

Impact of GST on the Regulation of Small Business

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Abstract: Goods & Services Tax (GST) was the biggest tax regime implemented by Government of India on 1st July 2017 midnight. 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). Both positive & negative impacts have been found and noted. 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.

Keywords: GST, MSME, Tax structure.

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I Introduction

GST is 'The Goods and Service Tax' implemented by Government of India on 1st July 2017, through the implementation of 'One Hundred and First Amendment' of the Constitution of India. It was launched at midnight by the then President of India, Shri. Pranab Mukherjee and the Prime Minister of India Shri. Narendra Modi. It is an indirect tax system that relieved the various other taxes i.e. VAT, excise duty, service taxes etc. which were applicable before on goods and services. According to the Government, GST is a well-structured & simplified taxation system, wherein the authoritative segregation of central government and the state government has been done. Every enterprise has dual GST model applicable, i.e. Central Goods and Services Tax (CGST) and the State Goods and Services Tax (SGST). The various percentages applicable to various sectors and businesses are 0%, 5%, 12%, 18% and 28%. The GST is applicable on various transactions such as procurement, deals, transference, barter, rent and import of goods and/or services.

MSMEs in accordance with the establishment of Micro Small Medium Enterprises Development (MSMED) Act, 2006, is classified under 2 categories i.e. manufacturing sector & service sector, according to the investments for plant & machinery, equipment respectively

ENTERPRICES	MANUFACTURING SECTOR	SERVICE SECTOR
Micro	≤ 25 lakhs	≤ 10 lakhs
Small	≥ 25 lakhs - ≤ 5 crores	≥ 10 lakhs - ≤ 2 crores
Medium	≥ 5 crores - ≤ 10 crores	≥ 2 crores - ≤ 5 crores

OBJECTIVES

- 1) To analyze the effect of GST on MSME.
- 2) To study the limitation effect of GST on business regulation of MSME.
- 3) To study the impact of technology with respect to GST.

II 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 heterogeneous 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.

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 relieving the complexities in registration.

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.

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 analyzed in a manner that will add value to the economy. This would mean much less paper work and thus, automated simplified procedures.

The Hindu business line 16 May, 2017 in article titled 'How will GST impact MSMEs' by R. Vasudevan mentioned about the unorganized MSMEs (turnover less than 1.5cr), which were advancing faster than the organized peers because of the initial tax avoidance. After the enactment of GST, even these unorganized MSMEs are liable for tax payment, as the Government has decreased the threshold from 1.5 cr. to 20 lakhs.

In SME Times - Mr. Rajeev Dimri stated that GST gives array of opportunities and challenges for SMEs to explore. The government's motive 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.

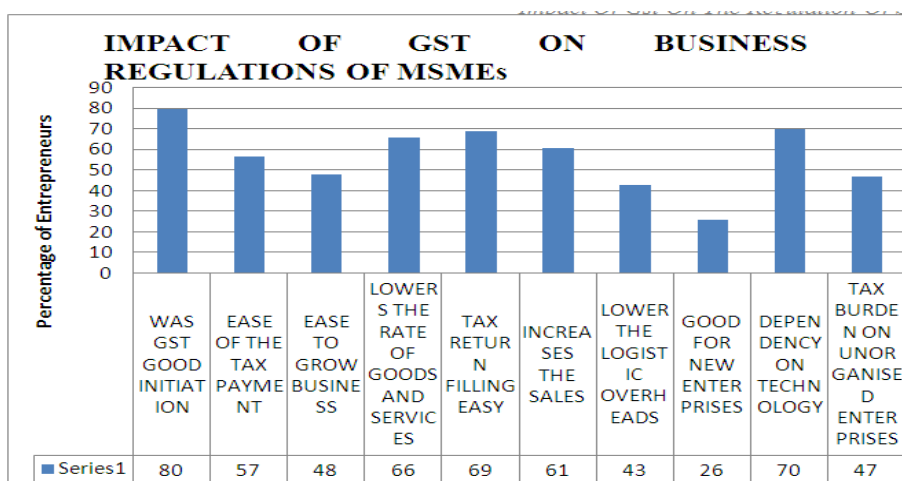
Mr. Shakti P (2017) in the research paper titled 'Measuring Awareness about Implementation of GST: A survey of small business owners in Rajasthan' analyzed the perception of small business owner in Rajasthan about GST, and found out that their main area of focus was computer software availability and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

III Research Methodology

The intension of this research is to analyze & study the perception, attitudes & apprehensions of traders belonging to MSME 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 MSMEs, government reports, journals, books and published research papers.

Data Analysis

The impact of GST has been analyzed in two main categories i.e. long-term benefits to the country and the operational efficiency/ease of use. Here 80% of the enterprises agree that GST implementation was a good step by the Government. 57% mentioned that GST has made the tax payment easy for their business. 48% stated that GST will help in the growth of new/ micro enterprises, 66% states that it has brought down the prices of goods & service, 69% agree to ease of tax filling, 61% agree to the increase of sales after GST came into action, it has brought down the logistic overheads for 43% ,26% agree that this has been a profit for the new starters of a business, 70% stated that it has brought an increase in the technology dependency for every enterprises & 47% of them has a view that due to GST, the unorganized enterprises experienced tax burden.



While interacting with the entrepreneurs during the survey, the reviews & suggestions received were regarding the system technology used for filing GST & working process of the government. According to them, they faced many problems with the technical software; they were also of the view that the Government should also support them in other ways in terms of subsidies and easy funds and trainings as they are paying their taxes duly.

IV Conclusion

MSME 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. Some enterprises found it beneficial but majority faced difficulty in accepting it. For existing enterprises, GST simplified the tax structure, unified the market hence improved the overall operational efficiencies of MSME, so far the unorganized MSMEs were growing fast than the organized ones because of the tax avoidance, with GST in effect, it has made the taxation system 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.

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