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"GOODS AND SERVICE TAX (GST) IN INDIAN ECONOMY AND ITS IMPACT ON MICRO SMALL AND MEDIUM ENTERPRISES"

Sanket L. Charkha

Savitribai Phule Pune University

ABSTRACT

The Goods and Services Tax (GST) is the largest tax reform in India since independence, and it is planned to revolutionized the Indian tax system. It would incorporate and simplify the indirect taxation process, replacing complex taxes such as state VAT, central excise, service tax, entry tax or octroi, and other indirect taxes. GST represents a significant shift from state-by-state taxation to a single-nation, single-tax structure that affects a variety of business factors such as portability, cashflow, and sourcing, pricing, and supply chain. The main goal of this system is to eliminate all indirect taxes and replace them with a single GST. As the name implies, the GST may be applied to all goods and services. GST is a tax that must be paid on the supply of goods and services. GST is payable by someone who presents or offers goods and services. The effect of GST on MSME's is highlighted in the paper. MSMEs in India are significant contributors to the Indian economy and growth engines. Because of its low capital intensity and high labour absorption. The MSME sector has contributed significantly to the country's manufacturing output, job creation, rural industrialization, and exports. Only agriculture provides more job opportunities than this industry. Around 120 million people are estimated to be employed in the industry, which accounts for around 46% of India's total exports.

Key Words: Goods and Service Tax (GST), MSME, Indian Economy, GDP

HISTORY OR BACKGROUND

The GST will play a critical role in reforming India's tax system and making Indian exports more competitive in both domestic and foreign markets. This study will demonstrate that doing so will immediately boost economic growth. The Goods and Services Tax (GST) will be a major step forward in India's indirect tax reform efforts. It would significantly reduce cascading or double taxation by combining a large number of Central and State taxes into a single tax, paving the way for a common national market. From the standpoint of the consumer, the greatest benefit will be a reduction in the overall tax burden on products. Approximately 37% of our country's GDP is generated by small and medium-sized businesses. The impact of GST, which would have a significant negative impact on this segment, may result in the player being forced out of the competitive business market. A united market and a simpler tax structure are found to improve operational efficiencies, particularly for MSMEs with a wider reach. The Goods and Services Tax (GST) is India's new framework (GST). In July 2017, the new regime will raise their compliance expenses and, for the first time, bring the majority of them into the indirect tax net. Last but not least, this tax will be easier to manage because of its transparency.

GST PAPER OBJECTIVES

1. To comprehend the notion of the Goods and Services Tax
2. To investigate the effect of GST on SMEs.
3. To examine prospects for MSMEs as a result of the GST implementation.

THE HISTORY OF THE GOODS AND SERVICES TAX:

The Goods and Services Tax bill, widely regarded as India's most significant tax reform, would simplify the existing tax system. By replacing all indirect taxes with a single tax, the bill helps turn the world into a unified market. Various taxes such as Excise Duty, Value Added Tax (VAT), Central Sales Tax, Luxury Tax, and Entry Tax, among others, are merged under a single umbrella of GST would bring everything together under one roof. The main feature of the GST bill is that instead of collecting taxes at each step, they will be collected all at once. Services and goods would be deemed separately and taxed in the same way.

GST would replace all other taxes, such as state/local taxes, entertainment taxes, excise duties, surcharges, octroi, and so on, on the supply of goods and services. It would be based on the transaction value, which covers packaging, commission, and other sales-related costs. It would make taxation uniformity in the world and allow for full tax credit on inputs and capital goods on purchases that can be used to offset GST output liability later. The reform puts large corporations and small businesses on an equal footing and eliminates the tax differential on stock transfers. In the current system, however, VAT is collected in parts at the state and central levels, as well as at several points. As a result, the manufacturer is forced to pay large tax aggregates, which is unsustainable in the long run.

GST is intended to make such tax barriers easier to overcome, and it will eventually be borne by the consumer. The tax slabs of the existing GST legislation range from 5% to 12 percent, and 18 percent to 28 percent. Some products and services are exempt from GST, in addition to these slabs. Grain, cereals, and sauces, for example, are exempt from the GST. In the excise, service tax, and VAT regimes, the simple formula for levying various rates of goods and services has been to fit them into their adjacent slab of tax in the composite tax incidence.

