

# Impact of GST on Micro, Small and Medium Enterprises

Shivani

## Abstract-One Country One Tax One Market

The Goods and Services Tax (GST) is the biggest and substantial indirect tax reform since independence which was implemented from July 1, 2017 which makes India one unified common market. It is levied on supply of goods and services and it subsumes all other taxes such as VAT, Service tax, Sales tax etc. With only a few months after the implementation of GST, small business owners are engrossed in understanding the potential effects of GST on their business. It's a well-known fact that SMEs (Small and Medium Enterprises) are the primary growth drivers of the economy and major contributors to the GDP. While some business owners have lauded the Government of India for implementing GST, others are not very convinced. This paper tries to comprehend the overall effect of GST on SME's by exploring benefits and challenges of the new regime from a small-business perspective. It seems that GST will bring in many positives such as easy process of availing input credit, single point tax, elimination of cascading tax system, and simpler taxation. These pros off-set the negatives.

**Keywords:** VAT, Service tax, Sales tax, GDP, SME.

## I. INTRODUCTION

Taxation is the power of the state to introduce and demand contribution upon persons, properties, or right for the motive of creating revenues for public motives. Taxes are executed consistent contributions from persons to property imposed by the law making body of the state by means of its sovereignty for the help of the government and all public requirements.

### Brief History of Taxation:

Tax is today an important determinant of revenue for the government all over the world. More than 3000 years ago, the inhabitants of ancient Egypt and Greece used to pay tax, consumption taxes and custom duties. Income tax was first announced in India in 1860 by James Wilson who was Indian's First Finance Member. In order to meet the deficiencies continued by the government on account of military mutiny of 1857, In 1918 A New Income Tax bill was passed and which was further again replaced in 1922. Finally, The Ministry of Law and Finance The Income Tax was Passed in 1961 and brought came in force on 1st April 1962.

Some important definitions:

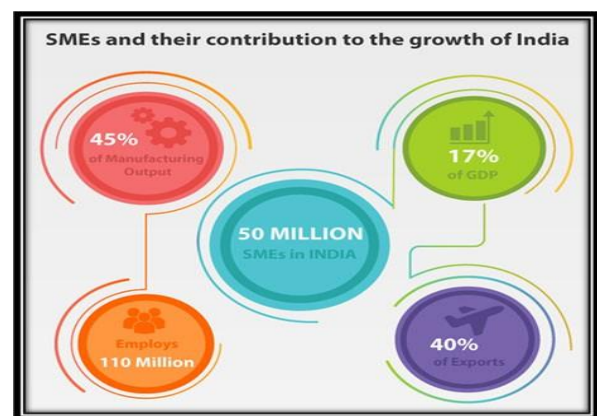
- "CGST" means taxes levied under the Central Goods and Services Act of 2016.

- "IGST" means taxes levied under the Unified Goods and Services Act of 2016.
- "SGST" means the tax imposed by the State Raw Materials and Services Act of 2016.
- "UTGST" means taxes levied under the Provincial Raw Materials and Service Act (2016).
- "Exempt delivery" means the supply of goods and / or services for which an exorbitant tax rate or that of taxes, including non-taxable deliveries, may be exempted.
- "Non-polluting delivery" means the delivery of goods and services in accordance with clause 16 of the 2016 IGST Act.

## II. OBJECTIVES

1. To study the positive and negative impact of GST on MSMEs.

IMPACT OF GST ON MSMEs:



- GST helped and reposed the process of starting a business in India. Earlier, every businesses in India were needed to obtain VAT registration, which differs state-to-state and Also the rules and regulations were different. Nonetheless, under GST, the businesses have only to register for GST which have a centralized process.
- Presently, for any business, it is compulsory to initiate a VAT payment if the annual turnover is more than 5 lakh in few states and 10 lakhs in few other states. This difference in various states produce turbulence. Under GST businesses does not have to register or gather GST if the annual turnover is 10 lakh. This is applicable to every state. This will allow many small businesses which have a turnover between 5 lakh – 10 lakh to avoid applying for the GST return.

- GST allows small and medium business to do business with ease in India, due to the less complexity. The distinction between the services and goods will be gone, and this will make compliance easier.

*Positive impact of GST on MSMEs:*

- Low Tax Rates: The businesses having an annual turnover between INR 10 and 50 lakhs will have to pay taxes at lower rates.
- Increased Reach: GST prevents the central sales tax upon which the sales were restricted and small and medium businesses were not able to reach their potential customers across India.
- Improved MSME market expansion: In the current system, big businesses procured goods based on MSME's locality in order to reduce overheads. Thus MSMEs limit their customers within state as they bear the ultimate burden of tax on interstate sales, reducing their customer base. With implementation of GST, this will be invalidated as tax credit will transfer irrespective of location of buyer and seller. This allows MSME segment to expand their reach across borders.
- Elimination of distinction between goods and services: GST ensures that there is no vagueness between goods and services. This clarifies various legal transactions related to the packaged products. As a result, there will no longer be a dissimilarity between the material and the service component, which will greatly decrease tax evasion.
- Lower logistical overhead: GST is tax unbiased, it will exclude time consuming border tax method and toll check posts and motivate supply of goods across borders. Accordingly the logistical cost for companies manufacturing bulk good will be economized. Such costs can be vital for the continuity of MSMEs.

*Negative Impact of GST on MSMEs:*

- Payment: Funds are recommended to be kept in the form of electronic credit ledger with the tax department, it may result in liquidity problem.
- Returns: Minimum of thirty-seven returns are necessary to be filed by every registered taxpayer during a financial year. Thus SMEs will have to arrange extra resources and eventual cost of compliance will hike.
- Excess Working Capital Requirement : Taxation of stock transfer will primarily influence the working capital requirements. The quantum of impact will vary depending on stock turnaround time at warehouse, credit cycle to customer, quantum of stock transfer, etc. Higher amount of Capital Requirement will hike interest cost which ultimately will rise the price of Finished Goods.
- Dual Control - Recently GST Council Meeting held and it was decided by the Ministry that those assesses

whose turnover of less than 1.5 Crores will be assessed by State Government and existing Service Tax assesses, irrespective of turnover will be assessed by Central Government as there is lack of expertise with the State Government in relation to Service Tax matters. As a result of this, small traders dealing in both goods and services will have dual administrative control both by Centre and State.

### III. CONCLUSION

Goods and Services Tax (GST) is apparently a long term scheme. It would lead to rise in output, employment opportunities and economic development and progress of the nation. However, in the initial phase of its implementation it is likely to increase the administrative difficulties and the compliance cost. MSME's would be able to derive the advantages of GST, if they are able to revitalize their business processes and systems in line with compliances as required under this law, as it would not be operationally feasible for an MSME's to operate out of credit chain. With technology & robust IT infrastructure, compliance can be made simple. MSMEs will need to have the courage to comply with the tax laws & ultimately contribute towards the growth of the nation. The shift from the traditional tax system to GST is considered as a 'behavioral change' more than a tax changes because its successful implementation depends to a great extent on how quickly businesses adapt to the digital format of taxation.

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