



Impact Of Gst On Small And Medium Enterprises- A Study

Viswanatha S R¹, Dr. A. S. Gurudath²

¹Research scholar, University of Mysore, Chirashree Institute of Research and Development, Bangalore-10.

¹Assistant Professor, Dr.N.S.A.M First Grade College, (NITTE EDUCATION TRUST), Yelahanka, Bangalore-89.

Email id: viswanatha.sr@nitte.edu.in

²Professor, CIRD, University of Mysore, Bangalore-10.

Abstract

The Department of Micro, Small and Medium-sized Enterprises envisions a progressive MSME sector by promoting growth and development of the sector, including Khadi, Village, and Coir Industries, in collaboration with concerned ministries/departments, state governments, and other stakeholders by supporting existing businesses, introducing cutting-edge technologies and encouraging the creation of new businesses. The micro, small and medium-sized enterprise (MSME) sector has evolved over the past five decades into an extremely vibrant and dynamic sector of the Indian economy. It contributes significantly to the country's economic and social development by encouraging entrepreneurship and creating large employment opportunities alongside agriculture at a comparatively lower cost of capital. MSMEs complement large industries as auxiliary units, and this sector contributes significantly to the country's inclusive industrial development. MSMEs extend their domain across economic sectors, producing a diverse range of products and services to meet the demands of domestic and global markets. In general, many of the results and findings of this study agree with the prevailing opinions. The recommendations from the study are expected to have a significant impact on the financial aspect of MSME issues and it is also hoped that these suggestions will help improve entrepreneurial talent overall.

Keywords: MSME, problems, prospects, GST.

Introduction

Micro, Small and Medium Enterprises (MSMEs) are an extremely vibrant and dynamic sector of the Indian economy with over 6 million entities employing more than 11 million people (right next to agriculture) and accounting for 28% of GDP and 40% of them have

exports. Like other sectors, MSMEs have been impacted during COVID 19 in terms of productivity. Accordingly, the efficiency and productivity of MSMEs is of further importance to achieve the overall goals of economic development and a V-shaped recovery of the Indian economy. The sector is quite diversified, including activities in agro-based industries and housing surplus labor from structural change, as well as rural hinterland service centers. In addition, MSMEs also work with domestic and external companies to develop manufacturing and multi-track supply chains. MSMEs extend their domain across economic sectors, producing a diverse range of products and services to meet the demands of domestic and global markets. A number of statutory and non-governmental bodies work under the aegis of the Ministry of MSME

Problems of GST:

Even after four years of GST implementation, taxpayers still face challenges in navigating the ever-changing nuances of the GST law. The big challenge at GST could be the integration of the small and medium-sized companies. Most small and medium-sized businesses may not have the technical know-how to adapt to this massive shift. During the introduction of the GST in July 2017, certain petroleum products and electricity were kept outside of the GST for later inclusion in the GST regime. However, even after 4 years there is still no clarity about their inclusion in the GST system. Taxpayers also struggle with frequent changes to the ITC regulations. Ant trading regulations were put in place to ensure that the benefits derived from the introduction of GST are passed on to end users. However, no guidelines for evaluating profiteering have been issued, leading to differing interpretations and resulting litigation. Commerce expects the government to issue notices/circulations reasonably well in advance and not at the last minute to allow taxpayers to plan their activities smoothly. The ambiguity surrounding appropriate GST rates/classification of specific goods and services (e.g. applicable rate for purified/treated water, exploration-related services, automotive components, etc.) is another challenge. The GST was originally developed to simplify the whole tax structure and therefore a single tax rate was proposed. This is the experience of other countries that have implemented GST around the world. The unwritten principle in GST is that you reduce the plates, which is why most countries have kept only one plate from GST. But in the Indian context there is 0% slab, 5% slab, 12% slab, 18% slab and 28% slab. In addition, a new plate of 3% has been introduced specifically for gold. Under the GST, an assessed files 37 returns per year (3 returns per month and 1 return per year). This is in contrast to the 13 Returns Chapter I: Introduction Page | 23 submitted by an examinee in the pre-GST era. Despite several challenges ahead of the GST, there are also many perspectives, which are discussed below.

