A Study Of Issues And Challenges In MSME Industry After The GST

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Abstract-

GST is one of the games changing tax reforms in the indirect tax structure of India. The previous tax regime comprised of separate Centre and State laws. Therefore, to bring transparency and reduce ‘tax on tax’, a single, unified tax in the forms of GST was introduced. These types of tax system involve levy on the supply of goods or services or both with concurrent jurisdiction of Centre and States. This law will replace all indirect taxes levied on goods and services by the central government and state government implement GST by April 2017. Implementation of GST will have a long-term impact on almost all the aspects of the business running in India. With more than 160 countries now adopting GST. It is a single, destination based indirect tax levied on the value addition to goods as well as services at each stage of the supply chain. The main objective of levying such a tax is to consolidate multiple indirect tax levies into a single tax. Thus, GST subsumes bundle of taxes. It completes the limitations in the previous indirect tax structure and brings efficiency in the administration of tax.

In this tax reform restructured our economy and business dynamics MSME sector. The MSME sector is a major contributor in our economy, IT contributes significantly on Indian economy. MSME sector is the one of the fastest emerging manufacturing segments. This paper help to find how GST impact and what are its implications on the MSME sector. From an industry point of view, 5 years provide a good timeframe to assess what more needs to be done for GST to fully achieve its objectives of rationalisation of taxes, simplification in compliances, seamless flow of credit and yielding the benefits of ‘One Nation, One Market and one tax’ to businesses at all levels.

Keywords: GST, MSME, IGST, SGST, CASCADING EFFECT

Introduction-

GST is a tax on value-added levied at all points in the supply chain. Credit allowed for any tax paid on input acquired for use in making the supply. It applies on both goods and services in a comprehensive manner, with exemptions restricted to a minimum. In federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is based on essential design features are common between CGST and SGSTs for individual states. The inter-state supplies in India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state. GST bring in a modern tax system to ensure efficient and effective tax administration. It has greater transparency and strengthen monitoring, thus making tax evasion difficult. On the process of implementation of GST unfolds in the next few months, it is important for industry to know the impact and opportunities offered by this reform. GST affect all industries, irrespective of the sector. It will impact the entire value chain of operations and stages namely procurement, manufacturing, distribution, warehousing, sales and pricing etc.
‘Destination Principle’ states that supply of goods and services would be taxed at the point of consumption. This means that GST replaces origin-based tax system with destination-based tax regime.

On the other hand, ‘Value Added Principle’ underlines that the tax shall be collected on value-addition on goods or services at each stage of the supply chain from the original producer or service provider to the ultimate consumer, GST will be collected on value added at every stage of the supply chain.

To administer GST in an India, a model was designed involving both Centre and States in its implementation. This is because India is a union of state country. Here, both the Centre and States have powers to levy and collect taxes through their respective legislations. Accordingly, a Dual GST model was applying that distributed powers to both Centre and the States to levy the tax concurrently. Depending upon the nature of supply, components of GST are

- (CGST) - Central Goods and Services Tax is an indirect tax levied and collected by the Central Government on the intra-state supplies. Such supplies exclude alcoholic liquor for human consumption. This tax levy is governed by the Central Goods and Services Act, 2017. And such a tax is levied on the value of the goods & services supplied as per section 15 of the CGST Act. The transaction value is the price actually paid or payable for the said supply of goods or services.

- (SGST) - it is an indirect tax levied and collected by the State Government on intra-state supplies, such supplies exclude alcoholic liquor for human consumption. These types of tax levy by the State Goods and Services Act (SGST), 2017. And such a tax is levied on the value of the goods & services supplied as per section 15 of the SGST Act. The value is the price actually paid or payable for the supply of goods or services.

- (UTGST) - it is an indirect tax levied and collected by the Union Territory states on the intra-state supply of goods or services. Such supplies do not include alcoholic liquor for human consumption. These types of tax levy are governed by the Union Territory Goods and Services Act (UTGST) 2017. This type of tax is levied on the value of the goods or services supplied as per section 15 of the CGST Act, 2017. The value is the price actually paid or payable for the supply of goods or services.

