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GST: Opportunities And Challenges For Indian Msmes

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Abstract

The adoption of the Goods and Services Tax (GST) ended India's decade-long quest for a historic tax reform on July 1, 2017.This research investigates the potential effects of the Goods and Services Tax (GST) on MSMEs in India.The article explores the potential and problems that the GST introduces for Indian MSMEs.The study also focuses on the experiences of several nations throughout the world with GST adoption.According to the literature analysis, the cost of compliance has grown since the implementation of GST.Initially, there was some pushback from many stakeholders, but over time, the adoption went smoothly. Following the implementation of GST in several countries, the government solicited input and proposals from the sector.It has also been noticed that the effective implementation of GST demands a strong IT infrastructure as well as training businesses on the many components of GST such as calculating tax liabilities, claiming input tax credit, and so on.Instead of viewing GST just as a tax reform, Indian MSMEs would need to adapt their business practices. In India, the adoption of the Goods and Services Tax (GST) marks a dramatic shift in the country's indirect tax structure, with the goal of streamlining taxation and fostering economic growth.This research study investigates the multidimensional impact of GST on India's Micro, Small, and Medium Enterprises (MSMEs).The article intends to give insights into the potential and problems that GST brings for Indian MSMEs by a detailed examination of current literature, official studies, and empirical data. Furthermore, the study looks at how GST affects the financial health, development prospects, and global competitiveness of Indian MSMEs.The report examines the impact of GST on several sub-sectors within MSMEs, examining differences in opportunities and difficulties across industries. To give a comprehensive perspective, the study investigates policy implications and makes recommendations to maximize the benefits of GST for MSMEs while resolving the accompanying problems.The findings of this study provide policymakers, industry stakeholders, and academics with useful insights into the dynamic interplay between GST and the Indian MSME sector.

Keywords: Goods and Services Tax (GST), MSMEs, IT Infrastructure, Stakeholders, Tax Credit.

Introduction

The GST--Goods and Services Tax--was implemented on July 1st, ending India's decade-long quest for a significant tax reform.With the "One Nation, One Tax" slogan, the GST will usher in a dramatic overhaul in the taxing structure.It will consolidate and simplify the process of indirect taxes, bringing various benefits over current tax systems, such as an easier method for obtaining input credit, a single point tax, the removal of the cascading tax system, and simpler taxation. If GST is implemented smoothly, it has the potential to increase economic development by 2%.It will boost the manufacturing sector in particular and make it more competitive.It will also increase exports and offer additional job possibilities. This comprehensive tax reform, enacted with the goal of unifying indirect taxes and establishing a seamless national market, has far-reaching ramifications for the economy's numerous sectors.Among these sectors, Micro, Small, and Medium Enterprises (MSMEs) play a critical role in the country's socioeconomic fabric, considerably contributing to employment, innovation, and economic growth. This research paper seeks to provide a nuanced understanding of the dynamic interplay between GST and Indian MSMEs by synthesizing existing literature, analyzing government reports, and scrutinizing empirical data. Through this exploration, we hope to contribute valuable insights that can inform policymakers, guide industry stakeholders, and foster a deeper appreciation of the intricate relationship.

Structure of Indirect Tax in India

Type of Tax	Levied on
Excise Duty	Manufacture of Goods in India
Service Tax	Provision of Service
Sales Tax/ VAT	Sale within State
Custom Duty	Import& Export
Central Sales Tax	Inter State Sales
Local Body tax – Entry tax, Octroi	Entry of goods to a State from a place outside the State

In addition to the above taxes, certain other taxes like Entertainment tax, Luxury tax, Lottery taxes, Taxes on betting and gambling, Electricity duty, State surcharges relation to supply of goods and services are also levied by the state government.

However the present tax structure suffers from following limitations:

• Cascading/ Double taxation
• Exemptions & Concessions
• Lack of transparency
• Lack of uniformity in provisions and rates
• Multiple points of taxation
• Complexity in determining the nature of transaction – Goods vs. Service
• Narrow base
• Multiple administrations

GST–Solution to Overcome Present Tax Structure's Limitations

The implementation of the Goods and Services Tax is a big step forward in India's indirect tax reforms.It benefits a variety of parties, including industry, consumers, and the government:

• GST is designed to eliminate double taxation and make taxation easier for industries overall by consolidating a large number of Central and State taxes into a single tax.

•GST implementation will ensure the growth of a Common National Market or Common Economic Market.

• Reduced cost of compliance

• Reduction of manufacturing costs due to lower burden of taxes on the manufacturing sector.

Hence prices of consumer goods will be likely to come down.

• Introduction of GST will also make Indian products competitive in the domestic and international markets.

• The GST, because of its transparent character, will be easier to administer.

