

Impact of GST on MSMEs

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ABSTRACT

MSME play an important role in the economic development of countries, so the implementation of GST has had a significant impact on their continued existence in the market. Some businesses found it useful, but the majority had difficulty adopting it. For existing enterprises, GST simplified the tax structure, unified the market, and thus improved among all operational efficiencies of MSME; to this point, unorganised MSMEs were growing faster than organised ones due to the minimization; with GST in effect, it has made the taxation system transparent, making entities liable for tax payment. This paper highlighted issues and challenges faced by MSME entrepreneurs. By using Cluster Random Sampling Technique, 158 MSME Entrepreneurs from Sivaganga District in Tamil Nadu were chosen for the study in order to determine the impact on various aspects such as GST application, taxation registration, and high compliance burden. One-way ANOVA was used as a statistical tool for the analysis. ANOVA is used to determine the significance of the difference in GST impact levels among MSMEs. It was determined that the impact of GST on the Indian MSME sector could be both positive and negative.

INTRODUCTION

GST (GOODS AND SERVICES TAX)

The GST will play a significant role in reforming India's tax system and making Indian products more competitive in both home and foreign markets.

The Goods and Services Tax (GST) would be a

significant step forward in India's indirect tax reforms. It would significantly eliminate cascading or double taxation by combining a large number of Central and State taxes into a single tax, paving the path for a shared national market.

The greatest advantage to consumers would be a reduction in the overall tax burden on goods.

The GST Council has proposed 5 tier GST that is 0 %, 5 %, 12 %, 18 %, 28 % and the special rate for gold and precious metals that is 3 % and 0.25 % respectively. In

addition to the above rates, the GST Compensation tax is taxable. It is a tax that is taxable by the Central Government to compensate the states for 5 years due to loss of capital. It is the only charge on certain notified goods such as the luxury goods - high ended cars and demerit goods - pan masala, and tobacco. The rate of tax ranges from 1% to 290%.

The GST is taxable in the form of State Goods and Services Tax (SGST), Union Territory Goods and Services Tax (UTGST), and Central Goods and Services Tax (CGST) when goods and services are supplied within the state, and the Integrated Goods and Services Tax (IGST) when goods and services are supplied outside the state with a common tax base.

If the aggregate turnover of any business exceeds 40 lakhs and 20 lakhs (in case of the supply of services) it is mandatory to register itself for GST. For some of the special states that are In the North-Eastern States and Hilly states including Uttarakhand State, the limit is 10 lakhs.

The Input Tax Credit (ITC) is the backbone of GST. It is the main reason for the implementation of GST as it removes the cascading effect i.e... tax on tax. All the registered persons under GST are allotted a

Unique Goods & Services Tax Identification Number (GSTIN) which is a 15digit state-wise PAN-based number. GSTIN helps to claim ITC and should be mentioned on every invoice.

Goods & Services Tax Network (GSTN) is a nonprofit and non-governmental organization that manages the IT framework of the GST portal. Presently the 51% shareholding is of the private sector with 49% shareholding of the Government i.e., Central Government and State Government. The Registrations, Invoices, Various returns, payments & refunds are all done at the GST portal. (Dr. G.P. Dang, Jyotika Kaur, Divneet Kaur) (SHODH SANCHAR BULLETIN Vol. 10, Issue 37 (II), January-March 2020 Page Nos. 145-155)

The GST is governed by the GST council who is the decision-making body of the GST. The GST council is controlled by the Finance Minister of India (presently Nirmala Sitharaman) with the Minister of State and the State Finance Ministers. The GST Council is made to decide upon the rules and regulations relating to GST & to make amendments from time to time.

MSME (MICRO, SMALL, AND MEDIUM ENTERPRISES)

Micro, Small, and Medium Enterprises (MSME) sectors have played an important part in the country's socio-economic growth. The MSME sector accounts for approximately 8% of GDP, 40% of total exports, and approximately 45 percent of manufacturing production.

There are around 6.3 crore MSMEs in India. According to MSME Ministry statistics, the Udyam Registration portal registered 5,767,734 MSMEs on November 26, 2021, replacing the old process of submitting for a Udyog Aadhaar Memorandum (UAM).

Total number of registered micro-enterprises stood at 5,441,220 (94.34%), small enterprises at 293,555 (5.09%) and mid-sized enterprises at 32,959 (0.57%).