- (IGST) - IGST is an indirect tax levied and collected by the Central Government on the inter-state supply of goods or services. Such supplies exclude alcoholic liquor for human consumption. This tax is charged by the Integrated Goods and Services Tax Act, 2017, and apportioned between Central and State governments.

The main objective of GST is to subsumed multiple indirect taxes levied under the previous indirect tax structure. The main part of this is tax regime is to remove cascading effect of multiple taxes. Thus, GST is a well-designed tax that aims to eliminate drawback existing in the previous indirect tax structure. The given below indirect taxes have been subsumed under GST.

**Definition of Micro, Small and Medium enterprises:** MSME- In this category of industry setup by micro small and medium enterprises act 2006 are defines on the basis of turnover limit / capital investment in business are very limited. The new classification has come into effect from 1st July, 2020. Definition criteria given below.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below: _The new classification has come into effect from 1st July, 2020_

- A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees; 5 Annual report 2022-23
- A small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.
Units / Components In MSME

- National small industries corporation (NSIC)
- Office of development commissioner (MSME)
- Khadi village industries commission (KVIC)
- Coir board
- National institute for micro small and medium enterprises (NMSME)

Literature Review:

- Sundarajan (2017) - in his research paper based on the study” Implementation of Goods and Services Tax and Prospects and Challenges Ahead he concluded that, the manufacturers and traders stand to gain due to input tax credit system. Consumer saved from the cascading effect i.e., tax on tax. The challenges which remain ahead is development of well-equipped IT support system to stand with the GST its proper implementation and conduction of various training and awareness programmes for the various parties who are concern to it.

- Jaiswal (2019) – in his research paper in which he had highlighted the conceptual framework of Goods & Services Tax. He summarises the tax reform is expected to revolutionize the Indian economy as it did in the year 1991 at the time of LPG policy. GST is segregated into two components - CGST and SGST. Petroleum products, electricity and alcohol is kept out of the chargeability of GST. GSTN provides IT department to manage GST network. The various benefits which GST accrues are no cascading effect, minimised indirect taxation burden, low logistics costs.

- Bhat (2021) said that the Micro, Small and Medium Enterprises have become a milestone of Indian economy. This sector is playing a specific role in providing employment generation, entrepreneurship development, and poverty decreasing. He also pointed out that MSME sector in India was already facing problems from demonization and implementation of GST in the country. with the pandemic of Covid-19, production of goods and services in this sector has been curtailed and this sector has started suffering from the shortage of necessary inputs raw material supply, which led to supply shock.

- Aastha (2019) in her study she concluded that GST will have a positive impact on various industry. Although the implementation of GST requires focussed efforts by Central and State Government, trade and industry.

- Upasana (2020) in her study she concluded that implementation of GST provides a simple, user- friendly and transparent tax system. GST stands for comprehensive tax system will be subsumed most of the present indirect taxes. It will lead to greater output, increase in employment opportunities and flourish GDP by 1-1.5 percent.

Objective Of Study:

1) To study the impact of GST on MSME.

2) To understand the problems of MSME relating to GST.

3) To discuss the initiative taken by government for problems of MSME relating of GST.

Research Methodology:

In the research paper data are used as secondary data, data sources are various newspaper, articles, journals, magazines and websites. The paper is exploratory and descriptive in nature.

Issues and challenges in MSME

During the pandemic time, they are facing many problems and challenges like cancellation of contract, reduction of sales, lack of logistics supply etc. For MSMEs upliftment central government have to give more financial support and give digital literacy to sell their products and services at global level. From the above analysis, it is understood that, implementation of GST adversely impacted mainly to small scale industries
and unorganized industries particularly in the beginning period of implementation. But in long run it benefitted the MSME industry not only but also contribution in the development of Indian economy.

**Analysis & Discussion**

Conscious of the immense contribution of the sector, the government has been taking many steps to provide a more facilitative environment for MSMEs’ growth. The breakthrough of five years of GST is significant in many ways. It is important from the revenue perspective, for the government.