TAXES AND GST HAVE BEEN COMBINED

The following Central (7) and State taxes (11) will be absorbed or merged into the new GST: Taxes on the central government: All Surcharges and Cess, Central Excise Duty (CENVAT), Service Tax, Additional Excise Duties, Additional Customs Duty or Countervailing Duty (CVD), Special Additional Duty (SAD) on Customs, Central Sales Tax (CST).

State taxes include state VAT or sales tax, central sales tax (CST), luxury tax, entry tax (all forms), entertainment and amusement tax (except when imposed by local governments), advertising taxes, purchase taxes, lottery, betting, and gambling taxes, as well as state surcharges and cess.

GST'S BENEFITS

- Incorporate all indirect taxation at the federal and state levels.
- One-Tax-One-Country. Reduce the impact of taxation on taxation by reducing the cascading effect.
- Boost competitiveness and transparency, as well as the tax-to-GDP ratio.
- Tax evasion and corruption must be reduced or eliminated.
- The tax structure is lean and straightforward.
- SME business growth has improved.
- Assists SMEs in the sales and service industries.

POSITION OF MSME

- Because of lower cost structures resulting from tax avoidance, as well as not having to pay social security benefits to retirees and excise duty, unorganised MSMEs have risen faster than organized peers (if turnover is less than Rs 1.5crore).
- Because of the lowest tax rate, the GST is expected to boost this segment.
- MSMEs were projected to expand by 14 to 16 percent year over year in the previous fiscal year.
- Demonetization had a significant effect in the second half of the year, and they would have ended the year with just a 6 to 8% rise.
- Growth will pick up in the current fiscal year as the effects of demonetization fade, and “Make in India” has the potential to lead this sector.
- Though this fiscal year's growth is expected to be solid, cheaper imports, particularly from China, remain a challenge.

IMPACT OF GST ON MSMES

Negative sided Impact

While MSMEs would benefit from tax neutrality, one of their primary issues in accepting the GST bill is the reduction in duty threshold.

The cost of a lower threshold: The GST bill recommends lowering the threshold to Rs. 9 lakh in order to increase the tax net, which will be Rs. 41 lakh in the North Eastern states. (However, the GST council has extended the threshold limit for North Eastern states from 10 lakh to 20 lakh and from 41 lakh to 10 lakh.) Any service provider or retailer may be subject to a tax levy under the reform. The existing federal excise law has a Rs.1.5 billion threshold. This cut would have a big effect on MSMEs' working capital. For example, a manufacturer who currently trades at Rs. 25 lakhs without paying any tax would be required to do so once GST is implemented. Because the threshold is so low, most MSMEs are not exempt from paying tax and will have to pay a portion of their capital in the future.

No tax differentiation for luxury goods and services: Tax neutrality does not distinguish between luxury and non-luxury goods. Currently, luxury goods and services are subject to additional taxes from both the state and the federal government. With the implementation of the GST, all goods and services would be subject to the same tax, resulting in the wealthy becoming wealthier and the poor being poorer. For MSMEs competing against big corporations, this is not an optimal situation.

Selective taxation: GST would not apply to alcoholic beverages for human consumption or petroleum-based industries, widening the gap and contradicting GST's 'unified market' philosophy.

Cost of a higher tax rate for service providers is as follows: The current Service Tax rate is 15%. The GST rate would be around 18%. The service industry will be further affected by the elimination of the principle of centralized registration, which means that each unit in various states will have to register separately. Thus, even though a company's one unit in State A provides services to another unit in State B, taxes must be paid.

Requirement of Excess Working Capital - Stock transfer taxes would have the greatest effect on working capital requirements. The magnitude of the effect can vary depending on warehouse stock turnaround time, customer credit cycle, stock transfer volume, and other factors. A higher Capital Requirement would result in higher interest costs, which will inevitably raise the price of Finished Goods.

Purchase and Supply Chain's Realignment – If, A compliant company's GST credit will be revoked if the vendor from whom the MSME is buying products fails to report the transaction on his return. As a result of the GST credit mechanism, procurement methods would change. In addition, due to the taxation of stock transfers, the Supply Chain would be re-examined.

