

# A Study of Impact of GST on Micro, Small and Medium Enterprise- A Critical Analysis

\*Dr Sanjeev Sharma

Principal DAV College, Bathinda (Pb).

## Abstract:

India started liberalizing its economy in 1992. Economy was opened to foreign corporate world. Domestic producers were facing tough time to compete the international market in respect of high cost of product. Indirect tax structure, multicity of tax at various phases were the ultimate reason for high prices. Rationalization of indirect tax structure paved the way to overcome one aspect to compete in open market. The main aim of this system is to abolish the all indirect taxes and only GST would be levied. Very thought of one nation one tax GST is described as one tax for one nation. It has been long pending problem to streamline all types of tax and put into effect a single taxation system. GST is a tax that needs to pay on supply of goods and services. Any person who is offering goods and services is liable to pay GST. This paper is humble attempt to highlights the impact of GST on micro, small and medium enterprises. MSMEs are major part in the Indian economy. Today we have around 15.64 lakhs MSMEs in India (source: [www.indiamicrofinance.com/micro-small-enterprises-india.com](http://www.indiamicrofinance.com/micro-small-enterprises-india.com)). Earlier, any manufacturer with turnover 1.5 crore or less was not required to comply excise duty. The study discusses the pros and cons impact of GST on MSMEs sector's will also bring in many positive effect such as easy process of a availing input tax credit, single point tax etc. Govt. has also taken sustained initiatives in order to educate MSMEs about the various provisions and requirements under GST for MSMEs through the seminars, training sessions, etc. GST covers many problems about the MSMEs sector. GST provide the some beneficial facilities to the MSMEs.

**Key words:** MSMEs, Input Tax, SMEs & indirect tax.

## INTRODUCTION:

New regime of indirect tax i.e Goods and Service tax subsumed all indirect taxes. The Goods and Services tax constitution amendment bill is now passed by both the houses of parliament and has been inforced in the country. Goods and Services tax provide the best solution for MSME's. Goods and service tax supports its growth objective. This area is developing by leaps and bound. The government launches many programs and introduced certain concessions and reliefs for manufacturers, retailers and exporters to boost up the businesses. The SME's contributed balanced development by providing the employment. Goods and Services tax should focus on increase in the growth of MSME's sector. With the implementation of Goods and Services tax in the country, SME's gets benefits such as ease in doing business & its growth. Goods and Services tax play significant role in the improvement of MSME's sector. Goods and Services tax

removed time.

consuming burden. For a development country like India, SME's provide balanced development across the sectors. In small and medium enterprises, owners have to take care of different type of taxes. Earlier, the tax levied by the central and state government adds up to 32%. But with the implementation of Goods and Services tax, the tax rate falls down to 28%. The whole tax system has been brought in to four tax slabs. A survey carried out by CPA, Australia pointed out that MSME's made a sea change in their procedures- to meet the requirements of Goods and Services tax. They upgraded their record keeping system and also upgraded their computer software. Overall it was accepted positively. The only limitation they felt was increase in the work load of their staff.

Value added tax was introduced in all over country in 2006 and Goods and Services tax

is the logical conclusion of successful introduction and imposition of value added tax in India. A study conducted by Pop & Ernst explained that it was difficult to estimate the startup costs and the measurement of costs and also the cost incurred for managerial purposes. It also absorbed that there was a lack of clear legislation because the legislation focus on provisions but the processes were not well defined. Inland Revenue Department, New Zealand reviewed the implementation and administration of Goods and Services tax and take feedback and suggestions from the public and businesses. A received feedback suggested that the compliance cost was high and these were proportionately higher for business with lower turnover or MSME's. At present VAT based tax regime has been introduced in more than 150 countries. Most of the countries have unified Goods and Services tax system. Brazil and Canada follow a dual system where Goods and Services tax is levied by both the union and the state government. With the introduction of Goods and Services tax there is an end to all indirect taxes. The government has also set up the Goods and Services tax Network (GSTN) for online administration of the tax payment and tax return filling. The benefit of Goods and Services tax will be higher on Indian industry, especially MSME's. Goods and Services tax offers benefits like less capital, quickly to environment change, high labour intensity, and small and flexible business operations. Goods and Services tax is believed to be simplified and integrated process for levy and collection of indirect taxation. It will replace complex taxes such as value added tax, central excise, service tax, entry tax and other indirect tax. MSME's contribute towards the growth of the economy by bringing in new innovation, creating new investment and employment opportunities in the economy. The micro, small and medium enterprises have been defined under MSME's Act 2006. Present research is targeted to study the impact of study on MSME's in India. The micro, small and medium enterprises of India experienced several highs and lows in the past

few years.

#### **Literature Review:**

Various theories and papers have been studied and brought under purview. Some of these are :

Deshbandhu Gupta(1997) wrote in his study that GST system help the nation in best utilization of available talent. Soufani (2003) found that Goods and Service tax system reduces the compliance costs of small and medium enterprises. Pandit (2015) found that Goods and Service tax help to simplify the process of indirect taxation. It will bring many benefit such as availing of input tax credit, single taxation system etc. This paper explained the impact of Goods and Services tax on MSME's. This explained that the tax returns are filed on the quarterly basis and due to this the owner is free from the taxation matters. If the registered people buy goods from unregistered dealer then tax is paid by the registered person as per the provisions of reverse charge. Earlier there is no time limit Siddiq and Prasad (2017) found that Goods and Service tax likely to be beneficial for auto cement and organised retail sector, but will have a negative impact on oil & gas and SME's sector. Kumari (2017) concluded that there will be impact of Goods and Services tax on working capital requirement, increasing the interest cost and also impact on pricing policy on Small and Medium enterprise. Goods and service tax predicted to benefit micro, small and medium enterprise in long run. Jeff (2018) conducted a study on Goods and Services tax and collected data from various countries like UK, USA, New Zealand, and Australia. The study investigated the importance of small business in economic growth, and especially job creation, the high administrative and compliance costs of including a large number of small entities in the tax system. The study found that there is a high level of tax evasion because of high compliance costs on small industries.

