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## **THE IMPACT OF GOODS AND SERVICES TAX ON:- MICRO, MEDIOM AND SMALL ENTREPRISES OF INDIA**

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### **ABSTACT**

A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. It is the biggest tax reform ever happened in India. Now we are witnessing, how this tax reform reshapes our economy and business dynamics for Micro, Small and Medium Enterprises. The Micro Small and Medium Enterprises sector is a major constituent of our economy and contributes significantly to manufacturing output, employment and exports of our country.

This research tries to understand the effects of GST on micro, small & medium enterprises (MSME). Both positive & negative impacts have been found and noted. The paper has tried to make an attempt to discuss the problem faced back then & still how the businesses are managing after the effect of the GST

KEY WORDS: - GST, MSME, TAX STRUCTURE

### **INTRODUCTION**

India has witnessed substantial reforms in indirect taxes over the past two decades. Even after these reforms indirect tax was a highly fragmented and distortionary tax structure characterized by multiple tax rates, barriers to interstate trade and cascading of taxes. However VAT reforms have succeeded in preparing the ground for the introduction of a comprehensive Goods and Service Tax [GST]

GST is 'The Goods and Service Tax' implemented by Government of India on 1st July 2017, through the implementation of 'One Hundred and First Amendment' of the Constitution of India. It was launched at midnight by the then President of India, Shri. Pranab Mukherjee and the Prime Minister of India Shri. Narendra Modi. It is an indirect tax system that relieved the various other taxes i.e. VAT, excise duty, service taxes etc. which were applicable before on goods and services. According to the Government, GST is a well structured & simplified taxation system, wherein the authoritative segregation of central government and the state government has been



done. Every enterprise has dual GST model applicable, i.e. Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST)

### OBJECTIVE OF THE STUDIES

- To understand the concept of Goods and Service Tax.
- To study the impact of GST on MSMEs.
- To examine opportunities for MSMEs on the implementation of GST

### GOODS AND SERVICE TAX

GST can be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing services the seller or service provider may claim the input tax credit of tax which he has paid while purchasing the goods or procuring the service (The Institute of Chartered Accountants of India, 2013). Implementation of GST is accepted among the direct stakeholders as it removes several blockades in the former VAT system such as tax cascading, double taxation, complexity, composite contracts...etc.

### ORIGIN OF GST

GST is framed based on the Value Added Tax (VAT) principles. Value Added Tax was first devised by a German economist named Dr. Wilhelm Von Siemens during 18th century. France was the first country to introduce VAT system in 1954. At present VAT based tax regime has been introduced in more than 150 countries. Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both the Union and the State Governments.

### GOODS AND SERVICES TAX GLOBALLY:

Country	Rate of GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
New Zealand	15%



### **MSME SCENARIO IN INDIA**

The Micro, Small and Medium Enterprises [MSMEs] have been the solid backbone of our country's economic development. It is estimated that in terms of value, the MSME sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 69 million employees in over 26 million units throughout the country

MSMEs in accordance with the establishment of Micro Small Medium Enterprises Development (MSMED) Act, 2006, is classified under 2 categories i.e. manufacturing sector & service sector, according to the investments for plant & machinery, equipment respectively

ENTERPRICES	MANUFACTURING SECTOR	SERVICE SECTOR
Micro	≤ 25 lakhs	≤ 10 lakhs
Small	≥25 lakhs - ≤ 5 crores	≥ 10 lakhs - ≤ 2 crores
Medium	≥ 5 crores - ≤ 10 crores	≥ 2 crores - ≤ 5 crores

### **IMPACT OF GST ON MSME**

In the earlier taxation system, any manufacturer with a turnover of Rs 1.5 crore or less was not required to comply with the rules of excise duty. Under the GST realm, any manufacturer with a turnover of Rs 20 lakh (others) /10Lakh (Special category states) or more will have to comply with GST, and that results in the increase of taxpayer base. Accordingly majority of MSME's working now in the unorganized sector fall under GST regime and will put a burden of compliance and associated costs to them.

