

# IMPACT OF GST ON SMALL SCALE ENTERPRISES: A REVIEW

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**Abstract :** GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge hue and cry against its implementation. It would be interesting to understand why this proposed GST regime may hamper the growth and development of the country. Small Scale Enterprises have, generally, been seen as struggling to survive, sometimes due to burden of taxes, sometimes due to Govt. policies (the benefit of which is mostly taken by bigger and well organized sectors) and sometimes due to shortage of funds. To boost the development of Small Industries in India, the Micro, Small and Medium Enterprises Development (MSME) Act was notified in 2006. The Act seeks to facilitate the development of these enterprises as well as the enhancement their competitiveness. It provides the first-ever legal framework for recognition of the concept of enterprise which comprises both manufacturing and service entities. This study will examine the present legal framework under GST pertaining to Small Scale Enterprises in India and will conduct opinion survey of various stake holders on the issues and challenges relating to implementation of GST in Small Scale Enterprises. This paper also analyze the impact of GST on Small Scale Enterprises after the introduction of GST and also suggest a suitable legal framework under GST for Small Scale Enterprises in India.

**IndexTerms** - GST, Small Scale Enterprises & NCR Region & Indian Economy.

## I. INTRODUCTION

The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. The Goods and Services Tax Bill or GST Bill, also referred to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, initiates a Value added Tax to be implemented on a national level in India. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. GST is a land mark development in the field of tax reforms in India. After lots of deliberations and efforts for more than a decade, the Goods and Services Tax has been introduced w.e.f. 1<sup>st</sup> July, 2017 when an agreement was arrived at between the states and the Union of India. Seventeen different types of taxes have been subsumes in a single tax of Goods and Services Tax and it has brought into existence the idea of "One Nation One Tax". In this new system of Goods and Services Tax, five slabs of GST i.e. 0%, 5%, 12%, 18% and 28% have been introduced. By amalgamation of such a large number of taxes into one tax, GST will mitigate the cascading effect or double taxation in a major way and, hence, a major relief to the industry and services sector and also to the ultimate consumer. Experts say that this would have a boosting impact on industrial and economic growth in India including that on Small Scale Enterprises. Introduction of GST would also make Indian products competitive in the domestic and international markets. After the introduction of GST, many brands have advertised about the consequential reduction in prices of their many products. From the consumer point of view also the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was earlier estimated to be around 25%-30%.

## GST Objectives:

1. Ensuring that the cascading effect of tax on tax will be eliminated.
2. Improving the competitiveness of original goods and services, thereby improving the GDP rate too.
3. Ensuring the availability of input credit across the value chain.
4. Reducing the complications in tax administration and compliance.
5. Making a unified law involving all tax bases, laws and administration procedures across the country.
6. Decreasing the unhealthy competition among the states due to taxes and revenues.

## 7. Reducing the tax slab rates to avoid further clarification issues.

Small Scale Enterprises have been considered as the main stream and preliminary growth booster of the Indian Economy since Independence. It is further evident from the fact that today we have more than 3 million Small Enterprises in India contributing almost 50% of the Industrial Output and 42% of India's Total Net Export. For a developing country like India and its demographic diversity, Small Scale Enterprises have emerged as the leading employment-generating sector and has provided balanced development across sectors. The problems being faced by the Micro and Small enterprises are almost same or similar in most of the areas. A tax reform in the form of introduction of GST is expected to be a major boost to the Micro and Small industries in India. In this backdrop, we will examine the impact of GST on Small Scale Enterprises under the Indian GST regime. When economic planning was introduced in post-independence India in 1951, the small-scale industries were given more importance in the process of industrialization. In order to keep pace with the economic development, the concept of small-scale industries has also changed over the years. The small-scale industries are defined in terms of investment ceilings. Small-scale industries are also defined in terms of employment and turnover because these indicators are implied for registration under the Factories Act. The principle definition of SSI's in India remains based on investment limits.

The present ceiling on investment for small enterprises, as classified under MSME ACT (including for the micro and medium enterprises) is as follows:

<b>Classification</b>	<b>Manufacturing Enterprises* (Investment limit in Plant &amp; Machinery)</b>	<b>Service Enterprises** (Investment limit in equipment)</b>
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
<b>Small</b>	<b>Rs.50 million / Rs. 5 crore</b>	<b>Rs. 20 million / Rs 2 crore</b>
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

GST is aimed to bring in "One nation one tax" regime. While there are certain initial transition challenges, GST is assumed to bring in much clarity and positive impact on many areas of business including the small scale enterprises. Hence detailed study on GST and Small Scale Enterprises in India has been undertaken by the researcher with reference to the NCR area.