• Beneficial to government as it would broaden the tax base and improve revenue collections Once implemented, the proposed taxation system holds great promise in terms of sustaining growth for the Indian economy.

Statement of Problem

The Goods and Services Tax (GST), a significant step in India's transition into a common market, went into effect on July 1, 2017.

At the event's introduction, Prime Minister Mr.NarendraModistated, "GST is not just about taxation reform that will help business people by putting an end to tax terrorism, but it is also a measure that will help in the fight against corruption and black money."This is a significant national agenda item that has gotten a lot of attention from academics, tax specialists, consultants, the corporate community, legislators, consumer groups, and the general public. One of the primary worries about GST implementation is the impact on MSMEs.The adoption of GST will create possibilities for MSMEs to grow, but it will also present certain problems.GST compliance would need MSMEs ensuring they have a robust accounting system in place to guarantee precise estimates of tax due, input tax credit, and so on.This compliance work is considered as a significant difficulty for MMSMEs in addition to managing with day-to-day company survival.As a result, the current study aims to investigate the impact of GST on MSMEs in India.

MSMEs in India

Micro, small, and medium-sized enterprises (MSMEs) play an important and critical part in all countries' economic growth and development.MSMEs contribute to economic progress by introducing new inventions, generating new investment, and creating new job possibilities.Their impact to a country's growth and development cannot be overstated.

The MSME Act of 2006 defines Micro, Small, and Medium Enterprises.According to the Act, MSME are roughly grouped into two types:

- Entities that are engaged in the manufacturing and production of goods pertaining to any industry;
- Manufacturing firms have been further defined in terms of investment in plants and machinery, whilst service enterprises have been defined in terms of investment in equipment.

Classification of SMEs (According to Micro, Small and Medium Enterprises Development Act)

Types of enterprises: Manufacturing or manufacturing of commodities.engaged in service provision or givingPlant and machinery investmentEquipment investmentUnder INR 25 Lakhs Micro Under INR 10 LakhsINR 25 lakh to INR 5 crore INR 10 lakh to INR 2 croreINR 5 Crores to INR 10 CroresMedium INR 2 Crores to INR 5 Crores

In recent years, India's Micro, Small, and Medium Enterprises (MSMEs) have undergone multiple highs and lows.With the Indian economy predicted to become one of the world's top economies and a $5 trillion economy by 2025, significant emphasis is being placed on strengthening our economy's backbone-the MSME sector.MSMEs account for approximately 6.11% of manufacturing GDP, 24.63% of GDP from service activities, and 33.4% of India's manufacturing output.

They employ around 120 million people and account for approximately 45% of India's total exports.

Overview of Goods and Services Tax

GST is a value-added tax applied on the manufacturing, sale, and consumption of goods and services.GST provides a continuous chain of tax credits from the producer's point to the service provider's point all the way up to the retailer/consumer level, taxing only the value contributed at each stage of the supply chain.At each step, the supplier is authorized to take credit for GST paid on the purchase of goods and/or services and set it off against the GST payable on the delivery of goods and services to be supplied by him. As a result, only the end customer bears the GST levied by the last provider in the supply chain, with set-off advantages available at all prior levels.Because GST simply taxes the value added at each level, there is no tax on tax or tax cascading under the GST system.

Because GST does not distinguish between goods and services, they are taxed at the same rate:

• Except in Jammu and Kashmir, the products and Services Tax would be levied on the'supply' of products or services or both.

• Central GST (CGST) will be due to the Central Government for supplies inside the State or Union Territory, and State GST (SGST) or Union Territory GST (UTGST) would be payable to the State Government or Union Territory.

• Integrated GST (IGST) will be due to the Central Government on inter-state supplies (supplies from one State or Union Territory to another State or Union Territory).

• GST rates (CGST+SGST/UTGST) are nil, 5%, 12%, 18%, and 28%.These rates will also apply to IGST.

Literature Review

France is the first country to adopt GST way back in 1954. At Present around 160 countries across the globe have adopted GST.

Region No of Countries

ASEAN-(Thailand& Philippines) 7
ASIA(Iran &Tajikstan) 19
Europe (Jersey & Hungary) 53
Oceania (Niue & New Zealand) 7
Africa (Nigeria & Gambia) 44
South America (Brazil & Uruguay 11
Caribbean, Central & North America, Canada & Barbados 19
Total 160

(Source: Tax Research Department, the Institute of Cost Accountants of India (Statutory Body under an Act of Parliament)

GST Experiences in Selected Countries

The majority of nations in the world have a unified GST system.Brazil and Canada have a dual system in which GST is charged by both the Union and the States.India, too, uses the Dual system.In 1954, France was the first country to implement a GST system.In most nations, the normal GST rate runs between 15-20%.

