

A Study on the Impact of GST on MSME in India

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ABSTRACT

MSMEs contribute a lot towards the growth and overall development of the Indian economy by means of generating employment, enhancing production, contributing to GDPs growth. But a complicated amenities system and a stiff taxation command added confines on the growth potential of these enterprises. These MSMEs have to pay an enormous chunk of their earnings towards tax as a result of it the cost of their products and services are high which finally falls on the end users. In this condition there a need arise so that the double and more payment of tax can be avoided and GST emerged as biggest reform in Indirect Tax System, has been implemented in India from July 1st, 2017 and it has adopted the dual GST model in which both central and states levies tax on Goods or Services or both, where across the country common tax rate is made applicable and also enhances the competitiveness of MSMEs by means of various incentives, input tax credit schemes. This paper intends to identify the impact GST poses on MSMEs. Basically, MSMEs located in Shimoga have been selected and the required data is collected by means of a questionnaire.

Keywords: GST, MSMEs, Impact, Input Tax Credit,

Introduction

The central government passed four sets of GST Acts in the Budget session 2017. These were the Central GST Act, 2017; Integrated GST Act, 2017; Union territory GST Act, 2017 and GST (compensation to states) Act, 2017. The Acts were approved by the Parliament after they were introduced as a part of the money bill. Following the passage of the GST Acts, the GST council decided the rates slabs for the Goods and Services to be taxed under the GST regime.

GST is the biggest indirect tax reform in India. GST is one indirect tax for the whole nation, which will make India one unified common market. The GST intends to subsume most indirect taxes under a single taxation regime. GST is a single tax on the supply of Goods and Services, right from the manufacturer to the consumer. Credits of inputs paid at each stage will be available in the subsequent stages of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set off benefits at all the previous stages. This is expected to help broaden the tax base, increase tax compliance and reduce economic distortions caused by interstate variations in taxes.

It is charged at the national and state level at similar rates for the same products and it also replaced all most all the indirect taxes that are imposed separately by the center and states. GST is a destination based tax which means that the tax is paid at the place of supply. In the case of intrastate sales, central GST and State GST are charged. Interstate sales are chargeable to integrated GST. GST is a comprehensive indirect tax levy on Goods as well as services at the national level. Businesses are required to obtain a GST Identification number in every state they are registered.

There are 160 countries around the world that have GST in place. GST is a destination based tax is collected by the state where goods are consumed. GST has been implemented in India from July 1st, 2017 and it has adopted the dual GST model in which both central and states levies tax on Goods or Services or both.

The Indian MSME sector is critical for the growth and development of the nation. The contribution of Indian MSMEs to the national output, employment generation, exports, and industrial output is enormous. But a complicated compliances system and a rigid taxation regime place added limits on the growth potential of these enterprises. The Indian MSME sector will gain tremendously from the GST and the implementation of this taxation regime has been a recurring policy recommendation by various stakeholders engaged in initiatives for the amelioration of the SME sector in India, significantly reduce their input cost and motivate financial discipline

amongst MSMEs, leading to an increase in revenue collection for the government and a simplified tax regime for these enterprises.

Review of literature

R. Lavanya Kumari (2017), “Impact of Goods and Services Tax (GST) on Indian MSMEs”, states that GST rollout will be open up a can of worms and the effect on MSMEs throughout numerous industries will vary substantially. It's far quite herbal for pervasive, country-wide tax reform, as GST is, to have a blended opinion. The only nation, one tax principle underlying Goods and Services Tax (GST) rollout is predicted to benefit Micro, Small and Medium businesses in the long run. Presently the majority of MSME gamers are unregistered in order to avoid paying tax and meeting compliance requirement. If they reach threshold restrict underneath a tax law, It looks to cut up the firms.

Kashif Ansari and Garima Jain (2017), “Impact of GST on Indian Startups”, found that the introduction of GST will have both positive and negative impact on startups. Proposed GST act may not be completely perfect but in spite of all stated problems GST is one of the most business-friendly reforms in India and in long term, the benefits of GST for startups are likely to overcome the problems of GST.

