

MSME Sector is the Second Largest Employment-Generation Sector in India

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Abstract

In this Paper author looks at the impact of GST on the mid and small scale industries and the positive negative effects of GST in the tax collection system. After the initial teething troubles, things are now settling down with lesser downtime on GSTN system and broad improvement in general. The completion of one year of GST was marked by some very interesting numbers released by the government. Monthly GST collections have now breached the Rs 1 lakh crore mark showing improved overall tax collections. GST registration base now stands at 1.12 crore GST registered taxpayers as compared to 63.76 lakhs being pre-GST combined taxpayer base under Excise, Service Tax and VAT. Up by 48.38 lakhs or 75%, showing significant improvement in the overall tax base in the first year of implementation itself, signalling formalisation of the economy. As many as 12 crore returns have been filed and 380 invoices have been processed through the GST network. The number of e-way bills generated till date has crossed 10 crores, marking a significant dent in the unorganized trade activity in India. In the light of the above, we would like to analyse the impact of GST on the Micro, Small and Medium Enterprises (MSME), which contributes approximately 37% of India's GDP and considered to be the backbone of the Indian economy.

After agriculture, the MSME sector is the second largest employment-generation sector in India. Positive impacts One India-one tax – Union Minister Piyush Goyal recently tweeted that earlier tax system was a complicated system with 17 different types of taxes and GST is a boon for businesses with one tax. Earlier, MSMEs had to undergo compliances under Excise, Service Tax and VAT. Every state had different VAT laws and doing business in multiple states involved adhering to different VAT laws, compliance through different portals and answering to different authorities. All that has been unified into a single robust online system. Despite several returns under GST and separate state-specific registrations and compliances, the unification is evident, and this has now started showing benefits to the MSMEs too. This is helping MSMEs dealing in different taxes earlier. GST is also aiding persons being covered under dual taxes. For instance, restaurants were covered under both VAT and Service Tax, printers were covered under Excise, VAT and Service tax. Formalisation leading to benefits to MSMEs – More and more businesses moving in the formal economy is evident from the significant increase in the GST taxpayer base. Moving to the formal economy will bring in more visibility and hence more opportunities for MSMEs. For instance, new GST registrations have also increased MSMEs credit uptake.

Keywords— Formalisation, India, GST, registrations, MSMEs, VAT, CGST, SGST.

Introduction

The number of MSMEs seeking credit for the first time increased significantly to about four lakhs in July-December 2017, as compared to January-June 2017. Border glitches and delays have come down significantly – Due to different VAT laws in different states and rampant Inspector Raj at borders, inter-state transactions were a pain for MSMEs. A complete online system under GST and removal of border barriers is saving a lot of time and money both for MSMEs and transporters. Cost and time of doing inter-state transactions have come down significantly. State-specific MSMEs have access to larger markets – With significant issues with inter-state transactions, many MSMEs were limited to the local market. Large procurements were also localised to fulfill local demand only. Now, MSMEs are able to supply goods across state borders easily.

Things have also been simplified for e-commerce suppliers and given them larger market access. Starting up becomes easy - Starting up has become simple with one-stop online GST registration for MSMEs wanting to do business anywhere in the country. Seamless input credit and avoidance of double taxes – Earlier input of excise was not available for service providers. The VAT of different states was also not available for input credit. The input of CST was not available. For capital goods, only 50% credit was available in the first year. Now, all these issues have been done away with giving more benefits to MSMEs at large. Negative impacts Impact of lower threshold limit – Threshold limit for excise registrations for small manufacturer was Rs 1.5 crore and for Service Tax it was Rs 9 lakhs and for most VAT registrations the limit was in the range of Rs 5-15 lakhs. GST registration threshold of Rs 20 lakhs have benefitted many but have also impacted small manufacturers. Multiple returns and compliance cost – The initial GST returns and comprehensive requirements to be reported in the return, makes accounting and compliance complicated for MSMEs and has increased their compliance cost and time. However, a trade-off between increased compliance cost and benefit accruing from being part of formal economy and banking system must be analysed on a long-term perspective. Benefits of available credit lines, the scope of expansion, and a larger available market cannot be totally agreed. Way forward As stated by Finance Secretary Hasmukh Adhia in recent interviews on the completion of one year of GST, the focus of the government is now to make better GST user interface, simplification of returns and compliances, and with time reducing the number of tax rates (currently GST has five different rates). This should be the overall goal and objective of the government. The government has taken steps like deferment of GSTR 2 & 3, deferment of GST under reverse charge on supplies from unregistered dealers etc, for ease of users and small and medium enterprises and taxpayers. However, more must be done here and implementation on the ground is the key in the short term. On the longer run, the idea should be to make GST flawless. With the federal constitutional structure wherein state governments and central government have right to tax and collect revenue on different items, GST still has the Central GST, State GST, and Integrated GST component. Things like petrol, diesel, potable alcohol, and real estate registrations are still out of GST and are being double taxed. Input tax credits are not seamless across state taxes. These need more work from the policy perspective and creating a consensus among the central government and all the state governments.

