

Impact of GST on Small & Medium Enterprise

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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, Enterprise, Services

Introduction

GST Full Form is goods and services tax and it is the biggest reform in indirect taxes. Since 1947, the Slogan is One Tax One Nation. The main idea behind implementing the GST bill is to transform India into a uniform tax system The GST Journey began in the year 2002 when a committee was set up to draft GST Laws. IT took 17 years from then for the law to evolve. in 2017 the GST bill was passed in the Lok Sabha and Rajya Sabha on 1st July 2017 the GST was introduced and was applicable throughout India.

GST in India is indirect tax which replaced multiple indirect taxes levied by state and central government in order to simplify the indirect tax System. Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today we have around 3 million SMEs in India contributing almost 50% of the industrial output and 42% of India's total export. For a developing country like India and its demographic diversity, SMEs have emerged as the leading employment-generating sector and has provided balanced development across sectors. Let's examine what would be the impact of GST on Small & Medium Enterprises.

After the passage of the Goods and Services Tax (GST) Bill, the Industry is hailing the government for bringing up this reform which has been long pending because of political deadlocks.

But before we analyze the impact of GST on Small & Medium Enterprises, we should understand how GST is going to widen the taxpayer base.

To whom does it apply to?

1. To every person who supplies good or services of value exceeding RS 20 lakhs in a financial year (limit is RS 10 lakhs for some special category) and GST must be paid when turnover exceeds RS 20 lakhs (RS 10 lakhs for some special category states)
2. To any person making interstate taxable supply of goods and services
3. Every e commerce operator
4. Every person who supplies goods and for services other than branded services through e-commerce operator
5. Aggregators who supply services under their own brand name
6. Casual taxable person
7. Nonresident taxable person
8. Input service distribution

9. Person supplying online information and database access or retrieval services from a place outside India to person in India other than a registered taxable person
10. Persons supplying the goods on the behalf of another taxable person (e.g. agent)

To whom it does not apply:

1. GST Does not apply to agriculture
2. GST does not apply to any person engaged exclusively in the business of supplying goods and services that are not liable to tax or are wholly exempt from tax under GST

Components of GST

There are 3 taxes applicable under GST: -

CGST

Collected by the central Government on an intra – State Sale

SGST

Collected by the State Government on an intra state sale

IGST

Collected by the central Government for Inter -State Sale (E.g.: - Gujarat to UttarPradesh)

GST will improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rates

Advantages of GST

1. It is a transparent form of tax and reduces number of indirect taxes
2. It will not be a cost to registered retailers therefore there will be no. hidden taxes and the cost of doing business will be lower
3. It is beneficial for people as prices will reduce which in return will help companies as consumption will increase
4. GST will also help in building a transparent & corruption free tax administration
5. It is beneficial for central & State Government as well as it is simple & easy to administer, as a result leakage of tax can be controlled which in return will generate high revenue to the Government.

Disadvantages of GST

1. GST In India has impacted negatively on real estate market. It has added up to 8 % to the cost of new name and reduced the demand by 12%
2. There is no major reduction in the number of tax layers CGST&SGST are the new names given for CST, VAT, Central Excise /Service Tax etc.
3. Adoption and migration to the new GST System has involved teething troubles & learning for entire ecosystem.

Aim of the Study

The aim of the study is to impact of GST Over medium and small-scale enterprise. By analyzing the various impact over tax rate, Inter & Intra State Transaction, ICT, Compliance etc. and the latest changes that the entrepreneur has to take care off. It also reflects the positive and negative impacts to Industries.

Registration

Earlier, any SME manufacturer with a turnover of RS. 1.5 Cr or less was enjoying exemption

from excise duty provisions. However, now, in GST with the merging of Central and State Government taxes in GST, any manufacturer with turnover of RS. 20 lakhs or more (10 lakhs in specified category states) will have to comply with all GST provisions. This reform will significantly impact SMEs working capital. On the other hand, the exemption limit for SME traders, in VAT regime, was RS. 5 lakhs whereas under GST the same is increased to RS. 20 lakhs (10 lakhs in specified category states) which is a positive impact. Many small traders now will be relaxed from compliance burden.

Impact on Tax Rate

In VAT regime, the goods sold are typically charged at lower VAT rate of 5-6% or higher rate of 12.5-13.5% based on prevailing VAT rate of the state in which the seller is located and based on nature of transaction (intra or inter-state). However, under GST the applicable rates would be 12% (merit rate) or 18% (standard rate). All these changes are likely to lead to price escalations at least in initial phase of roll out.

Intra-state and Inter-State Transactions

Currently, VAT was leviable on intra-state transactions and CST was leviable on all inter-state transactions. The two taxes were not fungible against each other. Now, in GST intra-state transactions will be subject to CGST & SGST and inter-state transactions will be subject to IGST. As IGST is fungible against CGST & SGST all inter-state transactions would become tax neutral vis-à-vis local sales under GST, the market for a seller would get widened.