Ribhu Sharma (2017), “Impact of GST on SMEs, MSME, and Startups”, opined that GST provides much scope to SMEs or Startups by providing extending exemption limits, make easiness in paying taxes, bringing uniformity in the centralized registration in the country and boost GDP.

Rani Jacob (2017), “The Impact of Goods and Service Tax on the Micro, Small and Medium Enterprises”, On the arrival of GST, the MSME sector has forced to revamp their strategies, systems, supply chains and costing apart from meeting the quality standards as per international norms. So far, unorganized MSMEs have grown faster than organized peers because of lower cost structures stemming from tax benefits, (if turnover is less than ₹ 1.5 crore). India's paradigm shift to the Goods and Services Tax (GST) regime brought the majority of MSME's into the indirect tax net for the first time and thereby increased compliance costs for MSME's.

C.A. Dilip Satbhai (2017), “GST Impact in MSME Sector”, found that It shall be imperative that the sector through its associations or various representation bodies highlight these issues to the lawmakers so that the same can be resolved at the earliest. In fact, recently the government has also formed a special committee to look after the issues faced by the MSME sector in GST. It is urged to the industry that they proactively highlight the above issues and obtain the relief prior to the advent of GST as once GST is implemented; the chances of respite would be very minimal for the sector.

Objectives of the study

- To understand the concept of Goods and Services Tax.
- To know the benefits of GST towards MSMEs taxpayers.
- To study the impact of Goods and Services tax on Micro, Small and Medium Enterprises.
- To examine how GST work in the MSME sector.

Statement of the problem

Majority of MSMEs are of the belief that GST for them is not appropriate and their fears may not be totally vacuous. The tax neutrality that the SMEs enjoy may be one of the prominent benefits. However, reduction in duty threshold is one of the key concerns that has led the previous excise tax, no duty is paid by a manufacturer having a turnover of less than rupees 1.5 crores. But, after GST implementation, the exemption limit will get significantly lowered to rupees 20 lakh. As a result, a large number of SMEs and will have to pay a large chunk of their earnings towards tax. This will lead to an increase in the cost of the products for businesses that supply directly to end users. Another drawback is filling with the Tax return. Under VAT laws, in case of most of the states, quarterly returns are to be submitted, in addition, a yearly return is required, while service tax asks for submission of two half yearly returns and a yearly return. In GST law, one would require to file not less than 37 returns for a fiscal year. Hence present study focused on knowing the impact of GST on Micro, Small and Medium Enterprises.

The scope of the study

The present study is undertaken to know about the impact of GST on Micro, Small and Medium enterprises in order to a threshold limit, tax payment and filing of tax returns for this purpose Shimoga district have been selected as study area.

Research methodology

• **Sources of Data**

The present study is based on the information which is collected by both the type of data such as, Primary data which is collected by distributing a questionnaire to the respondents and by conducting a personal interview. And the Secondary data is collected from reviewing various articles, newspapers, magazines, books and different websites.

• **Statistical tools and Techniques**

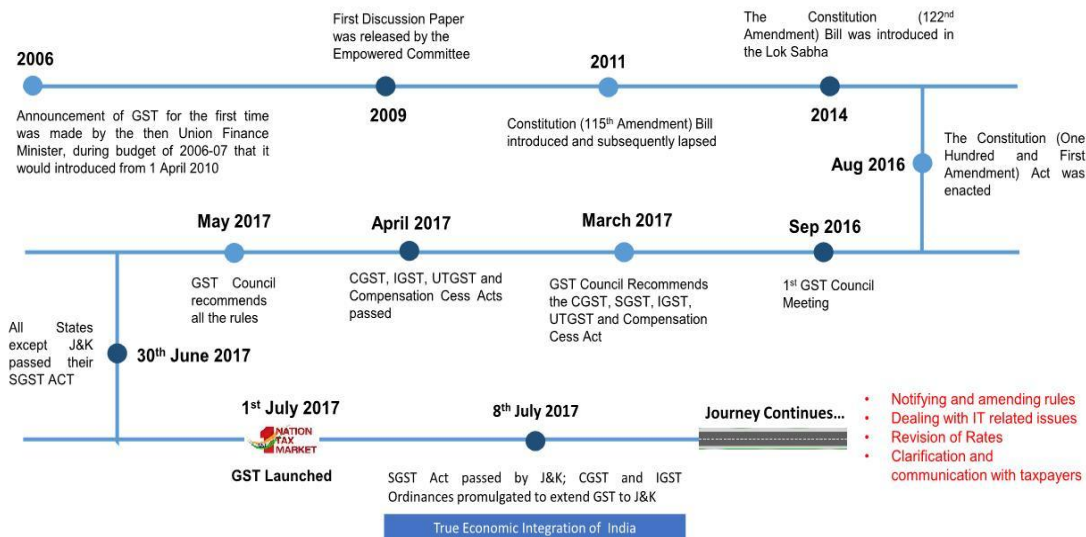
For the purpose of analyzing the data collected from various sources certain statistical tools and techniques have been used such as tables, percentages, and graphical representation of the data through pie charts, tables and bar charts.

