



Impact Of GST On Compliance Requirements Of Msmes

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) plays a vital in the economic progress of India, the implementation of Goods and Services Tax (GST) has had an immense impact on their functioning in the market. Some enterprises found it helpful, however, majority felt problems in adopting it. For existing enterprises, GST simplified the tax structure, unified the market thereby improving operational efficiencies of MSMEs. In the earlier regime, the unorganized MSMEs were growing faster than the organized ones, as they were having lower compliance burdens. With GST in effect, it has made the taxation system transparent thus bringing all entities at par, with reference to tax compliance burden. This paper assesses issues and compliance challenges experienced by MSMEs in the GST regime.

Key Words: GST, MSMEs, Compliance

Introduction:

Goods and Services Tax (GST) was introduced in India with effect from 1st July 2017. It was hailed as the biggest tax reform of independent India. GST subsumed most of existing indirect taxes, and created country wide uniformity of indirect tax incidence in India. Implementation of GST was result of political consensus built over two decades and was enabled by constitutional amendment passed by parliament, as well as, various state assemblies in India. Under GST amendment states gave away their exclusive powers to tax goods sold within respective states, and revenue from such transactions are being shared between union government and state governments. Similarly, union government gave away its exclusive right to tax services and under GST regime tax revenue from services are also being shared between union and state governments. One of the stated objectives of GST is to ease indirect tax compliance.

The different sectors of economy had different impact of GST on the them, this paper is dedicated to understand impact of GST implementation on compliance requirements of MSMEs.

Composite criteria defining MSMEs, applicable to both manufacturing and services providing enterprises, with effect from 01-July-2020 is under:

Classification	Micro	Small	Medium
Investment in P&M and Equipment	Not more than INR 1 Crore	Not more than INR 10 Crore	Not more than INR 50 Crore
Turnover	Not more than INR 5 Crore	Not more than INR 50 Crore	Not more than INR 250 Crore

(Source: Union Ministry of Micro, Small & Medium Enterprises, Press Release dated 03-June-2020)

Review of Literature

Mukhopabhyay (2015) asserted that GST will benefit manufactures and traders, GST will benefit the manufactures, as they will not have to pay entry tax, there will have access to common market and central excise tariff will be eliminated. The abolition of entry tax will enable easy movement of goods transport. The GST regime will result in one uniform tax which will make rate of duties same all over India.

Phukan (2015) concluded that GST would do well for the economy in multiple ways, one of the major points is reduction of the tax burdens for manufactures, as well as for various other sectors in the economy. GST will facilitate to build a corruption free tax administration. Tax will be levied and collected at single point, rather than at different points of manufacturing to consumption. Consumers will benefit with see a prices reduction, and lower prices will enable more consumption.

Goel (2015) concluded that GST would be the next logical step towards widespread indirect tax reforms in India. It is aimed at being comprehensive for most goods and services, the government proposed the GST rate to be at 27 percent, however our finance minister Mr. Arun Jaitley proposed that the rate is too



high and needed to be much more diluted. GST will attract the same rate of tax for both goods and services. GST would reduce multiple points of taxation also since the aggregate tax rate will reduce the exports in the Indian market will increase

Vasudhevan (2017) empathized that the un-organized MSMEs, which were advancing faster than the organized peers due the initial tax avoidance. After the enactment of GST, even unorganized MSMEs are in ambit for tax payment, as the Government has decreased the threshold significantly.

IMF (2018) report titled "A Market, Unified" by the finance and development department on goods & services tax explained how the reform has resulted in one market for the first time, since independence. With the implementation of GST, the taxpayers base has increased by 50% and as the reform stabilizes, the GDP is expected to rise by 1-1.5 %. The credit based matching system will increase the compliance quality and reduce the tax leakage. India as an economy which will attract investment enhancing to trade and growth of the economy. One of the major benefits is that, the reform accrues to is to the MSMEs in context of easy access to credit system. Also, GST will aid to the better balancing on the size of the formal and informal sectors.

Songara (2019) found that the implementation of GST would result in a simple and transparent tax system and that would help in avoiding tax leakage at all levels. But to gain these benefits, India requires to build a strong compliance mechanism.

Geeta, Mathiraj & Bharathi (2019) concluded that preparedness in respect of GST by MSME entrepreneurs, need for improvising the GST network as it is turning out to be the bottle neck towards realizing the actual outcome of GST implementation. They suggest that there is potential scope for improvement in the GST compliance process.

Mehra & Singhal (2019) asserted that due to implementation of Reverse Charge Mechanism on real estate developers under GST, their compliance requirements have increased as they need to deposit GST towards their purchases of goods and services from unregistered dealers.

Rasal (2020) concluded that negative list towards input tax credit creates challenges for small businesses to smoothly obtain input tax credit pertaining to their purchases, thereby increasing compliance cost.