Prospects of GST:

Prior to the introduction of GST on the production, supply and sale of goods and services, separate taxes were levied at different rates by the Centre, States and Union Territories. Centers levy an excise tax on the manufacture or production of goods, a service tax on the supply of goods, and states levy an input tax on the importation of goods into the states

for sale, and sales taxes on the sale of the same goods. The GST brought uniformity to the tax system across the country. It eliminated the tax cascading effect that existed in the pre-GST era due to multiple types of taxes. 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 laws. But 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. Under GST, tax rates and exempt goods will be consistent. The adverse trade effects due to different Value Added Tax (VAT) rates across states have been eliminated as the GST rate will be consistent across states. The abolition of CST and Entry Tax, check posts at the state border are no longer required, which has reduced the time for goods transportation. The abolition of checkpoints at state borders has facilitated interstate trade. GST is a tax on the supply of goods or services. Regardless of whether a process is manufacturing or not for collecting excise duty, whether a transaction is for sale of goods or not for collecting VAT, whether a transaction is for sale of goods or the provision of services, these disputes will not arise upon the collection of GST. Exports are zero rated in GST. The exporting industry would be able to have internationally competitive prices as there is no cascading effect under the GST as a pre-tax credit is available for all taxes paid. Before that, type Chapter I: Introduction Page | A 24 tax credit was not available for some taxes such as CST, Entry Tax, Excise Tax when calculating VAT. Some measures were also suggested to deal with the current challenges of the GST.

2. Theoretical frame work:

Feedback from various committees suggests a number of issues for appropriate resolution, although recent attempts have been made to address many of them through notifications from time to time and follow-up actions. However, there is a need to study these issues systematically in order to develop dynamic GoI policies, take action and promote follow-up at the state level to address specific barriers to MSME growth. The main obstacles are: (i) There is a lack of convergence and synergy between different stakeholders to increase the productivity of MSMEs to the best of their ability. Proper mobilization, awareness raising and goal-oriented actions need to be identified. (ii) The legal and regulatory framework for MSMEs in India is quite complex and varies from state to state. It is largely intermingled with industry at large and few states have an exclusive framework of codes, regulations and other rules. (iii) The majority of states have only one Mediation Council with insufficient stakeholder representation, insufficient to address payment delays across the state. Indian Institute of Public Administration, New Delhi Page

| 8 (iv) The scope of the Facilitation Council is also limited to legal protection cases of MSEs and does not extend to medium-sized companies supplying to large companies. Latest attempt is Right to Business Act of Punjab while quite elaborate regulations and relief rules are also being prepared in Tamil Nadu, Andhra Pradesh, Karnataka, Telangana etc. (v) Regular supplies of electricity, skilled labour, housing for workers, etc. are also not available to meet demand. (vi) The Ministry of MSMEs runs numerous programs aimed at providing credit and financial support. Some of the most important schemes are the Prime Minister's Job Creation Scheme, the Credit Linked Capital Subsidy Scheme (CLCSS) and the MSME Credit Guarantee Trust Fund (CGTMSE) – providing collateral-free loans to MSMEs. However, one of the biggest problems faced by MSMEs in India is access to finance. (vii) Access to soft credit, risk mitigation funds, easy access to raw materials and marketing facilities, existing dispute resolution procedures are not industry friendly. (viii) Technology plays a key role for MSMEs to help them grow and compete against stiff competition from big companies and imports. While large industries have sufficient resources for continuous technology and quality improvement, MSMEs, on the other hand, have resource limitations in terms of technical knowledge, R&D expertise and skills. It is difficult for MSMEs to upgrade themselves. (ix) It is also noted that low technology level reduces the potential of MSMEs, reduces demand for the product (lower sales) and reduces profit margins. It is also noted that higher investment in technology and research development, greater use of digital and technology-enabled platforms are of paramount importance for Indian MSMEs to maintain competitiveness in global markets augmentation/ across sectors. In this regard, the Government of India has set up eighteen Tool Room Training Centers (TRTCs), 15 are in the works and 100 more are proposed by the Ministry for MSMEs, which serve to promote technology and need to be replicated in the districts. (xi) MSMEs need people, but qualified ones, who can contribute productively to the growth of the company. It is estimated that MSMEs can be a major source of employment. However, the employability of large unemployed youth has been questioned by many in the know. This unemployment also hampers the use of demographic dividends. (xii) Our education system is generally not designed to meet the challenge of qualifying young people who can be employed in manufacturing, services or commerce to meet demand. (xiii) There are two major challenges for MSMEs to upskill the workforce (i) sparing their own staff for upskilling, particularly in micro and small enterprises where the workforce is sparse, and (ii) availability of customized programs and awareness raising for such programs. (xiv) There is currently no MSME code to provide SOPs (Standard Operating Procedures) to facilitate stakeholders to initiate appropriate follow-up actions. (xv) Marketing support and appropriate infrastructure are the backbone for MSMEs. Ultimately, with all other inputs, financial access and technological support, MSMEs can only survive if they are able to sell their products and/or services. The government has tried to provide marketing support to MSMEs in India through its various schemes, but much remains to be done right. (xvi) Finally, the business environment for facilitating business operations and the exit code must be strengthened.

