Impact of GST implementation on small scale industries (SSIS): An analytical study with special reference to India

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DOI: https://doi.org/10.33545/26179210.2022.v5.i2.281

Abstract
The Goods and Services Tax (GST) is a significant tax reform in India, considered the most significant since independence, that has been delayed for a long time. The purpose of GST is to streamline the indirect tax system in India by replacing many levies with a single consolidated tax. The Goods and Services Tax (GST) is the only indirect tax that directly links all sectors of the Indian economy, hence promoting economic development by establishing a single unified market. Over 160 nations worldwide have adopted the Goods and Services Tax (GST), with France being one of them. In 1999, Atal Bihari Vajpayee suggested the concept of GST in India. To oversee its implementation, a committee was established, with Asim Das Gupta, the finance minister of West Bengal at the time, as its chairman. The implementation of this initiative, led by P Chidambaram, the former finance minister of the UPA administration, was scheduled to begin on April 1st, 2010. However, owing to political concerns and competing interests among many players, it was not put into effect. The Lok Sabha ratified the constitutional amendment bill for GST in May 2016, and the finance minister of India, Arun Jaitley, set a deadline of 1st April 2017 for the implementation of GST. Nevertheless, there is a significant and widespread opposition to its execution. This article provides a comprehensive understanding of the idea of Goods and Services Tax (GST). The article examines the impact of the Goods and Services Tax (GST) on Small Scale Industries (SSIs) in India. Small Scale Industries (SSIs) play a significant role in the Indian economy, making up about 40% of the country's industrial output, 42% of its exports, and providing job possibilities for 65% of the workforce. Hence, an endeavour is being made to analyse the consequences of GST adoption on Small Scale Industries (SSIs). This article examines the advantages of GST on Small Scale Industries (SSIs) as well as the challenges experienced by SSIs due to the introduction of GST.

Keywords: Economic development, Indian economy, GST, SSI, employment, export

Introduction
India's government began collecting a goods and services tax (GST) on July 1st, 2017. The Indian Constitution has undergone its 111th amendment. India switched from the VAT system to the GST system. A unified tax, known as the goods and services tax, replaces the several domestic taxes that are now in effect. Unlike the prior origin-based tax scheme, it is a "destination-based tax" on the production, consumption, and sale of products and services across all of India. "One nation, One Tax" is the GST's catchphrase. GST is already in use in 160 countries. Malaysia, Canada, France, the United Kingdom, New Zealand, Singapore, and more countries are included in this. GST in India is a dual-system country. Central GST (CGST), which the Indian central government would levy and collect, is one of the main components.

Goods and Services Tax
GST is a single tax to be levied on the supply of goods and services. It will be borne by each part of the goods and services supply chain, right from the manufacturer to the consumer. Taxes paid on the purchase of goods or services (called Input Tax), whether for resale or for producing/manufacturing a new item, will be utilised as credits to offset the tax to be paid on sale of the said goods. This process will be repeated as many times as the said goods change hands in the original form or in a new form.
Literature review

Shefali Dani (2014) in her research paper on ‘An impact of GST on Indian Economy’, 2016 stated that the proposed GST is a weak attempt to rationalize indirect tax structure. According to Dani, the Government of India should study the GST regimen set-up by various other countries and their dropouts before its application. No doubt, GST will make taxation system easy compared to the previously existing tax system, but during that period, the Government must make an effort to protect mainly the poor population of the country, which would be affected due to the enactment of GST.

Rani Jacob (2015) [4] in her research paper ‘The Impact of GST on MSMEs’ stated the positive and negative impacts of GST on MSMEs, the positive were easier to start business, facilitates expansion of business, lesser tax burden, online compliance procedures. According to her, the negative impacts were selective tax levying, compliance cost, technological dependency, monthly financial preparedness. Mr. Shakdwipee, P (2017) in the research paper titled ‘Measuring Awareness about Implementation of GST: A survey of small business owners in Rajasthan’ analysed the perception of small business owner in Rajasthan about GST and how they managed, and found out that their main area of focus was computer software availability and handling of the same.

