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IMPACT OF GOODS AND SERVICES TAX (GST) ON MSMEs

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ABSTRACT

Micro, Small, and Medium Enterprises MSMEs are engines for the development of the country. (MSMEs) sector is essential for the Indian Economy. MSMEs providing employment opportunities to around 117 million people (Annual Report of Ministry of MSME 2018-2019) and also accounts for 40% of Indian exports (4th census of MSME sector), and contributes 28.90% (Annual Report of Ministry MSME 2018-19) to India's GDP. Especially for labor-intensive countries like India, the need of MSMEs is crucial. Taxation policies of a nation also influence significantly on the performance and growth of MSMEs; compliance requirements are relatively less in GST for MSMEs. In this paper, the researchers attempted to analyze the factors which influence on payment of GST by MSMEs. The positive impact of GST and Problems faced by the MSMEs after implementation of GST are examined.

KEYWORDS

MSMEs, GDP, GST.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the essential constituents for the development of the Indian economy and are providing employment opportunities to around 100 million peoples. They play a crucial role in enhancing skills of the workforce, they facilitate for channelizing investments of small and middle-income groups of the country, and on average, MSMEs share 40% of the total exports of the country (4th census of MSME sector) and accounts for 28.90% of GDP (as per annual report of MSME). In India, the presence of MSMEs is more in the job work sector. They are proving helping hands to large manufacturing industries by making manufacturing activities cost-effective and efficient.

MSMEs in India have a strong potential for growth. MSMEs face many problems that hamper their growth like technological obsolesces, rise in domestic and foreign competition, dynamic business environment, fund shortages, complicated tax laws, etc.

The need for tax reforms is crucial for progress of any economy; the taxation policy of a country will have more significant implications on ease of doing business; a simplified tax system will motivate entrepreneurs to undertake new ventures. To reap the benefits of simplified tax policy, the government of India unveiled Goods and Services Tax (GST) on 1st July 2017. It provides a bunch of benefits to MSMEs in terms of higher threshold exemption limits, Composition levy benefits, quarterly filing of returns, Input tax credit (ITC), E-way bill, smooth and hassle-free compliances, etc. As per ease of doing business report of World Bank 2020 report, India's rank is improved to 63rd

MSME being an important engine of national growth, it is important to understand provisions of GST that impacts MSMEs.¹ Goods and Services Tax (GST) is a very lucrative step taken by the government of India towards the unification of India with single tax rates across the country, making the country a single market. GST enables a favorable environment for doing business in India. As every policy has both advantages and disadvantages, GST also has drawbacks that need to solved. Some of the drawbacks to MSMEs are increased compliance cost, need for technical expertise for filing of returns, need for Information technology (IT) infrastructure facilities, glitches in software, etc. That will influence the working of small and medium enterprises adversely.

REVIEW OF LITERATURE

Vidit Mohan and Salman ali² conducted a study to assess the impact of GST on MSMEs and they collected qualitative and quantitative data from selected MSME owners in Raipur, India. It is found from the study that there is a scope for the effective deployment of GST.

S. Goutami³ conducted research to study the awareness of GST among micro, small, and medium enterprises in Chittoor district, Andhra Pradesh India. She highlighted that there is a positive relationship between business size, Business experience and GST perceived issues and problems in the selected district. Study found that 70% of the respondents are aware of the GST mechanism; business operators with an annual turnover of more than 1.5 crores are more likely to have a higher level of awareness regarding GST.

Panduranga V⁴ found that dealers involved in trading and manufacturing of goods who opted for composition schemes and dealing in goods with a high rate of GST get more profit.

Jojo K Joseph and Ranu Jacob⁵ analyzed the relationship between various factors in determining the tax compliance behavior of MSMEs in GST regime. They proposed a conceptual model indicating various factors such as awareness of tax payers, knowledge, satisfaction, demographic factors, and service quality of tax compliance. how these factors influence the determinants on tax compliance of MSMEs.

OBJECTIVES OF THE STUDY

The aim of the study is as follows

1. To study factors, which has its influence on payment GST.
2. To analyze the problems faced by MSMEs after GST implementation.
3. To study the advantages of GST to MSMEs.

RESEARCH METHODOLOGY

This study is descriptive in nature. Analyzing the factors influencing the compliance made by MSMEs and advantages and disadvantages of Goods and Services Tax (GST) on MSMEs forms the crux of the study. Data is collected from secondary sources like annual reports of ministry of MSME, Ministry of finance, and Reports of GST council on MSMEs, RBI reports, News Papers, national and international journals are used.