- Assured protection given to states for any revenue loss after GST implementation will be compensated. It is also an important point to reinforce ‘trust’, from the foundation of cooperative federalism envisaged under GST, more so in the wake of the recent Supreme Court judgement that decisions of the GST Council are not binding on states.

- **India has more than 1.38 crores registered medium, small and micro enterprises (MSMEs).** As per the government data, during the period 2022-23 there were about 634 lakh uncultured/unorganised, non-agriculture MSMEs in the country engaged in different economic activities. Conscious of the major contribution of the sector, the government has been taking many actions to provide a more facilitative environment for MSMEs’ growth.

- **The GST structure has struggled the same. Under GST, the government has liberalised some norms for MSMEs.** For instance, the initial exemption threshold of Rs 20 lakh has been increased to Rs 40 lakh for goods. **The threshold for the composition scheme was increased to Rs 1.5 crore a year for goods and Rs 50 lakh for services. Composition dealers have been allowed to supply services.** Goods predominantly manufactured and/or used in the MSME sector have been given a preferential rate treatment. **The GST Council recently agreed to relief from mandatory registration of small online vendors if their turnover is lower than Rs 40 lakh and Rs 20 lakh for goods and services, respectively.** The decision will bring balance between online and offline sellers and encourage many small e-commerce players into the market.
composition scheme dealers who have a turnover of not more than Rs 1.5 crore allowed to make intrastate supplies through e-commerce companies. In spite of these measures, while bigger businesses have experienced the benefits of GST such as a common market, elimination of cascading effect of multiple taxes, reduced cost of tax compliance, and technology-oriented transparent tax structure, the MSMEs have been grappling with several compliances and financial constraints. Address invoice matching problems is one of the challenges for MSMEs is invoice-matching for claiming the input tax credit. GST law allows credit where the supplier has furnished the GST return and paid taxes, by complying other conditions. The recipient of the supply of goods or services often faces mismatches in the invoice numbers and dates with different from its original format. The disparity is required reconciliation of outward and inward supplies by the prescribed due dates create an enormous compliance burden for the small taxpayers, who have limited resources. To provide relief, small businesses with a turnover of up to Rs 5 crore should be allowed to avail credit based on the invoices received. This relief provided for intra-state supply of goods and services. The composition scheme for small entity can be made more attractive by further relaxing the conditions. For instance, currently, the scheme is not available for a person making inter-state supply.
The person also cannot claim any input tax credit in respect of his purchases or charge GST from the recipient of the supply. Expanding the scheme to small dealers who have both intra-state and inter-state supplies will enable more persons, including exporters, to adapt for the composition scheme. Input tax credit limited to output tax payable should be allowed to the composition dealer. Again, the rates of composition scheme should be rationalized to have a single rate of 1% as against three types of GST rates of 1% for traders, 2% for manufacturers, and 5% for restaurant service providers. The threshold turnover for opting composition scheme should be increased to Rs 5 crore from Rs 1.5 crore currently, it benefitted to many small businesses.

Smoothing of credit Another measure that can make compliance easier for MSMEs is the relaxation of the time limit for claiming the input tax credit. At present situation, a taxpayer must claim credit in respect of an invoice, before the due date of furnishing a monthly return for September following at the end of the financial year to which such invoice obtained or before furnishing the relevant annual return, whichever is earlier. Imposing of this time limit may hamper the claim of credit in some genuine cases (e.g., delay in receipt of invoices). Relaxing the time limit up to (iii) years from the date of filing the annual return for the given financial year will allow the claim of credit in such cases (e.g., delay in receipt of invoices). It facilitates by the Relaxing the time limit to three years from the date of filing the annual return for the given financial year will allow the claim of credit in this condition.
The law allows who are small taxpayers can file return quarterly basis. While the expanded timeline provides relief to small taxpayers, it also means that taxpayers making zero-rated supplies such as exporters or suppliers to SEZ, need to wait till the quarter-end to claim of refund of input tax credit accumulated due to zero-rated supplies. The delay results in the blockage of working capital for the small taxpayers. To help such taxpayers, small suppliers filing quarterly returns should be allowed to claim provisional refunds on month to month. Have RCM for unregistered MSMEs a significant issue has been destruction in the supply chain due to the reluctance of unregistered MSME suppliers to register under GST, fearing compliance pressures. This has negative impact on larger units from buying from the unregistered suppliers as they will not be able to claim the credit.

