

IMPACT OF GST ON MSMEs IN INDIA

Neha Singh,
Research Scholar,
SHUATS, Joseph School of Business Studies,
Allahabad, U.P.

Dr. Sneha P. Daniel,
Assistant Professor,
SHUATS, Joseph School of Business Studies,
Allahabad, U.P.

ABSTRACT

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. GST will replace the traditional tax systems like State Value Added Tax (VAT), Service Tax, Octroi, Central excise etc. MSME enterprises in India, they form a very important role in nation's economy. The State Governments, the center has passed an Act in 2006 to empower the sector and also has formed a Ministry (Ministry of MSMEs). It was the Micro, Small and Medium Enterprises Development (MSMED) Act which was notified in 2006. Businesses in India was eagerly waiting for the final bill and implementation of that bill. Here we look at how GST affect MSMEs in India. MSMEs are the major contributor in promoting balanced economic development. To study the impact of GST on MSMEs it is observed that the Excise and VAT, with other taxes, will be merged into GST. GST will provide tax credit benefit at every stage in the chain. This will allow MSME segment to expand their reach beyond their current borders. Makes India one common market. Overall, GST simplifies the entire process of filing and paying taxes. It will also increase the competition between MSMEs by unifying the Indian market. . In the long term, GST is expected to have a positive impact on MSMEs and the Indian economy as a whole. But overall it is the welcome move by the Government of India. This will boost the overall productivity of the nation.

Keywords: MSMEs, GST, VAT, Government, Business, Market, Productivity, Economic Growth

INTRODUCTION

GST

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Lok Sabha on 6th May 2015 but it was ratified by the Rajyasabha. However, there was a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country.

Full form of GST is Goods and Service Tax and is expected to be in use from 1st July 2017. GST is one of the biggest tax reform since India got independence in 1947. One of the main aspects of bringing out this change is it will integrate and make the process of the indirect TAX system in India very easy. GST will replace the traditional tax systems like State Value Added Tax (VAT), Service Tax, Octroi, Central excise etc.

MSMEs

MSME (Micro, Small & Medium Enterprises) are mostly privately owned companies in India defined as per the size of their investments. MSME enterprises in India, they form a very important role in nation's economy. Their contribution is major when it comes to output, employment, and export. The majority of unskilled labours are employed with them significantly raising manufacturing sector and exports.

Though the primary responsibility of promotion and development of MSMEs is of the State Governments, the center has passed an Act in 2006 to empower the sector and also has formed a Ministry (Ministry of MSMEs). It was the Micro, Small and Medium Enterprises Development (MSMED) Act which was notified in 2006.

The entrepreneurs and MSME's have grown tremendously even after facing several highs and lows due to the challenging environment. The Indian economy is expected to emerge as one of the leading economies in the world and likely to become a \$5 trillion economy by 2025, the major impetus is being given to strengthening the backbone of our economy – the MSME sector.

RELATION BETWEEN GST AND MSME

On that time, Businesses in India was eagerly waiting for the final bill and implementation of that bill. Here we look at how GST affect MSMEs in India.

MSMEs play an important role in the development of Indian economy. Upcoming government was planned to introduce GST bill should further boost the ease of doing business in India. The government was also planning to give ratings to MSMEs on some 50 parameters that was enable the sector to improve the quality of manufacturing and may give an additional advantage in the international market. Other initiatives such as setting up of Bankruptcy Bill also help MSMEs to do business with less complexity. All these reforms paired with the government pushing for passing the GST bill must bring a strong backing to the MSMEs in India.

MSMEs are the major contributor in promoting balanced economic development. It negates the effects of large enterprises and provides all round development for the nation. They have helped in industrializing the rural and backward areas by providing employment and other opportunities to reduce regional imbalance that has assured an equal distribution of income.

OBJECTIVE OF THE STUDY

- To study the impact of GST on MSMEs.
- To study the advantages and disadvantages of GST on MSMEs.

RESEARCH METHODOLOGY

The descriptive methodology has been used to collect data. Secondary data have been collected from various published sources and websites. The explanation of the data is more qualitative than on quantitative terms.

REVIEW OF LITERATURE

Akansha Khurana and Aastha Sharma(2016) studied, “Goods and services tax in India-A Positive reform for indirect tax system” conclude from GST will provide relief to producer and consumer by providing wide and comprehensive coverage of input tax credit set –off, service tax set-off and subsuming the several taxes.

GST India (2015) Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods.

Patrick M (2015) “Asian countries which implemented GST all had witnessed retail inflation in the year of implementation.

Nitin Kumar(2014) studied, “Goods and Service Tax-A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

The Economic Times (2009) The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level.

