



## GST: Impact on small and medium business (SMEs)

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### Abstract

Initially, the Indian small and medium business sector had been severely plagued by the complexities of the current multifaceted taxation structure. Indirect tax legislations often cost the small and medium business companies significant administrative and compliance expenses. Therefore, the implementation of the Goods and Services Tax is expected to provide a critical boost to the already lagging small and medium business industry. The GST will dole out a transformational shift from a complex multi-tiered tax structure to one that is unified and consistent. The implementation of the GST is expected to unify the Indian market and ensure a smoother, unrestricted flow of goods across the country. It cannot be expected that the border barriers will be done away with at once. However, reduced compliance scrutiny is more likely to transpire. Small and medium business units in remote or backward areas enjoy tax exemption based on their locations. As per the theory of GST, since the entire country is considered a unified market, the location-based exemptions stand invalid. This might be a true issue of concern for companies currently enrolled under this incentive. All in all, the small and medium business sector stands to gain more than losing with the implementation of India GST.

**Keywords:** GST, indirect tax, business sector

### Introduction

Goods and service tax (GST) has been heralded as the biggest indirect tax reforms in India after independence. After much deliberation, the GST bill has been passed in Rajyasabha 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. 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.

GST is destination- based consumption tax levied at multiple stages of production and distribution of goods and services. It combines various other taxes such as state and local tax, entertainment tax, excise duty, surcharges, octroi and others this tax is applicable on transaction value which includes packaging, commission and other expenses incurred during the sales

A silent feature of the GST would be that goods and services are considered alike and within the supply chain, they are taxed at flat single rate till the customers can access them the tax reforms thus gives equal footing to large enterprises and SMEs and taxes the stock transfers uniformly

### Objectives

1. To know about the GST
2. To study about the positive impact of GST on small and medium business sector
3. To find the negative impact of GST on small and medium business sector
4. To give some suggestions to avoid negative factors on small and medium business sector.

### Methodology

This paper is based on secondary data. The data collected from GST books written by different authors, research papers, journals, Newspaper reports, websites, and GST Act and Rules 2017.

### Positive impact of GST on small and medium business sector (SMEs)

As per the industry experts, SMEs and startups will be affected the most with the rollout of the GST and impact will be the favorable in ways more than one. Some of the ways GST will benefit SMEs and startups are

- **Ease of starting business having operations across different states 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, business with a turnover of more than Rs 5 lakh need to pay a VAT registration fees. The government mulls the exemption limit under GST to 25 lakh giving relief to over 60% of small dealers and traders.
- **Improved logistics and faster delivery of service:** Under the GST bill, no entry tax will be charged for goods manufactured or sold in any part of India. As a result, the delivery of goods at interstate points and toll check post will be expedited. according to the estimate by the CRISLI, the logistics cost for manufacturers of bulks goods will get reduced significantly – by about 20% this is expected to boost E-COMMERCE
- **Elimination of distinction between goods and services:**

GST ensures that there is no difference between goods and services this will simplify the various legal proceedings related to the packaged product. As a result, there will be no longer a distinguish between the material and service component.

- **The entire process of taxation becomes simpler:** the prime reason of GST is implemented to remove the cascading taxation. It reduces the complication caused by the overlap between central taxes and state taxes because it levies on a uniform tax on goods and services all over India.

### **Negative Impact of GST small and medium business sector (SMEs)**

Not all is hunky-dory though; there are a few concerns surrounding this newly developed tax mechanism, some of them being:-

- **Multiple registration for pan-India business:** under the regime, a business will have to register online for GST in every involved in its sales process. If your business delivers goods across 5 states, than you will have to register for GST in those 5 states to carry out your 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.
- **Returns must be filed on a monthly basis:** Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books which realistically will take lot of time. The time that business owners spend filing these returns could instead be spending on other productive activities like developing their business acquiring clients.
- **Cost of tax compliance is like to increases:** as mentioned above consistently filing 3 return a month uploading invoice regularly will give raise to need for an accountant with technical expertise.
- **Registration will be mandatory for e-commerce suppliers and operators:** businesses carrying out the activities related to e- commerce should register under GST.

### **Final Verdict**

Unarguably, GST rollout will open up a can of worms and the impact on SME across the various industries will vary greatly. it is quite natural for pervasive, country wide tax reform, as a GST is to have a mixed opinion further more revolutionary tax regime will have acceptance that will vary from state to state. Over all the new tax proposals under GST will have a mixed verdict in essence the GSTs effect on the entire Indian economy will have to be scrutinized in totality to reach a widely accepted conclusion.

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