#### **STATEMENT OF PROBLEM:**

The former taxation system in India was not considered to be very user friendly for Small Scale Enterprises as they needed 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. Seventeen different taxes have been subsumed in a single tax of Goods and Services Tax. It is considered that this new GST will be beneficial for the Small Enterprises as well as for the large corporates by way of simplification of policies and procedures, thus paving the way for a smoother functioning of Indian industrial and service sector leading to the higher rate of growth and productivity.

In the earlier taxation system, any manufacturer with a turnover of Rs 1.5 crore or less was not required to comply with the rules of Excise duty. Under the GST realm, any manufacturer with a turnover of Rs 20 lakh (others) /10Lakh (Special category states) or more will have to comply with GST laws, and has resulted in the increase of taxpayer base. Accordingly majority of Small Scale Enterprises working in the unorganized sector now are covered under GST regime and are under the burden of compliance of new laws resulting in associated costs to them.

However, it is also considered that the GST will certainly give a boosting effect to the Small Enterprises sector by imparting them relieve from diverse slabs of taxes for starting enterprises and hassles in transferring of goods in more than one states and, above all, the removal of cascading effect of taxes. With GST in region, Small Scale Enterprises can enjoy the benefits such as ease of doing business, single point tax, removal of cascading tax machine, no extra tax on interstate goods transfer, lower logistics overheads and creation of a unified market place space for its products. Although the Small Scale sector has become amenable to the Rules and Procedures of the GST Taxation, but they will also be entitles to the credit of the Taxes paid on their inputs and will be required to pay tax on their value additions only which normally is very small portion of value. Further, to compete in GST

regime, the buyer will always stress on tax paid invoices as every buyer will be interested in taking credit on his inputs for utilizing the same for payment of taxes on his out puts. The present study i.e. the impact of GST on Small Scale Enterprises is to examine as to how the GST is going to impact the Small Scale Enterprises on a ground reality basis in the NCR region. Hence the statement of the problem is the “Impact of GST on Small Scale Enterprises-A Study with reference to NCR”

### **IMPACT OF GST ON SMALL SCALE ENTERPRISES:**

Indian companies are booming year on year, every sector is developing through the day, and the government is bringing reforms and programs to create congenial atmosphere and successful surroundings for those companies. However, complying with this tax reform may be a bit complicated at the start specially for the small and medium businesses. But it is hoped that, in the long run, it's going to be advantageous both for the businesses including the small scale enterprises and for the consumer on the other hand. Small Scale Enterprises have been considered as the primary growth driver of the Indian economy for decades. With the incredible involvement of Small Enterprises in diverse sectors like Food Processing, E-Commerce, Textiles, Pharmaceuticals, Automobile sector, Power, Supply Chain, Retail, IT and Transport sector, the Indian economic system is expected to grow at a significant rate. The Small Scale Enterprises' contribution toward the holistic and balanced increase in the growth of the country by providing employment and entrepreneurial opportunities through industrialization in rural and backward regions have always been significant in ensuring equitable distribution of countrywide income, thereby decreasing regional imbalances throughout the states. As in pre GST era most of the Small Scale enterprises were not amenable to Central Excise Laws etc and are, now, covered under GST regime as the earlier upper limit of 1.5 crore has been abolished. The apprehensions of the Small scale sector have increased after the introduction of GST law as almost all of them have to comply with the new laws and procedures whereas many of them were not required to do the same during pre GST era. Complying with the Rules and Laws itself is being seen as a major hindrance for them. But to be competitive and to maintain their existence in the market, the small scale enterprises will have no option but to get registered with the GST. In the GST regime, every buyer will be interested in the tax paid supplies as they will have to take credit of the tax paid on their inputs/purchases. Purchases not qualifying for input tax credit will increase the costing of the manufacturers/entrepreneurs as the price difference between tax paid and non-tax paid supplies will be a minimal one. The inputs used by the small scale entrepreneurs also involve duty incidence and they are required to pay tax only on the value added portion of the price which is very low. Keeping in view the big size of the small scale sector, it may not have been possible to exempt whole small scale sector from the purview of the GST system as this may have led to the failure of the implementation of the GST system. What will be the impact of this newly introduced GST System on the Small Scale Enterprises, is the objective of the present study. Whether it will have positive impact on the Small scale sector or not, is the motto of the study under hand. But keeping in mind the present scenario it is thought that the small scale sector will be a more competitive, fast growing, flourishing and an integral part (can also say the back bone) of Indian economy and also one of the major factors for generation of employment. Although some initial problems are inherent on the introduction of such a big and new system like the GST, but in the long run, it will give boosting effect to the Indian Economy as well as to the Small Scale Enterprises. Small Scale sector will definitely be one of the major contributors in the growth of Indian economy after the introduction of this new Taxation system.