The concept of Goods and Services Tax

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of central and state taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in the overall tax burden on goods.

The Constitution Amendments have been made notified and made effective. These were made partly effective on 12-09-2016 and fully effective from 16-09-2016. Section 19 of Constitution (One Hundred and First) Amendment Act, 2016 allowed one year transition period of one year for switching over to GST. Thus, in any case, GST had to be in place before 16-09-2017. Section 20 of Constitution (One Hundred and First) Amendment Act, 2016 empowers President of India to issue an order for removal of difficulties. This power includes the adoption or modification of any provision of the Constitution.

The Journey to GST



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Source: (Secondary data)

It is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as a setoff. In a nutshell, only value addition will be taxed and the burden of the tax is to be borne by the final consumer.

Goods and Services Tax means a tax on supply of goods or services, or both, except taxes on the supply of alcoholic liquor for human consumption [Article 366(12A) of Constitution of India inserted w.e.f. 16-09-2016].

Concept of MSMEs

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in the industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.

➤ **Definition of Micro, Small and Medium Enterprises in India**

Micro, small and medium enterprises as per the MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The present ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

Classification	Manufacturing Enterprises* (Investment limit on Plant & Machinery)	Service Enterprises** (Investment limit on equipment)
Micro	Rs. 2.5 million /Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million /Rs. 5 crore	Rs. 20 million /Rs 2 crore
Small	Rs.50 million /Rs. 5 crore	Rs. 20 million /Rs 2 crore
Medium	Rs 100 million /Rs 10 crore	Rs. 50 million /Rs 5 crore

(Source: Secondary Data)

The term “village industries” has been redefined in amended KVIC, Act, 1956 as "any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. one lakh (Rs. One lakh and fifty thousand in case of village industry located in a hilly area) or such other sum as may, by notification in the Official Gazette, be specified from time to time by the Central Government”

Role of MSMEs in India

Micro Small and Medium Enterprises (MSMEs) are crucial for economic growth and stability of any country and play a vital role in the development of the economy and provide employment and also contribute towards reduction of poverty.

In the Indian context, MSMEs can be considered as the backbone of the national economy and as a significant solution for the development issues as they provide resilience in the economy foster an entrepreneurial culture.

- Creates more jobs
- Contributes to export
- Reduces poverty
- Provide more employment at lesser capital costs compared to large enterprises
- Reduces inequalities in the economy by contributing to the distribution of wealth
- Facilitate learning across the sectors as well as geographically

Impact of GST on MSMEs

The Indian MSME sector is critical for the growth and development of the nation. The contribution of Indian MSMEs to the national output, employment generation, exports, and industrial output is enormous. The Indian MSME sector will gain tremendously from the GST and the implementation of this taxation regime has been a recurring policy recommendation by

various stakeholders engaged in initiatives for the amelioration of the SME sector in India. MSMEs were required to pay indirect taxes as producers of goods and services and file returns as sellers. This system of double taxation results in high transaction costs and adversely affects their competitiveness.