Input Tax Credit

Currently traders are not availing input tax credit of excise duty and CST paid on goods purchased from manufacturers and service tax paid on services availed and therefore these taxes stick to the cost of the product.

Under GST since input tax credit would be available seamlessly it would result in elimination of cascading effect and that would lead to reduced tax liability for traders resulting in lower price to end customer in the long run

Example

Suppose A sold goods from Mumbai to B at Nagpur for RS. 1000. VAT rate is say 6%.

Present Tax System

A – Cost 1000 + VAT 60 (@6%) = 1060

Now, B sells the same goods to C at Gujarat

B – Cost 1060 + Profit 100 + CST 70 (@6%) = 1230

Total Cost of Product for ultimate consumer is RS. 1,230/-.

GST System

A – Cost 1000 + GST 100 (CGST @ 5% & SGST @ 5%) = 1100

B – Cost 1100 + Profit 100 + GST 120 (CGST @ 5% & SGST @ 5%) less ITC of RS. 100 = 1220

Total Cost of Product for ultimate consumer is RS. 1,220/-.

So, from above example it can be seen that in long run, tax liability would reduce resulting in reduction of prices for end consumers.

Compliance**Return Filing**

Due to lower threshold, most of the SMEs will have to get them registered with GST and fulfil all compliance requirements. SME's would be required to file 3 returns per month (GSTR 1, 2 & 3) per registration as opposed to quarterly / monthly returns being filed currently.

Cash Flow Impact

SME manufacturer and traders should brace themselves for delayed or reduced cash flows resulting from below provisions in GST

Branch Transfer

As any supply would be taxable, local or inter-state branch transfers would attract GST. Although fully creditable a temporary blockage of cash would result. Similarly, exporters will have to procure duty paid inputs and claim refund after exporting (zero rated) leading to cash blockage. Although refunds (Accumulated ITC, reversal of deposit, favorable dispute settlement etc.) process is automated, claims would be restricted to quarterly leading to short term cash crunch. Sudden increase in tax rate from prevailing 5% (for particular group of commodities) to 18% under GST would result in increased tax outgo leading to cash flow issues that sellers would have to brace for.

Positive Impacts: Following are Few Advantages to SMEs

1. Higher exemptions to new businesses
2. SME market will be unified
3. Lower burden of overheads
4. Lesser tax burden due to ITC
5. Online compliance procedures
6. Benefit of Composition scheme for small traders

Negative Impacts: The burden of lower threshold

1. Reduction in duty threshold
2. Excess working capital requirement
3. Increased compliance cost
4. Realignment of purchase and supply chain
5. Difficulties faced since implementation of GST

Determining ITC on Closing Stock

Determining input tax credit of excise duty and VAT included in stock of raw material, work in process and finished goods as on 30.06.2017, which needs to be carried forward to GST as opening balance of input tax credit of CGST and SGST respectively, is the most important difficulty which trade is facing during implementation of GST. And this is also important from point of avoiding anti-profiteering clause.

Determining HSN Codes

Determining HSN codes not only for goods or services supplied but also for goods or services procured from unregistered supplier on which tax has to be paid on reverse charge basis. Then how many digits of HSN code needs to be mentioned on invoices.

Determining Tax Rates

Due to multiple rates prescribed for goods or services it becomes little cumbersome for trade to come to actual rate. Also, the rates will have to be defined for goods or services procured from

unregistered supplier on which tax has to be paid on reverse charge basis for raising self-invoice.

Determining Nature of Transactions

It is important to determine correct nature of transaction so as to charge and collect correct tax. If transaction is intra-state then CGST & SGST will have to be charged and if it is inter-state then IGST will have to be charged so as to avoid litigations in future.

Example

If a B2C customer is coming from out of Maharashtra then which tax is to be charged? Whether CGST & SGST or IGST?

Small traders are facing such kind of difficulties in determining nature of transactions.

Updating of Accounting Packages

Various small businesses are yet to update the accounting software in line with new tax provisions to create GST invoices and to extract likely reports for filing of applicable returns under GST. As per rules,

Limited Scope of Composition Scheme

The composition scheme is far better option for small traders by which they can reduce their compliance burden thereby saving on compliance cost. But if any person is supplying goods or services out of state then he cannot opt for the Composition scheme. In that sense, composition scheme has limited scope.

Lack of Skilled Resources and Need for Re-Skilling

Skilled staffs with updated GST knowledge are readily not available. This has faced an additional work load on personnel across industries and also created an urgent need for additional GST skilled resources and training of existing Staffs. These are major difficulties faced implementing GST. But many countries had to go through a quite few challenges similar to these before bringing in any major economic reform.

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 heral for a pervasive, country-wide tax reform, as GST is, to have a blended opinion. 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.

In conclusion, even with presence of such challenges it is indeed important to get through with the implementation of GST as the advantages hidden are a lot more than the challenges.

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