a. 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 New Delhi 1 June 2020 S.O. 1702(E). 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 1st, 2020.

3. Review of Literature

The present research aims to examine the importance of GST in India while also identifying the value of GST in literature and its impact on society and vice versa. Literature is a powerful vehicle for learning about the culture, traditions, practices, conventions, customs, feelings, thoughts, and beliefs of the world. Literature preaches to us the true meaning and grandeur of life. For the lost, literature is like the North Star, guiding them through life's misery by sharing the experiences of those who have faced and successfully overcome such situations

Lourdunathan and Xavier spoke about the responses, different arguments and opinions among the manufacturers, dealers and society about the GST. The article highlighted the background, perspectives and challenges of implementing GST in India. From this article it was concluded that GST will bring one nation and one tax market. It will unburden manufacturers and consumers by providing broad and comprehensive coverage of input tax credits, service tax credits and aggregation of the various taxes. Proper implementation of the GST will result in resource and revenue gains for both the center and the states, primarily through tax base broadening and improved tax compliance. It was also concluded here that GST will have a positive impact on various sectors and Industries There will be a tough procedure to implement the GST in our system, which

can be completed through joint efforts of central and state governments, commerce and industry. Once electronic GST processing of tax returns, refunds and tax payments begins via GSTNET without human intervention, corruption and tax evasion will be reduced. This system facilitates integrated verification of business transactions through seamless loan and return processing, reducing the scope for black money generation, resulting in productive use of capital. Therefore, there will be a need on the part of the government to conduct and conduct adequate training, ongoing seminars and workshops on the subject of GST. A study on the impact of indirect taxes, namely the GST, on small and medium-sized enterprises was conducted by Chennathur and Anuradha, This study found that MSMEs appreciate the spirit of the GST and also acknowledge that it is doing better than its predecessor, but largely condemn its compliance burden. One of the more important findings is that the impact of GST on MSMEs would be different in different industries and would also differ from each state's politically sensitive industries. Therefore, increased government engagement in conducting awareness and training programs on GST, as well as supporting MSMEs by providing greater financial support and incentives, is needed to improve profitability and standardize their working methods.

After the introduction of the GST, Arun Kumar attempted to scrutinize some government claims about how the GST would make it easier to do business, increase tax collection, lower inflation, boost GDP growth by 1-2 percent and curb the informal economy. More than a year later, he has more questions than answers. Why has the economy slowed down? Is the state likely to raise more taxes? Why have prices continued to rise? Why did Malaysia withdraw GST? It turns out that problems with GST are both temporary and structural. To correct this, there have been a few hundred government notifications and orders, which have added to the confusion.

Tarun Jain has conducted in his book an analysis and discussion of the intent and thought process that went into the design of this mega-law, the basis and background that will aid in the interpretation and understanding of the various provisions of the GST Act. This book also provides an analysis of the various legal and economic concepts on which the GST Act is based.