On November 26, 2021, the top five state-wise Udyam registrations are as follows:-

- Maharashtra records the maximum number of registrations with 12.18 lakh units,
- Tamil Nadu records the maximum number of registrations with (6.23) lakh units,
- Gujarat records the maximum number of registrations with (4.86) lakh units,
- Rajasthan records the maximum number of registrations with (4.68) lakh units and
- Uttar Pradesh records the maximum number of registrations with (4.45) lakh units.

The new online system of MSME or Udyam Registration was launched by the Union MSME Ministry, On July 01, 2020, the Total number of successfully registered in MSME was more than 5.7 million until November 2021.

In India, the MSME sector contributes approximately 29% to the GDP through its national and international trade.

PROBLEM FACED BY MSMEs

There are lots of problems faced by an MSME when this act comes into force, and some of them are as follows:-

- Low Basic exemption limit
- High Compliance burden
- Reverse charge taxation on unregistered purchases
- Taxation on stock transfers and presumed supplies
- Time limit for returning goods sent on a sale or return basis tax on Advances
- Availability of Composition Levy
- Condition for payment and filing of return for availing input tax credit
- Power to Arrest & Prosecution

SCOPE OF THE STUDY

Apart from all, there are a lot of scopes of GST

and these are as follows:-

SCOPE:

- GST is a transparent tax and also reduces the number of indirect taxes.
- It benefits people as prices will come down, which will help companies as consumption will increase.
- GST will also contribute to the development of a transparent and corruption-free tax administration.
- GST will be levied only at the final point of consumption based on the VAT principle, rather than at multiple points (from manufacturing to retail outlets). This will aid in the removal of economic distortions and the development of a common national market.

OBJECTIVES

- To comprehend the concept of Goods and Services Tax; and
- To investigate the impact of GST on MSMEs.
- To Investigate opportunities for MSMEs in the GST implementation.

LITERATURE REVIEW

GST is a consumption as well as destination-based tax that is forced at various stages of the creation appropriation of goods and services. With the balanced and fixed approach, GST

provides equivalent rights to the citizens (**Kumar R., 2020**).

The fall-backs and deficiencies of the previous indirect tax regime caused the implementation of GST in India. Due to the variety of taxes like VAT, Excise Duty, and Sales Tax, the multiplicity of taxes was disallowed to make way for GST (**Nayyar & Singh, 2018**).

According to **Rana (2018)**, GST is a transformational and facilitating reform that promotes multiple benefits such as better efficiency and productivity, effective compliance among business owners and taxpayers, and improved ease of doing trading and business.

The concept of “**One Nation and One Tax**” is a win-win situation for retailers, wholesalers, industrial houses, customers, and taxation authorities; also, due to the introduction of GST in India and subsequent elimination of cascading effect, price distortion, and tax corruption has significantly reduced (**Sabari Nath, 2019**). **Kankipati (2017)** also explained that GST should be adopted by every economy to attract better revenue conformity and foreign investments.

Justifying the need for GST, Kaur (2018) discussed the role of GST for sectors like real estate, healthcare, telecom, and advertisement industry; the author expressed that GST is a destination-based tax that simplifies the taxation system of India.

GST is an indirect and multiarrangement tax, which is a destination-based expense; with plenty of improvements in taxation structure, GST also tends to increase the material fare by compiling various irregular or regular expenses conjointly (**Gupta, 2018**).

IMF(2018) report titled “ A Market, Unified ” by the finance and development department on goods & services tax stated how the reform has created one market for the first time since independence. The decision of the state governments the adoption of the new taxation reform has led to the loss of their sovereignty but

on the contrary, the states can avail themselves of the tax incentives to attract investment. The six-tier rate regime is complex but in the further course, it will be simplified. With the event of GST, the number of taxpayers has increased by 50% and as the reform stabilizes, the GDP is expected to increase by 1-1.5 %. The credit-based matching system will increase the compliance rate and reduce tax evasion. India will be an economy that will attract investment adding to trade and growth of the economy. One of the major benefits that the reform accrues is to the small and medium enterprises in context to easy access to the credit system. Further, the reform will aid in better handling of the size of the formal and informal sectors.

Krishna, Jaiswal (2017) - The study is conceptual in nature which has highlighted the conceptual framework of Goods & Services Tax. As per the study, the tax reform is expected to revolutionize the Indian economy as it did in the year 1991 at the time of the LPG policy. GST is split into two components - CGST and SGST. Petroleum, electricity, and alcohol are kept out of the gamut of GST. GSTN provides IT infrastructure to GST. The various benefits which GST accrues are no cascading effect, harmonized indirect taxation system, and low logistics costs. Apart from the benefits, there remain some challenges ahead such as technological failures i.e... problems in GSTN, frequent and regular tax compliances, cumbersome returns filings, and assistance of the professionals.