CST charged on inter-state transactions were an additional cost with no input-credit available and thousands of productive hours were wasted at state border crossings.

Objective:

Author explores the GST introduced by the government of India on the MSME is which got the maximum impact of this new taxation system

Manufacturing Enterprises:

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of investment in Plant and Machinery. As notified vide S.O. 1642(E) dated 29th September 2006 issued by the Ministry of MSME, Government of India, New Delhi, Micro Enterprises is an enterprise where investment in plant and machinery does not exceed twenty-five lakhs rupees; Small Enterprise is an enterprise where investment in plant and machinery is more than twenty-five lakhs rupees but does not exceed five crore rupees; Medium Enterprises is an enterprise where investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

Service Enterprises:

The enterprises engaged in providing or rendering of services are defined in terms of investment in equipment. For service sector, the prescribed investment in equipment for Micro, Small and Medium Enterprises should be less than Rs. 10 lakhs, between Rs. 10 lakhs to Rs. 2 crores and between Rs. 2 crores to Rs. 5 crores respectively.

The MSMEs sector contribute significantly to the national economy and is the largest employment provider besides being a breeding ground for entrepreneurship and skill development. The number of MSMEs is more than 30 million providing employment to around 100 million people. Out of this, micro enterprises are around 90%, small enterprises are around 9% while the number of medium enterprises is less than 1%. Inspite of having the potential and inherent capabilities to grow, MSMEs in India have been facing a number of problems like sub-optimal scale of operations, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario. <https://taxguru.in/> To survive in such a scenario and compete with large and global enterprises, MSMEs need to be supported and assisted to ensure sustained growth and development in the existing competitive arena. It is understood that the cost of compliance in terms of statutory laws is proportionately much higher for MSMEs vis-à-vis the bigger companies. Therefore, some relaxation benefits are necessary in order to help them cope with sudden increase / change in compliance challenges.

Accordingly, with GST in place, the Micro, Small and Medium Enterprises have been accorded with a lot of benefits in terms of compliance reliefs given in the form of threshold exemptions, Composition levy scheme, quarterly filing of the GST returns to mention a few. While doing so, it has also been kept in mind that they do not become uncompetitive and are also given all the benefits of GST.

Compliance Benefits for MSMEs under GST

As a trade facilitation measure based on turnover, following Micro, Small and Medium enterprises are not required to obtain GST registration:

(i) Persons involved in intra – State taxable supply of goods or services or both, if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. Rs. 20 lakhs(Rs. 10 lakhs in case of the special category states of Nagaland, Manipur, Mizoram and Tripura).

(ii) Persons involved in inter – State taxable supply of services only (not goods), if his aggregate turnover in a financial year does not exceed prescribed amount of threshold exemption limit i.e. Rs. 20 lakhs (Rs. 10 lakhs in case of the special category states of Nagaland, Manipur, Mizoram and Tripura).

For inter-state suppliers of goods, registration under GST is a compulsory, even if their aggregate turnover in a financial year does not exceed the threshold limit Composition levy scheme:

Composition levy scheme in GST is an alternative method of levy of tax designed for micro, small and medium taxpayers whose turnover is upto the prescribed limit. It is very simple, hassle free compliance scheme for small taxpayers. It is a voluntary and optional scheme. A person opting to pay tax under composition levy scheme can neither take input tax credit nor it can collect any tax from the recipient.

