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IMPACT OF GOODS AND SERVICE TAX ON MICRO, SMALL AND MEDIUM ENTERPRISE

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ABSTRACT

India is becoming production giant after china, and among the whole the SMEs playing an important role in value chain and production as well as exports. And that's why SMEs are considered as very important part of our industry. Over the past two decades we have seen the rise and fall of SMEs round the time. This paper measures the effect of the implementation of GST on the SMEs; in this we gathered and concluded the data in most easy way so that normal people with very little knowledge of economics can also understand the current situation. Since most of the SMEs are run by the people who have lack of knowledge and understanding about the GST they find difficulty in running the business. At the time of introduction of GST, perception among SMEs towards the GST was different, some believed for the growth and some believed of downfall.

Key Word: GST, MSMEs, SME, Economy of India, Tax, Performance of MSMEs

Introduction

GST is single tax system which indulges different type of other taxes, that's why it is also known as 'One Nation One Tax'. The idea of the GST was first introduced in the regime of prime minister Atal Bihari Vajpayee in 1999. GST was proposed by the economic advisory panel of the PM Atal Bihari Vajpayee, which includes three former governor of Reserve Bank of India IG Patel, Bimal Jalan, C Rangrajan. After so much fuss on 1st July 2017 the GST act passed all over the India as the one hundred and first amendment of Constitution of India.

At present, the Gross tax revenue of India is around 20.8 Lakh Crore, of which 27 percent is from GST. In most of the developing countries, the share of indirect tax is above the direct tax. However,

within the developed countries the share of indirect tax is lower. Therefore, the new

GST implementation will allow the govt. to possess a far better grip on the taxpayers. This should be capable of evolving the whole legal system.

GST is a destination-based excise imposed at various stages within the production and distribution of products and services. It is applicable on 'supply' of products or services as against this concept on the manufacture of products or on sale of products or on provision of services. An Integrated GST (IGST) would be levied an inter-state supply (including stock transfers) of products or services. IGST is levied and collected by the center.

Import of products or services would be treated as inter-state supplies and would be

subject to IGST additionally to the applicable customs duties. CGST, SGST & IGST would be levied at rates to be mutually prescribed by the Centre and therefore the States. The rates would be notified on the advice of the GST Council. In a recent meeting, the GST Council has decided that GST would be levied at five different rates viz. 3%, 5%, 12%, 18% and 28%. The schedule or list of items that would fall under each of these slabs has been worked out. In addition to these rates, a CESS would be imposed on “demerit” goods to raise resources for providing compensation to States as States may lose revenue owing to the implementation of GST.

GST would replace the following taxes currently levied and collected by the Centre i.e. Central Excise Duty, Duties of Excise, Sales Tax, Additional Duties of Customs (commonly known as CVD), Special Additional Duty of Customs(SAD), Service Tax, Entertainment Tax.

Literature review

Saurabh Suman (2017) concluded that GST has mixed opinion and its acceptance is very from state to state. According to saurabh Make in India campaign helps GST to reach out to people very easily. He also find that many of his respondents didn't see the decrease or increase in the profit after the implementation of GST.

According to **Dr. Balaji v. Dakore (2020)** implementation of GST is simple tax system as compare to previous tax system. GST is easy to understand for the small and medium business owner. And GST is beneficial for the growth of SMEs.

Dr. Sanjeev Sharma (2017) wrote in his study one tax principle is beneficial for micro small and medium enterprise. And it is also reduce the burden of the producer and end users and provide a benefit of input tax credit. GST lead to increase in employment opportunity and economic growth and development of the nation.

Dr. N. Honnurswamy (2020) wrote in his study GST removed cascading effect of previous tax system. GST make easy to transact within country or with other country. GST forced to MSME sector to change system strategies and costing. GST covered majority of MSME, so compliance cost will increase. In long run it will give benefit to small and medium industries.

Shefali Dani (2016) stated that the goods and service tax simplifies the different tax structure by enhancing economic growth of country. GST brings center and states together to create a single tax system. She also said that India needs strong IT network to make GST a successful reform. Before implementing GST government needs to restructure the proposed rates of GST.