In the year 2000, Australia implemented the Goods and Services Tax (GST). It superseded the wholesale sales tax system that had been in effect in Australia since the 1930s.Except for GST exempt commodities and input taxed goods and services, the GST are charged at a flat rate of 10% on most goods and services.

A number of studies have been conducted in Australia to investigate the impact of GST on MSMEs.According to Ernst & Young (1999) and Pope (1999) investigations, it was difficult to quantify initial costs as well as the cost of GST compliance as well as the expenditures paid for managerial objectives.Furthermore, it was noted that it was difficult to distinguish between starting and continuing expenditures. According to a survey conducted by CPA Australia, MSMEs made significant changes in their practices to satisfy the requirements of GST.They improved their record-keeping techniques as well as their computer software.Overall, it was well received by MSMEs.The only barrier they perceived was an increase in their staff's workload.

The New Zealand Goods and Services Tax (GST) were implemented on October 1, 1986.Various studies have shown that GST has been a favourable experience in New Zealand.According to Ernst and Young (1999), there was a lack of clear law since the legislation focused more on provisions than on procedures.The New Zealand Inland Revenue Department assessed the implementation and administration of GST and solicited public and company opinions and ideas. According to the input obtained, compliance expenses were considerable, and they were proportionately greater for enterprises with lesser turnover or MSMEs.MSMEs with lax accounting and reporting standards faced greater compliance expenses.It was also shown that MSMEs who registered late had compliance expenses that were higher than the norm for their size.As a consequence of the input, the New Zealand government concentrated on reducing changes to the GST structure, simplifying it, and educating companies.

Singapore's Goods and Services Tax (GST) was implemented on April 1, 1994.GST provided $1.5 billion to tax collections in the first fiscal year after its adoption, accounting for nearly 11% of total government tax income.The Singapore government requested opinions and ideas from industry on the introduction of GST.The government responded positively to industry comments and implemented discounts and reliefs for manufacturers, retailers, and exporters in order to encourage business.

CanadaIn 1994, the Goods and Services Tax (GST) were created as a multi-tiered VAT to replace manufacturers' sales tax.GST was charged on most goods and services purchased in Canada, with the exception of specific necessities such as food, residential rent, medical care, financial services, and exports.Initially, the Singapore Inland Revenue Authority encountered opposition from the general public, business community, and politicians.Despite this opposition, IRAS has been effective in implementing GST through its on-going efforts to educate tax payers on GST legislation and implementation.

Malaysia was the most recent country to implement GST in 2015. There was strong opposition from small businesses MSMEs and traders who were not well informed about the GST tax calculations as well as the procedural aspects of obtaining tax credits, and the Malaysian government was not prepared to take on the challenges in the implementation and administration of GST.

The Effect of GST on MSMEs,MSMEs and start-ups will be the most affected by the implementation of the Goods and Services Tax (GST).It would provide chances for MSMEs' growth and development while also posing obstacles to MSMEs.The opportunity for expansion will come in the shape of numerous perks offered to MSMEs.GST will assist MSMEs and start-ups in the following ways:

- **Ease of launching a business:** A company with activities in many states must register for VAT in accordance with state laws and regulations.Varying states have varying requirements and rules for VAT registration, which causes issues and uncertainty for enterprises.It adds time and cost to the procedural procedures because the firm must apply for VAT registration in each state separately.Businesses must complete a centralized registration under GST.As a result, processes will be simplified, as will the time and expense associated with procedural issues.As a result, starting a business will become easier and simpler.
- Tax relief for new enterprises: Under the existing tax structure, firms having a turnover of more than Rs. 5 lakhs must pay a VAT registration cost.The government has raised the GST exemption ceiling to twenty-five lakhs.This will benefit around 60% of small business owners.
- Better logistics and faster service delivery: Under the current tax system, entry tax is levied on interstate manufacturing and sale of goods.No entrance tax would be levied under GST on items made or sold in any area of India.This will result into rapid delivery of products since the time at interstate junctions and toll check posts would be eliminated.According to an estimate by CRISIL, the logistics cost for makers of bulk commodities will get lowered significantly—by roughly 20%.This will provide a boost to ecommerce across the country.
- The difference between commodities and services is abolished under the commodities and Services Tax (GST), which simplifies numerous legal actions involving packaged items.As a result, there will be no differentiation between the material and service components, which will significantly decrease tax avoidance.
- The 'Make in India' campaign will be boosted:The Goods and Services Tax (GST) will increase the demand for and competitiveness of 'Make in India' products.Except in some cases, the GST tax structure will reduce the burden of indirect tax on both the producer of goods and the ultimate end user, because the producer or manufacturer of goods will benefit from input tax credits (ITC), and the consumer will bear only the indirect tax charged by the last retailer or dealer in the supply chain.This will result in the MSMEs' market expanding.
- Unified market: The products and Services Tax (GST) would allow free movement of products among states and lower the cost of doing business by eliminating different taxes levied by the state and federal governments.

