

## IMPACT OF GOODS & SERVICES TAXES (GST) ON MSME'S IN INDIA

**Dr Neetu Singh,**

*Associate Professor, Navyug kanya Mahavidyala, Lucknow*

### Abstract

*The Ministry of Small and Medium Enterprises strives towards a progressive MSME sector by supporting the growth and development of this sector including khadi, village and coir industries in collaboration with relevant ministries, state governments and other stakeholders. We will introduce cutting-edge technology and promote the creation of new businesses. The Micro, Small and Medium Enterprise (MSME) sector has grown to be a very vibrant and dynamic sector of the Indian economy over the last 50 years. It contributes significantly to the economic and social development of the country by encouraging entrepreneurship and creating large-scale employment opportunities alongside agriculture at relatively low capital costs. As a subsidiary unit, MSME complements large-scale industries, and the sector contributes significantly to the comprehensive industrial development of the country. MSMEs extend their reach to all sectors of the economy, producing a wide variety of products and services to meet the needs of domestic and global markets. In general, many of the results and findings of this study are consistent with popular opinion.*

**Keywords:** *Taxation, Goods and Service Tax and Medium and Small-Scale Industries*

### INTRODUCTION

The new tax system was supposed to solve all the problems of the conventional tax system, but since its proposal, there have been voices of pros and cons from industry and academia. Widespread changes aimed at one tax per country have also had a major impact on small industries. Therefore, this paper critically analyzes the impact of Goods and Services Tax (GST) on small industries, especially in Karnataka. Existing literature states that the GST aims to reduce business costs, improve transparency, lower product prices, improve tax compliance and facilitate business. This paper substantiates some of these claims through primary data research, relating to unresolved issues related to the separation of definitions of labor and labor, penalties for non-payment of GST, dual administration, and previous taxes. Further identify the need for reform. system. It also becomes clear

that the inheritance system was not effective, and the reverse charge mechanism needs to be reintroduced or revised at a later date to balance the costs and benefits. Thus, this research will not only influence policy makers, industry and academia, but also improve our understanding of the new tax system itself. All the Central and State taxes like the excise duty, service tax, entertainment tax, luxury tax, purchase tax, surcharges and cesses were subsumed under GST. Currently GST is levied on every product except petroleum, alcohol, tobacco and stamp duty on real estate in four slabs of 5, 12, 18 and 28 percent. Most of the daily use articles have zero GST.

GST is charged on the 'supply' of goods and/or services (including the sale, transfer, barter, barter, license, rental, lease or disposal for consideration). It is a single indirect tax system that Delivered directly from the producer to the

consumer, except for alcoholic beverages intended for human consumption. (Bangar & Bangar, 2017) According to GST, only value added is taxed and the tax burden must be borne by the consumer. In addition, the tax paid in the previous stage can be deducted as a set-off. Additionally, GST is a consumption-based tax. H. This tax is levied on the tax authority having jurisdiction over the point of consumption, also known as the point of supply (Bangar & Bangar, 2017).

His GST system in India is unique as he has double his GST. Central Goods and Services Tax (CGST) and State or Federal Territory Goods and Services Tax (SGST/UTGST) are levied simultaneously on shipments within a State or Federal Territory and are payable to the Central and State Governments or Federal Territories respectively. will be split. The Integrated Goods and Services Tax (IGST) applies to interstate supplies and is payable to the central government. Further imports are subject to IGST in addition to customs duties, while exports are duty-free. Certain commodities such as petroleum products and electricity are also exempt from later taxation.

Although GST appears to be very similar to the previous VAT system, it has some unique features such as GST being a consumption-based all-India tax regime. Therefore, many benefits are taken into account as a result of GST. Reduced tax burden is touted as the main benefit of his GST for consumers. For retailers, wholesale credit schemes have been an important tool as they help pass on taxes to customers and reduce overall costs (Anonymous, 2019). In addition, the GST has also led to the creation of a common national market, easier commerce for the industry, benefits for small taxpayers, a self-regulatory and transparent tax system, and full digitalization of tax collection, valuation and auditing. Take advantage of the GST network (GSTN) and save many taxes.