### **POSITIVE IMPACT OF GST**

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

- Starting business becomes easier:

Currently, the Sales Tax department has various turnover slabs which require VAT registration. A business with multi-state operation in this case has to follow varied tax rules applicable to different states. This not only creates excess complication but also adds to procedural fees, due to which the price sensitive MSMEs will be burdened. Uniform GST will standardize the process.

- Improved MSME market expansion:



In the current system, big corporations procured goods based on MSME's locality in order to reduce overheads. Thus MSMEs limit their customers within state as they will bear the ultimate burden of tax on interstate sales, reducing their customer base. With implementation of GST, this will be nullified as tax credit will transfer irrespective of location of buyer and seller. This allows MSME segment to expand their reach across borders.

- Lower logistical overheads:

As GST is tax neutral it will eliminate time consuming border tax procedures and toll check posts and encourage supply of goods across borders. Accordingly the logistical cost for companies manufacturing bulk good will be reduced. Such costs can be crucial for the survival of MSMEs.

- Aids MSMEs dealing in sales and services:

GST will not distinguish between sales and services. This is good news for the MSMEs that deal with sales and services model of business, for them the taxation is simplified and will be calculated on total.

- Unified market:

GST will allow flexibility in transfer of goods across states and reduce the cost of doing business, as the reform will cut down multiple taxes imposed by state and central government.

- Purchase of Capital Goods:

In the current system, only 50% of the input tax credit against purchase of Capital Goods is available in the year of purchase and the balance amount in subsequent years. Under GST regime, entire amount of input tax credit can be availed in the year of purchase itself. This will support "Make in India" campaign.

### **NEGATIVE IMPACT OF GST**

- The burden of lower threshold:

The GST bill proposes a reduction in threshold to be Rs. 9 lakh to increase the tax net, Rs. 41lakh for North Eastern states. (However, GST council has increased the threshold limit from 10 lakh to 20 lakh and from 41lakh to 10 lakh for North eastern states) Under the reform, any service provider or retailer will be subject to tax levy. In the current central excise law threshold is Rs.1.5 crore. This reduction will significantly impact the MSMEs' working capital. For example, a manufacturer who trades today at Rs. 25 lakhs without any tax levy will be expected to pay GST post implementation. As the threshold is low, most



MSMEs are now exempted and will have to pay a chunk of their capital towards tax in future.

- Selective Tax Levying

GST is not applicable to Alcoholic liquor for human consumption and petroleum products, which creates further gap and does not support the 'unified market' ideology of GST.

- Financial Preparedness

Since outward and inward supplies would be electronically matched every month, availing of input tax credit by the buyer would be based on the compliances of the supplier. Any failure by the supplier to declare his outward supplies correctly would lead to mismatch of returns leading to reversal of credits availed by the MSMEs

- Technological Preparedness

Upgrading IT systems by MSMEs require a sizeable investment. In addition, expenses incurring for training employees for the new GST regime is also lead to increased overhead costs for the MSMEs

### **CONCLUSION**

There was a dire need to integrate India into one economy and get rid of the multiple taxes and its cascading effect. Introduction of GST resulted in simplification of indirect tax system in the country and thereby ensures seamless business transactions across our nation and world over. 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, unorganised MSMEs have grown faster than organised 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 majority of MSME's into the indirect tax net for the first time and thereby increased compliance costs for MSME's. Complying with GST is bit complex for MSME's at present. However in the long run it will benefit small and medium businesses as well as consumers. The overall impact of GST on MSME sector has to be reviewed by the Centre and the States periodically, and any adverse impacts observed should be addressed at appropriate times for the success of new tax regime.



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## Online Resources

<http://www.nipfp.org.in>

<http://www.idtc.icaai.org>

<http://www.caa.in/image/23ugstb.pdf>

[www.unionbudget.nic.in/ub2006-07/bs/speecha.htm](http://www.unionbudget.nic.in/ub2006-07/bs/speecha.htm)

<http://www.finmin.nic.in/kelkar/report.pdf>

[http://indiabudget.nic.in/FM\\_Speech\\_Delhi\\_budget\\_2014\\_2015.pdf](http://indiabudget.nic.in/FM_Speech_Delhi_budget_2014_2015.pdf)

<http://www.dcmsme.gov.in/CII.pdf>