Challenges before the MSMEs

While the MSMEs will enjoy the tax neutrality, there are number of challenges that the MSMEs will have to face with implementation of Goods and Services Tax (GST).

- Reduced basic exemption (threshold) limit: Under current excise tax legislation, a manufacturer with a turnover of less than Rs. 1.50 crores is free from paying duty.However, with the implementation of GST, the exemption ceiling has been drastically reduced to Rs. 20 lakhs in all states, with the exception of the North Eastern states, where the exemption limit is Rs. 10 lakhs.As a result, many enterprises that are currently outside the tax bracket will be covered by the tax bracket and will have to pay a significant portion of their revenues in taxes.The government's goal is to broaden the tax base and bring as many traders/businesses as possible into the tax bracket.
- There is no distinction between taxes charged on luxury products and taxes levied on services:Prior to the establishment of GST, the government differentiated between the tax rates charged on luxury products and ordinary commodities.Luxury products and services were taxed at a higher rate.However, there is no differentiation between luxury and ordinary items under GST.As a result, the ratewith the adoption of GST, however, all taxes would be the same for all products and services.This will be a significant problem for MMSMEs competing with huge established firms.
- Product cost increases for enterprises that provide directly to end users: Because GST is paid on the provision of products or services, businesses that supply directly to end users will be unable to claim input tax credits.This, in

turn, will raise the cost of items for enterprises who sell directly to end customers.

- Selective taxation: The Goods and Services Tax (GST) will not apply to alcohol and petroleum-related enterprises.This undermines GST's unified market theory.
- High compliance costs: The Goods and Services Tax (GST) compliance criteria are quite severe.Businesses are obliged to file a number of returns on a monthly basis.
- Furthermore, if the company operates in more than one state, a separate return must be submitted in each state.This would raise the cost of compliance for MSMEs.Accounting is often handled by the owner of a small business.Tax returns must be filed on a quarterly basis under the current system.As a result, the proprietor may focus on business development rather on taxation.However, with the adoption of GST, he would have to commit time and money to monitoring his accounting and taxes affairs, filing monthly reports, calculating obligation, and claiming input tax credit. Furthermore, under GST, all procedures - registration, submitting returns, and claiming tax credits - must be completed online.This would increase the cost of compliance for MSMEs since they will need to update their IT infrastructure and engage knowledgeable individuals to handle their GST software.
- Increased Interest/Finance Cost: IGST will be levied on interstate branch transfers and stock transactions.Due to the obstruction of cash, this will raise the working capital requirements of enterprises with interstate activities.This, in turn, will raise the interest load, which will have an effect on pricing policies.
- Reverse charge mechanism: The terms of the products and Services Tax (GST) law provide that if registered person purchases productsfrom an unregistered trader/dealer, the tax is to be paid by the registered person under the rules of reverse charge.This will raisethe registered persons' operating capital requirements.As a result, registered businesses will want to do business solely with registered firms.This will have a severe influence on unregistered merchants and dealers, stifling their growth and development.They will be forced to register or shut down their companies.
- Products sent on a sale or return basis: Under current tax legislation, there is no time restriction for returning products delivered on a sale or return basis.However, with the adoption of GST, this time limit is only valid for six months.If the products are not authorized within six months, they are presumed to have been provided, and the need to pay tax arises.Many small-scale enterprises (for example, textiles) supply items to consumers on a sale or return basis.Customers generally return the products at the end of the season.However, the six-month time constraint imposed by GST will be detrimental to such small firms.
- Availability of Input Tax Credit: Prior to the advent of GST, Input Tax Credit was provided on an invoice basis.However, it will be available only if the seller pays taxes to the government and if the information put on the government's IT system matches the information provided by the vendors.

Conclusion

The Goods and Services Tax (GST) is clearly a long-term strategy.It would result in increased output, job opportunities, and the nation's economic development and advancement.However, it is anticipated that in the early stages of adoption, it will raise administrative challenges and compliance costs.

MSME's will be able to reap the benefits of GST provided they are able to restructure their business processes and systems in line with the compliances necessary under this law, as operating outside of the credit chain is not operationally possible for an MSME.Compliance may be simplified with technology and a strong IT infrastructure.MSMEs will need to have the fortitude to comply with tax regulations and, in turn, contribute to the nation's progress.The transition from the previous tax system to GST is seen as a 'behavioral change' rather than a tax reform since its effective implementation is heavily dependent on how fast businesses adapt to the digital format of taxes.

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