

IMPACT OF GST ON SMEs IN INDIA

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Abstract: GST is one of the burning issues today. GST also was known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, there is 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. One of the biggest tax revolutions in India is underway as businesses and taxpayers are gearing up for the change. These enterprises and individuals are assessing how the GST rollout will make a difference to them. One such segment is the Small and Medium Enterprises (SME) segment, which contributes significantly to India's GDP and exports. The study has been made through review of some papers of almost similar nature. The main object of this paper is to find out the impact of GST on SMEs. After a short journey through some review journals/papers, it has revealed that GST has some negative impacts but ultimately in long run, it certainly has positive impacts.

Index Terms - Goods and Service Tax, Indian Economy, SMEs

I. INTRODUCTION

Like other issues, GST is most discussion issue today. One of the biggest tax revolutions in India is underway as businesses and taxpayers are gearing up for the change. These enterprises and individuals are assessing how the GST rollout will make a difference to them. One such segment is the Small and Medium Enterprises (SME) segment, which contributes significantly to India's GDP and exports. The positive effects from GST are expected to drive decentralization of opportunities and provide an impetus to India's GDP. However there is some concern that some of its policy implications could slow down business, and that is what small and medium enterprises must prepare for.

II. LITERATURE REVIEW

The idea of initiating the GST was made by the then BJP Government under the leadership of Atal Behari Vajpayee In the year 2000, for the first time. An empowered committee was also formed for that, headed by Asim Dasgupta (the then Finance Minister of the West Bengal Government). The committee was formed to design the model of the GST and at the same time inspect the preparation of the IT department for its rollout. In 2011, the previous United Progressive Alliance (UPA) Government also introduced a Constitution Amendment Bill to facilitate the introduction of the GST in the Lok Sabha but it was rejected by many States. Now in the year 2016, this bill got a green signal under the umbrella of Modi government. The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale, and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

III. OBJECTIVES OF THE STUDY

Various objectives of my study are as follows:

- 1) To discuss the concept and idea of goods and service tax.
- 2) To highlight regarding How GST will impact business transactions.
- 3) To identify Which SMEs are eligible for GST.
- 4) To discuss the Impact of GST on SMEs.

IV. RESEARCH METHODOLOGY

The study is completely based on secondary data and the data have been collected from various sources like as books, journals, and websites etc. As the introduction of GST is in infant stage so proper data collection is not possible through primary data. So I have chosen secondary data for my study and no statistical instrument is used here.

V. ANALYSIS AND DISCUSSION

Concepts and meaning of goods and service tax:

The Goods and Services Tax (GST) is a comprehensive value-added tax (VAT) on the supply of goods or services. France was the first country to introduce this value-added tax system in 1954 devised by a public servant. In India, due to a nonconsensus between central and state government, the proposal is to introduce a Dual GST regime i.e. Central and State GST. Dual GST. Many countries in the world have a single unified GST system i.e. a single tax applicable throughout the country. However, in federal countries like Brazil and Canada, a dual GST system is prevalent whereby GST is levied by both the federal and state or provincial

governments. In India, a dual GST is proposed whereby a Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) will be levied on the taxable value of every transaction of supply of goods and services. Impact on Prices of Goods and Services:-The GST is expected to foster increased efficiencies in the economic system thereby lowering the cost of supply of goods and services. Further, in the Indian context, there is an expectation that the aggregate incidence of the dual GST will be lower than the present incidence of the multiple indirect taxes in force. Consequently, the implementation of the GST is expected to bring about, if not in the near term but in the medium to long-term, a reduction in the prices of goods and services. The expectation is that the dealers would start passing on the benefit of the reduced tax incidence to the customers by way of reduced prices. As regards services, it could be that their short-term prices would go up given the expectation of an increase in the tax rate from the present 10% to approximately 14% to 16%.

