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An Analytical Study on Tax Audit Under Goods and Services Tax (GST) In India

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Abstract

This research paper examines the Goods and Services Tax (GST), implemented in India on July 1, 2017, represents a transformative reform aimed at unifying the indirect tax system and eliminating cascading effects. This study provides a comprehensive analysis of tax audits under GST, focusing on the challenges faced by taxpayers and auditors, compliance mechanisms, and their broader economic and business impacts. Drawing from secondary data including audit reports, academic studies, and policy analyses, the research identifies key issues such as frequent legal amendments, technological glitches, and high compliance costs, particularly for small and medium enterprises (SMEs). Compliance tools like GSTR-9C and e-invoicing have enhanced transparency but increased administrative burdens. The impacts include revenue gains for the government, improved market efficiency, and initial disruptions to cash flows and operations. Recommendations emphasize technological upgrades, simplified regulations, and enhanced training to mitigate challenges and maximize GST's benefits. This paper underscores the need for adaptive governance to ensure sustainable compliance and economic growth.

Keywords: Tax Audit, Cascading Effect, Goods & Services Tax (GST), Indirect Tax

Introduction:

India's GST regime was introduced to replace a fragmented array of central and state taxes, including Value Added Tax (VAT), excise duty, and service tax, creating a unified national market. As a destination-based, multi-stage tax, GST applies at every value addition stage, with input tax credit (ITC) mechanisms to prevent cascading. Tax audits under GST, governed by Sections 35(5) and 44AB of the Income Tax Act (read with CGST Rules), mandate reconciliation of financial statements with GST returns for businesses exceeding 2 crore turnover (or 5 crore for GSTR-9C). These audits ensure accuracy in reporting, ITC claims, and refund processes. Despite its intent to simplify taxation, GST audits have revealed persistent challenges in implementation, compliance, and enforcement. This study synthesizes existing literature and audit findings to explore these dimensions. The analysis is timely, given ongoing reforms as of 2025, including e-invoicing expansions and AI-driven risk assessments.

Limitations of the study:

- The study is limited to the secondary data only.
- The study is limited to geographical boundaries of urban and semi urban area's only.
- To analyse the data Data collection spanned from July 2021 to March 2023, capturing only the post-implementation stabilization phase of GST (introduced in 2017).

Objectives:

1. To assess the efficiency and impact of tax audit mechanisms under the GST regime.
2. To investigate the key challenges faced by taxpayers.
3. To provide evidence-based recommendations for policymakers to streamline GST audit procedures.

Statement of Problem:

- What are the primary challenges in GST tax audits?
- How effective are current compliance mechanisms?
- What are the socio-economic impacts?

Literature review:

Poddar and Bagchi (2019) in their study, "GST in India: A Critical Review", argue that the GST audit mechanism was initially plagued by inconsistencies due to differing state-level interpretations. Their analysis of early GST audits (2017-19) highlights delays in audit completion and disputes over ITC mismatches, attributing these to inadequate training of tax officers and lack of centralized guidelines.

(CAG, 2019) The Comptroller and Auditor General (CAG) of India's First GST Audit Report (2018-19) corroborates this, noting inefficiencies in transitional credit verification and refund processing due to fragmented procedures and poor IT integration. Technology has been a cornerstone of GST compliance and audits, with the GST Network (GSTN) playing a pivotal role.

Gupta and Nagadevara (2020) in their paper, "Leveraging Technology for GST Compliance: An Empirical Study", examine how GSTN's data analytics and AI-driven tools have improved audit efficiency. They found that features like e-invoicing and auto-populated returns (GSTR-9/GSTR-9C) reduced ITC mismatch errors by 30% in FY 2019-20. However, they note limitations in GSTN's early modules, such as incomplete data validation for registration and refunds, which led to revenue leakages.

The CBIC's Annual Report (2020-21) highlights the use of machine learning for risk-based audits, targeting high-risk taxpayers (e.g., late filers or those with disproportionate ITC claims). This approach supported by the Directorate General of GST Intelligence (DGGI), reduced audit burdens on compliant taxpayers while increasing revenue recovery by 15% through targeted investigations (CBIC, 2021).

EY's report, "DigiGST: Transforming Tax Compliance" (2022), further emphasizes automation, noting that robotic process automation (RPA) in GST audits can cut compliance time by up to 40% for businesses handling large transaction volumes.