Dang, Kaur, & Kaur (2020) concluded that logistics cost for MSMEs is reduced due to easy facilitation of inter-state movement of goods, with e-way bill system under GST regime providing help to small businesses. They further highlighted that digital nature of GST compliance requirements are putting pressure on MSMEs to put digital infrastructure.

Dey (2020) concluded that GST is biggest tax reform which has transformed the indirect taxation system from production based to consumption-based taxation system. It is expected to bring betterment to all sections of society. It was asserted that real benefits of GST will be ascertained after few years.

Benjamin and Singh (2020) asserted that though there is increase in effective tax rate on Mutual Fund industry due to implementation of GST, as compared to Service Tax, there is no significant effect on returns of Mutual Fund investments.

Paliwal, Saxena, and Pandey (2020) concluded that tax revenue has become less responsive to changes in economy, implying that the economy would not be able to generate sufficient revenue, through taxation to the extent similar to the increase in public expenditure. They cautioned policy makers to take note of it and provide suitable measure to boot growth in the economy.

Sharma and Dayama (2020) emphasized need for more analytical based research for having benefits of implementation of GST on India economy. It asserted that GST will result in greater transparency in taxation system of India.

Das & Chatterjee (2020) concluded that GST implementation had no significant impact on Real Estate sector in India. They further asserted that GST system will generate higher revenues for the government and bring more openness in taxation system.



Rafee, Desai & Singh (2020) concluded that GST implementation had mixed response on various sectors of economy. In the study it is found the relationship between government overall expenditure and the it's ratio with GST in total spending it is found to be 1:0.27, which signifies that GST has major impact of government's spending.

Digal (2020) concluded that due to GST implementation the MSME sector is required to revamp their strategies, systems, supply chains and costing. Before GST roll out unorganised MSMEs have grown faster than organised peers because of lower cost structures due to tax benefits. It further asserted that currently it is complex for MSMEs to comply with GST requirements. It suggested policy maker to periodically review scope for easing compliance requirements for MSMEs.

Gaikwad & Dhokare (2020) concluded that The GST is the biggest compliance issue for MSMEs. It is time for GST bottlenecks and related problems to be addressed and resolved as soon as possible. This will enable their faster growth and enhance their contribution in India's economic development.

Rane & Lende (2020) found that cost of construction of residential building being constructed by small builders has gone up by due to changes brought under GST implementation requirements. It suggested to government to make provisions for compliance relief to small builders in order to facilitating their growth and contribution to the economy.

Kumaraswamy (2020) concluded that GST has hit hard on MSMEs short-term working capital needs. The credit requirements have created a liquidity squeeze to SMEs. In order to enable operating them normally government needs to look at their specific requirements and take required supporting measures.

Roy, Patnaik & Satpathy (2020) concluded that majority of MSMEs in rural India had issues in filing GST returns due to the effects of supply disruption and lower demand. Furthermore, the existing GST regime is sub-optimal as it did not favour SMEs in manufacturing, retail and the hospitality sector. It suggested policy makers to have sector specific study and provide required support to small businesses.

Saroj (2020) concluded that MSMEs in retail sector finds filing of GST returns more challenging than earlier systems. It suggested that government should make the compliance process more user friendly for small businesses.

Seth (2020) concluded that many MSMEs were not fully aware of GST requirements and due to online processes were finding it difficult to submit correct returns. Further, some of the requirements were too rigid for compliance by small businesses. It suggested government to make processes easier for compliance by small businesses.

Manjunath (2021) emphasized providing greater awareness, facilities and training to small businessman in order to unleash full benefits to large sections of the Indian economy. He further suggested that supporting small businesses in GST related matters will help in achieving import substitutions.

Singh (2021) asserted that with GST applied throughout the country and is substituted for a variety of other indirect taxes, such as VAT, services tax etc. is a simpler tax system. The GST would not raise the tax burden and the cumulative tax burden will reduce when the cascading impact of combining a number of tax structures with one tax structure is eliminated. While it increases compliance requirements on MSMEs, it will eventually help MSMEs in building their capabilities.

Gupta & Meher (2021) concluded that MSMEs have mixed responses on GST implementation effects. It suggested government to study specific requirements related to MSMEs and make changes for easier compliances. It further suggested that more research work is required in this area to communicate effectively positive aspects of GST implementation.

Hindustan Times Mint (2021,May 20) highlighted issues faces by MSMEs due to GST implementation giving focus to difficulties faced in availing input tax credit due to non-matching of credit with payments by vendors towards GST. It also discussed issues faced by buyers due to errors at vendors end in issuing 'Business to Business' invoices as 'Business to Consumer' invoices. Issues related to difficulties in adapting to continuously changing technology requirements and GST portal not being so user friendly is also discussed.



