



IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES

Dr. Vijay .B. Desai

Assistant Professor,

Rajrshi Shahu Arts and Commerce College, Rukadi

ABSTRACT:

Although the GST implementation aims to upsurge the taxpayer base, largely SMEs into its opportunity, it presents a problem of compliance and related charges for them. Nevertheless, GST will make the MSMEs more competitive in the long run and will make the playing arena level between big enterprises and them. Additionally, the Indian MSMEs would be able to compete with the international market goods and competition coming from cheap price epicenters such as China, Philippines, and Bangladesh and actually thrive in the world market scenario. With the implementation of GST, small business enterprises are engrossed in understanding the potential effects of GST on their business. It's a well-known fact that SMEs (Small and Medium Enterprises) are the primary growth drivers of the economy and major contributors to the GDP. To comprehend the overall effect of GST on your business, let's take a look at the pros and cons of the new regime from a small-business perspective.

Keywords- *Compliance, Competitive, Comprehend, Potential etc.*

INTRODUCTION:

Goods and Service Tax (GST) combines both the current Central and State Taxes in the country into a solitary tax, thereby eliminating the dual taxation system and enabling a joint nationwide market. The implementation of this tax allows the government to have an improved hold on the taxpayers, which, in turn, improves the complete tax scheme and has several other **benefits**. This MSME sector of the market has been deliberated as the chief development driver of the Indian economy for years. SMEs have emerged as the principal employment-creating segment in India and have delivered stable growth through

various sectors of our developing nation. The impact of GST on MSME has been tremendous.

Goods and services tax (GST) is a broad based and a single comprehensive tax levied at every stage of the production and distribution chain with applicable set-off in respect of the tax remitted at previous stages. It is basically a tax on final consumption integrates the union excise duties, custom duties, services tax and state VAT. Presently around 140 countries have adopted the GST pattern, including India. The GST would be beneficial for the consumers as it reduces the final burden of taxation. For Government it leads the reduction of tax compliance efforts and administrative costs and for business units it leads transparency, complete set-off and removal of cascading effect of taxation.

OBJECTIVES OF THE STUDY:

1. To study the GST and Small and Medium Enterprises in India.
2. To Study the positive impact of GST on small and medium enterprises.
3. To Study the negative impact of GST on small and medium enterprises.

GST AND SMALL AND MEDIUM ENTERPRISES IN INDIA:

At present, the total tax collection in India is around 14.5 Lakh Crore, of which 34% is indirect tax. Indirect taxes include service tax, stump duty, customs duty, VAT, etc. It refers to the collection of tax indirectly by the Government of India. In most of the developing countries, the share of indirect tax is higher than the direct tax. However, in the developed countries the share of indirect tax is much lower. Therefore, the new GST implementation will allow the government to have a better grip on the taxpayers. This should be capable of evolving the entire 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

Dr. Vijay .B. Desai

GST on Small & Medium Enterprises. All the compliance procedures under GST — Registration, Payments, Refunds and Returns will now be carried out through online portals only and thus SMEs need not worry about interacting with department officers for carrying out these compliances, which are considered as a headache in the current tax regime.

POSITIVE IMPACT OF GST ON SMALL & MEDIUM ENTERPRISES:

1. Launching A New Business Becomes Easier:

Under the previous tax regime, if your business had operations across multiple states, you would need to register for VAT with each state's sales tax department in order to carry out business activities there. The fact that every state had different tax rules complicated the entire process, and business owners had to pay multiple procedural fees for VAT registration. Under GST, the registration is centralized and the rules are uniform for all the states across the country. All you have to do is complete and submit an online form to obtain a GSTIN (GST Identification Number). Launching a new business, and subsequently expanding it, will be comparatively easier under the GST regime.

