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# A Study of Goods and Services Tax and its Impact on Small and Medium scale Enterprises in India.

Khushal Ganeshbhai Dhanesha , Dr. Paresh.J.Parmar*

**ABSTRACT**

The objective of this paper is to analyze the impact of newly introduced Goods and Services Tax (GST) on small and medium scale enterprises in India..Mainly small scale and large scale enterprises are manufacturing fast moving consumable goods which have high demand in the market.Small and medium scale enterprises generate huge employment to skilled, semi-skilled people and has generally high turnover.As small and medium scale enterprise play a vital role in the economic development of the country it is important to see the impact of GST on them. The study will include secondary data, which includes journals, newspapers and research articles etc.

**INTRODUCTION**

The Goods and Services Tax (GST) was introduced in India on 1st July, 2017 by central govt., after more than a decade of efforts. It changed an existing system of disintegrate and complex indirect taxes, consisting of multiple taxes. Under the earlier tax system, states and central government levied 'taxes' on all goods that entered its territory, resulting in inefficiencies and huge costs to the economy. The new GST was designed to bring about a common policy and administrative framework for taxation of the supply of goods and services across the whole nation while causing minimum tax based restrictions on trade, on the other side equalizing the rates on goods and services.

Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian economy from a long period of time. It is further evident from the fact that today we have more than 2.5 million SMEs in India contributing almost 45% of the industrial output and 42% of India's total export. For a developing country like India and its, SMEs have proved to be the leading employment-generating sector and has provided balanced development across sectors. Let's try to understand 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 was pending for a long period of time.

**MEANING OF GST**

Goods and Services Tax meaning: GST, or Goods and Services Tax, is a tax that customers have to bear when they buy any goods or services, such as food, clothes, items of daily needs, transportation etc.

**REVIEW OF LITERATURE**

Shalini Shukla & Ram Singh (2018) 1 There is mixed anticipation and different responses on GST from manufacturers, service providers, and different market

*KAUSHAL GOPALBHAI DHANESHA
Ph.D.Scholar, Bhakta Kavi Narsinh Mehta University, Junagadh.
Prof.Dr.Paresh J Parmar.
Government College, Vanthali

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intermediaries. Probability sampling was used to get the relevant sample. A total of 192 BSE listed companies were taken for analysis. Financial parameters (total assets, profit, and market capitalization for FY2017 and FY 2018) and demographic variables (size and experience of companies) were used to analyze the impact of GST roll out. The results indicated that among all three financial parameters, only total assets were significantly different from the pre GST time (2017). Detail analysis and results are discussed in this paper. The study will help to know the effect of new indirect tax on financial performance of MSMEs This study will definitely be useful for policy makers, strategists, and managers to cope up with the challenges posed by GST.

M. Jayalakshmi & G.Venkateswarlu (2018)2 Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. 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.

**OBJECTIVES**

1. To analyze the positive and negative impact of GST on Small and Medium Scale Enterprise.
2. Problems if any after the implementation of GST.
3. To determine the factors influencing the perception of SMEs toward GST in India.

**ADVANTAGES TO MSME'S**

1. Tax Rates: The businesses having an annual turnover upto 50 lacs will have to pay taxes at lower rates.
2. Increased Rates: GST prevents the central sales tax upon which the sales were restricted and small and medium businesses were not able to reach their potential customers across India.
3. 3.Improved market expansion: In the current system, big businesses procured goods based on MSME's locality in order to reduce indirect expenses. That is the limitation where MSMEs limit their customers within state as they bear the ultimate burden of tax on interstate sales, reducing the customer base. With implementation of GST, this will be invalidated as tax credit will transfer irrespective of location of buyer and seller. This will help the small and medium scale industries to increase their business.
4. Elimination of distinction between goods and services :GST ensures that there is no vagueness between goods and services. This clarifies various legal transactions related to the packaged products. As a result, there will no longer be a dissimilarity between the material and the service component, which will greatly decrease tax evasion.
5. 5.Lower logistical overhead: GST is tax unbiased, it will exclude time consuming border tax method and toll check posts and motivate supply of goods across borders. Now every state has same slab of tax under GST so small and medium scale industries can do business in any state in India according to their wish.

**LIMITATIONS TO MSME'S**

1.Payment: Funds are recommended to be kept in the form of electronic credit ledger with the tax department, it may result in liquidity issue.

