

## GST Effects on SMEs of India

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**Abstract:** *GST or Goods and Services Tax is an indirect tax reform in India which has eliminated the complex indirect tax system and its repercussions. The literal meaning of GST in the developing country like India is Great Step towards Transformation which will help in the growth of economy. This tax system has led to the changes in the dynamics of small and medium enterprises sector of the country. This research paper focuses on the impact of the levy of GST on the small and medium enterprises and their growth in the country. The paper gives an idea about the scenario of GST in the country and how it affects the developing sectors of the economy. It is recommended in the end that the government should take an initiative to make small and medium sized businesses comfortable with the processes and benefits of GST.*

**Keywords:** *GST, CGST, SGST, ETC.*

### 1. INTRODUCTION:

GST is the vast concept which has become the most discussed topic in India. This taxation system was implemented with a promise of removal of taxes. In this taxation system, most of the taxation systems got merged to form a single taxation system for manufacturing and sale of the goods and services in the country (Garg, 2014). This tax system is levied as a combination of central and State tax on the transactions which takes place between the seller and buyer. In India, GST have a strong Impact on various sectors. It is introduced with the motive of becoming the backbone of the developing sectors of the economy like Small and medium sized industries. According to Jacob (2017), the small and medium sized industry of India comprises of around 45% of the total manufacturing output and exports 40% of the overall out produced in the country. This shows that it plays a major role in the development of the country by earning revenue and by providing employment to the millions of people.

#### Background of GST

GST was first introduced in France in the year 1954. Today, most of the countries follow GST system to have fair and unified tax system in the country. In India this idea was first coined in the year 2004 by Kelkar Committee and the first announcement was made in the budget speech of the year 2006 by Finance minister P Chidambaram. It was proposed that the system will be implemented in 2010 but the acceptance of the new tax system took time and it was then finally implemented from 16<sup>th</sup> September 2016 (Mehta and Rajan, 2017).

### 2. RESEARCH OBJECTIVES:

The main objective of the research is to introduce the concept of GST and what are its impacts on the Small and medium sized industries in India.

### 3. LITERATURE REVIEW:

GST is the comprehensive model of tax on the manufacture and sale of goods and services where there is no difference between the levy of taxes on services and goods. The main purpose of GST is to eradicate the multiple taxes levied on the goods and services by Central and State Government in India. GST have 2 components which are CGST (Central GST) and SGST (State GST). Leaving the exempted goods and services list, all the other goods and services will be covered under the levy of CGST and SGST. GST is paid when the goods and services are procured by the buyer (Vasanthagopal, 2011). The manufacturers' pays GST but they claim it through the credit mechanism and the final/ end consumer have to pay the tax which makes GST the final point retail tax system. So GST can be summarised as the tax system which is levied on Manufacturer, wholesaler, retailer and finally on the consumers but the customer has to pay the final tax amount as every other participant of this chain can claim back the tax amount. This can better be explained through a diagram given below:



**Figure 1: Mechanism of GST**

Source: Kumari (2017)

The main benefit of this model is that the last cost to the customer decreased due to the removal of multiple point taxation on goods and services. It can better be understood with the help of an example.

GST rate assumed 8%					
The process of supply of Goods	The calculation of GST	Input Cost excluding GST (Rs.)	Sale Price excluding GST (Rs.)	Collection of GST (Rs.)	
A weaver sold cotton fabric to a tailor at Rs 108 per metre.	Seller (weaver) has to pay Rs 8 as GST (@8%)	0	100	8	
The tailor uses a fabric to make a dress and sells it to a retailer @Rs 250.	The tailor has to pay a GST of 8% on the sale price. He has to pay Rs. 12 after the input tax claim of Rs. 8	100	250	12	
The Retailer finally sells it to a showroom for Rs. 500	The retailer has to pay tax of Rs. 20 after the input tax credit of Rs. 20 (12+8)	250	500	20	
The shirt is sold to the end consumer	No tax credit can be claimed and the entire GST is to be paid by the customer @8% of Sale Price	Not Applicable	Not Applicable	40	

GST is applied to the Intra State supply and consumption of Products and services, Interstate transactions of goods and services and on the Import of Goods and services. Below given table shows that different tax rates are applicable on different goods and services based on their significance (Kumari, 2017).

**Impact of GST on Small and Medium Scale Industries**

The small and medium sized industry of India is booming with the help of different reforms of government and the programs which assist them in making progress in the fast pace industrial revolution. Initially, GST is bit complex for these small and medium sized industries but in the broader prospective and in the long run, it is going to be beneficial for their growth. It will prove beneficial both for both the industries and for the consumers (Sunitha and Sathischandra, 2017).