According to the pre-GST practice, MSME units in India typically have to pay four major categories of taxes:

- The Central Sales Tax (CST) levied by states
- The Central Excise Tax to the tune of 4% to 16% when an MSME crosses annual revenues of Rs.1.5 crore
- Service tax
- Sales Tax or Value-Added Tax to the tune of 10% to 20% on the final good

By replacing these with a single tax with a common rate across the country, the GST will reduce the costs for MSMEs, save time and enhance their competitiveness. Under the current regime, large enterprises 'stock transfer' goods to other states due to the availability of infrastructural resources and thereby avoid the impact of central sales tax (CST) on interstate movement. Post-stock transfer, goods are sold locally on payment of applicable VAT to the buyer, who is eligible to avail of credit against output VAT liability. However, SMEs, owing to lack of infrastructure, effect inter-state sales (instead of stock transfers) and bear the burden of CST. The CST paid is currently not available as input credit to the buyer against his output VAT liability. The non-availability of input credit increases the cost of the product, thereby, rendering SMEs uncompetitive versus large enterprises.

Negative Impact:

- While the MSMEs will enjoy the tax neutrality, reduction in duty threshold is one of their main concerns in warming up to the GST bill.
- The burden of the higher tax rate for Service Provider
- Strict tax-compliance norms mean more costs
- Investment to go tech-savvy
- Skilling Requirements
- Complex Rules and Compliance

Positive Impact: GST boosts the competitiveness of MSMEs. They will benefit as follows:

- Improved MSME market expansion
- Lower logistical overheads
- Aids MSMEs dealing in sales and services
- Unified market
- Purchase of Capital Goods
- Boosting the Export Potential of Local SMEs
- Starting a business becomes easier

Data analysis and Interpretation

- **The demographic profile of respondents**

In order to collect data, the questionnaire has been distributed to MSMEs in Shimoga. Questions were asked to the respondents about their age, educational qualification, income, occupation, work experience and the result obtained is majority are male who falls in the age category of below 50 years and most of them are undergraduates and business is their occupation.

Table 1: Problems facing while getting Registration

Sl No.	Description	No. of Respondents	Percentage (%)
1	Technical problem	28	70.00
2	Government rules and policies	00	00.00
3	Cost and Other problem	07	17.50
4	All of the above	05	12.50
Total		40	100

(Source: Field Survey)

The above table showing that out of 40 respondents, 70% respondents are facing Technical problem, 17.5% of respondents are facing the problem of cost and other problem and 12.5% of respondents are facing all of the problems like Technical problem, Government rules and policies, Cost and Other problem. Here it is interpreted that majority of respondents that is 70% of respondents are facing the technical problem and they are manufacturers and traders because most of the owners don't have proper computer knowledge and other E-facilities.

Table 2: Benefits of Implementing GST

Sl No.	Description	No. of Respondents	Percentage (%)
1	Composition levy scheme	00	00.00
2	Input Tax Credit	36	90.00
3	Liberalization in Rules and Regulation	04	10.00
4	Other	00	00.00
Total		40	100

(Source: Field Survey)

The above table showing that out of 40 respondents, 00% of respondents, they don't know about Composition levy scheme and 90% of respondents opined that they are getting the benefit of ITC, 10% of respondents are getting the benefit of Liberalization in Rules and Regulation.

Here it is interpreted that, the majority of respondents are opined that the seamless credit of ITC is benefited to them. It is better if, tax authority continue same structure in future of GST law.

Table 3: ITC under the GST regime is become very easier compare to Pre GST system

Sl No.	Description	No. of Respondents	Percentage (%)
1	Strongly Agree	12	30.00
2	Agree	28	70.00
3	Disagree	00	00.00
4	Strongly Disagree	00	00.00
Total		40	100

(Source: Field Survey)

The above table it is clear that among 40 respondents, 30% of respondents opined that they strongly agree about to get ITC under GST regime is become very easier with compare to pre-GST system, 70% of respondents opined that they agree about to get ITC under GST regime is become very easier with compare to pre-GST system and no one disagrees with to getting ITC under GST.

Here it is interpreted that majority of respondents are accepting the GST system and they agree with the present GST system, there is an improvement is needed GST council need to take measures to improve tax system in India.