### **OBJECTIVE OF STUDY:**

This Paper has been written with the following objectives in mind:-

1. To examine the present legal framework under GST pertaining to Small Scale Enterprises in India.
2. To conduct opinion survey of various stake holders on the issues and challenges relating to implementation of GST in Small Scale Enterprises;
3. To study the prominent decisions of various judicial forums on the issues pertaining to Small Scale Enterprises during the pre GST and GST period;
4. To analyze the impact of GST on Small Scale Enterprises after the introduction of GST;
5. To suggest a suitable legal framework under GST for Small Scale Enterprises in India.

**LITERATURE REVIEW:**

The GST is a new tax introduced in India w.e.f. 1<sup>st</sup> July, 2017. Hence, presently, there is very few literature available on GST particularly on the area of impact of GST on Small Scale Enterprises. Only the articles written by some economists or the business entities are available that are also mostly in the newspapers or on the internet. Only the Law books are available from which the impact of GST can be seen by analyzing the new laws and procedures introduced under it and by studying them in context of Small Scale enterprises. Some of the Books/Literatures studied are as follows:

1. Central Goods and Services Act, 2017 and the CGST Rules.
2. The Integrated Goods and Services Tax Act, 2017 and the Rules.
3. The State Goods and Taxes Acts of Delhi State and of other States and the Rules made thereunder.
4. Central Excise Act, 1944 (Bare Act)
5. Cenvat Credit Rules, 2002
6. Service Tax Act and Rules
7. V. Datey: Commentaries on GST Laws and Procedures.
8. Chinmaya Goyal - NITI Ayog Officer: "GST Will Deliver Growth, But Immediate Challenges Need To Be Addressed"  
Given the required smoothening of the information technology system, policy changes and need for businesses to get familiar with the new system, the process of stabilisation may take up to a year from the launch. Even if not perfect, GST does embed many fundamental reforms elements that are important in raising economic efficiency. Based on the practical problems of businesses, the GST Council and the government have been proactively taking remedial actions. For example, the GST Council on 20<sup>th</sup> July approved many measures to reduce the compliance burden on small and medium enterprises. Additional measures as expected were taken in the November 10 meeting. There may be a temptation to reduce GST rates for small businesses to provide immediate relief. However, the design of such cuts should be made with sufficient caution.
9. Kapil Sibal – Member of RajyaSabha: "We can only celebrate the turnaround in India's business environment when small and medium scale enterprises in the informal sector find it easy to do business" Implementation of a flawed GST has adverse impacts on small and medium businesses, a large number having wound up in, or are in, deep distress. For businesses in the informal sector, ease of doing business still remains a distant dream. GST has brought up series of challenges. This involves the participation of the state government and all its administrative units to work in tandem, which will help businesses to stand on their feet.
10. Ratna Bhushan: GST slabs have been cut for more than 178 products including chocolates, cosmetics, detergents, etc. FMCG firms are trying their best to ensure that GST benefits are passed on to customers. Almost all large companies, which include Hindustan Unilever, ITC, Dabur, Emami, etc., have already written to trade partners including distributors and retailers to pass on benefits of the GST reduction to consumers, irrespective of the printed MRPs on the existing stocks. Such changes are a great relief provider to the stressed middle class consumers as well as traders. (www.timesgroup.com)
11. Chief Financial Officer of Dabur India, Lalit Malik told. "as per GST laws last week we had communicated to our each and every business and trade associates directing them to start charging the amended lower GST rate, on all applicable goods and services existing in the market. We have also ordered them to pass on the GST benefit to all end consumers."
12. The GST council, at its meeting on 27<sup>th</sup> July has cut GST for 178 items from 28% to 18%, effective 15<sup>th</sup> November, and left only 50 items in the maximum tax slab which was on luxurious /sin goods. The rate of tax was minimised on a various goods including granite and marble to chewing gum and chocolates, deodorant and detergents.

13. SOUNIK MITRA (sounik.m@livemint.com): NEW DELHI Dabur India Ltd. said in a statement that the company had minimized prices of its existing stock by 9% across categories like shampoo skin care and homecare products. "The company is passing on the benefits on existing stock by providing primary discount of 9% to its trade partners,"

### **CONCLUSIONS & FUTURE SCOPE:**

The present study seeks a close study on GST in relation to the Small Scale Enterprises in India. The study will be undertaken by collecting the sample data from Small Scale Enterprises in Delhi and National Capital Territory Region. The policy documents of the government, the reports of various committees, journals, magazines, published data and literatures relating to the subject may also be referred to for different secondary sources. The primary information/data is to be ascertained from the Small Scale Enterprise, their functional heads, tax experts, tax administrators, tax consultants, academicians and Govt agencies by applying questionnaire method. The questionnaires will be circulated to the respondents by post, personal visits, and through emails. For getting database of respondents, the consultancy services of professional firms can also be used by subscribing the small enterprises database from the entities engaged in this. The data will also be gathered by way of discussion of the researcher with the tax experts and professionals. The collected data will be analyzed by using various statistical techniques including descriptive statistics, inn ova, Factor analysis and other relevant methods.

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