## CURRENT STATUS OF MSMEs IN INDIA

Small industries, also known as MSMEs (Micro, Small and Medium Enterprises), are defined, categorized and dealt with by the Micro, Small & Medium Enterprises Development Act of 2006. This particular law categorizes different industries based on investments in plant and machinery in the case of manufacturing and on the basis of investments in equipment in the case of services. b. Classification of MSMEs notice from ministry of micro, small and medium enterprises. In exercising the powers conferred by Subsection (1) in conjunction with Subsection (9) of Section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) and in replacement of the Notice of the Government of India, Ministry for Small Industry, 29 September 2006, published in Gazette of India, Extraordinary, Part II, Section 3, Subsection (ii), vide S.O. 1642 (E) of September 30, 2006, except in relation to things done or not done prior to such a replacement, the Central Government hereby notifies the following criteria for the classification of micro, small and medium-sized enterprises: namely:— (i) A micro-enterprise where investment in plant and machinery or equipment does not exceed Rs. 1 million and turnover does not exceed Rs. 5 million; (ii) A small enterprise where investment in plant and machinery or equipment does not exceed Rs. 10 million and turnover does not exceed Rs. 50 million; (iii) A medium-sized enterprise where the investment in plant and machinery or equipment does not exceed Rs. fifty million and the turnover does not exceed Rs. two hundred and fifty million. This notice is effective as of July 1, 2020. MSMEs are the engine of the economy. They operate his 5 million businesses producing heterogeneous baskets of about 7,000 different products in India, employing about 11 million people (Singh, 2015). In times of climate change, this sector is also likely to absorb unemployed people from the agricultural sector. However, current trends and economic conditions in the sector appear to give a bleak outlook for the Indian manufacturing sector. MSMEs are struggling with financial, credit and modernization issues. The company was allegedly run like a disorganized family business that did not comply with tax laws and did

not provide social benefits to its employees. Therefore, the flagship Make in India program will only deliver on its promises if the MSME sector is fully formalized and has a high level of tax compliance. This is where the GST and this research come into play, as the GST is likely to transform the economy over the next decade or so. Analyzing the impact on MSMEs and maximizing all benefits to MSMEs by eliminating their externalities will put India's economic growth on track and potentially reach a \$5 trillion economy. would be helpful. Presently under GST system evidences show that small businesses operating under the composition scheme (turnover between Rs.20 lakh and Rs.75 lakh; later the limit was raised to Rs.1.5 crore) could not give input tax credit (ITC) and if anyone bought from them, then the buyer had to pay the tax that the small business should have paid. This was the Reverse Charge Mechanism (RCM). (Kumar, 2017) These SMEs were also not allowed to sell interstate, limiting their market if they were within state borders. The E-Way bill has been enacted, suspended, and reinstated, albeit in stages. This added to the confusion among companies. Therefore, a critical analysis of the positive and negative effects of GST on his MSMEs is now called for.

## ISSUES WITH GST

Even after the introduction of GST, taxpayers still face the challenge of dealing with the ever-changing nuances of his GST law. A major GST challenge could be the integration of small businesses. Most small businesses may not have the technical know-how to adapt to this massive change. During his introduction of GST in July 2017, certain petroleum products and electricity were withheld from his GST regime and later he was incorporated into the GST regime. However, four years later, it is still unclear whether they will be included in the GST system. Taxpayers also struggle with frequent changes in ITC regulations. Ant trading regulations have been put in place to ensure that the benefits from the introduction of GST are passed on to end-users. However, no guidelines were issued for assessing

unjust enrichment, leading to differences in interpretation and resulting lawsuits. The Department of Commerce expects the government to issue notices/notices well in advance rather than just before so that taxpayers can plan their activities smoothly. Ambiguity around the appropriate he GST rate/classification of certain goods and services (e.g. the rate applied to purified/treated water, exploration related services, auto parts, etc.) is another challenge. The GST was originally designed with the aim of simplifying the overall tax structure, hence the single rate proposed. This is the experience of other countries introducing his GST around the world. An unspoken principle of GST is to reduce the number of plates. This is why most countries keep only one plate of her GST. But in the Indian context we have 0% slab, 5% slab, 12% slab, 18% slab and 28% slab. Additionally, a new rate of 3% has been introduced specifically for gold.GST requires keeping a tax invoice and filing tax returns through a computerized and online method. This prevents tax evasion, which ultimately leads to an increase in tax revenue despite the low tax rate. A variety of central and state taxes resulted in a complex indirect tax structure in the country, which made calculating taxes difficult by requiring different experts with knowledge of different lawsBut the GST resulted in high and hidden compliance costs for trade and industry. Within the framework of the GST, every entrepreneur, whether goods manufacturer, wholesaler or retailer, receives an invoice from the goods supplier to claim the input tax credit. Therefore, goods suppliers can be easily identified and there will be less chance of wrong goods being delivered. In order to attract industries in the states, the state governments offered various types of rebates and incentives, resulting in lost revenue for the state governments.

