



IMPACT OF GST ON THE MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN JHARKHAND.

Ankita Dutta

M.A Applied Economics, Christ (Deemed to be University), Bangalore, India.

Abstract

GST (Goods and Service Tax) was implemented in India on 1st July, 2017. GST is a complex and indirect tax structure, which was implemented in four different slabs throughout the economy. The slabs are 5%, 12%, 18% and 28%. It has influenced the working structure by unifying the tax, as presently the tax is levied at the final stage of consumption and if any tax is levied at any stage of production it can be redeemed. The taxation reform has impacted different sectors of the economy including the MSMEs. Thus the study analyses the ongoing impact of GST on the MSMEs in Jharkhand. Jharkhand has large industrial base and stands 12th in the contribution of the MSMEs in GDP. To broadly study the impact the study focuses on two different aspects that has been influenced broadly that is profitability and the operational performance. The study focuses analysing the impact of GST on the MSMEs in Jharkhand using descriptive statistics.

Keywords: GST, MSMEs, Profitability, Operational Performance.

1. Introduction

GST is a comprehensive and indirect tax levied at multiple stages of value addition in the supply chain of the products and services. It was 1st introduced in France in 1954, which is followed by 140 countries along with India. The journey of GST can be traced back from 2000, when the Prime Minister announced the implementation of GST under a structured committee to model the GST structure for the Indian Economy. However due to political instability the implementation got postponed. Good and Services tax dispute committee was formed under the 115th Amendment, which collapsed due to conflict with the legislative assembly. GST was enacted in August 2016, when the council enacted three different types of tax system under it which are CGST, SGST, and IGST.

In India it came into effect from 1st July 2017, with the aim of a unified tax structure in the whole country. Under GST goods and services are taxed under following slabs 0%, 5%, 12%, 18% and 28%. With the enforcement of GST it replaced different existing taxes such as central excise duty, services tax, additional customs duty, surcharges, and state-level value added tax. GST is a consumption-based tax/destination-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced.

MSMEs are the most vibrant and fast growing sector in the Indian Economy over last five decades. The contribution of the sector has been growing in both economic and social development as it fosters entrepreneurship and also provides employment generating opportunities with lowest cost after the agricultural sector. MSMEs are ancillary units which have a significant impact in the inclusive industrial development of the country. MSMEs are the widening area across different sectors which incorporates the production of wide range of products and also includes the service sector to render services at domestic as well as at international level.

MSMEs run under various financial schemes, technological assistance and upgradation, training and skill development programmes that tend to enhance their productivity level and market competitiveness. The ministry is committed towards the inclusive development of the sectors. Under the MSME Act 2006, MSMEs were categorised into different types based on the investment level.

Classification of MSMEs:

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Rs 25 Lakh/Rs 2.5 million	Rs 10 Lakh/Rs 1 million
Small	Rs 5 crore/ Rs 50 million	Rs 2 crore/ Rs 20 million
Medium	Rs 10 crore/Rs 100 million	Rs 5 crore/ Rs 50 million

Source: Ministry Of MSMEs.

2. Theoretical Background:

2.1 Goods and Service Tax (GST)

GST is a comprehensive and indirect tax levied at multiple stages of value addition in the supply chain of the products and services. It has removed all the indirect taxes lead down by the Central and State government. Under the Empowered Committee of the State Finance Minister, that there is dual GST structure where both the State and Central has tax levied on goods and services

Model of GST:

- GST has two components: Central GST (CGST) and State GST (SGST).
- CGST and SGST will be applicable to all the goods and services other than the exempted items.
- Input tax credit would only be approved in case of inter-state delivery of goods and services, that is IGST.
- There will be concurrent jurisdiction for complete chain valuation of goods and services for both central and state government, whereas for the taxpayers there will be threshold tax for goods and services.

