

GST - Positive and Negative Impacts on Small Scale Industries

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Abstract – The Goods and Services Tax (GST) has been heralded as the biggest indirect tax reform in India after Independence. After much deliberation, the GST bill has been passed in the Rajya Sabha and is set to be discussed in the state legislative assemblies in this winter session. With the ball set to roll for a unified country-wide tax reform, the market is filled with new found optimism amongst industry leaders and government officials. Goods and Service Tax (GST) is an indirect tax levied in India on the sale of goods and services or both except taxes on the supply of the strong liquor for human consumption. GST is a broad tax levy on manufacture, sale and the consumption of goods and services at a national level. The present research has been conducted to analysis the positive and negative impact of GST on small - scale industries. The single GST replaced several former taxes and levies which included: central excise duty, service tax, customs duty, surcharges, state-level value added tax and octroi. Small scale industries play a significant role in the overall growth of an economy. The implementation of GST is certainly going to affect this sector and the employees associated with it.

Keywords: - GST, Indian Government, Economics, SGST, CGST, Employment Employee Act

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INTRODUCTION

This sets the necessary momentum for the passage of the two Bills—Central GST (CGST) and Integrated GST (IGST) Bills—during the winter session along with the State GST Bill by different state assemblies. According to industry experts and government sources, the GST rollout date of April 1, 2017 is likely to be met. With this, enterprises, particularly SMEs, across a wide range of industries are caught in a state of flux. The comprehensive indirect tax GST will replace various other taxes such as Excise, Vat and Service Tax with a single tax structure. Driven by wide-ranging scepticism, several start-ups and SMEs are wary of the adverse impacts that may come into the picture with the GST rollout. As opined by industry experts, the much proclaimed benefits of eliminating the cascading effect of multiple central and state taxes and the ease of starting a business will impact them the most. However, market optimism aside, they are not very sure of the ways the new tax regime will affect their business and alter their bottom line. To comprehend the full repercussion of the tax reform, it becomes crucial to know the intricate aspects of GST and the associated tax reform in detail. GST is an indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stages of value addition, which makes GST essentially a tax only on

value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. In India, the Prime Minister Narendra Modi launched GST into operation on the midnight of 1 July 2017. But GST was almost two decades in the making since the concept was first proposed under the Atal Bihari Vajpayee Government. The Central and various states Government will charge GST separately. The Central Government charges CGST & the State Government charges SGST. However, the tax collection and tax base both are the same. GST is also charged when importing goods and services in India. GST is one of the biggest indirect tax reforms in the country. There are around 160 countries in the world that have GST in place. Small industries play an important role in overall economic growth. This industry is mainly specialized huge employment opportunities by using the workforce to produce goods. In developing countries such as India, where employment is a big problem; these industries pave the way for adopting skilled & unskilled people. The implementation of the GST will certainly affect small industries & its stuff positively and negatively both. As per industry experts, SMEs and start-ups will be affected the most with the rollout of the GST and the impact will be favourable in ways more than one. Some of the ways GST will benefit SMEs and start-ups are:

- **Ease of starting business:** A business having operations across different state needs VAT registration. Different tax rules in different states only add to the complications and incur a high procedural fee. GST enables a centralized registration that will make starting a business easier and the consequent expansion an added advantage for SMEs.
- **Reduction of tax burden on new business:** As per the current tax structure, businesses with a turnover of more than rupees 5 lakh need to pay a VAT registration fee. The government mulls the exemption limit under GST to twenty five lakh giving relief to over 60% of small dealers and traders.
- **Improved logistics and faster delivery of services:** Under the GST bill, no entry tax will be charged for goods manufactured or sold in any part of India. As a result, delivery of goods at interstate points and toll check posts will be expedited. According to an estimate by CRISIL, the logistics cost for manufacturers of bulk goods will get reduced significantly—by about 20%. This is expected to boost ecommerce across the nation.
- **Elimination of distinction between goods and services:** GST ensures that there is no ambiguity between goods and services. This will simplify various legal proceedings related to the packaged products. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.

GST Slab Rates:

In India, GST rate for various goods and services is divided in four slabs : they are 5% GST, 12% GST, 18% GST & 28% GST. This is aside the tax on gold that is kept at 3% and rough precious and semi-precious stones that are placed at a special rate of 0.25% under GST 7% goods and services fall under this category. A total of 81% of all the goods and services fall below as in the 18% tax slab. This means 7% of the items come under the exempted list, 14% of the items attract a 5% tax, 17% of the items attract a 12% tax and 43% of the items attract an 18% tax slab, while only 9% of the items fall under the highest slab of 28% in the new regime.

Small Scale Industry:

Small scale industries which are also called as MSMEs (Micro, Small & Medium Enterprises) are defined, categorized and dealt by the Micro, Small & Medium Enterprises Development Act, 2006.

