

IMPACT OF GST ON SMALL BUSINESS ENTERPRISES

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Abstract : Goods & Services Tax (GST) was the biggest tax regime implemented by Government of India on 1st July 2017, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that previously existed in India. There are 3 taxes applicable under GST: CGST, SGST & IGST. The overall idea behind the GST implementation was to simplify the existing complex taxation system. This research tries to understand the effects of GST on micro, small & medium enterprises (MSME). GST will mainly remove the cascading effect on the sale of goods and services. Removal of cascading effect will directly impact the cost of goods. This paper gives an understanding about GST in India & its impact on the Indian Economy. The paper has tried to make an attempt to discuss the problem faced back then & still how the businesses are managing after the effect of the GST. The paper primarily focuses on the past and present effect of GST on business organisations and entrepreneurs.

Keywords: GST, Dual GST, Indian economy and value added tax (VAT), MSME.

I. INTRODUCTION

GST that is the Goods and Service Tax is the buzz across the country today. Everyone is interested in knowing the impact that the GST law will have in their day to day life and also to our economy. GST is being widely debated by economists, business leaders, industrialists, tax professionals and the general public at large. It is being considered as the biggest tax reform in India's 70 year history as an independent nation. And what all changes will it bring to the indirect tax regime in India. *France - The first country to implement GST in 1954 and many other European countries introduced GST in 1970-80s.* GST is a indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central. Businesses are required to obtain a GST Identification Number in every state they are registered. There are around 160 countries in the world that have GST in place. GST is a destination based taxed where the tax is collected by the State where goods are consumed. GST has been implemented in India from July 1, 2017 and it has adopted the Dual GST model in which both States and Central levies tax on Goods or Services or both. It is the biggest tax reform which has been made in India. There are three taxes applicable under GST they are IGST (collected by central government), CGST (collected by central government) and SGST (collected by state government).

LITERATURE REVIEW:

Shefali Dani in her research paper on 'An impact of GST on Indian Economy', 2016 stated that the proposed GST is a weak attempt to rationalize indirect tax structure. According to Dani, the Government of India should study the GST regimen set-up by various other countries and their dropouts before its application. No doubt, GST will make taxation system easy compared to the previously existing tax system, but during that period, the Government must make an effort to protect mainly the poor population of the country, which would be affected due to the enactment of GST.

Rani Jacob in her research paper 'The Impact of GST on MSMEs' stated the positive and negative impacts of GST on MSMEs, the positive were easier to start business, facilitates expansion of business, lesser tax burden, online compliance procedures. According to her, the negative impacts were selective tax levying, compliance cost, technological dependency, monthly financial preparedness.

Mr. Shakdivee, P (2017) in the research paper titled 'Measuring Awareness about Implementation of GST: A survey of small business owners in Rajasthan' analysed the perception of small business owner in Rajasthan about GST and how they managed, and found out that their main area of focus was computer software availability and handling of the same.

In an interview by **Adi Godrej** to business line, published on 24 June 2017, it favors GST and considers GST as a boon for Indian Economy in various aspects. It is also mentioned that once GST is executed there will not be opportunities to evade taxes and that the rates have been analysed in a manner that will add value to the economy. This would mean much less paper work and thus, automated simplified procedures So there will be less chances of fraud.

Objectives of study:

1. To examine how business enterprises were before the implementation of GST.
2. To analyse the effect of GST on small and medium enterprises.
3. To study the limitation effect of GST on business regulation of small and medium enterprises.
4. To analyse the positive Impact of GST on SME and start-ups
5. To study Challenges faced by SMEs and Start-ups'

6. Research methodology:

The intension of this research is to analyse & study the perception, attitudes & apprehensions of traders belonging to small and medium enterprises sector. The primary research with a sample size of 25 traders was collected through a structured questionnaire. Secondary data collected is based on official websites ministry of small and MSMEs, government reports, journals, books and published research papers.

Positive Impact of GST on SMEs and Start-ups

1. Ease of starting business for people.
2. Reduction of tax burden on new business
3. Improved logistics and faster delivery of services

4. Elimination of distinction between goods and service tax
5. GST creates common market nationally to all the areas.
6. Attracts foreign investment to invest in the country.
7. Helps to have uniform taxation system.
8. Helps improve production and encourage entering in international market.
9. Small retailers have nil tax or low tax which has been a very good impact.
10. Consumers are getting benefited by purchasing from the small retailers.

Challenges for SMEs

The benefit that the small and medium scale enterprises are having are there is only one tax which has to be paid all-over. A sizeable portion of SMEs are of the opinion that GST is not all good for the sector and their fears may not be totally vacuous. However, reduction in duty threshold is one of the key concerns that has led them to be wary of the GST bill. Under the existing excise tax, no duty is paid by a manufacturer having a turnover of less than rupees 1.50 crores. But, post GST implementation; the exemption limit will get significantly lowered.

Impact of GST on Small enterprises.

1. Removal of Multiple Taxation system which was very important.
2. Registration became compulsory
3. Concept of "Casual Taxable Person" was adopted.
4. Composition levy mechanism is very restrictive
5. The draconian reverse charge mechanism
6. Technology Challenge has come into existence
7. Working Capital blockage.
8. Harsh mechanism of 'input tax credit'
9. Compliance Rating performance ranking of all registered taxable persons.
10. Added Compliances for Exports of goods and services.

Recommendations:

1. **Processes must be reduced** so that business can operate efficiently and can run smoothly.
2. *Make GSTN fully functional and applicable to all areas where needed.*
3. *Raise the GST exemption limit from the current ₹20 lakh to ₹1 crore.*
4. *Exempt exports from payment of GST or automate refund process.*
5. **Rates should be rationalized and reduced** to make India competitive and in interest of compliance and economic growth.
6. **Technological issues of the GST network** should be sorted.
7. **Valuation Rules** lack clarity and are debatable.
8. Provision should urgently be made to allow rectification of returns.
9. Single window clearment of assessment procedures
10. There must be awareness made among the people who are not aware of the process.

Conclusion:

Small is a growing sector where enterprises enter and exit the market frequently, so the implementation of GST has had a great effect on the survival in the market and market standards. Some enterprises found it beneficial but majority faced difficulty in accepting it. For existing enterprises, GST has simplified the tax structure, unified the market hence improved the overall operational efficiencies of small, so far the unorganized small enterprises were growing fast than the organized ones because of the tax avoidance, with GST in effect, it has made the taxation system has got transparent thus making the entities liable for tax payment. For a new entrepreneur, the application of GST, made the registration for taxation easy, relieved them from previous VAT registration. The Government has implemented GST with a view of long-term better prospect for the country by various aspects. The goods and services tax (GST) makes the tax system easy and thus contributing in the growth of the country. The Government applied GST by summing up of various taxes under CGST & SGST, transparent taxation, reduced raw material cost, to bring down the cost of goods and services and the ease of doing business in India. Initially there was huge chaos regarding the enactment of GST, but many successful businesspersons supported it and considered it as a boon for the long-term development of the nation. GST being the big step of Government of India to simplify the previous tax system has both positive and negative impact on business regulations of Micro, Medium & Small Enterprises. The fundamental of 'ONE NATION, ONE TAX' was created with an intention to easy tax filing, ease of doing business in other states, reduction in the prices of goods, relieving the burden of logistic overhead from small enterprises. On the contrary, it has increased the technology dependency of every enterprise, as every transaction is made online. It will take some time for the people to get used to the new taxation regime, only then will the nation start to see the fruits of 'ONE NATION, ONE TAX' – the GST. This is the best change which has brought a lot of change to the economy.

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