2.2 MSMEs in Jharkhand.

MSMEs are the largest employment provider after the agricultural sector, and contribute highly towards the socio-economic development of Jharkhand. The government of Jharkhand has focused on this sector, as the government has offered conducive eco system and financial incentives for the MSMEs to setup in the state.

Some of the key incentives for the MSMEs in Jharkhand are:

- In case of manufacturing sector, the government offer price preferences when they are purchased by the state government and the state owned PSUs including board, cooperative, municipalities etc.
- Procurement policy 2014 was launched by the government with the aim of promoting marketing policy and also to safeguard the interest of the local MSMEs.
- There has been different provision for interaction of intra enterprises in the state as well as enterprises globally across through fair trade.
- Encourage MSMEs to participate in different business deals and exhibition, for growth.
- Setting up of exhibition and conversion centre for the exclusive display of MSMEs product.
- MSME Facilitation Council, aimed at strengthening the council for restoring the problems faced on the market quality of the products and proper use of technology for proper utilisation.

3. Objectives:

- To study the impact of GST on the profitability and operational performance of the MSMEs.
- To analyse the awareness about the implementation of GST in the MSMEs in Jharkhand.

1. PROFITABILITY AND OPERATIONAL PERFORMANCE.

Profitability

An industries profit can be measured as the total expenditure subtracted from the total turnover. If the expenditure is over then the turnover of the industry refers as loss for the company. The different independent variables used to measure the profitability are-

1. **Annual Sales:** The total sale of the industry in a financial year, which accounted after the implementation of GST. 2. **Annual Investment:** The total investment in equipment in a financial year, after implementation of GST. 3. **Annual Profit:** The total turnover of the company in a financial year, after the implementation of GST. The data collected from the MSMEs were based on three different categories to analyse the impact through increased, decreased and constant return on the sales, investment and profit.

Operational Performance:

The operation of the work in a company is dependent on the tax structure. The various working process are affected by the implementation of GST are-

1. **Working process:** The working process of a company refers to the management of various steps in the process of proper functioning of the company. The different steps includes production, transportation, advertisement etc

2. **Documentation:** It refers to the proper maintenance of the files and other documents, such as maintaining the records of the tax under the GST. As the tax are needed to filed quarterly in regard to the new tax regime

3. **Payment process:** The process of payment involved in different stages of production and purchase, which included tax at every stage according to earlier tax system. Under GST tax is levied at the final sale.

4. **Convince in the payment process:** The payment processes made at all stages are very transparent, they are showed or filed at the end of the production process of the full commodity.

5. **Process of refund:** The number of returns and refunds under the tax system of GST has to be filed on monthly basis.

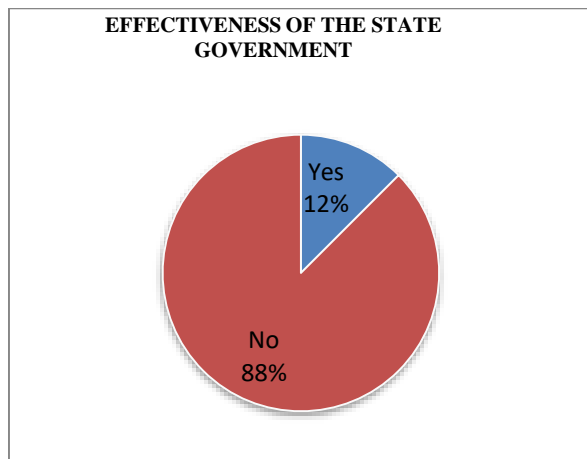
6. Input tax credit: Before the implementation of GST, the Input Tax credit was available on the basis of invoice. However, under the provisions of GST it will be available only if the vendor pays taxes to the government and if the details uploaded on the government's IT server matches with the details uploaded by the vendors.

2. AWARENESS ABOUT GST

There are various subjective norms associated with the implementation of the tax regime. The most three important aspects associated with the study are –

The effectiveness in implementation of GST by state government.

