

Impact of Goods & Services Tax on Small Businesses

***Dr. Suresh**

Abstract

Goods & Services Tax (GST) was implemented by Indian Government on 1st July 2017 midnight. It was the biggest tax reform ever happened in India where almost all indirect taxes of Central and State Governments are included in GST. GST is destination based indirect tax which charged by both state and central government. GST is not a sudden decision but it is a result of continue practice and work hard. In India the idea of adopting GST was first suggested by the Atal Bihari Vajpayee Government in 2000. In a developing country like India where unemployment is a major problem, small scale industry play a significant role in the overall growth of an economy to provide employment of skilled and non-skilled persons. The implementation of GST is certainly going to affect this sector by reducing tax burden and allows small and medium business to do business with ease in India, due to the less complexity. Under GST regime, the process of registration is very easy and the rules are not varying for all the states across the country. The study is based on secondary data, collected from various journals, magazines, and newspapers etc. The present study discusses about the impact of GST on small scale industry and will also bring many positive effects in this sector.

Introduction

Goods and Services Tax (GST) is the largest reform for our economy's indirect tax plan. GST was launched by the President of India, Shri Pranab Mukherjee and the Prime Minister of India Shri Narendra Modi. Tax is the most important source of Governments income to drive an economy and achieve the status of a developed country and indirect tax is the major source of tax.

GST is governed by a GST council and its chairman is the finance minister of India. Before 1 July, 2017 there were many taxes imposed on the name of indirect tax like VAT, CST, Purchase Tax, Luxury Tax, Entry Tax, State Cesses and Surcharge, Entertainment Tax, Central Excise Duty, Duties on Excise, Service Tax and Central Cesses and Surcharge etc. are implemented. Under GST, every business entity has dual tax model applicable i.e. central Goods and Services Tax (CGST) and the state Goods and Services Tax (SGST) and somewhere Integrated Goods and Service Tax (IGST) is also applicable.

In the GST Regime, a business does not have to register or collect GST if the annual turnover is 10 lakh. For certain business, registration under GST is mandatory. If the organization carries a business

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without registering under GST, then it will be an offence and heavy penalties will apply. All businesses that successfully register under GST are assigned a unique Goods and Services Tax Identification Number also known as GSTIN. Taxes which are not covered under GST are : Custom Duty, Terminal Tax on Goods and Passengers, Professionals Tax etc.

Goods and Services are divided into five different tax slabs for collection of tax- 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% a rough precious stones. However petroleum products, alcoholic drinks and electricity are not taxed under GST and instead are taxed separately by the individual state.

Literature Review

Various theories and papers have been studied and brought under purview. Some of these are :-

- * Mr. Shakdwipee, P (2017) in the research paper titled 'Measuring Awareness about Implementation of GST : A survey of small business owners in Rajasthan analyzed the perception of small business owner in Rajasthan about GST, and found out that their main area of focus was Computer Software availability and handling of the same.
- * In SME Times - Mr. Rajeev Dimri stated that GST gives array of opportunities and challenges for SMEs to explore. The government's notice behind GST is to increase the number of taxpayers base and not to inflate tax burden on business/individual taxpayers. He further said that the GST regime launched by ministry of finance seeks to bring each citizen with an aggregate turnover of above Rs. 10 lakhs within the coverage of GST.
- * In an interview by Adi Godrej to business line, published on 24 June 2017, it favours GST and considers GST and 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 analyzed in a manner that will add value to the economy. This would mean much less paper work and thus, automated simplified procedures.
- * Agogo mawuli (May 2014) studies, "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.
- * The Hindu date 24th September 2017 article titled 'GST : MSMEs to gain via better competitiveness' mentioned that the application of GST enhances the competitiveness of MSMEs. Further, they stated that the key benefits of MSMEs are lower freight cost, lower cost of raw material, lower tax burden and ease of doing business by reliving the complexities in registration.
- * Nabendu Basak (2017) In his study he explains how the application of GST in India has several positive. There will be reduction in number of indirect taxes with a transparent tax system. GST will not burden registered retailers. Prices of various goods will come down which will

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help consumers. Under GST it would be possible to divide the equity between manufacturing and services that will help to reduce production cost.

- * Dr. Manju Kumari Agarwal (2017) In his study he suggested to government should take measures to make people understand about GST. The government should also keep the people prepared that GST is not going to affect the small business. Those who have knowledge about GST must also spread the same to the community, so that lot of wrong awareness can be eliminated.
- * Only a registered person can charge and collect GST on the taxable supplies of goods and services made by him/her. The amount of GST incurred on input (input tax) can be deducted from the amount of GST charged (output tax) by the registered person. This way GST is easy and transparent indirect tax.