## SUMMARY & CONCLUSION

Widespread changes aimed at one tax per country have also had a major impact on small industries. Therefore, this paper critically analyzes the impact of Goods and Services Tax (GST) on small industries. Existing literature states that the GST aims to reduce

business costs, improve transparency, lower product prices, improve tax compliance and facilitate business.

This paper substantiates some of these claims through study, relating to unresolved issues related to the separation of definitions of labor, penalties for non-payment of GST, dual administration, and previous taxes. It also becomes clear that the inheritance system was not effective, and the reverse charge mechanism needs to be reintroduced or revised at a later date to balance the costs and benefits. All the Central and State taxes like the excise duty, service tax, entertainment tax, luxury tax, purchase tax, surcharges and cesses were subsumed under GST. Currently GST is levied on every product except petroleum, alcohol, tobacco and stamp duty on real estate in four slabs of 5, 12, 18 and 28 percent. It is a single indirect tax system that Delivered directly from the producer to the consumer, except for alcoholic beverages intended for human consumption.

Additionally, GST is a consumption-based tax. The Integrated Goods and Services Tax (IGST) applies to interstate supplies and is payable to the central government. Although GST appears to be very similar to the previous VAT system, it has some unique features such as GST being a consumption-based all-India tax regime. Reduced tax burden is touted as the main benefit of his GST for consumers. For retailers, wholesale credit schemes have been an important tool as they help pass on taxes to customers and reduce overall costs. In addition, the GST has also led to the creation of a common national market, easier commerce for the industry, benefits for small taxpayers, a self-regulatory and transparent tax system, and full digitalization of tax collection, valuation and auditing.

A major GST challenge could be the integration of small businesses. During his introduction of GST in July 2017, certain petroleum products and electricity were withheld from his GST regime and later he was incorporated into the GST regime. The GST was originally designed with the aim of simplifying the overall tax structure, hence the single rate proposed.

## REFERENCES

- Anonymous. (2019, July 1). Two years of GST: Road ahead for One Nation One Tax. Retrieved from Economic Times: <https://economictimes.indiatimes.com/news/economy/policy/two-years-of-gst-road-ahead-for-one-nation-one-tax/articleshow/70017268.cms?from=mdr>
- Bangar, D. Y., & Bangar, D. V. (2017). Beginner's guide to GST. Allahabad: Aadhya Prakashan. Kumar, A. (2017, June 30). A broken tax chain. The Hindu, p. 7.
- Kumari, S. L. (2018). Impact of GST on Indian MSME. International journal of Economics and Social Sciences, 334-348.
- Laddha, V., & Patwari, P. (2017). GST: Reverse Charge and Composition Scheme. New Delhi: Taxmann Publications (P.) Ltd.
- Pandit, S. (2017). GST: Opportunities and challenges for Indian SME's. Inspira - Journal of Commerce, Economics and Computer Science, 2018-214.
- Studies in Business and Economics no. 16(1)/2021 Prasad, D. I., & Sathya, D. K. (2017). Impact of GST on MSME's. Journal of Management and Science, 180-183.
- Singh, C. (2015, September 11). Utilising MSMEs as engines for growth. The Hindu, p. 1.
- Sinha, S. (2018, September 21). Strong opposition pushes MSME Bill to backburner. Retrieved from Business Line: <https://www.thehindubusinessline.com/economy/strong-opposition-pushes-msme-bill-to-backburner/article25009770.ece>
- Venkateshwarlu, M., & Vijaylakshmi, G. (2018). Impact of GST on Micro, Small and Medium Enterprises (MSMEs). International Journal of Engineering and Management Research, 91- 95.
- Verma, A., Khandelwal, P., & Raj, S. J. (2018). Impact of GST on Regulation of Small Businesses. IOSR-Journal of Business and Management, 81-83.