Deepa, Thivya & Mathiraj (2019), said that GST combines each present central and State Taxes within country into a solitary tax. They also stated that MSMEs are the chief development driver of the Indian economy and principal employment-creating section in India. People rate the impact of GST as a balance and there is potential scope for improvement in the process.

Objective

- To find out the effect of the implementation of GST on the SMEs of

India

- To examine how SMEs has performed in new tax regime

Research Methodology

The research paper is an attempt to research, based on the Primary descriptive type as well as secondary data sourced from journals, internet, articles, previous research paper which examine the effect of 'Goods and Service Act' on the Micro, Small and Medium scale industries of India The accessible secondary data is used only for study

Hypothesis

H0: There is no significant relation between performance of MSME and implementation of GST

H1: There is significant relation between performance of MSME and implementation of GST

Data Sampling

The primary research was done on the survey of 50 small scale businesses in Saurashtra Region, we divided the respondent into three section i.e. Micro (<25 Lakhs), Small (25 Lakh – 5 Crore), and Medium (5 Crore – 10 Crore). We named the Micro as T1, Small as T2 and Medium as T3.

Data Analysis and Interpretation

1. What is Your Business Type?

Among the responses the majority were from manufacturing sector (i.e. 29) after that Service sector has 14 responses and Trading sector has 7 responses. All

respondent cooperate with us and gave good response.

2. To what extent is your firm's activity (in terms of turnover) affected by the GST implementation?

We found that 32% among SMEs affected negatively by the implementation of GST and 36% of SMEs got benefit from GST and 32% of respondents shows no effect of GST on their Businesses. We can see by responses that 68% of SMEs either hit positively or has no effect of GST on their Businesses and only 32% shows negative effect so we can conclude that majority of SMEs don't facing the negative effect on their businesses.

If we study the responses of the medium scale enterprises we see that very less number of businesses showing the positive effect (15%) while 46% of respondent shows negative effect on their business so we can see that medium scale business are facing trouble after GST

3. To what extent is the GST affecting your firm with respect to each of the following aspects?

We find out that 58% of SMEs find that demand of their product and service fall down, 54% of SMEs find it difficult to finance their businesses, 75 % of SMEs are facing the delay in the payment by their customer and 62% of the SMEs are facing trouble in supply of raw materials. (see Fig. 1)

We observed that among the SMEs that face negatively effect most them have troubled with the delay in the payment as it is because that majority of the contingent fund of the businesses were spent after the new change.

Secondary Data Source

1. Contribution in GDP

We can see that despite so much deliberation the contribution from MSMEs into GDP has remained stable and also slightly increase as well. In 2016-17 the contribution of MSME was 766.50 Billion USD and in 2019-20 it is estimated to be around 992.62 Billion USD.

We can observe that contribution in GDP grows despite the introduction of GST; the main reason behind this is the dependency of large firms on the MSME in terms of acquiring the primary product or raw material

2. Employment level by MSMEs

We can see in two immediate years after implementation the employment level remains steady, it is because SMEs need to control over their fixed cost in initial time. The reason is because SMEs find it difficult to finance business because of demonetization in year ahead so they try to control cost by managing the workforce but things settled in 2019-20 as we see in increase in employment level from 90 million in 2016-17 to 120 million in 2019-20

Conclusion

GST has become topic for debate ever since it was proposed in the parliament, we have seen many new businesses grown and many already settled businesses shut down. In our survey we also finds that difference between negatively affected, positively affected and not effected is very low so it hard to pick one side of the effect. But we can certainly tell that those who refuse to change the way of doing

business are definitely going to be effected badly. One tax one nation motto is best for the diversify market like India. Also uniformity in tax system will going to make things easy for businesses. Though the rate is a thing that need to be reworked, since India is developing nation, rates higher than more developed nations is certainly not suitable for Indian market. And government is also now understand that and because of that till now 90 amendments has been made in GST act, government also said recently that they will going to ease and simply more about GST. Frequent change is also bad for the business as it will make it difficult for business to determine the fixed cost and make the advance purchase of materials according to that. Despite all this much complexity Indian business community keep their hopes high that things will go well in future, and because of this nature Indian business community survive very well throughout this much changes and amendment