DISCUSSIONS**CLASSIFICATION OF MSMEs IN INDIA**

MSMEs are classified on the basis of nature of the activity undertaken and the amount of investment made on them. The following table represents the type of enterprise and amount need to be invested in qualifying the criteria of Micro, Small, and medium enterprise:

TABLE A

Type of Enterprise	Investment		
	Micro	Small	Medium
Manufacturing (Ceiling on investment in plant and machinery)	Less than 25 lakhs	Between 25 lakhs to 5 crore Rupees	Between 5 crores to 10 crore Rupees
Service (Ceiling on investment in equipment)	Less than 10 lakhs	Between 10 lakhs to 2 crores	Between 2 crores to five crores

TABLE 1: SHOWING SHARE OF MSMES TO GVA AND GDP

Year	MSME Gross Value Added (GVA)*	Growth	Total gross value added	Share of MSMEs in GVA (%)	Total GDP **	Share of MSME in GDP (%)
2011-2012	2622574	-	8106946	32.35	8736329	30%
2012-2013	3020528	15.17	9205692	32.82	9944013	30.40%
2013-2014	3389922	12.23	10363153	32.71	11233522	30.20%
2014-2015	3704956	9.29	11504279	32.21	12467959	29.70%
2015-2016	4025595	8.65	12566646	32.03	13764037	29.20%
2016-2017	4405753	9.44	13841591	31.83	15253714	28.90%

Source: Annual Report Ministry of MSME 2018-2019.

* GVA by Production approach (GVA = Output-Material input)

* GVA by Income approach (GVA = compensation of employees+ operating surplus+ CFC)

**GDP = GVA at basic prices + subsidies+ taxes on products

From Table-3 and chart-1 it can be inferred that MSMEs contribute significantly to Gross value added (GVA) and to Gross Domestic Product (GDP), i.e., GVA (15.77) and GDP (30.40%) in the year 2012-2013 which is second largest contributor to GDP after agriculture sector. But in recent times, the contribution of MSMEs to GVA and GDP is declining considerably i.e. GVA share is (31.83%) and (28.90%) to the GDP. Which shows declining trend in share of MSMEs to GVA and GDP. Although, Government is coming with many policy incentives the growth is not encouraging in MSMEs. Therefore, there is a need to encourage MSMEs by providing incentives like further simplifying GST returns filing and other incentives.

CHART 1: SHOWING THE SHARE OF MSMES IN GROSS VALUE ADDED AND GROSS DOMESTIC PRODUCT

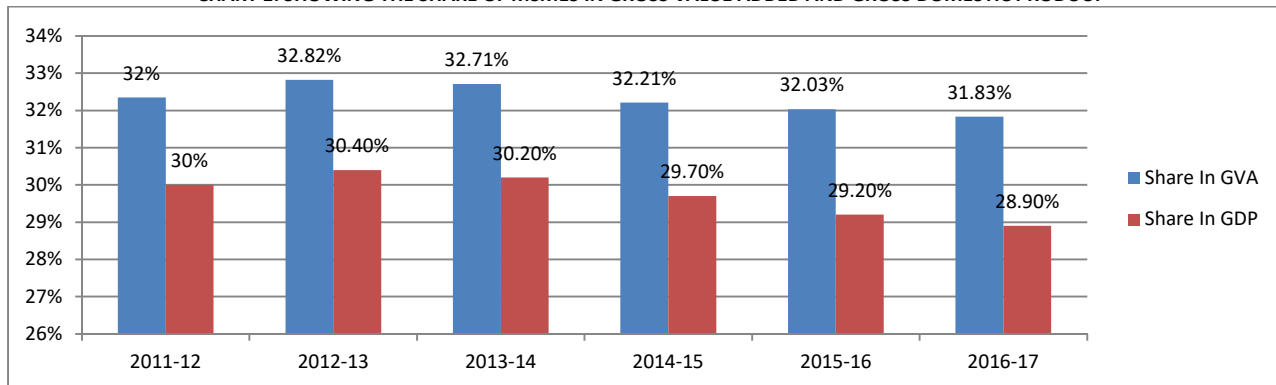


TABLE 2: SHOWING TYPE OF MSMES AND JOB OPPORTUNITIES PROVIDED

TYPE OF ENTERPRISES	TOTAL NUMBERS	SHARE AS A PERCENT OF TOTAL MSMES	JOB OPPORTUNITIES IN MILLION	PERCENTAGE OF EMPLOYMENT
MICRO	630.52	99.47	107.62	96.97
SMALL	3.31	0.52	3.19	2.87
MEDIUM	0.05	0.00789	0.18	0.16
TOTAL	633.88	100	110.98	100

Source: Annual Report Ministry of MSME 2018-2019.