Two Sided Control : Due to a lack of expertise with the State Government in relation to Service Tax matters, the Ministry decided at a recent GST Council Meeting that all assesses with a turnover of less than 1.5 crores will be assessed by the State Government, while current Service Tax assesses, regardless of turnover, will be assessed by the Central Government. As a result, small merchants trading in both goods and services will be subject to dual administrative oversight from the federal government and the state. GST has a positive impact on MSMEs' competitiveness.

They would gain the following advantages

It becomes easier to start a business: The Sales Tax Department currently has some turnover slabs that require VAT registration. In this case, a company with a multi-state operation must adhere to the tax laws that apply to different states. This not only adds to the complexity, but it also adds to the procedural fees, which would burden the price-sensitive MSMEs. The GST would be uniform.

Improved MSME market expansion: In the existing system, large firms buy commodities based on the location of MSMEs in order to cut costs. As a result of bearing the ultimate burden of tax on interstate sales, MSMEs reduce their customers within the state, limiting their customer base. This will be nullified with the implementation of GST, as tax credits will be transferred regardless of where

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the buyer and seller are located. This enables the MSME sector to widen their reach beyond national boundaries.

Lower logistics costs: Because GST is tax-neutral, it would reduce time-consuming border tax processes and toll checkpoints, promoting cross-border trade. As a result, the logistics costs for businesses that manufacture large quantities of goods would be reduced. MSMEs' survival may be dependent on such costs.

GST would not differentiate between sales and services, making it easier for MSMEs to do business. This is excellent news for MSMEs who operate on a sales and services model, as taxes would be simplified and computed on a total basis.

GST would create a unified market, allowing for more flexibility in the transfer of goods between states and lowering the cost of doing business by reducing the number of taxes levied by both the state and the federal government.

Purchase of Capital Goods: Under the existing system, only half of the input tax credit for Capital Goods purchases is available in the year of purchase, with the remainder available in subsequent years. The entire amount of input tax credit can be claimed in the year of purchase under the GST regime. The "Make in India" campaign will be supported by this.

GST IMPACT ANALYSIS ON SMALL AND MEDIUM ENTREPRISES

For decades, small and medium enterprises (SMEs) have been regarded as the Indian economy's main growth engine. It's also clear from the fact that India now has around 3 million SMEs, which account for nearly half of the country's industrial output and 42% of total exports. For a developed country like India, with its diverse demographics, SMEs have emerged as the most important source of jobs, allowing for balanced growth across sectors. Let's take a look at how GST can affect small and medium enterprises.

The industry is praising the government for taking up the Goods and Services Tax (GST) Bill, which had been stalled due to political deadlocks. But, before we look at how GST can affect small and medium businesses, it's important to understand how GST can expand the taxpayer base. Previously, any manufacturer with a turnover of Rs 1.5 crore or less was exempt from paying excise duty. However, because all state and federal taxes have been merged into the GST, any manufacturer with a turnover of Rs 20 lakh (others) / Rs 10 lakh (Special category states) or more will be required to comply with GST and its processes.

All compliance processes under GST Registration, Payments, Refunds, and Returns will now be carried out solely through online portals, removing the need for SMEs to communicate with department officials in order to complete these compliances, which are already a headache.

Without a doubt, GST is intended to expand the taxpayer base, mostly SMEs, and would place a compliance burden and related costs on them. But, in the end, GST would make these SMEs more competitive by creating a level playing field between large corporations and them. Furthermore, such Indian SMEs may be able to compete with overseas competition from low-cost centers, as well as domestic competition with Bangladesh, China and Philippines.

FINAL REMARKS

Every major reform encounters roadblocks and counter-arguments from different stakeholders. In comparison to existing systems, GST would provide many benefits to SMEs, including an easier process for obtaining input credits, a single point tax, the elimination of the cascading tax system, and simplified taxes. These benefits outweigh the disadvantages.

While the GST is expected to boost GDP growth and decrease the fiscal deficit, expectations are high. The magnitude of such an effect would be determined by a favorable agreement on GST rates for all business segments and their integrated implementation.

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SIDBI endorsed the Federation of Indian Micro and Small and Medium Enterprises (FISME) to conduct a country-wide Programme to disseminate GST information for the benefit of MSMEs, anticipating the problems that MSMEs may face under the GST regime. Brainstorming sessions were held all over India as part of the Programme, in which MSMEs interacted with tax professionals.

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