Benefits of Dual GST: – The Dual GST is expected to be a simple and transparent tax with one or two CGST and SGST rates. The dual GST is expected to result in:-

- Reduction in the number of taxes at the Central and State level
- Decrease in effective tax rate for many goods
- Removal of the current cascading effect of taxes
- Reduction of transaction costs of the taxpayers through simplified tax compliance
- increased tax collections due to the wider tax base and better compliance

Who would be impacted: All businesses, whether engaged in sales/supply of goods or supply of services, would be impacted by GST. The impact would be on supply chains, ERP, product pricing, dealer margins etc.

Applicability to service providers:- Unlike the transition from the sales tax regime to the VAT, where only businesses dealing in goods were affected, in the case of GST, as the name suggests, both goods and service providers will be impacted. Thus, even pure service providers need to plan for the transition to the GST.

Time to Plan for GST:- The draft laws will clarify finer aspects of GST such as rates, classification, and compliances. However, based on the material in the public domain, one can begin with spreading awareness among various stakeholders within the organization and identifying broad areas of action before the draft laws are published. Experience of VAT implementation suggests that there may not be enough lead-time available between the date of announcement of GST implementation and the actual date of GST implementation.

Taxable event: - The Taxable event will be the supply of goods and the supply of services. Hence, the current taxable events such as 'manufacture of goods', 'sale of goods' and 'rendition of services' will not be relevant under the GST regime.

Applicability of both CGST and the SGST on all transactions:- A transaction of 'supply of goods' will attract both the CGST and SGST as applicable on goods. Similarly, a 'supply of service' will attract both the CGST and SGST as applicable to services.

Applicability of other indirect taxes: It is proposed that the taxes to be subsumed under CGST will include Central Excise Duty (CENVAT), Service Tax and Additional Duties of Customs and the taxes to be subsumed under the SGST will include Value Added Tax, Central Sales Tax, Purchase Tax, Entertainment Tax, Luxury Tax, Octroi, Lottery Taxes, Electricity Duty and State surcharges relating to supply of goods and services.

How GST will impact business transactions

GST will typically impact any business at two ends of the spectrum where transactions are involved i.e. for input transactions and for output transactions.

Input transactions: An input transaction is a transaction carried out for the supply of input goods/services like raw material procurement, imports etc. Input transactions will be directly affected due to the changes in taxation levels of raw materials/industrial inputs, affecting the product or service pricing.

Output transactions: An output transaction is one that is done for outbound supplies or service delivery. For example, sales is an output transaction. GST will directly impact the sales by altering the taxation of the product or service being sold. Depending on the new tax slab of the goods or service, the profitability of the enterprise will be directly impacted. Another significant impact area is due to the concept of "place of supply" and "time of supply", calling for more stringent supplier compliances.

Which SMEs are eligible for GST?

SMEs are a major driver in the Indian economy, contributing to almost 7% of the manufacturing GDP and 31% of the services GDP. With a consistent growth rate of about 10%, they employ about 120 million people and contribute to around 46% of the overall exports from India.

Under the GST regime, this significant sector is set to change. First and foremost, all businesses, including SMEs will need to register for GST under the rules as per the following threshold limits (Table 1) related to aggregate turnover:

Table 5.1: SMEs which are eligible for GST

Area	Liability to Register	Liability for Payment of Tax
North East India	Rs. 9 lakh	Rs. 10 lakh
Rest of India	Rs. 19 lakh	Rs. 20 lakh

Why should SMEs enroll for GST?

An SME registered under GST will be recognized as a legal provider of goods and/or services. Tax accounting will be streamlined. Such an SME will be able to maintain a proper accounting of taxes paid on input goods or services and be able to utilize the inputs credit facility to enable better cash flows. GST will provide an opportunity for SMEs to digitize their transaction management, making it efficient for the future. If such an SME scales up, it will be prepared in advance to manage large-scale transactions through software. GST enrolment thus provides a window of opportunity to modernize the business and set up standards for doing business easily in the future.