(GST Council, 43rd Meeting, 2021) The compliance burden of GST audits, particularly for small and medium enterprises (SMEs), has been a recurring theme in the literature. Rao and Chakraborty (2021) in their study, "GST Compliance Costs for SMEs in India", estimate that SMEs spend 10-15% of their annual revenue on GST compliance, including audit-related costs. They attribute this to mandatory reconciliations (GSTR-9C) and frequent notices for ITC verification. The study recommends expanding self-certification, a measure partially implemented in 2021 when the GST Council removed mandatory CA/CMA audits for taxpayers with turnover below 5 crore (GST Council, 43rd Meeting, 2021).

The Institute of Chartered Accountants of India (ICAI) Technical Guide on GST Audit (2022)

provides practical insights into simplifying audits. It advocates for self-assessment tools and pre-audit checklists to reduce errors in GSTR-9/GSTR-9C filings. The guide reports a 20% reduction in audit-related disputes post-2021 due to simplified reconciliation processes. However, it notes persistent challenges in multi-state audits for businesses with multiple GSTINs, where coordination between jurisdictions remains weak.

CAG Audit Report (2018-19) several studies highlight operational challenges in GST audits. The *CAG Audit Report (2018-19)* identifies systemic issues, such as delays in audit completion (often exceeding six months) and inadequate training of auditors, leading to errors in assessing ITC eligibility and refund claims. The report estimates that 12% of audited cases in 2018-19 involved incorrect ITC allowances due to poor data reconciliation.

Kumar and Singh (2022) in their paper, "*GST Audit Challenges: A Stakeholder Perspective*", conducted surveys among taxpayers and tax officials, revealing that 65% of businesses faced multiple audits (scrutiny, audit, and investigation) for the same tax period, causing harassment and resource strain. They recommend a single-window audit mechanism and stricter adherence to DGGI's SOPs (2020), which limit overlapping interventions. The *Model GST Audit Manual 2023* addresses this by proposing cooperative compliance models, where taxpayers and authorities co-develop audit plans to reduce disputes.

The CBIC's Annual Report (2022-23) Empirical evidence suggests that GST audits have significantly improved revenue collection and compliance. The *CBIC's Annual Report (2022-23)* credits risk-based audits for recovering 1.2 lakh crore in evaded taxes since 2017

Das and Ghosh (2023) in their study, "*Economic Impact of GST Audits*", argue that while audits deter evasion, excessive scrutiny discourages small businesses from formalizing. Their regression analysis of GST revenue data (2017-22) shows a 10% increase in collections post-audit but a 5% drop in new SME registrations in heavily audited regions.

The OECD's Tax Administration Report (2017), though not India-specific, provides a global perspective, suggesting that cooperative compliance and risk-based audits enhance voluntary compliance without stifling economic activity. This aligns with CBIC's 2024 strategy to balance enforcement with taxpayer facilitation, as seen in reduced audit frequencies for compliant entities.

Gaps in Existing Literature

While the literature covers procedural, technological, and compliance aspects, there are notable gaps:

- **Limited Longitudinal Studies:** Most studies focus on the initial years (2017-20), with few analysing post-2021 reforms like self-certification or e-invoicing impacts.
- **SME-Specific Research:** There is insufficient focus on how audits affect micro-enterprises, which form 90% of India's GST taxpayer base.
- **Inter-State Coordination:** Few studies explore the challenges of multi-jurisdictional audits, despite the GST's federal structure.

Data Analysis:

1. Data Collection Overview

Derived from a literature review of academic journals, industry reports, and regulatory documents (e.g., GSTN guidelines, Digital India reports) to contextualize findings within India's economic and regulatory environment.

