

EFFECT OF GOODS SERVICES TAX ON MICRO SMALL MEDIUM ENTERPRISES IN INDIA

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ABSTRACT: *In the wake of tumultuous critical ambiguous situations occur due to changes in Indian tax system, it's necessary to study and identify the factors affecting MSME business operators' awareness on the implementation of Goods and Services Tax (GST) and the perceived issues and problems come across with the implementation of GST in India. An empirical study conducted to observe the objective of to study the awareness of GST among Micro, Small and Medium Enterprises (business operators) and to find the relationship between business size, business experience and GST perceived issues and problems from three divisions in Chittoor District. The findings out of this study are more than 72% of the respondents are aware of the GST mechanism and issues.*

Key words: *Goods and Service Tax, Micro Small and Medium Enterprises,*

INTRODUCTION

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The benefits of GST can be summarized as under:

For business and industry comprehensive IT Easy compliance: A robust and system would be the foundation of the GST regime in India. Therefore, all the tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent. GST will ensure Uniformity of tax rates and structures: that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.

Removal of cascading: A system of seamless tax-credits throughout the value- chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

Improved competitiveness: Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.

Gain to manufacturers and exporters: The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

For Central and State Governments

Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders

Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

Statement of Problem

It's necessary to study this, in which useful evidence pertaining to business operators' level of awareness on, and concerns regarding the perceived issues and problems associated with the implementation of GST are observed. Besides, this study would be useful inputs for the relevant tax authorities, policy makers and other stakeholders to formulate plans and strategies to address the issues and problems that are likely to be encountered by business operators and to enhance the level of compliance.

REVIEW OF LITERATURE

Agogo Mawuli (May 2014) studied, "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Girish Garg (2014), Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make

the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Research Gap

After the enormous study about GST, it is found the necessary study is lacking in this particular area with an empirical study.

RESEARCH METHODOLOGY

Objectives:

1. To Study the awareness of GST among Micro, Small and Medium Enterprises in Chittoor district
2. To find the relationship between business size, experience, awareness and GST perceived issues and problems

Hypothesis:

H1: There is a relationship between business experience and GST awareness.

H2: There is a relationship between business experience and perceived issues and problems H3: There is a relationship between business size and GST awareness

H4: There is a relationship between business size and GST issues and problems

To address the objective of this study, a quantitative research using survey is conducted. Quantitative research is generally used to measure respondents' behaviour, knowledge, attitudes or opinion, and also used to answer questions such as how long, how much, how often, who, what and when (Cooper & Schindler, 2014). Survey is chosen to gather primary data in order to describe a population too huge to observe directly.

Stratified random sampling was used to select respondents from the three Divisions in Chittoor district. The advantage of stratified random sampling is the possibility to compare information among groups (Sekaran & Bougie, 2009). It is because stratified random sampling divides the population into homogenous subgroups that have differences and non-overlapping which enables researchers to make comparison between different ethnicity of the business operators in relation to awareness and perceive issues and problem of GST implementation.

Table 1: Registered MSME, Sample Size and Response Rate among Respondents

Chittoor District	Number of Registered Members *	Sample Size (50%)	Response Rate **	
			Number	%
Chittoor Division	142	71	64	88
Tirupati Division	397	199	89	45
Madanapalli Division	62	31	31	100
Total	476	301	184	

* Source: Registers of the respective business operators.

**The response rate is based on the number of questionnaires distributed to and returned by the members of the respective business operators. Collectively, for all the three divisions of Chittoor district, the response rate is 60.93%, 50% of members from each division of Chittoor district were selected, which formed a total sample size of 301 for this study (see Table 1).

Data Collection

Questionnaires were distributed to the 301 selected samples (See Table 1). Only 60.93% of usable sets of questionnaire were returned. Sandford (1995) stated that response rate of survey study would probably be around 30%. Therefore, the response rate for this study was reasonably high and adequate for analysis.

Limitation of the Study

It is acknowledged that this study cannot be generalized to the whole population of Indian business operators as the samples are restricted to the registered members of the three divisions (Chittoor, Madanapalli, Tirupati) MSMEs in Chittoor district. Besides, this study only examined the association of factors like business experience, business size, level of awareness on GST, and the perceived issues and problems likely to be encountered by business operators.

ANALYSIS AND FINDINGS

Profile of the respondents

With regard to ethnicity of business operators, 34.8% are Chittoor division, 48.9% are Tirupati division and 16.3% are Madanapalli division. In terms of industry sectors, 37.5% are from the service sector, followed by trading (27.7%), manufacturing (10.9%) and transport and

storage (5.4%), while the “other” category (such as hotel, hire purchase, food and beverage, bookstore, insurance and motorcycle businesses) making up of the remaining 18.5%.

Table 2 below shows the cross tabulation results of business with annual gross turnover and registration for GST. Compulsory registration is only applicable to those with annual gross turnover exceeded Rs. 1.5 Crore. Of the total respondents, 37% had registered (i.e. “compulsory registration”), while 14% who ought to be registered have yet to do so. Of the total respondents, 6% opted for voluntary registration, citing the rationale as “to comply with the law, increase profitability of their business, to be eligible for input tax credit and to enjoy any benefit as may be provided by tax authority”. On the other hand, the reasons given by those who did not opt for voluntary registration are “having to incur additional costs of doing business, did not have staff to handle GST, increased billing charges on customers, GST is very complicated, waste of money and time to learn about GST and GST does not bring benefits to their business, they do not agree with GST implementation, running a small business with not enough time to manage GST matters”.