Moreover, digital transactions tend to leave a digital footprint. These footprints can be used to assess the sector with greater accuracy, as Fintech lenders can create customized financial solutions for these SMEs, which are currently under-served from a credit perspective.

Impact of GST on SMEs

Here is a look at some of the pros that GST brings to SMEs.

Ease of starting a business: The old tax regime requires new entrepreneurs to obtain VAT registration for every state separately, with each state having its own rules. Though GST too requires businesses to register in each state, the rules for GST are more uniform and outlined clearly on the portal. This will make it easier to set up an SME.

Ability to compete with multinationals and multi-state enterprises: GST is a destination-based taxation system and not source-based. Locally manufactured goods by SMEs will pay the same amount of tax as imported goods from multinationals. Moreover, corporates generally 'stock transfer' transfer goods to escape the taxes on inter-state transfers. SMEs are not able to 'stock transfer' goods due to lack of infrastructure; they physically transfer goods and pay inter-state taxes, leading to higher expenses. Under GST, the stock transfers would be taxed. This will help put SMEs on par with large multinational corporations, allowing them to compete on an equal tax footage.

Transparent transactions: SMEs often do not have the resources (processes and people) to dedicate to tax transaction management. GST will enable an online and transparent view of tax obligations and on-goings, minimizing the need to liaison with tax authorities offline. Though it will take some initial investment now, SMEs that streamline their transactions now will be setting up future-ready systems and processes.

Reduced tax burdens due to rising in threshold: Under the old regime, business owners with an annual turnover of Rs 5 lakh (Rs 10 lakh in the North East), mandatorily need to register for VAT and make VAT payments. Under GST businesses above Rs 20 lakh turnover (Rs 10 lakh for North East) qualify for GST registration, which brings huge relief to SMEs. Thus, businesses that fall in the Rs 5 lakh-Rs 10 lakh revenue bucket need not register and will experience better cash flows because they are exempt from GST.

Better Cash flow due to input credit facility: Cash flows may increase because of the facility of input tax credit, wherein businesses will be able to avail credit on input expenses such as supplies. For example, for a business that procures steel as the raw material to manufacture utensils, the businessman will need to pay tax on the raw materials procured i.e. iron ore. He can adjust the tax paid on inputs from the taxes collected on outputs. This means that only the actual "value addition will be taxed.

Better logistics: GST will help eliminate time-consuming border tax protocols, allowing for free flow of goods across borders. This will result in savings in logistical costs. CRISIL estimates that the logistical cost for companies manufacturing bulk goods will be reduced by around 20%.

On the other hand, the positives and negative impacts may be shown in a table given below

Compliance Procedure	Positives	Negatives
Registration	Online registration will ensure timely receipt of certificate of registration and minimal bureaucracy interface	Not all the SMEs have the technical expertise to deal with online systems, thus most of them will need intermediaries to obtain registration for them. This will add to their registration cost.

Payment	Electronic compliance will bring transparency and will also reduce the compliance cost.	Since funds are required to be maintained in the form of electronic credit ledger with the tax department, it may result in a liquidity crunch.
Refund	Electronic refund procedures will fast-track the process and enhance liquidity for SMEs	Refunds can be claimed only after filing of relevant returns. Also, it depends on the compliances done by the supplier and his rating.
Returns	All returns are required to be filed electronically and input tax credit and tax liability adjustment will happen automatically on the basis of these returns	Minimum of thirty-seven returns are required to be filed by every registered taxpayer during a financial year. Thus SMEs will have to deploy additional resources and eventual cost of compliance will increase

Table 5.2: Positives and Negative Impacts

VI. CONCLUSION

No doubt that GST is aimed to increase the taxpayer base, majorly SMEs into its scope and will put a burden of compliance and associated costs to them. But in the long run, GST will turn these SMEs more competitive with a level playing field between large enterprises and them. Furthermore, these Indian SMEs would be able to compete with foreign competition coming from cheap cost centers such as China, Philippines, and Bangladesh. Lastly, a slogan can be raised "ONE NATION, ONE TAX".

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