

GST: Impact of GST on Micro Small & Medium Enterprises

Kritika Somani

Assistant Professor, Department of Commerce
Gopichand Arya Mahila College, Abohar

Abstract

This article explains the impact of GST (Goods and Services Tax) on Micro, Small and Medium enterprises in India. GST is meant to bring every indirect form of tax under one roof. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. A simplified tax structure and unified market are the two main promises of GST. GST simplifies the entire process of filing and paying taxes. It will also increase the competition between MSME's by unifying the Indian market and make them able to compete with multinational and multi state enterprises. GST treats sales and services as one and the same. Hence there is no additional tax burden for MSME's. Though there are a lot of advantages of GST. Multiple registrations, complex procedures, transference of tax liability etc are some problem areas of MSME's. To build technical literacy in MSMEs and to make optimum use of the technology-enabled platform, government must take sustained initiatives in order to educate MSMEs by conducting various seminars, conferences, training sessions etc, about the new tax regime and its provisions across the country. If the government will take corrective measures in a proactive manner, the GST is expected to have a positive impact on MSMEs and the Indian economy as a whole.

Introduction

India's paradigm shift to the Goods and Services tax regime in July will increase the compliance costs and snare a majority of them into the Indirect tax net for the first time. GST is a proposed legislation in India which proposes a unified nation-wide value added tax to be implemented in India. It is introduced by the 101st amendment of Indian constitution by Modi government on 1st July 2017.

GST is one indirect tax for the entire country. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Goods and services are divided into five slabs for the collection of tax-0%, 5%, 12%, 18%, 28%. GST is a comprehensive, multistage, destination based tax that will be levied on every value added. It combines various other taxes such as state and local tax, entertainment tax, excise duty, surcharges, luxury tax, central sales tax, CENVAT, VAT, octroi and others. The GST replaced existing multiple cascading taxes levied by the central and state government. A salient feature of GST would be that goods and services are considered alike and they are taxed at a flat single rate. Another salient feature of GST rollout in India is that it is "Dual based" i.e. both the centre and various state governments will levy GST separately. The central government will levy CGST and the state government will levy SGST respectively. In addition, GST is also levied on import of goods and services into India.

MSME is Micro, Small and Medium Enterprises. MSME sector is the backbone of Indian economy as it account for 25% of employment, 45% of industrial output and 40% of exports of the country and it also contribute significantly to gross value added of the country. MSME is the second largest sector for employment generation, after agriculture, in India. MSME's are the primary growth drivers of the economy. They are the most various agencies which play a crucial function in the boom and development in an Indian economy.

In India, the enterprises have been classified broadly into two categories:-

- Manufacturing enterprises
- Services rendering enterprises

Both enterprises have been further classified into Micro, Small and Medium enterprises based on their investment in plant and machinery for manufacturing enterprises or on equipment in case of services rendering enterprises but recently the government changes the criteria to define MSME's, to make these in

sync with goods and services tax regime, by making the norms common for goods and services, Now MSME is classified on the basis of annual sales turnover. The new thresholds are:

Micro	Up to Rs.50 millions
Small	Rs.50 - 750 millions
Medium	Rs.750 millions - 2.5 billions

Objective of the Study

The present study throws a gainful insight on

- To understand the concept of GST.
- Examine the Positive and Negative impact of GST on Micro Small and Medium Enterprises.
- Suggesting the measures to overcome negative impact of GST on MSME in India.

Impact of GST

Positive Impacts of GST on MSME:-

A number of the approaches GST will gain MSMEs are:

1. **Boost the competitiveness of MSME's:-** The GST is all set to enhance the competitiveness of MSME's by making them a part of organized commerce and offering them a level-playing field.
2. **No additional tax burden:-** GST treats sales and services as one and the same. Hence there is no additional tax burden for MSME's that operate on sales and services model of business.
3. **Centralized process of registration:-** There will be no complexities in registration for GST. As centralized process of registration has replaced multiple tax and registration rules in different states.
4. **Flexibility:-** GST will allow flexibility in transfer of goods across states and reduce the cost of doing business for MSME's, as the reform will cut down multiple taxes imposed by state and central government.
5. **Launching a new business become easier:-** launching a new business and subsequently expanding it, becomes easier under the GST regime. There is no need to register for VAT with each state's sale tax department in order to carry out business there. All you have to do is complete and submit an online GSTIN (GST Identification Number).
6. **Attract foreign investment:-** An easy regulatory mechanism will bring out benefit not only to new age business but also helps to attract more foreign investment from the global market.
7. **Increased threshold limits for new business:-** Higher exemption to new business by extending the limit up to 25 lakhs which will bring down the tax burden to newly established business.
8. **Transparent transaction:-** Electronic compliance will bring more transparency to the system and it will also reduce the compliance cost.

Negative Impact of GST on MSME-

Here is a few negative impacts of GST that are likely to affect MSME's

1. **Staff not ready:-** MSME staff are, mostly, not familiar with using computers and web portals. Hence they may have to seek the help of intermediaries to use technology-enabled platforms like GST.
2. **Selective tax levying:-** GST creates further gap and does not support the unified market ideology, as it will be not applicable on alcoholic liquor and petroleum based business.
3. **Technological challenge:-** GST is fundamentally different from the existing tax structure. MSME's are typically not used to managing complex tax compliances, but GST will need MSME's to go digital. They may need to hire or consult with GST experts to bring about a technology makeover resulting in additional expenses.

4. **Returns must be filed on a monthly basis:** - Under GST there will be around 36 returns in a financial year. GST returns will also require you to close your books on monthly basis, which, realistically will take a lot of time.
5. **Registration mandatory for e-commerce:**-Business carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of business, e-commerce firms will not be eligible for threshold exemptions.
6. **Same tax on luxury goods and normal goods:** - This will create mismatch in society as there are same tax on luxury goods and normal goods, this can make rich to be more rich and poor to be poorer.
7. **Increase the cost the business:** - As there are total 36 returns to be furnished in a year, to cope-up with the system they have to hire an accountant or third party to do the return filling work. So the burden of return filling can increase the cost of the business.

Suggesting measures to overcome the negative impacts

- **By imparting education:**-Government must take sustained initiatives in order to educate MSME's about the various provisions and compliances required under GST.
- **By providing adequate amount of training:**-It is essential for the businesses to provide adequate training to their staff and clients on the new tax regime, so that they are well prepared for compliances deadlines.
- **By enhancing awareness:**-Initiate various seminars, road shows, webinars, and conferences and training session to enhance awareness of GST across the country.
- **By improvising the operational performance:**-MSMEs must understand that their business will flourish only if the society prospers. Subsequently they ought to focus on improvising their operational performance to decorate the advantageous impact.
- **By adopting pro-active attitude:-** It is urged to the industry that if they proactively highlight the above issues and take corrective measures in a proactive manner, the chances of respite would be very minimal for the sector.

Conclusion

Based on the above discussions, we can say that GST simplifies the entire process of filing and taxpaying procedures and make the system more transparent and paperless, as GST is meant to bring every indirect form of tax under one roof. It will also increase the competition between SMSE,s by unifying the Indian market.GST is fundamentally different from the existing tax structure and if the government can take corrective measures in a proactive manner, we can minimize the potential negative effects of the new tax regime on the MSME's and In the long term, the GST system will prove to be a boom for the Indian industry in general, and MSME's in particular.

References

1. <https://economictimes.indiatimes.com>
2. <http://msme.gov.in>
3. www.zeebiz.com
4. www.dcmsme.gov.in