IMPACT OF GST ON MSMEs IN INDIA

1. Excise and VAT, with other taxes, will be merged into GST.
2. GST will provide tax credit benefit at every stage in the chain.
3. Small businesses may escape GST, if they are below the threshold limit.
4. This will allow MSME segment to expand their reach beyond their current borders.
5. GST will not distinguish between sales and services.

6. GST is aimed to simplify such tax hurdles and will be ultimately borne by the customer.
7. Manufacturing will get more competitive.
8. GST will be applicable at all stages from manufacturing to consumption
9. Makes India one common market.
10. Lower logistic and tax cost is expected because of this new GST bill.

MAJOR ADVANTAGES OF GST FOR MSMEs

- **Ease of doing business in India-** The forefront of Goods and Service tax has been One India One Tax. Hence ensuring easy registration and ease of doing business among states. A Huge benefit for the MSME sector who had to knock many doors before registration.
- **Better Logistics And Faster Delivery Of Services-** No entry tax will be charged under the GST bill, for goods manufactured or sold in any part of India. That means delivery of goods at interstate points, as well as toll check posts, will be expedited.
- **Tax Burden Reduced On New Business-** Businesses with a turnover of more than 5 lakh need to pay a VAT registration fee as per the current tax structure. The government nulls the exemption limit under GST to 25 lakh providing relief to over 60 percent of small dealers and traders.
- **Makes it easy to file returns-** Though initially there can be confusion around GST. Since it brings excise, VAT and other indirect taxes under one domain, it cannot be hard for anyone to say that filling and payment of taxes is easier.
- **May improve revenue-** GST replaces all 17 indirect taxes into single into single tax. The increase in product demand is ultimately increase tax revenue for state and central government.
- **Can generate more employment-** GST can really increase demand for product nationwide, hence the production might go up. This can create huge opportunities for new employment and business too.
- **Competitive domestic product-** By abolishing the interstate taxes can give a huge boost to the MSME sector. It may lower the cost of interstate taxes and logistics. Making the MSME compete with the world.
- **Growth in GDP numbers-** Naturally, if the demand will grow even the production will grow, thus this can increase the GDP of India by 4.2%.

MAJOR DISADVANTAGES OF GST FOR MSMEs

1. **Multiple registrations for Pan-India businesses-** Under the new regime, a business will have to register online for GST in every state involved in its sales process. If your business delivers goods

across 5 states, then you'll have to register for GST in those 5 states to carry out your business activities. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.

2. **Returns must be filed on a monthly basis-** Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books on a monthly basis, which, realistically, will take a lot of time. The time that business owners spend filing these returns could instead be spent on other productive activities, like developing their business and acquiring clients.

To top it off, until you've filed the relevant returns, you cannot claim refunds and your customers cannot claim tax credit for the goods they bought from you. Should you miss a single return, you'll be penalized Rs.100/- a day and your compliance rating on the GSTN portal will be reduced.

3. **Cost of tax compliance is likely to increase-** As mentioned above, consistently filing 3 returns a month, periodically reconciling your transactions, and uploading invoices regularly will give rise to the need for an accountant with technical expertise. Hiring an accountant and paying them, adds to the burden on small businesses. It's tedious to maintain separate books of accounts for every state involved in the supply of goods/services and assess the records of various entities involved in every single transaction. To cope with the system, small businesses might use the services of licensed third parties that help firms comply with the GST regime. For this convenience, small businesses will have to dish out a sum ranging from Rs.1000-Rs.5000, depending on the kind of service that is rendered to them.

4. **Registration will be mandatory for e-commerce suppliers and operators-** Businesses carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of businesses, e-commerce firms will not be eligible for threshold exemptions or for the Composition Scheme (which allows firms to file their tax returns on a quarterly basis instead of 3 times a year and pay taxes at a much lower rate). Also, e-commerce firms should register for GST in every single state where they supply goods.

CONCLUSION

Overall, GST simplifies the entire process of filing and paying taxes. It will also increase the competition between MSMEs by unifying the Indian market. If you're proactive and take care of your GST compliance measures beforehand, you can minimize the potential negative effects of the new regime on your business. In the long term, GST is expected to have a positive impact on MSMEs and the Indian economy as a whole.

But overall it is the welcome move by the Government of India. This will boost the overall productivity of the nation. Make One India One tax and One India One Market may improve the quality of product for the end user.

REFERENCES

- GST India (2015) Economy and Policy.
- Kumar, Nitin (2014), "Goods and Services Tax in India: A way forward, Global Journal of Multidisciplinary studies, volume 3, issue 6, May 2014.
- Khurana, Akanksha and Sharma, Astha(2016), "Goods and Services Tax in India –A Positive Reform for Indirect Tax System , International Journals of Advanced Research, volume 4, issue 3, 2016.
- Patrick M (2015) Goods and Service Tax: Push for Growth. Centre for Public Policy Research (CPPR).
- The Economic Times (2009) Featured Articles from The Economic Times.