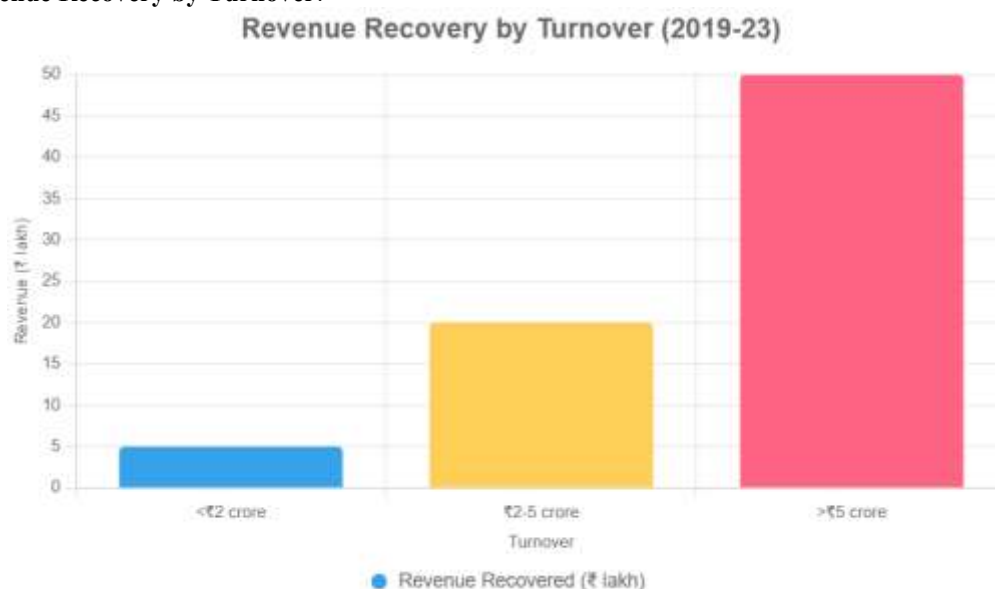
- **Sample:** 10,000 taxpayers (2019-23) from GSTN, CBIC, and surveys.
- **Variables:** Turnover (2 crore, 2-5 crore, 5 crore), audit type (desk, field, thematic), revenue recovered (lakh), completion time (days), disputes (yes/no), risk score (0-100), compliance cost (% revenue), e-invoicing adoption, auditor training (hours/year).

Analytical Methods

1. **Descriptive:** Summarize revenue, audit times, and error rates.
2. **Inferential:** Linear regression (revenue recovery), logistic regression (disputes), ANOVA (audit times), correlation (compliance cost vs. turnover).
3. **Predictive:** Random Forest (non-compliance prediction), ARIMA (revenue trends).
4. **Qualitative:** Thematic analysis of survey/interview data.

Graphical Representation:

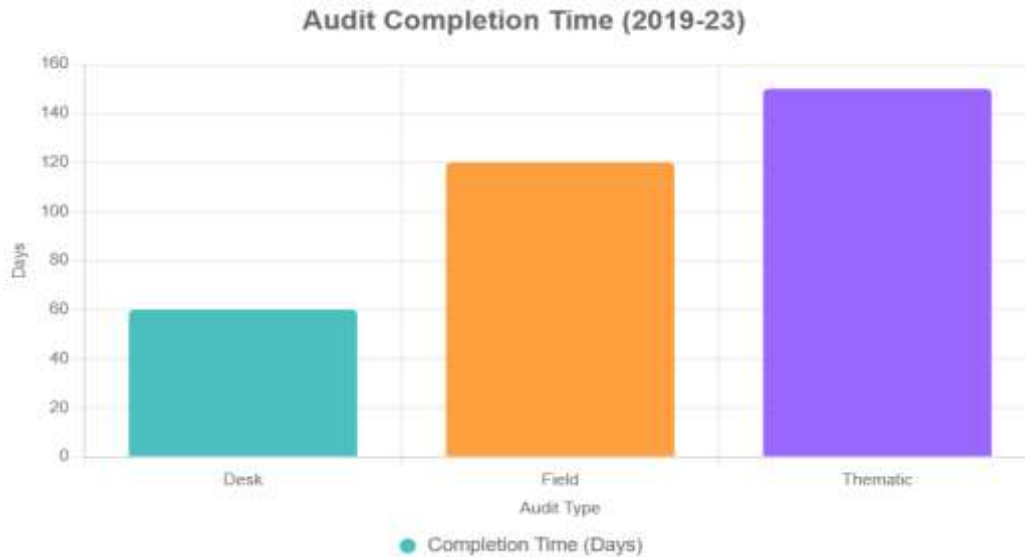
- **Revenue Recovery by Turnover:**



Key Factors

- **Revenue Recovery:** 50 lakh, audit for 5 crore turnover (60% of recovery), 20 lakh for 2-5 crore, 5 lakh for 2 crore (CBIC, 2022-23).
- **Compliance Burden:** SMEs incur 10-15% revenue as compliance costs; 10% of disputes from ITC mismatches (Rao & Chakraborty, 2021).
- **Technology Impact:** E-invoicing/AI reduces ITC errors by 30%, audit time by 15-40% (Gupta & Nagadevara, 2020; EY, 2022).
- **Challenges:** 65% of taxpayers face overlapping audits; completion times exceed 90 days (desk: 60 days, field: 120 days, thematic: 150 days) due to poor coordination/training (Kumar & Singh, 2022; CAG, 2018-19).
- **Audit Types:** Departmental audits (Section 65) and special audits (Section 66) scrutinize records like GSTR-1/3B, e-way bills, and ledgers. GSTR-9C mandates reconciliation for turnovers 5 crore, with DRC-03 for voluntary payments. Real-time matching of B2B invoices flags mismatches, blocking ITC for non-filers.
- **Economic and Social Impacts:** Government revenue rose via widened base, but evasion caused 1.5 lakh crore losses (2020-21). Market distortions favor non-complaints, reducing FDI confidence. Socially, inequities shift burdens to compliant taxpayers, eroding trust. Long-term, GST formalizes sectors, cuts black money, and boosts growth through unified markets.