supplies from unregistered dealers can be taxed under the reverse charge mechanism (RCM), enabled by advancement of technology support. Prepare e-way bill procedures difficult and need a lot of efforts currently, the e-way bill related rules require online pre-registration of goods with a consignment value of more than 50,000 Rs. before they are transported. The requirement puts a big compliance burden on small businesses transporting goods. The e-way bill procedure should be pass out for small taxpayer with a turnover of up to Rs 1.5 crore. Alternatively, it should be restricted only for the inter-state supply of goods and services.
Amendments of GST provisions on advance paid for the supply of services. Generally, the time of supply of services is the date of issuance of invoice or receipt of payment, whichever is earlier. For the supply of services, tax is payable also on advances. The provisions for time of supply of service for small service providers should be amended so that GST in respect of advance money received by the service provider is taxed only that time of invoice raised or service received, whichever is earlier. It will benefit the small service providers and improve their working capital.

GST is a souvenir and positive reform for all stakeholders. Addressing the above-mentioned compliance and working capital-related aspects will help smoothen the in actual challenges and go a long way in making GST a Good and Simple Tax for the smaller entities too benefitted from it.

Road ahead in MSME

- MSME sector is the 2nd largest employment provider after the agriculture sector.
- With the increase in MSME contribution to the GDP, there is a potential to increase its contribution to employment to over 50 per cent over the next decade.
- The Government of India has envisioned doubling the Indian economy to US$ 5 trillion in five years. In order to achieve this goal, career opportunities for the young population have been generated and MSMEs have the potential to serve as a key employment generator. Therefore, the government has taken up promotion of MSMEs in order to create new jobs in the sector. Further, the government aims to enhance MSME’s share in exports and its contribution to GDP.
- In order to achieve these targets, the government have to invest in providing more back-end services to improve performance of the MSME sector as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R&D activities are bottlenecks hindering the sector to become competent. Globally available technology could be subsidised by the government so that the product quality of MSME players can be improved using the existing resources. This also requires the help of academic institutions in the form of providing research and development (R&D) services for product innovation.

CONCLUSION

- From the above analysis discussion, we concluded that GST has significant role in the development in the MSME industry via the online registration portal, online GST registration procedure, and transparent tax filing and input tax credit, and seamless flow of ITC is helpful in the growth of MSME businesses.
- The number of closures till early February this fiscal was 0.59 per cent of over 18 lakhs new MSMEs launched during the year while for FY22, it was 0.28 per cent with 21.72 lakh new MSMEs.
- As per data from the Ministry of Micro, Small & Medium Enterprises, as of November 25 2022, the Udyam Registration portal registered 1,22,014,48 MSMEs, replacing the former process of filing for a Udyog Aadhaar Memorandum (UAM). Registered micro-enterprises stood at 11,735,117 (96.17%), followed by small enterprises at 426,864 (3.49%) and medium enterprises at 39,467 (0.32%).
- State wise rank from top MSME to Bottom by Maharashtra>Andhra Pradesh>Gujarat>Tamil Nadu>West Bengal>Uttar Pradesh>Kerala
- UP’s MSME sector has gained the first position in the country in investment and providing employment, said a government spokesperson on Thursday, adding that in the past 4.5 years, nearly 90 lakh MSME units in the state have brought in investment of more than Rs 5 lakh crore and provided employment to 3 crore people. Approximately 60% population employed by MSME industries.
- MSME sector is the 2nd largest employment provider after the agriculture sector.
- With the increase in MSME contribution to the GDP, there is a potential to increase its contribution to employment to over 50 per cent over the next decade.
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