According to Jain, Trehan and Trehan (2013), The small and medium sized industries like food processing, cloth manufacturing, retail, handloom, etc. are expected to grow at the rate of 8% by the end of the year 2020. This sector provides employment in the rural regions of the country which forms the major part of the India. This also results in equal distribution of income, better purchasing power with people and growth in sales and business as a whole. These industries are creating millions of employment opportunities in the country which is creating development opportunities for the nation. The government started an India Opportunities Venture Fund which is worth 50 billion Rs so that this sector can be benefitted. The Small Scale Development Bank of India is set up for this sector so that the nation can grow with the help of the growth of this sector. Government has taken several initiatives for increasing the performance and contribution of the sector in the global market. GST is one of those initiatives which aim at easing the operational performance of the sector (Anon, 2015).

In the opinion of Roy (2017), GST relieves the small and medium scale business from paying diverse taxes on selling goods and services in more than one state. The benefits to this sector from GST includes the ease in business growth, single point taxation, removal of cascading effect of taxes, lower amount of overheads in business and many more which ultimately increases the revenue of the business. The main aim of implementing GST is to reduce the tax burden on the individual tax payers but there are two sides of every coin and just like that GST also have some positive and Negative impact on the small and medium sized industries (Shaheen, 2013).

GST provides centralised registration for new companies because of which the companies are at ease of doing business. Under GST, the companies can fill the form online to get GST identification Number (Rai, 2018). It helps small and medium sized companies in expanding their business as they will get the benefit of tax credit and the overall costs of the companies will decrease. It also ensures faster delivery of services and goods which enhances customer satisfaction and better business opportunities for future. Though there are many advantages of GST for the medium and small scale businesses, there are some negative impacts too (Cnossen, 2013). The Negative Impacts of GST includes multiple registrations in PAN India business which makes things complicated for the businesses (Sankar, 2017). The businesses have to file returns on monthly basis which involves time and efforts. Failing to which, the penalty of Rs 100 per day is levied. The small tax payers are not allowed to take input credit which makes it a burden on the small tax payers but the tax rate for such businesses is just 2.5% which seems fair to some extent. The mechanism of Input Tax credit is not understandable by all which makes it a little complex (Mahanta, 2016).

#### **4. RESEARCH METHODOLOGY:**

The research is done by following the explanatory research where the data is collected from secondary sources like books, journals, previous research papers, newspaper articles and the data which is been used already. These sources helped in throwing the light on the concept, history and background of Goods and Service Tax and helped in understanding how it is helping the growing small and medium sized sector in India. The application of this method helps in getting the quality data about the research topic. The mixed data approach of research was helpful in getting the qualitative as well as quantitative data from varied sources (Flick, 2015).

The data is collected from recent articles and it is referenced properly which shows the authenticity of the data. It helps in maintaining the credibility of the data and research as a whole. All the relevant process and procedures has been followed while preparing the research. No fake information is included to maintain the authenticity of the research. The ethics have been considered and permissions have been taken while collecting information from various resources.

The research is limited to secondary sources which does not include the real responses of the small and medium businessmen to know the real impact of GST on the small and medium sized industries.

#### **5. FINDINGS OF RESEARCH:**

Data is collected from varied sources to know the impact of newly implemented Goods and Service Tax in India and it is found that Goods and Service Tax is beneficial for the growth of small businesses in the longer term as this will help them in dealing with the sellers PAN India with lower payment of taxes. This will also increase profits of the businesses. The government will have to run campaigns to teach small businesses that how GST is beneficial for them for their growth in longer period of time. Also, they will

have to make an attempt to make procedures easier so that the registration, payment and refund transactions can be done with more ease by the businesses.

Finally, in GST era, the small and medium sized businesses have mixed opinion about the implementation of this tax model. It will have the longer term impact on the economy as a whole. On one hand, it increases the burden of processes and compliance on the smaller units and also increases costs for them but on the other hand, it makes them more competitive as they get to deal with the larger enterprises in the market. These small units will soon be able to compete with the foreign players who are playing in India on the basis of their low cost structures and expertise.

## 6. CONCLUSION:

It can be concluded from the research that there was an intense need to bring in the model like GST in India so that the country can get free from the multiple taxation system and cascading effect of taxes. With the implementation of GST, the Small and Medium Sized industries got a chance to revamp themselves through better strategies, systems and lower costs. Because of tax benefits, these companies have benefitted themselves and are hoping that in the long run, it will change the face of Indian Small and medium Scale industry. The system was implemented and then at once the prices of basic goods and services rose which brought criticism of the system from businessmen and many other practitioners but possibly the system will simplify the tax system of India and will bring a better future for the small and medium sized businesses.

## 7. Recommendations for future research

For implementing a successful GST system, the government should play an important role. The small and medium sized businesses will get real benefit of GST if there will be ease in doing business which requires easy mechanisms, loosening of the labour regulations and more access to small businesses to bank credits. The government should spend more on infrastructure to assist small and medium scale business growth. This will end up in benefitting the small and medium sized industries even more.

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