Khoja and Khan attempt to empirically analyze the potential impact of the GST on the cascading and hence revenue collection in the Indian economy. The study found that the GST has led to a reduction in cascading, thereby improving the revenue performance of the goods tax structure. The results of the study were largely confirmed by the tax performance of both central and state governments under the GST. As mentioned above, the majority of Indian states on average have seen a significant increase in their tax revenues even in the face of certain technical complications of the new regime. Furthermore, such reform aimed at cascading has the potential to boost trade both internally and externally, as cascading distorts relative prices and hence trade.

4. Objective of the study

1. Studying the operational problems of SMEs in the post-GST period.
2. Studying the marketing problems of SMEs in the post-GST period.

3. Studying the overhead problems of SMEs in the post-GST period

5. Research Gap

The literature review revealed that little work has been done on the impact of GST on SMEs. However, it has been noted that there is no research on the prospects and operational problems of SMEs in the post-GST era, so there is a need to examine the prospects and operational problems of SMEs in the post-GST era - A study

6. Statement of the problems

It is widely believed that GST is difficult to understand. As GST tax reforms are happening continuously, understanding the GST tax reforms is the biggest problem as there are no standardized tax reforms that we can see in direct tax system in India. For example, constantly changing GST tax reforms cause confusion among entrepreneurs. This study explains the perspectives and problems of SMEs after the GST era. A study.

7. Need for the study

GST implementation in India is very challenging as India is a developing country which needs to focus on developing SMEs, but due to GST implementation, majority of small industries are sick as they are faced with the problem of overhead costs, excessive time and waste of labor and materials, no performance monitoring, unstable cash flow and lack of planning especially for uncertain times and compliance with GST in India has seen a huge improvement since 2017. So there is no study on the prospects and problems of SMEs in the post-GST era, so there is a need to study the prospects and operational problems of SMEs in the post-GST era.

8. Hypotheses of the study

Objective 1: Investigate the operational problems of SMEs according to GST Era

HO: There is no significant impact on operational problems of SMEs according to GST Era

H1: There are significant impacts on operational problems of SMEs according to GST Era

Sub Hypothesis-1HO: There is no significance Impact of excessive time wasting is the operational problem of SMEs in the post-GST era Era

H1: There are significant impacts of excessive time wasting is the operational problem of SMEs in the post-GST era.

Sub-hypothesis 2

HO: There is no significant impact of excessive labor waste on the operational problem of SMEs in the GST era

H1: There is significant impact of excessive labor waste on the operational problem of SMEs in the GST era.

Sub-hypothesis 3

HO: There are no significant impacts of excessive material waste as an operational problem of SMEs in the GST era

H1: There are significant impacts of excessive material waste as an operational problem of SMEs in the GST era.

Objective 2: To study the marketing problems of SMEs in post GST Era

HO: There is no significant impact on SME marketing issues post-GST Era

H1: There is a significant impact on SME marketing issues post-GST Era

Sub-Hypothesis-1

HO: External experts have no significant impact on SME marketing issues post-GST Era

H1: External experts have a significant impact on SME marketing problems in post-GST era

Sub-Hypothesis-2
HO: Technology adoption is not having a significant impact on SME marketing problems in the post-GST era

H1: Technology adoption is a significant impact on SME marketing problems in the post-GST -Era

Objective 3: To study the overhead cost problems of SMEs in Post GST Era

HO: There is no significant impact on SME overhead issues in the GST era

H1: There is significant impact on SME overhead issues in the GST era.

9. Scope of the Study

The focus of the study is on perspectives and problems of SMEs in the post-GST-EraA study. In order to maintain the quality of the research, a study was limited to SMEs in the Peenya Industrial Zone, Bengaluru

10. Research Methodology

The study focuses on secondary data collected from various magazines, books, articles in newspapers and publications of government reports from various sources, which focused on the Goods and Services Tax.

11. Conclusion

Amid sluggish demand, job losses and high inflation woes, India's Finance Minister Nirmala Sitharaman took a pro-growth approach during the Union's 2022 budget to boost India's micro, small and medium-sized enterprises (MSMEs). Record revenue of Rs 1.40 lakh crore gross GST in January 2022, the highest since its inception, gave impetus to the Government to announce higher capital spending for the year, from 5.54 lakh crore to 7.50 lakh crore in FY22- 23, and launch infrastructure projects that hope to revive growth. Governments' focus on stimulating investment, thereby boosting jobs and consumption, rather than directly announcing financial easing or expanding giveaways to the MSME sector is a welcome move that will bear fruit in the years to come.