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2.Returns: More than thirty returns are necessary to be filed by every registered taxpayer during a financial year. Thus SMEs have to pay more money to file the return
3.More Working Capital Requirement : Taxation of stock transfer will primarily influence the working capital requirements. The quantity of impact will differ depending on stock turnaround time at warehouse, credit cycle to customer, quantum of stock transfer, etc. Higher amount of Capital Requirement will increase interest cost which ultimately will increase the price of finished goods.

**RESEARCH METHODOLOGY**

This study is descriptive in nature and it used the exploratory technique. The data for the study were gathered from the secondary sources such as journals, articles published online and offline on various newspapers and websites.

MSMe AND GST

1.Taxation.

GST act provides for issuance of tax invoice within prescribed period (i.e. before removal of goods for supply in case of supply of goods and upto a maximum of 30 days from the date of provision of service, in case of supply of services) showing the prescribed particulars. However, there is no specific format prescribed as such for a tax invoice.

In case of supply of goods, the tax invoice has to be prepared in three copies (original for buyer, duplicate for transporter and triplicate for supplier); whereas in case of service, the invoice has to be prepared in duplicate (original for buyer and duplicate for supplier). Special invoice provisions for MSME Sector The HSN code required to be mentioned in tax invoice has been done away for taxpayers upto annual turnover of upto Rs. 1.5 crores. Further, tax payers having annual turnover between Rs. 1.5 Crore to Rs. 5 crores may mention first two digits of HSN code in their invoices and taxpayers having annual turnover above Rs. 5 crores need to mention full 4 digit HSN code in their invoices.

**2.Exemption**

In GST regime, every registered person whose turnover during a financial year exceeds the prescribed limit is required to get his accounts audited by a chartered accountant or a cost accountant As a trade facilitation measure, government has notified that registered persons having annual turnover upto Rs. two crores are exempted from getting their accounts audited by a chartered accountant or a cost accountant.

**3.Increase in Competition**

Rationalisation of custom duties on steel screws, plastic builder wares, prawn feed, finished gem stones and rationalising exemption on duty free items to incentivise exports of garments, leather and handicraft items will benefit the MSME sector comprehensively; Reduction of customs duty on semis, flats and long products of non-alloy, alloys and stainless steel and reduction of duty on steel and copper scraps will be of great help to the MSME sector; Rationalisation of duties on raw materials for textile production will also help the MSME sector to be price competitive in the export market. Reduction of BCD rates on caprolactam, nylon chips and nylon fiber and yarns will help to sell it in foreign countries.

**4.Other Initiatives**

Further, Post Covid-19, Government has taken a number of steps under Aatma Nirbhar Bharat Abhiyan to boost the MSME Sector in the country especially in Covid-19 pandemic. Some of them are:- i) Rs 20,000 corer Subordinate Debt for MSMEs. ii) Rs 3 lakh

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crores Collateral free Automatic Loans for business, including MSMEs. iii) Rs. 50,000 crore equity infusion through MSME Fund of Funds. iv) New revised criteria for classification of MSMEs. v) New Registration of MSMEs through 'Udyam Registration' for Ease of Dong Business. vi) No global tenders for procurement up to Rs. 200 crores.

**DIFFERENCE TO MSMEs AFTER GST**

1. Under GST credit will be not be available to a compliant company if the seller from whom MSME is purchasing goods does not show the same in his return.
2. Before GST came in India at the uniform rate applied to all the states, previously there was VAT and Central Exercise applied by different states at different rates.
3. The tax neutrality will not differentiate luxury goods and normal goods. Currently the state and central government levy higher taxes on luxury goods and services. Under GST implementation, all goods and services will have to pay the same tax which will lead to rich becoming richer and poor becoming poorer. It is not an ideal situation for MSMEs competing against large businesses.
4. Tax of stock transfer will primarily impact the working capital requirement. The quantity of impact will differ depending on stock turnaround time at warehouse, credit cycle to customer, quantity of stock transfer, etc.
5. GST will not distinguish between ·sales and services. This is a proper move for the MSMEs that deal with sales and services model of business, for them the taxation is made easy.

**CONCLUSION**

MSME's would be able to get the benefits of this new tax regime , if they are able to strengthen their business processes and systems according with compliances as required under this law, as it would not be operationally possible for an MSME's to operate out of credit chain. With high technology & IT infrastructure, application can be made easy . They will require to have the courage to follow with the tax rules & ultimately contribute towards the growth of the nation. The shift from the traditional tax system to GST is considered as a 'behavioral change' more than a tax changes because its successful implementation depends to a great extent on how quickly businesses apply to the digital format of taxation. Many small business people don't have IT knowledge and resources so for them applicability will be somewhat difficult so they have to adjust with it.

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