Research Methodology

The Present study is descriptive in nature and depending on secondary data. Secondary data collected is based on Government of India ministry of micro, small and medium enterprises and also search government reports, journals, books and published research papers.

Classification of MSMEs

| Classification of the MSME | New classification (annual turnover) | Previous Classification - Ceiling on Investment in plant and machinery (In Rs.) |
|----------------------------|--------------------------------------|---|
| Micro | Not exceeding Rs. 5 Crores | Below 25 Lakhs |
| Small | 75 Crores | 5 Crores |
| Medium | 250 Crores | 10 Crores |

Under the previous classification a separate methodology was adopted for service sector. Now the classification was made similar to the goods MSMEs as the general turnover-based criteria was made applicable to service sector also.

Positive impacts of GST on SMEs

- * Launching a new business becomes easier - Under GST, the registration is centralized and the rules are uniform for all the states across the country. All you have to do is complete and submit an online form to obtain a GSTIN. Launching a new business, and subsequently expending it, will be comparatively easier under the GST regime.
- * The entire process of taxation becomes simpler - The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes and State Taxes, because it levies a uniform tax on goods and services all over India. Under GST, you can be sure that the relevant authority is always either the centre or the state government.

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- * Reduced Cost of logistics - Under GST, the current Central Sales Tax (CST) on interstate sales will be replaced with a combined tax called IGST, which is composed of CGST and SGST and collected by the Central Government. As the removal of border and check-post taxes makes state boundaries less significant under the GST regime, both the delay and the transportation cost will be reduced.
- * The distinction between goods and services will be eliminated GST eases the process by removing the distinction between goods and services ; tax will be calculated for the final total, not individual products or services. This will help SMEs take advantage of the tax incentives for payment on the procurement of input goods and services.
- * Increased threshold limits for new businesses :- Under GST, since a business does not have to register or pay if its annual turnover is less than Rs. 20 lakh (Rs. 10 lakh in North Eastern States). Also, under the composition Scheme, businesses with turnover between Rs. 20-Rs. 50 Lakh will pay GST a lower rate. This should have a positive effect on startups and other small businesses by relieving them from tax burdens.

Negative impact of GST on SMEs

Registration will be mandatory for e-commerce suppliers and operators.

- * Businesses carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of businesses, e-commerce firms will not be eligible for threshold exemptions or for the composition scheme. Also, e-commerce firms should register for GST in every single state where they supply goods.
- * Returns must be filed on a monthly basis - Under GST, there will be around 36 returns in a fiscal year GST returns will also require you to close your books on a monthly basis, which, realistically, will take a lot of times. The time that business owners spend filing those returns could instead be spent on other productive activities, like developing their business and acquiring clients.
- * Multiple registrations for Pan-India businesses - Under the new regime, a business will have to register online for GST in every state involved in its sales process. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.
- * Harsh Mechanism of 'Input Tax Credit' - Input Tax Credit is available to a buyer only if the supplier has paid tax inside a given window. Most will have no 'intent' of evasion or not paying. Sometimes, the choice of paying Salary to the workers on time and paying a penalty to the government for delayed payment is a Conscious call which small businesses invariably must take.
- * Technological Challenge - Under GST, all businesses have to need the technical expertise to deal with online system. Thus most of them will need intermediaries to take them through the registration process. This will add to their registration cost.

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Conclusion

GST is meant to bring every indirect form of tax under one roof with the implementation of GST, the business owners have to pay a much lower tax of around 18-20 percent. Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian Economy for decades. It is further evident from the fact that today we have around 3 Million SMEs in our country Contributing almost 50% of the industrial output and 42% of India's total export. GST simplifies the entire process of filling and paying taxes. It will also increase the competition between SMEs by unifying the Indian market. At the same time, they get the benefits of input tax credit (ITC) as also a much larger market to expand their footprint. GST has both positive and negative impact on business regulations of medium & small enterprises. Some enterprises found it beneficial and some faced difficulty in accepting it. Initially Most of the business operators agreed with the perceived issues and problems in hiring of new personnel and training for existing staff to managing GST matters, keeping relevant business records, storage of document and they would face problems in re-setting prices of goods and services and filing GST returns.

But, if you're proactive and take care of your GST compliance measures beforehand, you can minimize the potential negative effect of the new regime on your business. The fundamental of 'One Nation, One Tax' Was created with a intention to easy tax filing, ease of doing business in other states, reduction in the prices of goods and services and relieving the burden of overhead from small enterprises. It will take some time for the people to get used to the new taxation regime, in the long run it will benefit for small and medium enterprises and all sections of society. GST council should work towards simplification of GST procedure and The rates of GST implemented should be modulated.

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