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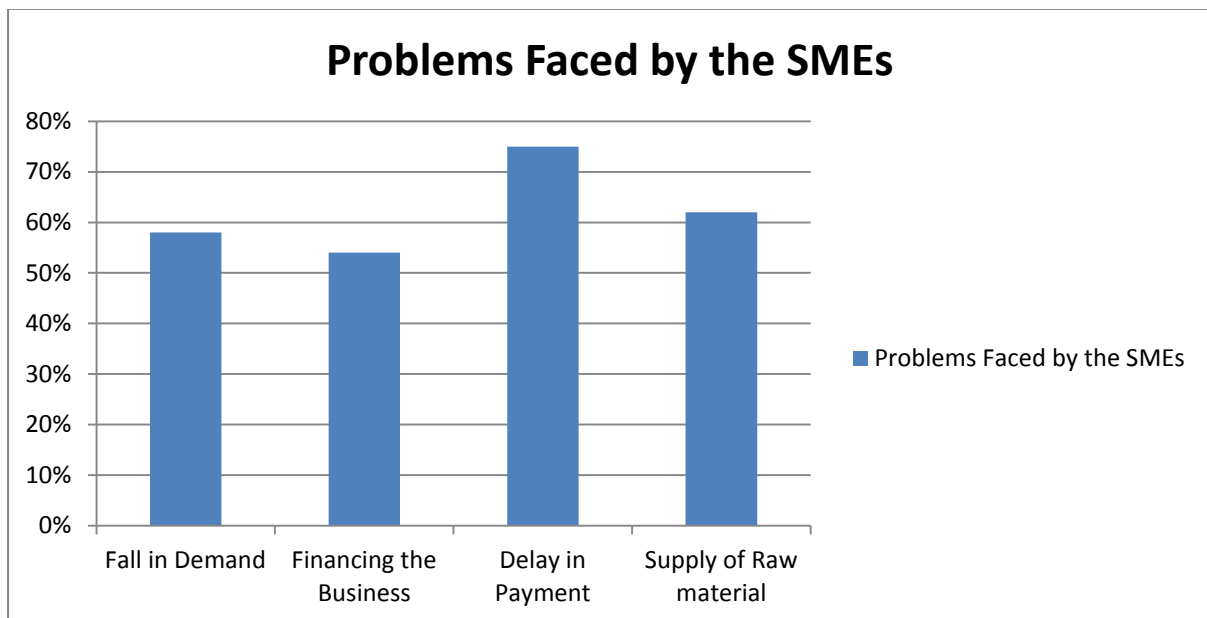
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Figure 2 Activities of business effected



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Table 1 Business types of respondents

Turnover	Type	Response		
		Manufacturing	Service	Trading
Below 25 Lakh	T1	8	7	3
25 Lakh – 5 Crore	T2	14	3	2
5 Crore – 10 Crore	T3	7	4	2

Table 2 effect of GST on respondents business

Turnover	Type	Response		
		Negative	Positive	No effect
Below 25 Lakh	T1	3	8	7
25 Lakh – 5 Crore	T2	5	8	6
5 Crore – 10 Crore	T3	6	2	5

Table 3 Contribution of MSME in GDP

Year	GDP of India (USD Billion)	Contribution of MSMEs in GDP (USD Billion)	Percentage Contribution
2015-16	\$2290	\$668.81	29.20%
2016-17	\$2652	\$766.50	28.90%
2017-18	\$2718	\$791.15	29.10%
2018-19	\$2940	\$882.00	30.00%
2019-20	\$3202(estimated)	\$992.62(estimated)	31.00%(estimated)

Source: Reserve Bank of India & Annual report Ministry of MSME

Table 4 Employment provided by MSME

Year	Employment(in million)
2015-16	80.52
2016-17	90
2017-18	110.9
2018-19	111
2019-20	120

Source: Annual report-Ministry of MSME and CII