In an interview by Adi Godrej to business line, published on 24 June 2017, it favors GST and considers GST as a boon for Indian Economy in various aspects. It is also mentioned that once GST is executed there will not be opportunities to evade taxes and that the rates have been analysed in a manner that will add value to the economy. This would mean much less paper work and thus, automated simplified procedures So there will be less chances of fraud.

Ankita Verma and Priyanka Khandelwal (2018) they found out that some enterprises found it beneficial but majority faced difficulties in accepting it. Even so, operational efficiencies were improved overall. The authors of this article draw the conclusion that this tax structure affects MSME business regulation in both favourable and unfavourable ways.

N. Ramalingam (2018) in his paper titled “Towards Goods and service taxation- issues and concern” structured through three parts. The first part contains basic concepts in GST and its evolution, issues involved in its implementation. In second part he compared the VAT system and GST system. The third part attempts to map the major areas of concern and level of preparedness of the state from the point of view of revenue, administration and compliance. Through this paper he tried to resolved major unresolved issues regarding to the implementation from the state’s perspective. He suggested that each of the issues should be discussed with stakeholders at all the levels for the smooth and hassle-free transition to GST.

V. Raveendra Saradhi and O.P Wali (2018) study stated that the impact of GST in the business supply chain system. They found that GST helps fast moving of goods from one state to other states through the unified tax system. But the relative opportunities and risk of procurement from GST registered vendors and unregistered vendors are likely to affect sourcing decisions.

M. Jayalaksmi and G. Venkateswarlu (2018) in their study titled “Impact of GST on Micro, Small and Medium Enterprises” point out that marginally negative impact will be for the leather and footwear sectors. They state that GST aims to increase the taxpayer’s base and majority of the SME into its scope and will put a burden of compliance and associated cost to them. They concluded that even in short run MSMEs will face somany issues. But in long run it will be useful for the companies. This study was conducted at Tirupati, Andra Pradesh.

Statement of problem

SSIs are a major driver in the Indian economy, contributing almost more than, it accounts for nearly 40% of the country’s industries production, 42% of exports and 65% of the employment opportunities. But in the last year government of India made great reform in indirect taxation system by introducing GST. From onwards major changes and challenges occurred in the functioning of SSIs. Hence this study concentrated to explore how that GST imposing challenges and created opportunities to the SSIs sector in India.

Objectives of the study

- To study the role of SSIs in Indian economy.
- To analyse positive impacts of GST on SSIs.
- To examine the challenges faced by SSIs towards GST.
- To provide suitable suggestions in concern of SSIs

Role of small-scale industries in Indian economy

Employment Generation: The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth.

Mobilization of Resources and Entrepreneurial Skill:

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources are being mobilized by the small-scale sector for the development of the economy.

Equitable Distribution of Income: Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. The small- scale industries ensure equitable distribution of income and wealth in the Indian society which is largely characterized by more concentration of income and wealth in the organized section keeping unorganized sector undeveloped.

Regional Dispersal of Industries: There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of overcrowding, pollution, creation of slums, etc.
Provides Opportunities for Development of Technology: Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products.

Indigenization: Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing ground for new ventures.

Promotes Exports: Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus, they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

Impact of GST on SSIS as a boon
The following points elaborating how GST is beneficial to SSIs in relation to their compliance cost, prices of their products, expansion of business, and requirement of training and finance.

Ease of starting a business: A business having operations across different state needed VAT registration. Different tax rules in different states only added to the complications. GST tax rates are uniform across different states which enables starting a business easier and an added advantage for SMEs.

The entire process of taxation becomes simpler: The GST was implemented to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc). The taxes on goods and services levied under VAT, purchase tax, and luxury tax are now merged into one single tax with one common return. Previously, business owners had to deal with many different tax authorities depending on the nature of their business and transactions. Under GST, the relevant authority is always either the Centre or the State government.

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 to interstate points and toll check posts will be expedited. According to an estimate by CRISIL.

Challenges faced by SSIs towards GST
The following points elaborating how GST is negatively impact to SSIs.

Lower Threshold: Under the current tax structure, businesses with a turnover of more than rupees 5lakh need to pay a VAT registration fee. The government mulls the exemption limit under GST to twenty-five lakhs giving relief to over 60% of small dealers and traders.