Along with contributing significantly to GDP MSMEs also provide employment opportunities to 110 million persons. Especially labor intensive country like India MSMEs are essential why because they provide large employment opportunities with lower cost of capital needed to manage the affairs of the enterprise as we see in the above table Micro enterprises which accounts 99 % of the total MSMEs and they are providing 107.62 million job opportunities, in case of small and medium enterprises the share is comparatively less.

CHART 2: SHOWING GST WORKSHOPS CONDUCTED



Source: Central Board of Indirect taxes and customs

Since GST is a fully digitalized it becomes difficult for MSMEs entrepreneurs to comply with the provisions of GST. Therefore, there is need to create awareness in the minds of entrepreneurs by conducting workshops and trainings. Chart-2 depicts Since implementation of GST more than 10970 workshops are conducted and

more than 20000 entrepreneurs are trained. If MSMEs are compliant with GST They will get benefits like access to 59 minutes loan portal which enable easy credit access to loans. and also, in principle approval for loans up to Rs 1 crore. And also 2 % interest subvention for all GST registered MSMEs on fresh and incremental loans.

PERSONS LIABLE FOR REGISTRATION UNDER GST

A person is liable to Register under GST if his aggregate turnover in a financial year exceeds in case of a supplier of service is 20lakh (10lakh for sates of Mizoram, Manipur, Tripura, and Nagaland). And in the case of goods supplier is Rs.40lakh (20lakh in states of Manipur, Arunachal Pradesh, Mizoram, Meghalaya, Puducherry, Nagaland, Sikkim, Tripura, Telangana, and Utter Pradesh).

PERSONS NOT LIABLE FOR REGISTRATION:

- The persons whose aggregate supply is below the exemption limit mentioned above.
- Persons engaged in the supply of non-taxable goods or services.
- Agriculturist to the extent of supply of produce out of his land cultivated
- GST liable to paid under Reverse Charge Mechanism by the recipient of goods or services.

SPECIAL REGISTRATION PROVISIONS TO MSMEs:

The following exemptions are provided to MSMEs to facilitate trade based on turnover:

TABLE B

Type of Supplies made	Threshold Exemption Limit
Intra-state supply of goods	Rs.40lakh (20lakh in case of states Manipur, Arunachal Pradesh, Mizoram, Meghalaya, Puducherry, Nagaland, Sikkim, Tripura, Telangana, and Utter Pradesh)
Intra-state supply of Services	Rs. 20lakh (10lakh in case of certain category states as mentioned above)
Inter-state supply of services (not goods)	Rs. 20 lakhs (10lakh in case of certain category states as mentioned above)

Exemption from a compulsory audit by CA for the MSME sector: Every registered person whose turnover is up to Rs.2Crore is exempt from getting accounts audited by chartered accountants or cost accountants. This measure helps MSMEs as there is no need for compulsory documentation.

COMPOSITION SCHEME OF GST

It is a scheme under GST law. This scheme is specially designed for Micro, Small and Medium Enterprises (MSMEs), which are having lower turnover, and the rate of tax under this scheme is also low. It is one of the simple and hassle-free compliance scheme for taxpayers. It is a voluntary and optional scheme.

FEATURES OF COMPOSITION SCHEME

- No input tax credit available on a supply made
- The supplier of the goods is not liable to collect any tax from the goods supplied by him.
- In case of supply of goods. If the turnover is less than Rs. 1.50 crore (Rs.75 Lakh for special category states) in the previous financial year can opt for this scheme.
- The supplier of services can opt for this scheme if the turnover is Rs.50 lakhs, and the rate applicable is 6%.
- Tobacco, Pan-Masala, Ice-crème manufacturers cannot opt for this scheme.
- Tax rates applicable are 1% for the manufacturing of goods, 5% Restaurants not serving alcohol, and 6% for service providers. (Tax is shared between center and state governments equally).
- Quarterly payment of tax
- The supplier is not eligible to issue a tax invoice under this scheme. He has to mention "Composition taxable person, not eligible to collect tax on supplies" on every bill he issued.

