The Impact of GST on the Micro, Small and Medium Enterprises

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ABSTRACT
The complex multiple indirect tax system has been replaced by a comprehensive dual goods and services tax (GST) as of 1 July 2017. It is India’s biggest tax reform ever. Now we are seeing how this tax reform for Micro, Small and Medium Enterprises will reshape our economy and market dynamics. Our country’s Micro Small and Manufacturing production, Employment and Exports. This paper explores how GST impacts the country’s micro, small and medium-sized enterprises and what its consequences are it.

1 INTRODUCTION
In the last two decades, India has undergone major changes in indirect taxation. Even after these changes, indirect taxes remain a highly fragmented and distortionary tax system marked by multiple tax rates, national trade barriers and tax cascading. However, VAT reforms have been successful in paving the way for a comprehensive goods and service tax [GST] to be implemented. In Kautilaya’s Arthashastra, the world’s first book on economics, there is a saying that the best taxation regime is the one that is “liberal in assessment and ruthless in collection” (Olivelle, 2013). The new GST seems to be based on this principle. Goods and Services Tax [GST] is an Indian indirect tax structure combining most of the taxes into a single tax structure.

2 MEANING OF GOODS AND SERVICE TAX
GST may be specified as a tax on goods and services that is payable at any point of sale or service where, at the time of the sale of goods or the provision of services, the seller or service provider may claim the input tax credit that he paid during the purchase or procurement of the goods (Institute of Chartered Accountants of India, 2013). Direct stakeholders support the introduction of GST as it eliminates many blockades in the previous VAT system such as tax cascading, double taxation, ambiguity, hybrid contracts, etc.

3 ORIGIN OF GST
The GST is framed in line with the principles of value added tax (VAT). The Value Added Tax was first conceived during the 18th century by a German economist called Dr. Wilhelm Von Siemens. The first country to adopt the VAT scheme was France in 1954. VAT-based tax system is currently being implemented in more than 150 countries. Most countries have a GST system which is unified.

4 GST SCENARIO IN INDIA
The Micro, Small and Medium Enterprises [MSMEs] were the solid backbone to the economic growth of our country. It is estimated that the MSME sector accounts for about 45 percent of the manufacturing production in terms of value and 40 percent of the country’s total exports. The sector is estimated to employ about 69 million employees in over 26 million units throughout the country (MSME Development Institute, 2015).

5 MSMES AND THE TAX SYSTEM
The former tax system in India was not very user-friendly for MSMEs, as they need to keep track of various indirect taxes such as Octroi, Central Sales Tax[CST], Goods and Services Transportation Tax, State Wise VAT, Service Tax, Stamp Duty Tax and many more. All these indirect taxes cease with the implementation of the GST. With the introduction of the GST there is an end to all such indirect
taxes. The GST will benefit MSMEs and large corporate by simplifying procedures, thus saving time and Improving productivity.

6 IMPACT OF GST ON MSME’S

Any producer with a turnover of Rs 1.5 Crore or less was not expected to comply with the excise duty rules in the earlier taxation scheme. Under the GST realm, any manufacturer with Rs 20 lakh (others)/10Lakh (special category states) turnover or more will have to comply with GST, resulting in taxpayer base increases. Accordingly, the bulk of MSME’s work in the unorganized sector now falls under the GST regime and will impose an enforcement burden and associated costs upon them.

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7 POSITIVE IMPACT OF GST

7.1. Easier to Start Business

GST proclaimed as “One nation, One Tax”, and carries the flagship of ease of doing business in India. With GST there are uniform procedures, uniform payment of fees, and a smooth and uniform tax structure in all states, thus easing out the process to start a business in multiple states.

7.2 Facilitates Expansion of Business

MSME’s historically had little interest in inter-state trade, because it caused more taxes and raised sales prices, growing their consumer base as a result. Inter-state exchange is cheaper with the implementation of GST as the tax credit can be transferred irrespective of the position of the buyer and seller. As a result SME’s will be able to expand their business across borders.

7.3 Lesser Tax Burden

GST eliminates the cascading effect of taxes by subsuming various state and central taxes. Businesses are able to take input tax credit too with GST. This reduces tax burden on businesses, making goods cheaper and increasing profit margins for MSMEs.

7.4 Online Compliance Procedures

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7.5 Encourage Manufacturing Sector

With the introduction of GST, tax burden is expected to be reduced for both manufacturer and end user alike. Manufacturer can take advantage of input tax credits, and the end user only has to pay the supply chain tax charged by the last dealer or the retailer.

7.6 Purchase of capital goods

Just 50 per cent of the input tax credit against the purchase of capital goods is valid under the previous taxation scheme in the year of purchase and the remaining sum in subsequent years. Under the GST system, the whole amount of input tax credit in the year of purchase can be used

8 NEGATIVE IMPACT OF GST

8.1. Lower Threshold

Under the preceding excise tax regime, a producer with a gross turnover of less than Rs 1.50 cores does not incur any duties. However, this exemption cap is lowered considerably to Rs 20 lakhs after GST implementation. A significant number of MSMEs and start-ups also fall under the GST network

8.2 Selective Tax Levying

GST does not refer to human consumption and petroleum products alcoholic beverages, which creates additional holes and does not help GST’s’ unified market ‘ philosophy.

8.3 Compliance Cost

The GST regime operates on a model of self-assessment, allowing MSMEs to file multiple returns and conduct other compliances on a monthly basis. Increasing compliances would lead to cost increases.

8.4 Technological Preparedness

Because out and inward supplies will be balanced electronically every month, the purchaser’s availability of input tax credit will be dependent on the supplier’s compliances. Any failure on the part of the manufacturer to report its external suppliers correctly would result in a mismatch of returns leading to the reversal of credits used by MSMEs.

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.

9 CONCLUSION

Indian integration into one economy was a desperate need to get rid of the multiple taxes and their cascading impact. The implementation of GST has contributed to simplification of the country’s indirect tax system and thus ensures smooth business transactions across our nation and around the world. With the introduction of GST, the MSME sector had to revamp its policies, processes, supply chains and costs. Unorganized MSMEs have risen faster than organized peers, owing to lower tax-benefit cost structures (if turnover is less than 1.5 crore). India’s paradigm change to the Goods and Services Tax (GST) system brought for the first time a majority of MSMEs into the indirect tax net and thus increased the cost of enforcement for MSMEs. However it will support both small and medium-sized businesses and customers in the long run. The overall impact of GST on the
MSME sector should be checked annually by the Center and the Member States and any adverse effects observed should be resolved at appropriate times for the implementation of the new tax regime. [1–14]

REFERENCES


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