Salient features of GST composition levy scheme

- (i) A registered taxable person, whose aggregate turnover does not exceed Rs. One Crore (Rs. 75 lakh for special category States except J & K and Uttarakhand) in the preceding financial year may opt for this scheme.
- (ii) Composition levy scheme is available for registered taxable person making supplies (aggregate turnover) upto Rs. One Crore (Rs. 75 lakh for special category States except J & K and Uttrakhand) during current financial year.
- (iii) A supplier of services, except a person engaged in supply of restaurant service,is currently not eligible for composition levy scheme.
- (iv) Ice cream, pan masala and tobacco manufacturers cannot opt for the GST composition levy scheme.

(v) A taxpayer registered under composition levy scheme has to pay an amount equal to certain fixed percentage of his taxable turnover as tax to the government. The rate of tax under composition levy scheme is 1% for eligible manufactures and traders and 5% for eligible service providers. This amount cannot be collected from the customers.

(vi) The tax has to be paid on quarterly basis. Such taxpayer does not have to maintain elaborate accounts and records and instead of two monthly statements and a return (which a normal taxpayer has to file under GST), he has to file a simple quarterly return in FORM GSTR-04.

(vii) A taxable person opting for the scheme has to issue bill of supply as he is not eligible to issue taxable invoice under GST. He has to mention the words “composition taxable person, not eligible to collect tax on supplies” at the top of every bill of supply issued by him.

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As per the recent amendment in the CGST Act vide the CGST (Amendment) Act, 2017 following changes have come in respect of composition scheme, however, the notification for date of implementation of the amendment Act is yet to be issued.

(i) Government empowered to enhance upper limit for composition scheme to Rs.1.5 crore by notification

(i) A person who opts to pay tax under composition scheme may supply services, of value not exceeding ten per cent of turnover in a State or Union territory in the preceding financial year or five lakh rupees, whichever is higher.

Input tax credit: In the GST regime, a registered person is entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business, subject to the provisions of section 17(5) of the CGST Act.

There are some special provisions for availability of credit in special circumstances like new registration, shifting from composition levy to normal levy and vice versa, exempted supplies becoming taxable and vice versa, etc. This helps the MSMEs whenever they shift from composition or exempted category.

Tax invoice in GST

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 triplicate (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, taxpayers 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.

Exemption from compulsory audit for MSME

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. <https://taxguru.in/> 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.

Returns in GST

GST Act has provided the manner and time of furnishing of the details of outward supplies by a registered person, other than certain categories of registered person and manner and time of communication of these details to the corresponding recipients. The act also has provided for manner and time period for rectification of errors or omission and payment of tax and interest, if any.

Existing system of return filing process

All eligible registered persons need to furnish electronically, in FORM GSTR-1, the details of outward supplies of goods or services or both effected during a tax period on or before the tenth day of succeeding month.

Similarly, all eligible registered persons are required to furnish electronically, in FORM GSTR-3B, a summary return of liabilities, input tax credit and payment of tax pertaining to the month on or before the twentieth day of succeeding month.

A person opting to pay tax under composition levy scheme is required to furnish electronically, in FORM GSTR-4, a quarterly return, of turnover in the State or Union Territory, inward supplies of goods or services or both, tax payable and tax paid within eighteen days after the end of such quarter.

Special return filing provisions for MSME Sector:

As a trade facilitation measure, the government has notified that all eligible registered person having annual turnover upto Rs. 1.5 crores may opt for filing of quarterly return, in FORM GSTR-1 (i.e.the details of outward supplies of goods or services or both effected during the quarter)

Proposed system of simplified GST return filing process:

GST Council has recently approved the new return formats and associated changes in law. The major change is the option of filing quarterly return with monthly payment of tax in a simplified return format by the small tax payers. The salient features of proposed GST return filing process are given below:

(1) Monthly Return and due-date: All taxpayers excluding a few exceptions like small taxpayers, composition dealer, Input Service Distributor (ISD), Non-resident registered person, persons liable to deduct tax at source under section 51 of CGST Act, 2017, persons liable to collect tax at source under section 52 of CGST Act, 2017, shall file one monthly return. Return filing dates shall be staggered based on the turnover of the taxpayer. The due date for filing of return by a large taxpayer shall be 20th of the next month.