12. Bibliography

1. Books for Research Methodology

2903 | Viswanatha S R
Study

Impact Of Gst On Small And Medium Enterprises-A

- a) Kothari C.R., Research Methodology Methods & Techniques, WishwaPrakasan Publishing Co. Ltd., New Delhi, Sixth Edition 2001.
- b) Bhattacharyya, Research Methodology, 2nd Edition, 2006, Excel Books, New Delhi.
- c) Kothari C.R, Research Methodology: Methods & Techniques, 2nd Edition, 2009, New Age, New Delhi.

2. Journals and Research Papers

1. Sawant, B. (2010). VAT & Goods and Services Tax (GST): A Panacea for Indian Economy, Vandana Publications. International Journal of Engineering and Management Research ISSN(ONLINE):2250-0758, ISSN (PRINT): 2394-6962 332. Volume-5, Issue-4, Page No: 332-338.
2. Russo, B. (2008). An Exploratory Study on Evolution & Implementation of GST in India. International Journal of Science Technology and Management, ISSN (O)2394-1537,ISSN(P)2394-1529,Vol.6,Issue No.01, Page No.721-725
3. Sharma,B.G. (2016). GST: The Concept and Features of GST. Vidyabharati International Interdisciplinary Research Journal 4(1) ISSN 2319-4979, Volume 03, Issue 01, Page No:51-53.
4. Manyal, B. and Nagpal, A. (2016). GST on e-commerce in retail sector: BOON or BANE XVII. International journal of Research Annual International Seminar Proceedings, ISBN no 978-81-923211-8-9, Page No:1058-1067.
5. Pegu, B. (2017). India's Goods and Services Tax – A Primer, STCI Primary Dealer Ltd.PP 1-11 Gelardi. Alexander M. G. Value Added Tax and Consumer Spending: A Graphical Plotation & Analysis. American Journal of Finance & Accounting, ISSN 1626-05X, Vol. 5,1. Page No: 987-996.
6. Sinha,C.P. (2015). A knowledge Repository in Goods and Services Tax in India. International journal of Research Granthaalayah,Vol.3 (Iss.12), ISSN- 2350-0530(O) ISSN-2394-3629(P),PageNo:133-141.
7. Purohit, C and Devi S. (2007). Assessment and Impact of New Tax Structure on European Union, International journal of Finance and Economic,Volume 1, Issue 3, Page No:201-310.
8. P. Sahoo COVID-19 and Indian Economy: Impact on Growth, Manufacturing, Trade and MSME Sector Global Business Review (2020), pp. 1-25 <https://doi.org/10.1177/0972150920945687> Google Scholar
9. Shafi, J. Liu, W. Ren Impact of COVID-19 pandemic on micro, small, and medium-sized Enterprises Operating in Pakistan Research in Globalization, 100018 (2020) <https://doi.org/10.1016/j.resglo.2020.100018> Google Scholar

3. Thesis referred

1. Challenges of MSMEs in Karnataka: a study related to the Peenya industrial area of Bengaluru, one of Papaiah research scientists led by Dr. Jayaprakash Reddy Professor and Chancellor at the University of Mysore Thesis submitted for the Doctorate in Philosophy of Economics Objectives Center for Research Center affiliated with the University of Mysore.

2. A dissertation titled A Study of Marketing Performance of Small Industries and the Development of Novel Marketing Practices for SSI with Special Reference to Pune District, submitted to KavayitriBahinabaiChaudari North Maharashtra University, Jalgaon to complete the requirements for conferring the PhD degree To Fulfill the Philosophy in Management by ShailendraShyam Rao Patel Research Scholar under the direction of Dr. Rameshwar R. Chavan School of Management Studies, KavayitriBahinabaiChaudharis North Maharashtra University, Jalgaon. JULY 2021

4. Weblinks

1. <http://www.gstcouncil.gov.in>,
2. <https://cbic-gst.gov.in>,
3. <https://www.gstindiaonline.com>
4. <https://www.gstn.org>.
5. <http://msme.gov.in/>