The indicator which emphasised on the effective measure that has been then by the state government in Jharkhand in order to make people aware about the new changing regime of the taxation process was insignificant. The respondents were highly disappointed and responded negatively to this aspect. They also mentioned the problems they faced to incorporate due to lack of government programmes to facilitate the new chance associated with it. Figure 5.3 show that 12% of the respondents agreed that government has established centres in the state to help the people. While 88% of the respondents (the majority of the respondents) disagreed that government was effective in spreading awareness about GST.



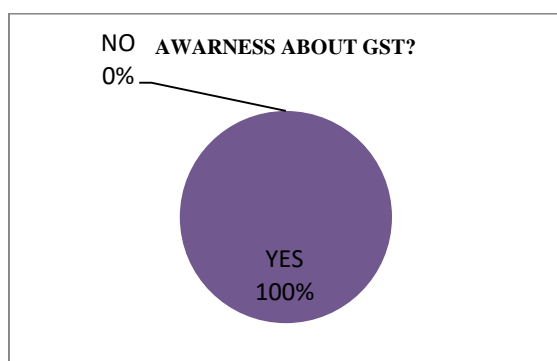
The implementation of GST had a significant impact on the MSMEs in different ways. The two outcomes that has been focused in the study are-

- The current running status of the company.
- The market competitiveness

Awareness about the complete system operated under GST

The indicator, which emphasised on the awareness among the respondents about the new system, had a positive response. The personal interview conducted for the study showed that they were aware about the complex tax structure, as it has been 2 years after the implementation.

To operate the GST system in their companies, different MSMEs had to hire employee initial, due to lack of government initiative to make people aware about the system. They also had to face problem while making digital technology as an important element for maintaining their documentation. Figure 5.2 shows that people are presently completely aware about the system operated under GST. There is 100% of the respondents are aware of the system.



4. Methodology:

Personal interview was conducted based on a structured questionnaire. The interview was carried out in 40 different MSMEs covering five different sectors. The respondents were asked on different aspects which they had to face after the implementation of GST. Section A covered the subjective norms; Section B covered the aspect of profit after the implementation of GST. Section C focused on the operational performance of the MSMEs. Finally, section D covers the current outcome.

The study was analysed on the basis of the responses collected through binary operation and 5 point Likert scale. The estimation of the result of the study was done through descriptive study using graphs and percentage values. The study also uses SPSS to test the hypothesis of the study.

5. Results:

The selected location for the research is the State of Jharkhand. The study is conducted in 3 different district of Jharkhand. The selected districts are as follows:

- East Singhbhum District
- West Singhbhum District
- Saraikela District

The primary data is collected from the questionnaire.

Consumer good industry	25
Clothing	5
Automobiles	4
Electronic	2
Footwear	2

The impact on the profitability of the MSMEs.

H0: There is significant impact of GST on the profit of the MSMEs.

H1: There is no significant impact of GST on the profit of the MSMEs.

			ANNUAL SLAES		Total
			1	2	
Annual Profit	Decrease	Count	4	13	17
		% of Total	10.0%	32.5%	42.5%
	Increase	Count	23	0	23
		% of Total	57.5%	0.0%	57.5%
Total		Count	27	13	40
		% of Total	67.5%	32.5%	100.0%

			ANNUAL INVESTMENT		Total
			1	2	
Annual Profit	Decrease	Count	4	13	17
		% of Total	10.0%	32.5%	42.5%
	Increase	Count	23	0	23
		% of Total	57.5%	0.0%	57.5%
Total		Count	27	13	40
		% of Total	67.5%	32.5%	100.0%

Using SPSS, the result shows that after the implementation of GST, there has been decrease in the sales and investment of the MSMEs. After GST the profit has increased as the annual sales have increased for 57.5% of the respondents. Similarly, after GST the profit has increased as the annual investment has increased for 57.5% of the respondents.

There is a significant relation established between profit and GST. GST has impacted the annual sales and annual investment of the MSMEs. Hence, we fail to reject the H0.