WHILE COMPUTING THE LIMIT OF 1.5 CRORE INCLUSIONS AND EXCLUSIONS ARE AS FALLOWS:

TABLE C

Includes	Value of all outward supplies
	1. Taxable supplies
	2. Exempted supplies
	3. Exports
	4. Inter-State supplies
	Persons having same PAN their turnover is computed on all India basis
Excludes	CGST/SGST/UTGST/IGST/Cess
	Value of inward supplies on which tax is payable under reverse charge

RETURNS FILING UNDER COMPOSITION SCHEME

Persons opting for Composition Scheme need to file GSTR-4 form, which is filed on a quarterly basis.

DUE DATES FOR FILING GSTR-4

TABLE D

Period	Due date
April-June 2019	18 th July 2019
July-September 2019	18 th October 2019
October-December 2019	18 th January 2020
January-March 2020	18 th April 2020

GST RETURNS FILED

TABLE E

Type of Return	Eligible tax payers	Returns filed	Percentage of filing
GSTR-1	4570216	2475806	54.17
GSTR-3B	10491309	8114445	77.34
GSTR-4	1683706	1013901	60.21

Source: Goods and services tax council (GSTC) website. & Tax management India.com

Under GST, every registered person needs to file their returns electronically in form GSTR-1 before the 10th of every succeeding month. Similarly, all registered persons liable to submit a summary return of liabilities, input tax credit, and payment of tax pertaining to the month they need to file GSTR-3B form on or before the 20th of succeeding month. To facilitate trade of MSMEs, the government notified that the persons having turnover up to 1.5 can opt for composition scheme. Unlike regular taxpayers, compositions dealers required to file on a quarterly basis. They need to file GSTR-4 within in 18th of every succeeding quarter. The above tables give an idea about the number of active registered tax payers and the returns filed by them.

TABLE 3: SHOWING THE STATE WISE DISTRIBUTION OF COMPOSITION DEALERS

State	Number of Composition Dealers in 2018	Percentage of Total Composition dealers	Number of Composition Dealers in 2019	Percentage of Total Composition dealers	Growth/Decline %
Uttar Pradesh	3,48,024	19.7%	3,54,629	20.2%	+1.86%
Rajasthan	1,62,002	9.2%	1,59,368	9.0%	-1.65%
Maharashtra	1,58,514	9.1%	1,55,548	8.8%	-1.90%
Andhra Pradesh	1,10,630	6.5%	1,12,839	6.3%	+1.96%
Karnataka	1,15,174	6.4%	1,12,161	6.3%	-2.68
Gujarat	1,13,629	6.2%	1,11,198	6.4%	-2.186
Bihar	90,441	5.3%	94,128	5.2%	+3.92
Tamil Nadu	93,574	5.1%	92,014	5.4%	-1.70
West Bengal	82,631	4.6%	79,165	4.5%	-4.37
Madhya Pradesh	67,736	3.8%	63,508	3.6%	-6.62
Other states	4,26,229	24.1%	4,28,398	24.3%	+0.50
Total	17,68,584	100%	17,62,956	100%	-0.31

Source: GST annual report on MSMEs 2018-2019

The above table provides an idea about the growth of composition dealers as the composition scheme is specially designed for micro, small and medium enterprises. There is positive growth in some of the states like Bihar, Uttar Pradesh, and Andhra Pradesh. And in other states, there is a declining growth and in all other states, there is negative growth of 0.31%. So, there is a need to simplify the process and bring awareness in the minds of MSME entrepreneurs about features of the composition scheme by organizing workshops and training.

FACTORS INFLUENCING TAX PAYMENT OF MSMEs

Awareness towards GST: Tax awareness is an important factor influencing the payment of tax. If the tax payer is unaware of the concept of supply which is very important in GST, and incidence of tax, rate of tax applicable, the process of filing of returns, as the GST tax law is new to taxpayers, it leads to a reduction in tax compliances made by the micro, small and medium enterprises (MSMEs). Tax payers may fail to comply with tax laws and regulations unintentionally due to a lack of tax knowledge and poor tax awareness⁶. To boost tax compliances among both male and female entrepreneurs, proper awareness needs to be created by way of training and workshops.