2. (i) Nil return: Taxpayers who have no purchases, no output tax liability and no input tax credit to avail in any quarter of the financial year shall file one NIL return for the entire quarter. Facility for filing quarterly return shall also be available throughan SMS.

(ii) Small taxpayers: Taxpayers who have a turnover up to Rs. 5 Cr. in the last financial year shall be considered small. These small taxpayers shall have facility to file quarterly return with monthly payment of taxes on self-declaration basis. However, the facility would be optional and small taxpayer can also file monthly return like a large taxpayer.

E-WAY Bill in GST:

GST Electronic Way Bill i.e. E-Way Bill (EWB) has been implemented in India from 1st April 2017 for inter-state movement of goods and from 16th June 2017, all 36 States / Union Territories have made EWB applicable for Intra-State movement of goods.

Salient features of GST E-Way Bill System-

(1) EWB is a document required for movement of goods from one place to another. The movement may be either (i) from supplier to recipient and vice versa; or (ii) from manufacturer to job worker and vice versa; or (iii) between two premises of same businessman; or (iv) for any other purpose.

(2) EWB is to be generated by every registered person causing movement of goods of consignment value (inclusive of GST) exceeding Rs. 50,000/- . For consignments even below Rs. 50,000/-, EWB is mandatory in case of inter- state movement of (i) goods being sent for job work; and (ii) handicraft goods..

There can be four situations for movement of goods:

(i) Registered supplier to registered recipient: EWB may be generated by either of them depending on terms of delivery i.e. the person causing movement of goods is responsible for EWB generation.

(ii) Registered supplier to unregistered recipient: EWB to be generated mandatorily by registered supplier.

(iii) Unregistered supplier to registered recipient: In such supplies, the movement of goods is deemed to have been caused by registered recipient and he is required to generate EWB

(iv) Unregistered supplier to unregistered recipient: In such transactions, though EWB Is not mandatory, it can be generated by either of them on voluntary basis.

Normally EWB is not required for exempted goods. In addition, there are few items for which EWB is not required as detailed in Annexure to rule 138(14) of the CGST Rules.

(5) No distance exemption clause in EWB provisions. Any direct movement of goods between supplier and recipient warrants EWB, irrespective of distance. However, for Intra-State movement of goods from supplier's premises to transporter and from transporter's premises to recipient, part B is not mandatory, if the said distance is below 50 km.

(6) Validity period: For non ODC cargo, the validity is one day for every 100 km. or part thereof. However, in case of ODC cargo, one day is given for every 20 km. or part thereof. Validity starts from the time of part B updation (i.e. vehicle number entry) and first day lasts till 12 midnight of next day.

(7) No changes can be done in part A (i.e. consignment details) of EWB once generated. However, part B (i.e. vehicle details) can be updated any number of times within validity period. However, in case of wrong details fed, EWB can be cancelled by generator within 24 hours provided it has not been verified in transit.

(8) EWB can be cancelled by generator within 24 hours; whereas it can be rejected by recipient within 72 hours or the time of delivery of the goods, whichever is earlier. If recipient does not reject EWB within 72 hours, it would be treated as deemed accepted by him.

(9) EWB can be generated online on <https://www.ewaybillgst.gov.in>. In addition to web, EWB can be generated by SMS, Android App, APIs, bulk utility, etc.

Conclusion

The micro, small and medium enterprises (MSMEs) sector is of special significance for the Indian Government. It is expected to offer higher employment opportunities by 2017. In line with the commitment to MSME sector, certain relaxations have already been implemented for them.

As MSMEs become accustomed to a larger compliance climate, a better level of preparedness and discipline in conducting business will gradually be a part of their operation. With the Government's commitment to strengthen MSMEs on all fronts including GST, it is expected that the current challenges would be stabilized and the industry will gradually take a positive turn to fulfill the nation's visions.

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