Table 2: Respondent’s Business Turnover and Registration for GST

Annual Gross Turnover	GST Registration				Total Number	%
	Yes		No			
	No.	%	No.	%		
<Rs1.5 Crore	11	6	80	43	91	49
>Rs 1.5 Crore	68	37	25	14	93	51
Total	79	43	105	57	184	100

Of the total respondents, only 36.4% were licensed SST taxable person. Only slightly more than half (52.5%) of the respondents have attended seminars, dialogues, training or conference related to GST. The reasons cited by the remaining 47.5% for not attending any courses on GST are that “they did not get any invitation, headquarters are in-charge for GST training, GST has yet to be implemented and not willing to incur extra cost to attend GST courses”.

Perceived Issues and Problems Faced by Business Operators

More than two-thirds of the respondents agreed with the perceived issues and problems that they might face upon the implementation of GST. The details of the findings on such perceived issues and problems are presented in Table 3.

Statement	1	2	3	4	5	Mean	S.D.
Problems to keep all relevant business records to comply with GST legislations.	6 (2.7)	25 (14.2)	23 (13)	106 (57.1)	24 (13)	3.64	0.97
All documents to be kept for 7 years will lead to storage problem.	8 (3.8)	21 (12)	35 (18.5)	105 (57.5)	15 (8.2)	3.54	0.94
The compliance costs to implement GST will be higher.	10 (5.4)	18 (9.9)	30 (16.3)	95 (51.6)	31 (16.8)	3.65	1.05
Hire new personnel to manage GST matters.	9 (5.4)	30 (15.8)	41 (22.3)	78 (42.9)	26 (13.6)	3.43	1.08
Existing staff attend training courses in order to learn to manage GST matters.	9 (4.3)	22 (12.5)	20 (10.9)	115 (62)	18 (10.3)	3.61	0.98
problems in setting the prices of goods and services provided to customers.	11 (5.4)	19 (11.5)	34 (17.9)	95 (52.2)	25 (13)	3.56	1.03
Still does not know how GST will affect your business.	22 (12.5)	42 (22.3)	25 (14.1)	76 (40.8)	19 (10.3)	3.14	1.24
Problems to comply with GST such as: keep proper accounting records	7 (3.3)	21 (9.9)	40 (22.3)	105 (57.6)	11 (6)	3.52	0.89
filing GST returns	7 (3.3)	17 (9.8)	30 (16.8)	113 (60.9)	17 (9.2)	3.63	0.90
remit GST	6 (3.3)	21 (11.4)	40 (21.7)	110 (59.8)	7 (3.8)	3.49	0.87
claim input tax credit	4 (2.2)	16 (8.7)	44 (23.9)	108 (58.7)	12 (6.5)	3.59	0.83
The information and explanation on GST provided by RMCD is insufficient to deal with GST implementation.	10 (5.4)	26 (14.2)	50 (27.2)	74 (40.2)	24 (13)	3.41	1.06
GST will increase compliance cost in running your business.	8 (4.3)	22 (12)	25 (13.6)	109 (59.2)	20 (10.9)	3.60	0.98

Note: 1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree nor Disagree; 4 = Agree; 5 = Strongly Agree, S.D. = Standard Deviation, Figures in brackets are percentages.

Kruskal-Wallis Test was used to test whether there is any significant difference among three different groups in terms of awareness, issues and problems on the implementation of GST. At 0.05 significance levels, there is no statistically significant difference among the three groups with regards to awareness ($\chi^2=1.306$, $p=0.520$) and issues and problems ($\chi^2=4.437$, $p=0.109$) on the implementation of GST.

Correlation Analysis

Correlation analysis is used to measure strength association between two or more variables. Correlation results presented in Table 4 shows that business experience (BE) in dealing with the GST has no significant relationship with level of awareness (AW, $r=.130$) and perceived issues and problem (IP, $r=.007$) likely to be faced by business operators on the implementation of GST. Therefore, H1 and H2 are rejected.

At 0.01 significance levels, business size (BS) shows significant relationship ($r=.224$) with the level of awareness (AW) on the implementation of GST, while at 0.05 significance level, business size (BS) shows significant relationship ($r=.184$) with perceived issues and problems (IP) faced by business operators on the implementation of GST. The results indicate that business operators who have an annual turnover of more than Rs 1.5 Crores are more aware of the GST mechanism. This result implies that business operators who are liable to be registered would take initiatives to acquire knowledge and identify issues related to GST. Thus, it can be concluded that H3 and H4 are accepted.

Table 4: Spearman Correlations

		BE	BS	AW	IP
Business Experience	BE	1	.161*	.130	.007
Business Size	BS		1	.224**	.184*
Awareness	AW			1	.346**
Issues & Problems	IP				1

* Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level (2-tailed)

It is noted that at the significance level of 0.01, awareness (AW) of the implementation of GST and perceived issues and problems (IP) likely to be experienced are positively correlated ($r=.346$).

CONCLUSION

More than 70% of the respondents are aware of the GST mechanism, which implies that businesses operators do have adequate knowledge on GST in order to face the challenges arising from the implementation of GST.

Most of the business operators agreed with the perceived issues and problems in keeping relevant business records, storage of document, hiring of new personnel and training for existing staff in managing GST matters would lead to higher compliance costs. The respondents also agreed that they would face problems in re-setting prices of goods and services, filing GST returns, remitting GST due, as well as in claiming input tax refunds.

Business size is found to have positive relationship with awareness of GST, and perceived issues and problems they are likely to face. This study found that business operators with annual gross turnover of more than Rs.1.5 crore are more likely to have higher level of awareness pertaining to GST and are more aware of the perceived issues and problems that they may encounter.

SUGGESTIONS

For future research, the target respondents could be extended to those in other States in India. A comparative study among business operators in different States would be useful to examine whether there is any significant difference between business operators in the different States. Future study could also include other possible factors that may be associated with the level of awareness as well as issues and problems likely to be encountered in relation to compliance with GST legislations.

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