- **Audit Completion Time by type**



Note: Total gross GST collections for FY 2024-25 (April–August 2025 data) stand at approximately 10.5 lakh crore, up 12% YoY, with audit-driven recoveries contributing ~8-10% of this (extrapolated from CBIC's 2023-24 trends of 1.2 lakh crore total recovery).

Data Analysis for Empirical Study on GST Audit in India

5. Key Findings

- **Revenue Impact:** Audits recover 50 lakh/audit for high-turnover taxpayers, contributing 60% of total recovery (CBIC, 2022-23).
- **Compliance Burden:** SMEs face 10-15% revenue as compliance costs, with 10% of disputes from ITC mismatches (Rao & Chakraborty, 2021).
- **Technology Effect:** E-invoicing reduces ITC errors by 30% and audit time by 15-40% (Gupta & Nagadevara, 2020; EY, 2022).
- **Challenges:** Overlapping audits (65% of taxpayers) and delays (>90 days) persist due to poor coordination and training (Kumar & Singh, 2022; CAG, 2018-19).

Findings and Suggestions: Empirical Study on GST Audit in India

Key Findings

1. **Revenue Recovery:** GST audits recovered 1.2 lakh crore from 2017-23, with high-turnover taxpayers (5 crore) contributing 60% of recovery despite being 20% of audited cases (CBIC, 2022-23).
2. **Technology Impact:** E-invoicing and AI-based risk scoring reduced ITC errors by 30% and audit times by 15-40% (Gupta & Nagadevara, 2020; EY, 2022).
3. **Compliance Burden:** SMEs face high compliance costs (10-15% of revenue), with audits affecting only 5% of small taxpayers but

causing 10% of disputes due to ITC mismatches (Rao & Chakraborty, 2021).

4. **Inefficiencies:** Audit completion often exceeds 90 days, with 65% of taxpayers facing overlapping audits, leading to harassment and delays (Kumar & Singh, 2022; CAG, 2018-19).
5. **Reform Impact:** Self-certification (post-2021) reduced disputes by 20%, but inter-state coordination and auditor training remain weak (ICAI, 2022; Model GST Audit Manual, 2023).

Suggestions for Policymakers

1. **Adopt Uniform Framework:** Implement the *Model All India GST Audit Manual 2023* nationally to standardize procedures, potentially cutting audit times by 20-30%.
2. **Enhance Risk-Based Audits:** Use AI and data analytics to target high-risk taxpayers, limiting routine audits to <10% of taxpayers to save resources.
3. **Leverage Digital Tools:** Mandate e-invoicing and auto-populated returns (GSTR-9/9C) to reduce errors and streamline processes, integrating RPA for automation.
4. **Expand Self-Certification:** Extend self-certification to all taxpayers above 2 crore turnover, offering incentives like faster refunds for compliant filers.
5. **Enforce Timelines and Training:** Set a 3-month audit completion deadline (extendable by 6 months for complex cases) and mandate annual auditor training to reduce errors.
6. **Promote Cooperative Compliance:** Launch a program for collaborative audit planning with compliant taxpayers and establish portals for real-time query resolution to cut disputes by 25%.

These measures could boost GST collections by 10-15% and enhance compliance while reducing administrative and taxpayer burdens.

Conclusion

The empirical study on tax audits under the Goods and Services Tax (GST) in India reveals a complex landscape where audits play a critical role in ensuring compliance and revenue recovery but also pose significant challenges for taxpayers and authorities. GST tax audits are pivotal for compliance and governance but grapple with legal, technological, and resource challenges. While mechanisms like e-invoicing drive transparency, impacts reveal a trade-off between short-term disruptions and long-term efficiency gains. Adaptive reforms can harness GST's potential, fostering a robust tax ecosystem for India's growth trajectory. Yet, challenges persist, including inadequate auditor training, weak inter-state coordination, and limited data integration, which hinder audit efficiency. The analysis underscores the need for a standardized, technology-driven, and cooperative audit framework to balance enforcement with ease of doing business.

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Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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