#### **Favourable Impact of Goods and Services tax on MSME's:**

Unernoted are some viewpoints which signify positive imp[act of GST.

- 1. Entire process of taxation become easier:** Goods and Services tax reduces complications caused by the overlap between central taxes and state taxes because it is unified taxation system on goods and services all over India.
- 2. Reduce tax burden on new business:** Earlier, business which have turnover more than 5 lakh rupees need VAT registration. The government introduced exemption limit under Goods and Services tax which helps to reduce tax burden on small dealer and MSME's.
- 3. Ease of starting business:** Goods and Services tax enables a centralized registration that will make easy to start up a business. Different rules in different state only add complications and incurred high procedural fees.
- 4. Faster delivery of services:** Under Goods and Services tax bill, no entry tax will be charged for goods manufactured or sold in any part of India. This results the delivery of goods at interstate points will be expedited.
- 5. Difference between goods and services:** Goods and Services tax ensures that there is no distinction between goods and services. This helps to make simple the legal procedures related to packaged products.
- 6. Helps to launch new business:** Earlier, the business owner had to pay different procedural fees for VAT registration. Under Goods and Services tax the registration is centralized and the rules are uniform.
- 7. Reduce cost of logistics: Business** transport goods to other states had to take hard time filling paperwork and pay entry tax at the inter-state borders that results delay in the delivery of goods. Goods and Services tax helps to reduce these costs.
- 8. Increased threshold limits for new businesses:** Under Goods and

Services tax, if annual turnover is less than Rs20 lakh, a business do not have to register or pay. This should have positive effect on startups and other small businesses by reducing tax burden.

#### **Unfavourable impact of Goods and Services tax on MSME's:**

There are some unfavourable effects of GST on micro small and medium enterprises such as:

- 1. Multiple registrations for Pan-India businesses:** Under this, a business will have to register online for Goods and Services tax in every state involved in its sale process. Thus, the entire system is online. The small business owners who are not used to working online, they are not find the transition easy.
- 2. Returns filed on monthly basis:** Under Goods and Services tax, there will be around 36 returns in fiscal year. It require from the businesses to close books on monthly basis. Therefore the business owners spend lots of time to file these returns.
- 3. Cost of tax compliance is likely to increase:** As above, there will filling three returns a month, thus it will give rise to the need for an accountant with technical expertise. This will increase the cost to hiring an accountant and paying them.
- 4. Registration will be mandatory for e – commerce suppliers and operators:** E – Commerce firms should register for Goods and Services tax in every single state where they supply goods.
- 5. No tax differentiates for luxury items and services:** Under the implementation of Goods and Services tax, all goods and services will have to pay same tax which will lead to rich becoming richer and poor becoming poorer. This is not ideal situation for MSME's competing against large businesses.
- 6. Selective tax levying:** Goods and

Services tax will not be applicable on Alcoholic and petroleum based business which does not support the ideology of unified market of Goods and Services tax.

7. **Excess working capital requirements:** Taxation of stock impact the working capital requirement. Higher capital requirement will increase interest cost which ultimately increases the price of finished goods.

#### **Suggestions for MSME's:**

The levels of capital investment for defining MSME's are too low so it is suggested that there should be a redefinition of MSME's. The industry also requested that banks provide more export credit to MSME's. The government should implement a process by which foreign currency limits are increased automatically. There should be a new tax regime for MSME's exporters and provide policies to reduce cost. Government should introduce programmed training, seminars, for the growth of MSME's sector and aware MSMEs about the benefits available to them because of GST.

#### **Findings & Conclusions**

The one tax principle underlying Goods and Services tax provides benefit to Micro, small and medium enterprises. Goods and Services tax would lead to an increase in output, employment opportunities, economic development and progress of the nation. Goods and Services tax is beneficial for MSME's. There will be a positive effect on MSME's. Goods and Services tax reduce the burden of both producers and end users and is also helpful by providing the advantage of Input tax credit. This will pave the federal distribution financially strong which will be helpful in balanced growth of economy as a whole.

#### **References:**

1. Shankar S. (2017) "Impact of GST on Small Medium Enterprises (SME) sector" International Journal of Research in Management & Social Science, volume 5, issue 4.

2. Jacob R (2017) "The impact of Goods and Services tax on the Micro, Small and Medium Enterprises" Imperial Journal of Interdisciplinary Research (IJIR) Vol-3, issue-10, 2017.
3. Pandit, S. (2017) "GST: Opportunities and challenges for Indian MSME's. Journal of Commerce, Economics & Computer Science (JCECS) volume 03, issue 03.
4. Kumari L.R. (2017) "Impact of Goods and Services Tax (GST) on Indian MSME's" International Journal of Research in Economics and Social Science (IJRESS), volume 7, issue 7.
5. Siddiq I. and Parsad K.S. , (2017) "Impact of GST on Micro , Small and Medium Enterprises" Journal of Management and Science , ISSN: 2240-1260, Special Issue . No.1.
6. Venkatesh J. and Kumari L.R (2018) "Effectiveness of R&D: Analysis of Indian MSME's with specific Reference to Manufacturing sector" International Journal of Innovative Research Explorer, volume 5, issue
7. [www.indiamicrofinance.com/micro-small-enterprises-india.com](http://www.indiamicrofinance.com/micro-small-enterprises-india.com).