The primary data collected from the MSMEs showed that the profitability of the firm depends on the turnover, sales and investment made by the firm in a financial year.

Most of the MSMEs had experienced decrease in the turnover in a financial year, among them clothing and automobile sectors that had experience a decline in their turnover, sales as well as investment. While consumer good industry, footwear and electronic sector experienced less impact on their profitability level. The impact can be accessed as the GST lead to decline in the profit of the MSMEs whereas the sale and investment. Thus, they experienced in decline in their profit margin.

The impact of GST on the operational performance of MSMEs.

The table 4.1 shows the impact of GST on the operational performance of the MSMEs.

<u>S.No</u>	<u>Impact Category</u>	<u>Result</u>	<u>Respondent Responses</u>	<u>Percentage</u>
1.	Simplification in Working Process	Agree	17	42%
		Strongly Agree	23	58%
2.	Simplification of documentation	Agree	15	38%
		Strongly Agree	25	62%
3	Convenience of Payment process	Agree	15	38%
		Strongly Agree	25	62%
4	Refund process	Agree	25	62%
		Strongly Agree	15	38%
5	Return Process	Agree	16	40%
		Strongly Agree	24	60%
6	Improvement In Payment Process	Agree	15	38%
		Strongly Agree	25	62%
7	Input Tax Credit	Agree	10	25%
		Strongly Agree	30	75%

Source: Survey Data.

The respondents had a view regarding the operational performance of the company after the implementation of GST. The respondents strongly agreed (58%) that there has been simplification in the working process and documentation for all the sectors. The respondents agreed (62%) on the fact that the process of refund and return has been simplified as they have to be filed on monthly basis, however they also mentioned the high cost involved as compliance cost for regular maintenance of the records . Input tax credit help to have transparency and to claim tax rebate if it has been paid at any stage of production. 75% of the respondents strongly agreed that the input tax credit has simplified the process under GST. Under GST the MSMEs experienced an improvement in the operational system of the country.

5. Discussion:

The result found was that 42% of the respondents agreed that their annual profit decreased after GST, whereas 58% of the respondent said that their annual increased but the margin was less presently. The sectors that faced a decline in their annual profit are the electronic sector having the tax slab of 18%, the clothing sector having the tax slab of 12% and 18%. The automobile sector as they come under the highest tax bracket of 28%. The result found was that 33% of the respondents agreed that their annual sale decreased after GST, whereas 67% of the respondent said that their annual sales increased. The sector which experienced a decline in their sale was automobile and clothing sector, whereas consumer good industry experienced a rise in their sales. The result found was that 33% of the respondents agreed that their annual investment decreased after GST, whereas 67% of the respondent said that their annual investment increased. The sector which experienced a decline in their investment was automobile and clothing sector, whereas consumer good industry experienced a rise in their investment. The profitability of the companies had direct relationship with the annual profit, annual sales and annual investment. However, it has been found that 23% of the respondents had experienced decline in their annual profit, though their annual sales and investment tend to increase. 80% of the respondents reported that though there has been an ongoing increase in their profit but the margin of their profit has been decreased.

However, there has been a positive respond found in relation to the profitability of the companies after the implementation of GST.

6. Conclusion:

The analysis of the impact of the implementation of GST by the central government had a complete change brought in the taxation system. The study tries to throw light on the impact GST had on the MSMEs in the state of Jharkhand. Where Jharkhand is the fast growing state, with its mineral rich area along with a larger number of industries and the largest steel industry located TISCO, along with TATA MOTARS the automobile industry. The study focused on the level of changes in the working process and the profitability level after the implementation of GST. The study concluded that the MSMEs had experienced a significant relationship between their profit and the implementation of GST as shown by the cross

tabulation, though they experienced a decline in their profit margin. The MSMEs experienced an overall increase in their sales level as well as in their investment level. The operational performance as measured in Likert scale shows that after the implementation of GST the working process and documentation has been more simpler and transparent

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