

## IMPACT OF GOODS AND SERVICE TAX (GST) ON INDIAN MSMEs

**Dr.S.Karthikeyan**

Assistant Professor, Department of Economics and Centre for Research in Economics, The Madura College (Autonomous), Madurai.

**R.Uttami Priya**

Research Scholar (Full-Time), Department of Economics and Centre for Research in Economics, The Madura College (Autonomous), Madurai.

### Abstract

*It's true that GST means 'Great Step towards Transformation', 'Great Step towards Transparency' in India and it is also true that someone gives 'birth' while someone else 'nurtures it'. It has been long pending problem to streamline all the specific types of oblique taxes and put into effect a "single taxation" system. This machine is referred to as GST (GST is the abbreviated form of goods & services Tax). The principle expectation from this system is to abolish all indirect taxes and only GST would be levied. Because the name indicates, the GST could be levied each on items and offerings. GST is a tax that needs to pay on supply of products & offerings. Any person, who is presenting or offering goods and services, is liable to fee GST. The paper highlights the impact of GST on Indian MSME's. MSMEs 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 too is set to change.*

**Keywords:** GST, ITC, MSMEs AND SGST.

### Introduction

Goods and Services Tax (GST) may be certainly an essential perfection and the logical step in the direction of a widespread oblique tax reforms in India. As per, the Empowered Committee of the State Finance Ministers it's been made clear that there might be a "Dual GST" in India, i.e. taxation energy lies with both with the aid the Centre and the State to levy the taxes on the goods and services. "Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and intake of products and carrier at a country wide level below which no distinction is made between goods and services for levying of tax. It's going to frequently substitute all indirect taxes levied on goods and services through the Central and State governments in India. GST is a tax on goods and services below which everyone is susceptible to pay tax on his output and is entitled to get Input Tax Credit (ITC) at the tax paid on its inputs (consequently a tax on fee addition best) and ultimately the very last customer shall bear the tax".

### Goods and Services Tax Globally

France was the primary country to introduce GST in 1954. Globally, almost 150 have delivered GST in a single or the opposite form considering that now; most of the countries

have a unified GST machine. Brazil and Canada comply with a twin gadget country like India is introduced. In China, GST applies only to goods and the availability of repairs, alternative and processing offerings. GST costs of some countries are given underneath: -

COUNTRY	RATE OF GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
New Zealand	15%

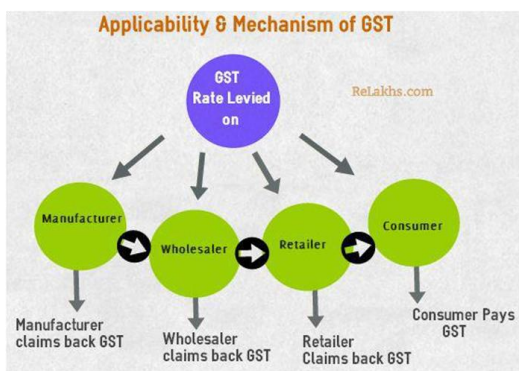
### Model of GST

- The GST shall have two components: one levied by means of the Centre (called Central GST or CGST), and the opposite levied by way of the States (known as State GST or SGST). Rates for central GST and State GST could be permitted correctly, reflecting sales issues and acceptability.
- The CGST and the SGST would be applicable to all transactions of goods and services made for an attention besides the exempted goods and services.

- Cross utilization of ITC each in case of Inputs and capital goods among the CGST and the SGST could now not be approved except within the case of inter-state deliver of products and services (i.e. IGST).
- The Centre and the States would have concurrent jurisdiction for the complete value chain and for all taxpayers on the idea of thresholds for goods and services prescribed for the the case of inter-state deliver of products and services (i.e. IGST).
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### Applicability of Goods and Services Tax

GST is intakes based totally tax/levy. It's miles based on the "vacation spot precept." GST is carried out on goods and offerings at the area where final or real intake occurs. GST is gathered on value-added goods and offerings at every degree of sale or purchase in the deliver chain. GST paid at the procurement of products and services may be prompt against that payable at the supply of goods or offerings. However being the ultimate character in the supply chain, the end customer has to undergo this tax and so, in many respects, GST is like a final-point retail tax. GST goes to be amassed at point of sale as defined the below figure



The GST is an indirect tax which means that that the tax is handed on till the closing stage wherein it's miles based on the customer of the products and services who bears the tax. That is the case even today for all oblique taxes but the difference below the GST is that with streamlining of the multiple taxes the very last cost to the customer will pop out to be decrease on the removal of double charging inside the system.