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Lower Threshold: Under the previous excise tax regime, no duty is paid by a manufacturer with a gross turnover of less than Rs. 1.50 crores. However, after GST implementation, this exemption limit gets considerably lowered to Rs 20 lakhs. 10 lakhs (special category states) as a result, a large number of MSME’s and start-ups come under the network of the GST.

Selective Tax Levying: GST is not applicable to Alcoholic liquor for human consumption and petroleum products, which creates further gap and does not support the ‘unified market’ ideology of GST.

Compliance Cost: GST regime operates on a self-assessment model, requiring SSIs to file several returns and execute other compliances with monthly frequency. Increase in compliances would lead to increase in costs.

Technical Preparedness: Upgrading IT systems by SSIs require a sizeable investment. In addition, expenses incurring for training employees for the new GST regime is also lead to increased overhead costs for the SSIs.

Financial Preparedness: Since outward and inward supplies would be electronically matched every month, availing of input tax credit by the buyer would be based on the compliances of the supplier. Any failure by the supplier to declare his outward supplies correctly would lead to mismatch of returns leading to reversal of credits availed by

Aids SSIs dealing in sales and services: GST will not distinguish between sales and services. This is good news for the SSIs that deal with sales and services model of business, for them the taxation is simplified and will be calculated on total.

Unified market: GST will allow flexibility in transfer of goods across states and reduce the cost of doing business, as the reform will cut down multiple taxes imposed by state and central government.

Purchase of Capital Goods: In the current system, only 50% of the input tax credit against purchase of Capital Goods is available in the year of purchase and the balance amount in subsequent years. Under GST regime, entire amount of input tax credit can be availed in the year of purchase itself. This will support "Make in India" campaign.

Reduction of tax burden on new business: As per the current tax structure, businesses with a turnover of more than rupees 5lakh need to pay a VAT registration fee. The government mulls the exemption limit under GST to twenty-five lakhs giving relief to over 60% of small dealers and traders.

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the SSIs.

Multiple registrations for Pan-India businesses: Under the GST regime, businesses will have to register online for GST in every state involved in its sales process. If business is carried out across 5 states, then it should be registered under GST in those 5 states to carry out the business activities. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.

Excess Working Capital Requirement: Taxation of stock transfer will primarily impact the working capital requirements. The quantum of impact will vary depending on stock turnaround time at warehouse, credit cycle to customer, quantum of stock transfer, etc. Higher amount of Capital Requirement will increase interest cost which ultimately will increase the price of Finished Goods.

Dual Control: In recent GST Council Meeting it was decided by the Ministry that those assesses having turnover of less than 1.5 Crores will be assessed by Sate Government and existing Service Tax assesses, irrespective of turnover will be assessed by Central Government as there is lack of expertise with the State Government in relation to Service Tax matters. Because of this, small traders dealing in both goods and services will have dual administrative control both by Centre and State.

Suggestions

- Government has to create awareness regarding rules, regulations, and compliances of GST by arranging workshops, seminars, conferences to educate proprietors of SSIs.
- Government of India should have to increase threshold limit from 20 lakhs to 1.5 crores hence that reduces tax burden to small businesses.
- Government has to take initiative measures to reduce compliance cost. This will help full to lower their product prices.
- GST is IT backed infrastructure that needs necessary training to the employees hence Government should provide necessary training facility to employees and proprietors of SSIs.
- The business is in different states needs separate registration may increases compliance cost hence one registration should be there for entire business. That encourages business to diverse their business activities beyond their states.
- 8.6 Government must ensure easy compliances of GST because that reduces errors and confusions in the minds of traders of SSIs.

Conclusion

Small 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 and market standards. Some enterprises found it beneficial but majority faced difficulty in accepting it. For existing enterprises, GST has simplified the tax structure, unified the market hence improved the overall operational efficiencies of small, so far, the unorganized small enterprises were growing fast than the organized ones because of the tax avoidance, with GST in effect, it has made the taxation system has got transparent thus making the entities liable for tax payment.

 GST being the big step of Government of India to simplify the previous tax system has both positive and negative impact on business regulations of Micro, Medium & Small Enterprises. The fundamental of ‘ONE NATION, ONE TAX’ was created with an intention to easy tax filing, 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 the technology dependency of every enterprise, 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. This is the best change which has brought a lot of change to the economy.

References