Impact of GST on MSME

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Abstract: A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. It is the biggest tax reform ever happened in India. Now we are witnessing, how this tax reform reshapes our economy and business dynamics MSME sector. The MSME sector is a major constituent of our economy and contributes significantly economy of our country. This paper look into how GST impact and what are its implications on the MSME sector.

Keywords: GST, MSME, SGST, CGST

1. Introduction

Goods and Services Tax, popularly known as GST, is a reform for our economy’s indirect tax plan. On 8th August 2016, GST Bill (which was long pending) was passed in LokSabha and came into effect from July 1, 2017. The GST has made changes in the tax structure between the center and the state.

India has witnessed substantial reforms in indirect taxes over the past two decades. Even after these reforms indirect tax was a highly fragmented and distortionary tax structure characterized by multiple tax rates, barriers to interstate trade and cascading of taxes. However VAT reforms have succeeded in preparing the ground for the introduction of a comprehensive Goods and Service Tax (GST). There is a saying in Kautilaya’s Arthashastra, the first book on economics in the world, that the best taxation regime is the one which is “liberal in assessment and ruthless in collection” (Olivelle, 2013).

The new GST appears to be based on this principle. Goods and Services Tax [GST] is a system of indirect taxation in India merging most of the taxes into single system of taxation.

2. Objectives

1) To study the impact of GST on MSME.
2) To understand the problems of MSME relating to GST.
3) To find out measure on the problems of MSME relating of GST.

3. Hypothesis

H1. There is more positive impact of GST on MSME.
H2. There is more negative impact of GST on MSME.

4. Research Methodology

This study is based on the descriptive method of research. Primary data as well as secondary data is used by the researcher.

4.1 Origin of GST

GST is framed based on the Value Added Tax (VAT) principles. Value Added Tax was first devised by a German economist named Dr. Wilhelm Von Siemens during 18th century. France was the first country to introduce VAT system in 1954. At present VAT based tax regime has been introduced in more than 150 countries. Most of the countries have a unified GST system. Brazil and Canada follow a dual system where GST is levied by both the Union and the State Governments. GST costs of some countries are as follows:

Country Rate of GST
- Australia 10%
- France 19.6%
- Canada 5%
- Germany 19%
- Japan 5%
- Singapore 7%
- New Zealand 15%

4.2 Goods and Service Tax in India

It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%.

There is a special rate of 0.25% on rough precious and semiprecious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST replaced a slew of indirect taxes with a unified tax and is therefore set to dramatically reshape the country’s 2 trillion dollar economy.

The single GST (goods and service taxes) replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime. GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government.

4.3 The former Tax System

The former taxation system in India was not very user friendly as they need to keep track of various indirect taxes like Octroi, Central Sales Tax[CST], tax on transportation of...
goods and services, state wise VAT, service tax, stamp duty charges and many others. With the introduction of the GST there is an end to all such indirect taxes. The GST will benefit MSMEs and large corporates by simplifying procedures, thus saving time and improving productivity.

5. Impact of GST on MSME’s

Positive impact of GST

1) One nation, One Tax”
GST proclaimed as “One nation, One Tax”, and carries the flagship of ease of doing business in India. With GST there are uniform procedures, uniform payment of fees, and a smooth and uniform tax structure in all states, thus easing out the process to start a business in multiple states.

2) Inter- state trade
Earlier, MSME’s was not much engaged in inter-state trade as it attracted more engaged to inter-state trade and increased cost to customers, thereby reducing their customer base. With the introduction of GST, inter-state trade becomes cheaper as the tax credit can be transferred irrespective of location of buyer and seller. As a result SME’s will be able to expand their business across borders.

3) Reduces Tax Burden
GST eliminates the cascading effect of taxes by subsuming various state and central taxes. Businesses are able to take input tax credit too with GST. This reduces tax burden on businesses, making goods cheaper and increasing profit margins for MSMEs.

4) Save time and effort of MSME’s
Under GST all compliance procedures such as registration, payments, refunds and returns will be carried out through online portals. The burden on MSME’s to interact with department officers carrying out compliances will be eliminated. In this way GST will save time and effort of MSME’s.

5) Encourage Manufacturing Sector
With the implementation of GST, burden of tax is expected to reduce both for the manufacturer and the end user. Manufacturer can get the benefit of input tax credits and the end user has to pay only the tax charged by the last dealer or the retailer in the supply chain.

Negative impact of GST

1) Lower Threshold
Under the previous excise tax regime, no duty is paid by a manufacturer with a gross turnover of less than Rs 1.50 crores. However, after GST implementation, this exemption limit gets considerably lowered to Rs 20 lakhs. As a result, a large number of MSME’s and start-ups come under the network of the GST.

2) Selective Tax Levying
GST is not applicable to Alcoholic liquor for human consumption and petroleum products, which creates further gap and does not support the ‘unified market’ ideology of GST.

3) Compliance Cost
GST regime operates on a self-assessment model, requiring MSMEs to file several returns and execute other compliances with monthly frequency. Increase in compliances would lead to increase in costs.

4) Technological Preparedness
Upgrading IT systems by MSMEs require a sizeable investment. In addition, expenses incurring for training employees for the new GST regime is also lead to increased overhead costs for the MSMEs.

5) Financial Preparedness
Since outward and inward supplies would be electronically matched every month, availing of input tax credit by the buyer would be based on the compliances of the supplier. Any failure by the supplier to declare his outward supplies correctly would lead to mismatch of returns leading to reversal of credits availed by the MSMEs.

6. Conclusion

It was a need to integrate India into one economy and get rid of the multiple taxes and its cascading effect. Introduction of GST resulted in simplification of indirect tax system in the country and thereby ensures seamless business transactions across our nation and world over. On the arrival of GST, the MSME sector has forced to revamp their strategies, systems, supply chains and costing apart from meeting the quality standards as per international norms. So far, India’s paradigm shift to the Goods and Services Tax (GST) regime brought majority of MSME’s into the indirect tax net for the first time and thereby increased compliance costs for MSME’s. Complying with GST is bit complex for MSME’s at present. However in the long run it will benefit small and medium businesses as well as consumers.

7. Suggestion

The overall impact of GST on MSME sector has to be reviewed by the Centre and the States periodically, and any adverse impacts observed should be addressed at appropriate times for the success of new tax regime.

References