Knowledge about GST: Tax knowledge is an important factor which influences the decisions taken by tax payers towards payment of tax; it's the extent which taxpayer understands tax law. Tax knowledge refers to the process by which taxpayers become aware of tax legislation and other tax-related information⁷. Poor knowledge about tax can lead to distrust and a negative attitude towards compliance⁸. As per records, there is a significant presence of MSMEs in rural India there are confusions in the minds of them towards payment GST, due to lack of knowledge it leads to decline in the compliances made by MSMEs. This issue needs to address properly.

Tax compliance: Tax compliance is a process of payment of tax by the tax payer and enjoying the rights of taxation according to the provisions applicable to him/her. Many returns need to be made in GST law, i.e., 36 in case of regular GST and 5 in case of composition dealers. And there must need to be proper documentation maintained to get accounts audited. It is difficult for small and medium enterprises to comply with the cumbersome provisions of the tax law. In turn, it leads to delay in making returns, non-submission and understatement of income by the assesses, Tax noncompliance also caused by many factors as pointed by the scholars they include Individual, economical, institutional, political, psychological, to increase the compliance of tax, the procedure of filing must be made tax payers friendly.

Quality of Service: Quality of services provided by the GST to tax payers will also influence significantly on tax compliances made by the tax payers. In GST, every person needs to make online returns. The person who is not much tech-savvy cannot be able to file the returns unless he takes the help of a tech-savvy person. Therefore, there is a need for more GST Seva Kendras, which will make GST filings easy.

Another point that needs to be considered in GST services is a flow of Input Tax Credit (ITC) which is one of the important features of GST. Due to the glitches in software, there is a delay in the crediting of input tax; it will affect the liquidity of the enterprises adversely, so the technical problems need be addressed to provide a tax credit on a timely basis. Service quality of government staff was identified as a key factor in determining the efficiency in tax collection, which leads to taxpayer satisfaction and compliance⁹. The quality of services must satisfy taxpayers to encourage compliances made by them.

Tax payers Satisfaction: The improvement of service quality will increase taxpayer satisfaction so that the taxpayer would be more complying in paying the tax. Several studies revealed that there is a relationship between the antecedents of tax compliance like attitude, tax knowledge, tax fairness perception, and service quality with tax payer's compliance behavior, which will have a positive effect on tax payer's satisfaction and their compliance behavior. In other words, a satisfied taxpayer is motivated towards payment of tax.

POSITIVE IMPACT OF GST ON MSMEs

Simpler Provisions for starting of new Business: Under GST, the process of starting businesses is uniform across the country, and standardized online registration under GST will ensure timely issuance of a certificate of registration and minimal interference of government and also refund available through electronic credit ledger. But in the case of sales tax, there are various slabs based on turnover, which require VAT registration. A business that is having interstate operations is difficult to comply with the provisions of the law, and it also increases the compliance cost of the MSMEs due to which price sensitive enterprises overburdened.

Improved accounting Systems: In an earlier tax system, the enterprises are using the old accounting systems, which are not so systematic and less standardized, and they are prone to errors. But in the GST system, all enterprises must adopt digital ways to maintain accounting records, which improve the efficiency of MSMEs by maintaining proper accounting records. This will also benefit customers, vendors, and financial institutions to grant loans.

Increased transparency: Due to the authentication of invoices in digital transactions, digital ways of maintaining accounts, and filing of online returns, there is less scope for evading the tax by enterprises and also reduces the corruption practices of officers. Digital ways of payment of tax will reduce the compliance cost, GST will have a taxpayer friendly system, and it will encourage fair competition among the enterprises involved in trade and commerce.

Low tax rates: In the VAT tax system, there are about 18 types of taxes that are levied on goods. And there is a separate rate of services. That leads to double taxation of goods, i.e., cascading of taxes, which resulted in levying more tax to assesses, especially for price sensitive MSMEs it becomes the burden as they need to make profits in small margins. However, after the introduction of GST, there is a reduction in the cascading of taxes and lowering the tax rate on almost all goods produced by MSMEs. It will be helpful for enterprises and also to customers.

Reduction in logistic cost and time: In GST, there is no entry tax to be paid for transporting goods from one part of the country to another part of the country. As a result, there is a faster movement of goods across the country without the need to stop at toll check posts, which in turn saves thousands of hours being get wasted. According to a report by CRISIL, the logistics cost after GST would be reduced significantly to 20%. It is expected to boost e-commerce across the nation.