Objective:

The objective of this paper is to make realistic assessment of impact of GST implementation on compliance requirements of Micro, Small and Medium Enterprises (MSMEs) by detailed analysis of requirements pre and post GST periods.

Discussion:

The relevant data and information are collected from various secondary sources, such as research articles, journals, tax websites, news articles, etc. The information regarding the provisions is collected from various acts and amendments made, specifically, the information is collected from the erstwhile provisions and the various provisions applicable in GST

Major taxes related to MSMEs subsumed under GST includes

- Central Excise Tax,
- Service Tax,
- Value Added Tax (VAT)
- Central Sales Tax (CST)
- Countervailing Duty
- Special Additional Duty
- Octroi/ Entry Tax
- Various type of cess

The requirements were either in form of physical hard copy documents or digital submissions. These compliance requirements were made up of components like:

- Quarterly issuance of tax concessions forms like Form C, Form F etc.
- Issuance of transit forms like Form E-1
- Filing of monthly, quarterly and annual returns
- Monthly/Quarterly payment of taxes
- Submission of certified financial statements
- Audits by Government agencies

Under GST regime the compliance requirements got uniformed, as state wise differences are now done away. The new requirements are consisting of

- Filing of monthly, quarterly and annual returns
- Monthly/Quarterly payment of taxes
- Submission of certified financial statements
- Audits by Government agencies
- E-invoicing
- Invoice to invoice matching of credit etc



Resources required to meet compliance requirements consists of

- Trainings to management and employees
- Service charges by the consultants, trainers, experts etc
- Time spent on preparatory work for filing returns
- Internet, computer etc required for compliance working
- Travel time and liaison time in obtaining the physical forms etc.

	GST Regime	Earlier Regime
Registration	GST registration can be obtained through online application on Government portal. The document requirement includes standard profile documents like, PAN, Mobile number, email, memorandum of association etc. The document requirement is similar to erstwhile regime. The major difference from earlier systems is that state wise registration is required where business operates.	In the earlier regime documents requirements were similar to documents required under GST. However, registration requirements were a mix of central and state wise registrations. Within the state also there were separate registration requirements under different taxes.
Declaration Forms and Way Bills	Under GST regime E Way Bill are required for movement of goods above threshold limit. These bills can be generated by logging in E Way Bill portal of Government. Way bill can be printed and attached with invoice or E Way Bill number can be mentioned on invoice. This system has provided much needed ease of operation to business.	Under earlier regimes multiple forms in physical or digital mode were required for different transactions. There were lot of procedures involved in getting these forms issued, exchange of forms between buyers and sellers and submission of counterfoils with Government authorities.
Return periodicity	Periodicity of return filing under GST is monthly, quarterly and annual.	Periodicity of filing returns under earlier regimes too were monthly, quarterly and annual, so there is not much difference under GST and earlier regimes.
Documents verification during transit	Under GST system Government authorities checking documents has border check point have access to GST data base, so they are able to check documents quickly.	Under earlier regimes, document checking used to be time taking and cumbersome process as verifications were required to be done manually.
Details on invoice	GST mandates enhanced details to be reflected on invoice like 6-digit HSN code, location of buyer's facility etc.	Details required on invoice under GST are higher than earlier regimes, but does not pose major inconvenience in compliance.
Input Tax Credit	Under GST regime input tax credit and be taken based on 'one to one' matching of details between buyer and seller. In case of shortage, damages and rejections taking credit become challenging exercise. This also put lot of financial hardship and blocking of working capital.	Input Tax Credit under earlier regimes were not based on 'one to one' matching principle. The process to avail input tax credit was easy to understand and execute.
Auto population of	GST has feature of auto population of data for filing returns. The data so	Earlier regimes were not having feature of auto population of data.



data for returns	populated ca be verified and finalized. This saves time and effort in filing of returns.	
Audit	GST returns are subject to audit by Government authorities.	Similar provisions for audit of returns under earlier regimes existed. However, due to multiplicity of laws, the process was more time consuming.
Digital exposure	Under GST regime compliance activities are largely driven in digital environment. While this force operating persons to mandatorily acquire understanding of digital environment working, this will prove to beneficial in the long run.	In the earlier regime, there were a mix of digital and physical working requirements.

Conclusion: The GST regime has changed dynamics of compliance requirements in a significant manner for MSMEs. While the change has forced to be more technology savvy and require greater degree of attention, it has provided much needed relief particularly by eliminating requirement of physical forms accompanying the goods during transit. The major wish list of MSMEs in the context of GST compliance requirements remains the modifications required in ‘one to one’ invoice matching concept, once the concerned authorities focus their attention in providing relief to MSMEs in this pain point, it will be huge business enabler for MSMEs.

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