Classification of MSMEs on the basis of its ceilings

Classification of MSME Ceiling on Investment in Plant & Machinery Micro

Below 25 Lakhs

Small 25 Lakhs to 5 Crores

Medium 5 Crores to 10 Crores

For the service sector, the investment, limits are Rs. 10 Lakh, 2 Crores & 5 Crores in terms of investment made in equipment. In 2015, the government has introduced an amendment bill to enhance the investment limit in all categories.

| Slab Rate | Goods | Services |
|-----------|--|---|
| 0% | Milk, fruit, vegetables, bread, salt, bindi, curd sindoor, natural honey, bangles, handloom, besan, flour, eggs, stamp, printed book, judicial paper and newspaper | All hotels and lodges |
| 12% | Items coming are the tax slab of 12% include frozen meat products, butter, cheese, ghee, pickles, sausage, fruit juices, toothpowder, medicine, umbrella, instant food mix, cell phones, sewing machine, man-made yarn, etc. | Business class air tickets will attract a tax of 12% under GST |
| 18% | Refined sugar, cornflakes, pasta, pastries and cakes, detergents, washing and cleaning preparations, safety glass, mirror, glassware, sheets, pumps, compressors, fans, light fitting, chocolate, preserved vegetables, tractors, ice cream, sauces, soups, mineral water, deodorants, suitcase, brief case, vanity case, oil powder, chewing gum, hair shampoo, preparation for facial make-up, shaving and after-shave items, washing powder, detergent, stones used in flooring, marble & granite, sanitaryware, leather clothing, wrist watches, cookers, stoves, cutlery, telescope, goggles, binoculars, oil powder, cocoa butter, fat, artificial fruits, artificial flowers, foliage, physical exercise equipment, musical instruments and their parts, stationery items like clips, some diesel engine parts, | Restaurants located inside hotels with tariffs of Rs. 7,500 and above, outdoor catering (input tax credit to be available), IT and Telecom services and financial services along with branded garments will be part of this tax slab. |

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| | some parts of pumps, electrical boards, panels, wires, razor and razor blades, furniture, mattress, cartridges, multi-functional printers, door, windows, aluminium frames, | |
| 28%. | % Over 200 goods will be taxes at a rate of 28%. The goods which will be part of this category under GST are sunscreen, pan masala, dishwasher, weighing machine, paint, cement, vacuum cleaner. Other items include automobiles, hair clippers, motorcycles. | Five-star hotels, racing, movie tickets and betting on casinos and racing will come under this category |

RESEARCH METHODOLOGY:

The present study is based on secondary data. Various journals, magazines, Newspapers were referred by the researcher for collecting such data. Internet and various websites are also used.

Positive Impact of GST on SSI:

As per industry experts, SMEs and start-ups will be affected by the launch of GST and its impact will be beneficial in many ways. Here are a few ways GST can help small business and start-ups:

1. Launching a new business becomes easier.
2. Law Tax burden and Ease in filling process.
3. No Distinction between Goods & Services.
4. Improved Logistics.
5. Increased threshold limits for new businesses.
6. GST eliminates the cascading effect of tax.
7. The number of Compliances is lesser.
8. Simple and Easy Online procedure.
9. Unorganized sector is regulated under GST.
10. Defined treatment for E-Commerce Operators.
11. Composition scheme for small businesses.

Negative Impact of GST on SSI:

Besides, the positive impact of GST on SMEs and startups, GST also affect SMEs and startups negatively. Here are a few negative effects of GST that are likely to affect SMEs and start-ups:

1. Multiple registrations for Pan-India businesses.
2. Returns must be filed on a monthly basis.
3. Cost of tax compliances is likely to increase.
4. Registration will be mandatory for E-Commerce suppliers & operators. Blockage of Working Capital.
5. Selective tax levying.
6. The burden of higher tax rate for service provider.
7. Realignment of purchase and supply chain.
8. No tax differentiation for luxury items and services.
9. Dual administrative control by both central and state.

CONCLUSION:

SMEs borrow money from NBFC or money lenders at rates which lies in the range of 20 percent to 100 percent. Post GST Era enhances the borrowing cost and also increases the interest rate to a certain limit and they are afraid of that it will wipe out all their margins. SMEs want the tax rate to be reduced to 18percent. They are supplying input materials to automobile companies and the tax rate they are being charged at is not justified at all. There is a wide difference between the rates they are being charged at and the government's final tax rate. Auto assemblers' consider their payment as input credit. The price paid by the consumers for the automobiles determines the amount collected by the government from the entire value-added chain and supply chain which leads to the manufacturing of the fully assembled automobile. MSME have always been the backbone of an economy in general and secondary sector in particular. For a capital scarce developing country like India, MSMEs are considered as panacea for several economic woes like unemployment, poverty, income inequalities and regional imbalances. MSMEs feel that the rate of GST is higher and would restrict their growth in this era of stiff competition. To avoid this situation the government can try to reduce the present rate of GST composed on MSMEs and thereby promote the growth of such enterprises and make them compete globally. On the basis of about discussion it can be said that 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. GST being a big step of Government of India to simplify the previous tax system has both the positive and negative impact on Micro, Medium and Small Enterprises. The

fundamental of 'One Nation, One Tax' was created with an intention to easy tax filling, 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 technology dependency of every enterprises, 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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