Creating a uniform platform: After GST implementation as the main theme behind GST is to integrate India with the Principle "One Nation One Tax" it becomes easier for small businesses to explore national markets by taking the benefits of GST such as one tax rate, lower barriers of registration, availability of input tax credit in case of interstate trade and other advantages. It will also lead to an increase in reach to customers who are in different states with the same price being charged to all. Earlier in sales tax and VAT regime, although India is one country, many taxes are prevailing in each states making interstate transactions costlier and cumbersome after GST; India is viewed as a single market for doing business.

Composition scheme: Among all features of the GST composition scheme is of at most important to MSMEs as this scheme provides for lower tax rates, quarterly filing of returns, provides relief for compulsory maintenance of books of accounts, and other benefits which are fruitful to MSMEs success. Apart from that Goods

and services Tax Network (GSTN) also providing free accounting billing software to composition dealers, it is helpful for small traders they can create invoices and maintain accounting statements manage inventory and preparation of GST returns digitally so, they can improve efficiency and reduce filing time and cost.

PITFALLS OF GST ON MSMEs

Lower threshold exemption limit: The exemption limit provided in GST law is low, i.e., Rs 20 lakh (10 lakhs for north east and hilly states). However, the exemption limit is increased to 40 lakh (20 lakhs for north east and hilly states) w.e.f 1st April 2019. But it applies only to intrastate dealers and not for Interstate dealers. It will affect adversely on working capital of the MSMEs, which are dealing in interstate trade.

Difficulties in maintaining documents: In GST, the assesses must maintain documents to comply with the legal provisions; otherwise, they have to bear heavy fines. It will particularly affect SMEs as most of these enterprises will be run by illiterate entrepreneurs.

Putting petroleum out of the preview of GST: Presently petroleum products are out of the preview of GST, for small traders who are in transportation business and manufacturers who're processes require petroleum products like petrol, diesel, crude oil, etc. to run their business will they have to pay more VAT, which will also increase their product costs. This practice of the government will not support the ideology "One nation One Tax."

Increased compliance cost: In GST, the tax payer needs to make 36 annual returns and five returns for composition dealers, which is hectic for businesses and also. GST requires technological knowledge for filings of returns and making of payment of tax, for non-tax-savvy persons who are not much known about procedures and who do not have the good technological infrastructure, it will be difficult for them to pay tax at specified due dates. Again, they need to hire tax practitioners and also purchase technological instruments. It will become an extra burden for them, and if they missed the due date, they have to make payment of penalties. It will also increase the compliance cost of MSMEs.

Non availability of Input tax credit under composition scheme: Composition dealers are not able to claim the input tax credit on the subsequent supplies made by them, so, for that reason, the registered taxable persons will not be encouraged to do business with composition dealers. And also, composition dealers cannot be able to undertake interstate transactions. For SMEs which are operating in interstate, it is a drawback, and they will not get ITC from such transactions.

Lack of infrastructure facilities: In the GST regime, the small and medium enterprises need at least one computer and network facility to carry out the tax filing process. As many MSMEs in India are in the rural area they cannot be able to get information technology services in their place. Lack of infrastructure facilities also discourages rural entrepreneurs from carrying out business.

CONCLUSION

MSMEs are the engines of Indian economic development; they can foster entrepreneurship and generate more substantial employment opportunities at a lower cost of capital. MSMEs also act as ancillary industries to large industries by contributing significantly to the inclusive industrial development of the country. As per the data, the presence of MSMEs is more in rural areas, which bring down the regional imbalances in the country and enhances rural industrialization. Indian MSMEs have a strong potential for growth. But many factors will influence their growth; one among the elements is the taxation policy of a nation. To make Indian MSMEs more competitive in the globalized world, the need for taxation reforms is crucial. As a measure to improve the ease of doing business, and to modernize tax system, the Government of India implemented GST in India on 1st July 2017 with the principle of "One Nation One Tax," which is a vital step taken for unifying India in terms of the same tax rates and rules across all over the country. It also makes India an attractive destination for more inflow of Foreign Direct Investment (FDI). GST provides many benefits to small and medium enterprises, and also it has drawbacks that need to analyzed and corrective actions required to make GST more taxpayers friendly, which in turn will be most beneficial to Micro, Small and Medium enterprises.

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