2. The Entire Process Of Taxation Becomes Simpler:

The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc.), because it levies a uniform tax on goods and services all over India. The taxes on goods and services levied under VAT, purchase tax, and luxury tax will now be merged into one single tax with one common return. If you've spent a large portion of your time on managing multiple taxes, you can relax under the new regime because filing and paying taxes is easier with the GSTN portal. A combined tax also means dealing with fewer tax authorities. Previously, business owners had to deal with many different tax authorities depending on the nature of their business and transactions. Under GST, you can be sure that the relevant authority is always either the Centre or the State government.

3. Reduced Cost Of Logistics:

The current tax regime has created a lot of hassles for the transportation sector. The long queues at checkpoints and inter-state entry points have caused vehicles to stand idle for long periods of time, adding to labor and fuel costs. Businesses transporting goods to other states have had a hard time filing paperwork and paying entry taxes at the inter-state borders, further delaying the delivery of goods. Under GST, the current Central Sales Tax (CST) on interstate sales will be replaced with a combined tax called IGST, which is composed of CGST and SGST and collected by the Central Government. As the removal of border and check-post taxes makes state boundaries less significant under the GST regime, both the delay and the transportation cost will be reduced. This will increase inter-state business, facilitate faster movement of goods, and reduce maintenance costs.

4. The Distinction Between Goods And Services Will Be Eliminated:

Previously, businesses providing both goods and services had to calculate the VAT and service taxes individually. GST eases the process by removing the distinction between goods and services; tax will be calculated for the final total, not individual products or services. This will help SMEs take advantage of the tax incentives for payment on the procurement of input goods and services (like import, interstate and local purchases, and telephone services). Currently, every invoice contains a long and confusing list of taxes levied on the goods and services involved in the transaction. GST will make invoicing simpler, as only one tax rate will need to be mentioned.

5. Increased Threshold Limits For New Businesses:

Under the current regime, businesses with a moderate annual turnover (Rs.5 lakh in some states and Rs.10 lakh in other states) are supposed to register and make payments for VAT. Under GST, this burden is eliminated for many businesses, since a business does not have to register or pay if its annual turnover is less than Rs.20 lakh (Rs.10 lakh in North Eastern states). Also, under the composition scheme, businesses with turnover between Rs.20-Rs.50 lakh will pay GST at a lower rate. This should have a positive effect on startups and other small businesses by relieving them from tax burdens.

Dr. Vijay .B. Desai

NEGATIVE IMPACT OF GST ON SMALL & MEDIUM ENTERPRISES:**1. Multiple Registrations For Pan-India Businesses:**

Under the new regime, a business will have to register online for GST in every state involved in its sales process. If business delivers goods across 5 states, then you'll have to register for GST in those 5 states to carry out your business activities. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.

2. Returns Must Be Filed On A Monthly Basis:

Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books on a monthly basis, which, will take a lot of time. Also, until you've filed the relevant returns, you cannot claim refunds and your customers cannot claim tax credit for the goods they bought from you. Should you miss a single return, you'll be penalized and your compliance rating on the GSTN portal will be reduced.

3. Registration Will Be Mandatory For E-Commerce Suppliers And Operators:

Businesses carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of businesses, e-commerce firms will not be eligible for threshold exemptions or for the Composition Scheme (which allows firms to file their tax returns on a quarterly basis instead of 3 times a year and pay taxes at a much lower rate).

4. Technological Difficulties:

Not at all SMEs in the country are technologically adept to handle the online GST mechanism. They are not aware of the practical details of GST filling online and have to outsource it. This will add to registration cost. Additionally SMEs with an annual turnover of Rs. 20 lakh or more must GST Registration in every state where they have business activities.

5. Blockage of Working Capital:

This is another challenge SMEs are facing with GST implementation. While exporters enjoyed upfront tax exemption on exported goods, this is not

available in the current administration in the previous direct regime. Tax refund delays have blocked funds affecting competitiveness.

CONCLUSION:

Overall, GST simplifies the entire process of filing and paying taxes. It will also increase the competition between SMEs by unifying the Indian market. If you're proactive and take care of your GST compliance measures beforehand, you can minimize the potential negative effects of the new regime on your business. In the long term, GST is expected to have a positive impact on SMEs and the Indian economy as a whole.

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