Xavier P (2017) - A study based on the "Implementation of Goods and Services Tax and Prospects and Challenges Ahead" is an exploratory study. The study is based on the secondary data. The data is collected from the various journals, annual reports, magazines and newspapers. As per the study, the manufacturers and traders stand to gain due to input tax credit system. The society is saved from the cascading effect i.e. tax on tax. The challenges which stay ahead is development of well-equipped IT support system to stand with the GST in its proper implementation and conduction of various

training and awareness programmes for the various stakeholders.

(Vohra, 2017) Goods and Service Tax is a perfect method to utilize input tax credit and is a game-changer for Indian markets as it tends to reduce inflation and cost of production along with the seamless flow of tax credit.

To ease the taxation framework and policies, GST replaced the complex VAT and Sales Tax; according

to **Kumar K. A (2017)**, GST has the potential to attract foreign direct investments and employment opportunities.

RESEARCH METHODOLOGY

SOURCE OF DATA

Primary and secondary data are used in this investigation. On GST India, primary data will be obtained through a structured interview schedule with chosen Micro & Small Scale industries. Secondary data was gathered from the Director of Industries and Commerce, Chennai, District Industries Centre, Sivangagai, and Panchayat Block Offices involved, in both published and unpublished reports, handbooks, and action plans booklets. Textbooks, journals, magazines, newspapers, government gazettes, government reports, and the internet, among other sources, were employed.

SIZE AND TECHNIQUES OF SAMPLING

Sivangagai has a total of 1722 micro, small, and medium enterprises (MSMEs), of which 1375 are registered, according to the UAM's Annual Report for the year 2017-18. Due to the lower number of units in the population, "Cluster Random Sampling Technique" and 10% of the population for the Micro category, 20% for the Small category, and 100% for the Medium category are proposed to properly represent all categories of Manufacturing Enterprises 826

MSMEs in Service MSMEs.

QUESTIONNAIRE

As part of the research, questionnaires were created. For MSMEs' views on GST implementation, the questionnaire is relevant. Surveys were used to gather data on demographics and the impact of GST on MSMEs.

It's time to talk about statistical methods.

Descriptive and multivariate statistical methods are used to analyze the data. Descriptive statistics such as the mean and standard deviation, as well as t-tests, one-way ANOVAs, and correlation and regression are some of the statistical tools that can be used to analyze the data.

LIMITATION

The focus of this study is on the performance of MSMEs following the implementation of the GST. MSMEs' performance may have been overestimated because the study relied on only secondary data. As a result, the real impact on MSMEs' performance would have been captured by using primary data.

There are only a few data sets available on GST. Regression analysis could have been used to better predict the performance of MSMEs, but researchers were forced to use simple statistical tools because of this limitation.

DATA ANALYSIS AND INTERPRETATION

MSMEs IN THE CONTEXT OF GST: A HIGH-GLOBAL PERSPECTIVE

I Special Registration Provisions: The following MSMEs are exempt from GST registration based on their annual revenue.

Individuals engaged in the interstate taxable supply of goods who do not exceed the threshold exemption limit i.e., 40 lakh (or 20 lakh in some states) per financial year;

Persons who supply services to customers within their own state but do not exceed the threshold exemption limit, i.e., 20 lakhs (10 lakhs in case of some states), are exempt from paying taxes.

Only those whose annual turnover does not exceed Rs. 20 lakh in the interstate taxable supply of services can qualify (10 lakh the in case of some states).

To be exempt from the requirement to have the books of an organization audited by a Cost Accountant or Certified Public Accountant under the GST regime, an organization's annual turnover must exceed a prescribed threshold. Government notification states that registered persons with an annual turnover of less than Rs. 2 crores need not audit their books of accounts by a CA or Cost Accountant as a trade facilitation measure.

Under the MSMEs Scheme, the government provides a 2% interest subsidy to GST-registered MSMEs who take out additional loans of Rs. 1 crore.

DISCUSSION

Taxpayers with a turnover of less than Rs. 5 crore are listed in the first table of newly registered, migrated, and composite dealers. Taxpayers whose total tax base is less than 1% of the total tax base are interesting to note. A variety of secondary sources, such as academic journals, tax websites, and news stories, are used to gather relevant data and information According to various acts and amendments, the information on the provisions is gathered from both the pre-GST provisions and various GST provisions.