### Impact of Goods Service Tax on MSMEs

Indian companies are booming yearly, every sector is developing through the day, and the government is imposing reforms and programs to create successful surroundings for those companies. The Goods and Service Tax bill (GST) is implemented by way of the government as it is the largest oblique tax reform in our country in view that independence.

With the incredible improvement of SMEs in diverse sectors like food Processing, E-trade, fabric, Pharmaceutical, car, power, supply Chain, Retail, IT and carrier sectors, The SMEs contribute toward the holistic and balanced increase of the country by way of providing employment and boom possibilities through industrialization in rural and backward regions, ensuring equitable distribution of countrywide income, thereby decreasing regional imbalances throughout the states.

In an Indian economy MSMEs (Micro, Small and Medium Enterprises) are the most various agencies which play a crucial function in the boom and development. On the development opportunities in advance, the government has undertaken a plethora of measures to beautify this sector. SMEs should also make investments towards the implementation of sustainable enterprise solutions for enhancing the overall enterprise efficiency, growing a healthful work culture and inexperienced task possibilities, improvised operational procedures like deliver chain control, income processes, lean production for producing splendid products and services for enhancing up the economic system ethically.

### Micro Small Medium Enterprises's Position

No matter its effect on different sectors, the implementation of GST may want to propel the growth of Indian SMEs by using selling the authorities-led "Make in India" initiative and helping small-scale enterprises in terms of ease of doing enterprise. Goods and Service Tax (GST) is the talk of the city today as MSME's play an important role inside the improvement of Indian economic system. Upcoming government plan introduced GST bill need to similarly boost the ease of doing business in India. The government is likewise planning to provide ratings to MSMEs on some 50 parameters so as to enable the world to improve the nice of producing and may provide an additional advantage in the international. MSMEs are the predominant contributor in promoting balanced economic improvement. They have helped in industrializing the rural and backward areas via providing employment and different opportunities to lessen local imbalance that has

assured a same distribution of income. The following reasons of GST impact small-scale producers like SME in India:

- Excise and VAT, with different taxes, might be merged into GST.
- GST will offer tax credit score gain at each degree in the chain
- Small businesses may also break out GST, if they may be under the brink limit.
- This will permit SME section to amplify their reach past their cutting-edge borders. GST will now not distinguish between income and services.
- GST is aimed to simplify such tax hurdles and could be in the long run borne with the aid of the customer.
- Manufacturing gets greater competitive.
- GST could be relevant at all ranges from production to consumption.
- Makes India one common market.
- Lower logistic and tax cost is expected because of this new GST bill.

India's paradigm shift to the Goods and Services Tax (GST) regime will growth their compliance fees and snare a majority of them into the oblique tax internet for the first time. Such sharp practices helped them charge products and services competitively during the last few many years and additionally preserve operating margins at organized player ranges. The vicissitudes because of the impact of GST are many. To wit, for producers, the discount inside the threshold for GST exemption to 20 lakh from 1.5 crore approach tens of thousands of unorganized MSMEs will quickly be cast into the tax internet. And digital transaction trails created by way of twin authentication of invoices underneath GST will improve tax compliance.

### Impact Analysis of GST on Small & Medium Enterprises

Small and Medium Enterprises (SMEs) have been considered as the primary growth motive force of the Indian economy for decades. It is similarly obtrusive from the fact that nowadays we've round 3 million SMEs in India contributing nearly 50% of the industrial output and 42% of India's total export. After the passage of the Goods and Services Tax (GST) Bill, the Industry is hailing the government for citing this reform which has been lengthy pending due to political deadlocks.