Table 4: Classification of respondents based on their Rating towards GST

Ratings	Registration		Filing of Returns		Acts & rules		Composition Levy Scheme		Input Tax Credit	
	No of Respondents	Percentage	No. of Respondents	Percentage	No. of Respondents	Percentage	No. of Respondents	Percentage	No. of Respondents	Percentage
Excellent	20	50	12	30	14	35	08	20	22	55
Very good	14	35	13	32.5	11	27.5	12	30	15	37.5
Good	06	15	05	12.5	07	17.5	08	20	03	7.5
Fair	00	00	10	25	05	12.5	12	30	00	00
Bad	00	00	00	00	03	7.5	00	00	00	00

(Source: Field survey)

The above table shows that 50% of respondents opined that the registration procedure under the GST regime is Excellent, for filing of returns 13% opines very good, 35% opines that Acts and rules are also excellent, for composition levy scheme 30% opines as fair, and with respect to input tax credit availability 55% opines as excellent.

Here we can identify that the majority are in favor of GST implementation especially with respect to input tax credit facility as the filing of returns

Findings

- Most of the respondents are male, fall into the age category 36-50 years.
- Most of the respondents are manufacturers and traders and their educational qualification is high school and under graduation.
- Most of the respondents' enterprise's monthly income falls between `50000 - `100000.
- All the respondents are aware of GST. Most of the respondents are aware of GST from the source of tax consultants.
- All the respondents are paying GST because they are manufacturers, traders and service providers and all are registered under GST law.
- This study has found that there is a positive impact on India's economy from GST, it helps to the growth of India's GDP by contributing towards capital formation, maintain stability in taxation, and also through resource mobilization in long term.
- Most of the respondents opined that they are facing difficulties in the time of getting registration in terms of a technical problem because of lack of technical education and the majority of respondents are migrated to GST law.
- Majority of respondents are opined that GST will benefit them in terms of seamless input tax credit and liberalization in rules and regulations.
- Majority of respondents are strongly agreed about GST law in terms of getting ITC.

Suggestions

- The Central Board of Indirect Taxes and Customs department should provide education about GST to the Taxpayers especially about composition levy scheme.
- Majority of respondents are male and female respondents are very less with compare to male so, in this way the government take measures for the development of women entrepreneurs.
- All the respondents are getting registration under GST and they are paying GST, even though they are registered access some of them are don't have knowledge about GST because of lack of education and self-interest. For this reason, the government should take necessary measures to educate them in terms of providing technical education about digitalization.
- Even though all the respondents are aware of composition levy scheme but no one availing benefit of this scheme because they don't know the economic benefit even though they are manufacturers, traders.
- The respondents opined that to get ITC under GST law is become very easier than the pre-GST law because of seamless credit, therefore GST council maintain the same in future is better for the overall development of the economy.
- One of the problem to MSME holders is that more no. of returns that should be upload periodically and this leads to increases their operating cost to some extent so it is better to reduce the rules and regulations with regarding filing of returns.
- Service sector should also be included in the compensation scheme.
- The government should undertake several steps to bring all eligible MSME holders under the GST regime especially goldsmith or jewelry shops.

Conclusion

The tax structure in India has acquired its predominance place from the history back itself. Especially the Indirect Tax regarding its pertinent scope in the present scenario is very important. Indirect tax plays a pivotal role in the development of the nation because it generates 86.67% of the total revenue of the central government. The introduction of GST has been a much-awaited tax reform in the field of indirect tax reforms in India. By amalgamating a large number of central and state taxes into a single tax, the results on GST demonstrated a unanimous consensus among the business community that GST would be beneficial to the Indian economy. The lack of significant progress for implementation of GST during the last couple of years has credited a

sense of despondency amongst trade and industry. Hence, India has to implement the GST regime immediately without any further delay since it would make business and industry more competitive. The implementation of GST will be more helpful for India's scenario and it helps to promote the increase of GDP rate, economic development. In this correspondence, the excise duty acts as a catalyst for the upcoming goods and service tax in India. After the implementation of GST in India, there is a number of changes taken place in terms of digitalization, e-filing and also increases the government revenue. Post GST regime impact is taking place in several sectors most of on MSMEs in India, some extent it increases the operating cost of MSME units and also benefited in terms of getting ITC, liberalization in the registration process and composition levy scheme.

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