MSME SCENARIO IN INDIA

The Micro, Small and Medium Enterprises

[MSMEs] have been the solid backbone of our country's economic development. It is estimated that in terms of value, the MSME sector accounts for about 45 percent of the manufacturing output and 40 percent of the total exports of the country. The sector is estimated to employ about 69 million employees in over 26 million units throughout the country MSMEs in accordance with the establishment of Micro Small Medium Enterprises Development (MSMED) Act, 2006, is classified under 2 categories i.e., manufacturing sector & service sector, according to the investments for plant & machinery, equipment respectively

OPPORTUNITIES FOR MSMEs

The Indian GST, arguably the most significant reform, represents a symbolic shift from the previous indirect tax structure. It is stated that a greater grasp of the GST's terms and circumstances will enable small and middling businesses to outperform the norm (Mohan & Ali, 2018; Srinivas, 2013). In general, GST allows for centralised registration, which makes business expansion easier (Turka & Singh, 2017), and an exemption threshold of up to INR 40 lakh/20 lakh for businesses engaged in goods only in the rest of India/northeastern states, respectively; similarly, INR 20 lakh/10 lakh for businesses engaged in goods and services or services only in the rest of India/north-eastern states, respectively (www.cbic.gov.in), which exempts the majority of small and micro Electronic compliance increases transparency, which reduces corruption. The tax burden will be reduced for both the maker and the taker under GST since the input tax paid will be offset against sales tax. To put it another way, each dealer will only pay tax to the

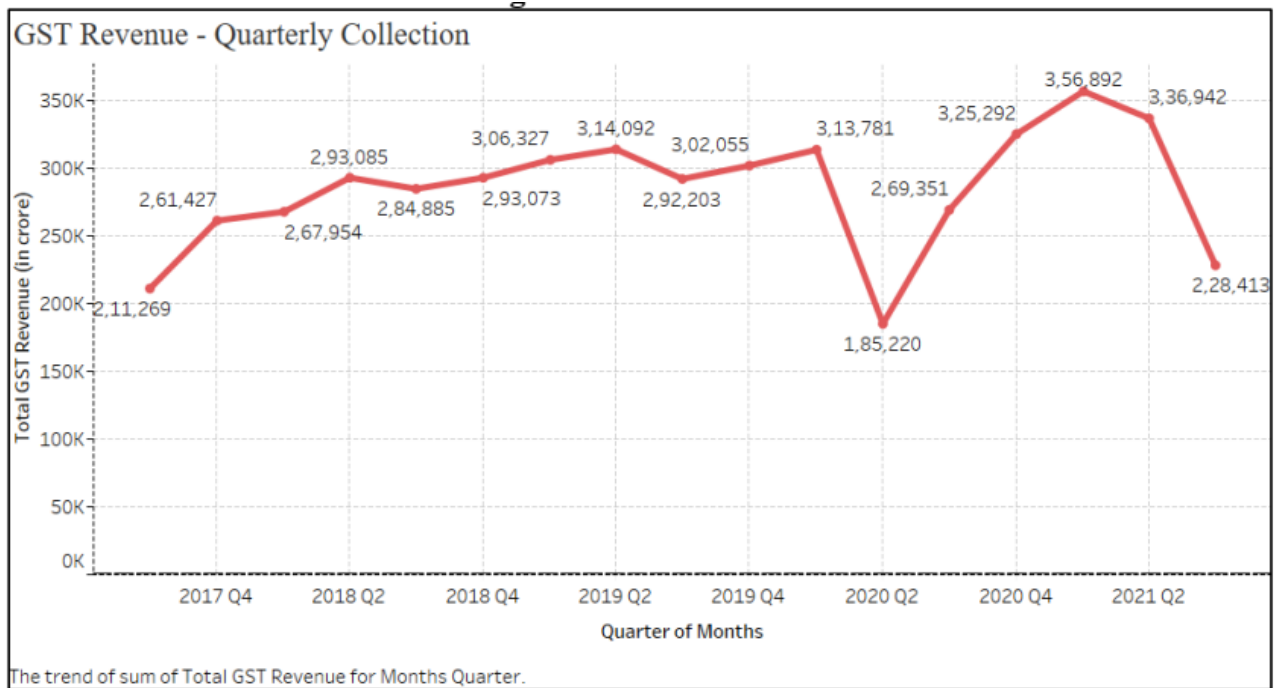
government on value addition done at their own level. As a result, the tax-on-tax effect is eliminated, resulting in lower prices for the end-user and increased demand.