All of the compliance approaches under GST — Registration, Payments, Refunds and Returns will now be done through online portals only and for this reason SMEs

need no longer fear about interacting with department officers for carrying out those compliances, which might be considered as a headache in the modern tax regime.

### Positive Impact of GST on Msme

As in line with industry experts, SMEs and startups will be affected the most with the rollout of the GST and the impact might be favorable in ways a couple of. A number of the approaches GST will gain SMEs and startups are:

- Ease of commencing business: A commercial enterprise having operations across exclusive country needs VAT registration. GST enables a centralized registration so that it will make beginning an enterprise less difficult and the consequent expansion an added advantage for SMEs.
- Reduction of tax burden on new business: According to the current tax structure, businesses with a turnover of more than rupees 5 lakh want to pay a VAT registration fee.
- Improved logistics and quicker transport of services: Under the GST bill, no access tax could be charged for items synthetic or sold in any a part of India
- Elimination of distinction between goods and services: GST ensures that there's no ambiguity between goods and services. This could simplify numerous legal proceedings associated with the packaged merchandise.

### Impact on Manufacturing Sector

A main cloud-primarily based commercial enterprise management software program issuer catering to SMEs in South East Asia, the GST will increase competitiveness of enterprises within the manufacturing sector with the aid of mainly mitigating the cascading effect of various taxes. As per the IBEF the 'Make in India' campaign promoted with the aid of the Indian government will get a boost with the rollout of the GST. Currently, excise duty on pre-packaged merchandise for retail intake is levied not on the transaction fee at the ex-factory but on a hard and fixed percent of the most retail price (MRP) at the package deal. Under the GST regime, tax is paid through the producers whilst shopping raw materials for the products. The amount can be credited for next resellers till the product reaches the very last purchaser as this will ease the tax burden considerably.

The proposed GST rates of 18% and 28% for plastic products will hit the Micro, Small and Medium Enterprises (MSMEs), As per the Canara Plastic Manufacturers' and Traders' Association (CPMTA. Most plastic products are

being sold with value-added tax (VAT) ranging from 5 % to 14.5%. These products will attract GST rates of 18% and 28 %, that these products are likely to become 10% more expensive under GST as the plastic industry runs on very thin margin due to the competitive market, largely because of cheap imports from China. **CHALLENGES FOR SMES**

- A notable part of SMEs are of the opinion that GST is not all desirable for the sector and their fears might not be truly vacuous.
- The tax neutrality that the SMEs revel in can be one of the outstanding advantages.
- Under the prevailing excise tax, no duty is paid through a producer having a turnover of a good deal much less than rupees 1.50 crores.
- GST need to remove time consuming border tax approaches and toll check posts. This can lessen logistics costs and encourage the supply of products across borders.
- Comparatively, the float of input tax credits in the course of the supply chain should be seamless, concern as it is to the periodical compliance through the provider in filling of returns, payment of tax, and many others.
- GST will permit flexibility within the switch of goods between states. The present cascading effect of VAT/Excise that's calculated on non-covetable Excise & CST would be removed
- GST will assist carry transparency to the tax collection system, so evading taxes can be tougher. This will assist create a stage playing field for organized and unorganized sectors by means of curtailing the scope of various tax evasion practices.

### Conclusion

Unarguably, GST rollout will open up a can of worms and the effect on SMEs throughout numerous industries will vary substantially. It's far quite herbal for a pervasive, country-wide tax reform, as GST is, to have a blended opinion. Moreover, the revolutionary tax regime may have

reputation with a view to range from kingdom to kingdom. The only nation, one tax principle underlying Goods and Services Tax (GST) roll out is predicted to benefit Micro, Small and Medium businesses (MSME) in long run. Presently, majority of MSME gamers are unregistered in order to avoid paying tax and meeting compliance requirement. if they reach threshold restrict underneath a tax law, it looks to cut up the firm.

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