (viii) There should be a focussed attention on non-filers of GSTR-3B Return. A systematic effort is needed to make them file GSTR-3B, particularly the bigger tax payers.


(Hasmukh Adhia)
Finance Secretary
10.9.2018

Appendix 14: Difference between VAT and GST

VAT	GST
Decisions taken by State Governments	GST Council
Administration by STDs	By Central Excise Department (CED) and STDs
NO ITC for inter State trade	Seamless flow of ITC
Tax on goods only	Goods and Service both
All goods entering states registered at entry point check posts. Assessments made by matching the purchases of trader with the entry records at check posts.	No such system. Automatic matching of sales and purchases (Implementation delayed)
Tax on Tax or cascading due to blockage of ITC	Due to subsuming of taxes, cascading ended
The trader had to file manually statement of goods purchased on quarterly basis for cross verification by STD.	No such mechanism. All returns to be filed electronically.

Source: Author

Appendix 15: Taxes and GTR of J&K

Composition of INR 132.41 billion GTR of J&K for the budget 2020-21 is as under:

Tax type	Contribution to GTR
GST	69.81%
Excise on liquor and Toll	11.32%
Sales Tax on Petroleum	13.88%
Others	4.99%

Source: Author, Finance Department J&K.

Appendix 16: Toll collection in J&K.

INR in billion

Fiscal	Tar- get	Col- lection
2017-18	8.00	8.43
2018-19	9.00	9.09
2019-20 (Till 31 st December)	10.50	7.28

Source: Author (Excise Department n.d.)

Appendix 17: Enforcement of Restaurants by STD, Jammu in 2019 (Service Sector)

Assessment of Un-registered Business Establishments (Currency in INR)			
Name of the Premises Inspected	Average daily sales recorded by the team	Monthly turnover (*30)	Monthly Tax Liability @ 5%
M/s Atiq Bakers and Cakes, Doda	6000	180000	9000
M/s Kashmir Cake House, Doda	7000	210000	10500
M/s Sain Vaishno Dhaba, Doda	6000	180000	9000
M/s Shaheen Muslim Hotel, Doda	6000	180000	9000
M/s Gian Hotel Bagat, Doda	7000	210000	10500
M/s Chenab Valley Assar, Doda	6000	180000	9000
M/s Green Land Vaishno Dhaba,	7000	210000	10500
M/s Batt Muslim Hotel Baggarr,	6000	180000	9000
M/s Zaika Restaurants, Doda	5500	165000	8250
M/s Tak Hotel and Restaurants,	8000	240000	12000
M/s Goswammi Vaishno Dhaba ,	8000	240000	12000
M/s Khan Plaza Hotel and	9000	270000	13500
M/s Palak Resort, Doda	5500	165000	8250
M/s Jyoti Sweet Shop cum	9000	270000	13500
M/s Omi Sweet Shop cum	11000	330000	16500
M/s Kaika Vaishno Dhaba, Ramban	14000	420000	21000
M/s Dam View Vaishno Dhaba,	8000	240000	12000
M/s Khajuria Vaishno Dhaba,	7000	210000	10500
M/s Sharma Vaishno Dhaba,	6800	204000	10200
M/s Old Sharma Vaishno Dhaba,	8000	240000	12000
M/s Khajuria II, Ramban	6000	180000	9000
M/s Kashmir Food Cuisine, Ramban	8000	240000	12000
M/s Pari Mahal, Ramban	7000	210000	10500
M/s Kasturi Dhaba, Kathua	7000	210000	10500
M/s Shaheen Sweet Shop, Kathua	8000	240000	12000
M/s Mashu Da Dhaba, Kathua	8100	243000	12150
M/s Onkar Nath Sharma, Kathua	7200	216000	10800
M/s Fouji Da Dhaba, Raibhag,	15000	450000	22500
M/s Subash Sweet Shop, Kathua	6900	207000	10350
M/s Om Parkash & Son Sweet Shop,	6000	180000	9000
M/s Ashok Kumar Mulakh Raj Sweet Shop, Kathua	13500	405000	20250
M/s Banarsi Di Hatti, Barnoti,	12700	381000	19050
M/s Gupta Sweet Shop, Kathua	8300	249000	12450
M/s Kavson, Kathua	6500	195000	9750
M/s King Plaza, Samba	6300	189000	9450
M/s Vijay Bharti Sweet Shop,	6100	183000	9150
M/s Laxmi Sweet Shop, Samba	6200	186000	9300
M/s Krishan Chand Non-Veg Dhaba, Udhampur	36633	1098990	54,949.5
M/s Sonu Non-Veg Dhaba,	11866	355980	17799
M/s Verma Non-Veg Dhaba,	7090	212700	10635
M/s Data Vaishno Dhaba, Udhampur	13358	400740	20037
M/s Sujata Vaishno Dhaba,	20000	600000	30000
M/s Vaishnavi Dham, Chenani,	8000	240000	12000
M/s Zaika Sweet and Restaurant,	23000	690000	34500
M/s Zum Zum Sweets & Restaurant,	19000	570000	28500
M/s Naaz Sweets and Hotel Kashmir Darbar, Udhampur	9000	270000	13500
M/s Mama Ji Ka Kulcha, Udhampur	7500	225000	11250
M/s Sher-E-Kashmir Sweets and Restaurant, Udhampur	6100	183000	9150
M/s Smapuran Sweets, Udhampur	13000	390000	19500
M/s Laxmi Sweet Shop, Udhampur	15000	450000	22500
M/s Nandu Ka Kulcha, Udhampur	6200	186000	9300
The Kitchen, Kunjwani, Jammu	10336.25	310087.5	15,504.375
Delhi Momos, Gandhi Nagar, Jammu	7387.5	221625	11081.25
Tilak Dhaba, Yard No.4, TN, Jammu	13975	419250	20962.5
Balgotra Dhaba, TN, Jammu	5662.5	169875	8493.75
Choudhary Tea Stall, Jammu	22352.75	670582.5	33,529.125
Billu Di Hatti Gandhi Nagar, Jammu	46275.5	1388265	69413.25
M/s Bamotra Sweet Shop, Samba	12000	360000	18000
M/s Raju Indian Sweet Shop,	9000	270000	13500
M/s Gareeb Nawaz Dhaba, Jammu	5742	172260	8613
Total	618,078.50	18,542,355.00	927,117.75