Finally, the composition scheme, which includes nominal tax rates and lenient tax compliance, has aided small, micro, and emerging firms (www.cbic.gov.in). Furthermore, the Sahaj and sugam' scheme, which simplifies quarterly reports for small taxpayers with a revenue of less than INR 5 crore, is a much-welcomed move (www.cbic.gov.in). According to medium-sized units, export procedures have become easier than previously, and shipping via e-way bill saves a lot of time for most traders, according to a study by Ghosh (2020). According to a strong t-test result, small business owners see GST as a good tax change (Uppal et al., 2019).

Nonetheless, many of its provisions require a free-hand amendment to ensure the welfare of micro and small businesses (Turka & Singh, 2017; Rai, 2018; as cited in Mohan & Ali, 2018). 'It is one of the better tax regimes in years, and small businesses will undoubtedly benefit from it in the long run,' says one respondent (Mohan & Ali, 2018).

GST LATEST REVENUE

Tax revenue generated by small businesses. Tableau software was used to create this visualization of the GST collection since its implementation and the steep drop in revenue.



Source: GST Council and Press Information Bureau

CONCLUSION

The gross value added by MSMEs to GDP grew steadily from 2014-15 to 2018-19. An increase of 10–13% in MSME value addition has been observed on average. A 30 percent increase in the share of MSMEs in GDP has been seen over the past five years. MSMEs have benefited from the implementation of the Goods and Services Tax (GST).

It was a top priority for India's government to get rid of multiple taxes and their repercussions.

The country's indirect tax system has been simplified as a result of the implementation of GST, allowing businesses both domestically and abroad to operate more easily. As a result of the introduction of GST, the MSME sector has been compelled to reconsider its strategies, processes, supply chains, and expenses. As a result of tax benefits, unorganized MSMEs have developed faster than organized ones thus far (if turnover is less than 1.5 crore). The great

majority of small and medium-sized firms are now liable to indirect taxation as a result of India's paradigm change to the Goods and Services Tax (GST) regime. MSMEs are currently experiencing problems complying with GST. Small and medium-sized businesses and consumers, on the other hand, will see long-term benefits from this policy change. GST must be periodically assessed to ensure its long-term viability for MSME sector businesses, both at a national and state level. The literature on 'GST implications for MSMEs' has been reviewed in this study, and the synthesis is based on the most prominent themes that emerged. The primary goals of this review process were to determine the impact of GST on MSMEs in India and around the world, as well as to identify necessary measures to improve the new tax system. According to research, this field is still in its infancy.

The current study had a narrow scope because it only looked at a few regions of India and a few Asian countries. Much more research is needed to determine how GST will affect Indian and international MSMEs. Studies have shown that the GST principles in India differ significantly from those used globally. Numerous studies have found that MSMEs are generally in favor of the guiding principles of the GST, but they strongly disapprove of its compliance burden (Ghosh, 2020; Mohan & Ali, 2018; Sharma & Saini, 2019; Uppal et al., 2019). MSMEs in different industries will have varying impacts from the implementation of GST in each state, as will the political sensitivities of the various industries in each of those states (Mungaya et al., 2012). In order to increase MSMEs' profitability and

standardize their work processes, the government must devote more resources to implementing "GST awareness and training programs" and helping them financially (Mohan & Ali, 2018). Additionally, industry-specific and political factors impede an effective tax policy for Indian MSMEs, necessitating additional investigation (Mungaya et al., 2012).

The GST has significantly altered the requirements for compliance for small and medium-sized businesses. Although this change has made people more tech-savvy and attentive, it has provided much-needed relief.

Small businesses are most concerned about the need to alter the concept of "one to one" invoice matching. Small businesses will greatly benefit if this issue is addressed by the appropriate authorities. Many major reforms have encountered opposition and resistance from various stakeholders. GST will benefit SMEs by making it easier for them to claim input credits, eliminating the cascading effect of taxes, and simplifying taxation. Despite the drawbacks, these advantages outweigh them.

As a way to boost economic growth, the government is relying on the GST. The magnitude of this effect will be determined by the degree to which the GST rates for all business sectors can be agreed upon and implemented together. SIDBI aided FISME in a nationwide campaign to disseminate GST information to small and medium-sized businesses because it anticipated the challenges these businesses would face under the GST regime. Taxation experts have met with MSMEs across India as part of the

program to brainstorm ideas.

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