

Implication of gst on msme& its governance

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Abstract: In the present day context Micro, Small and Medium Enterprises MSMEs play a vital role in strengthening the country's economy in terms of their contribution to GDP and also providing employment. India being developing country with vast population faces the problem of vast unemployment. To address this specific problem the Prime Minister of India had taken a lots of initiative by way of promoting champagne like Make in India, Stand up India, Start-Up India, Digital India and Pradhan Mantri Mudra Yojana (PMMY) etc. These initiatives are aimed not only to help in the prosperity of Indian Economy but also to help in addressing the unemployment problem among the youth. About 8% of the India's GDP is from MSME, at the same time there are 51 million MSMEs providing employment opportunity for about 111 million employees. In the recent past Govt of India has implemented GST Bill which is seen with apprehension by different quarters of the economy and industry. The GST is considered to be the most momentous reform in India which is based on the destination principle that would consolidate the various existing taxes like excise duty, central sales tax, service tax, octroi, local state taxes etc., The primary objective behind the GST is to simplify the taxes so that the cascading effect can be eliminated. The GST is structured in such a way so as to enable the environment for MSME, ease of doing business through tax collection mechanism, reduction in corruption, easy compliance, easy inter-state movement of goods etc. This paper brings out the implications of GST on MSMEs, and the data for analysis primarily is based on Secondary data, collected through annual reports of MSMEs & Statistical report of Income tax.

Key Words: MSME, GST, Input Tax Credit, Compliance etc.,

INTRODUCTION

In the present day context Micro, Small and Medium Enterprises play a vital role in the prosperity of developing any country's economy in terms of their contribution to GDP and also providing employment. India being developing country with vast population faces the problem of vast unemployment. To address this specific problem the Prime Minister of India has taken a lots of initiative by way of promoting champagne like Make in India, Stand up India, Start-Up India, Digital India and Pradhan Mantri Mudra Yojana (PMMY) etc. These initiatives are aimed not only to help in the prosperity of Indian Economy but also to help in addressing the unemployment problem among the youth. About 6% of the India's GDP is from MSME, at the same time there are 51 million MSMEs providing employment opportunity for about 111 million employees. In the recent past Govt of India has implemented GST Bill which is seen with apprehension by different quarters of the economy and industry. The GST is considered to be the most momentous reform in India which is based on the destination principle that would consolidate the various existing taxes like excise duty, central sales tax, service tax, octroi, local state taxes etc., The primary objective behind the GST is to simplify the taxes so that the concept of cascading can be eliminated. The

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GST is structured in such a way so as to enable environment for MSME, ease of doing business through simplified registration procedures, tax collection mechanism, reduction in corruption, easy inter-state movement of goods etc.

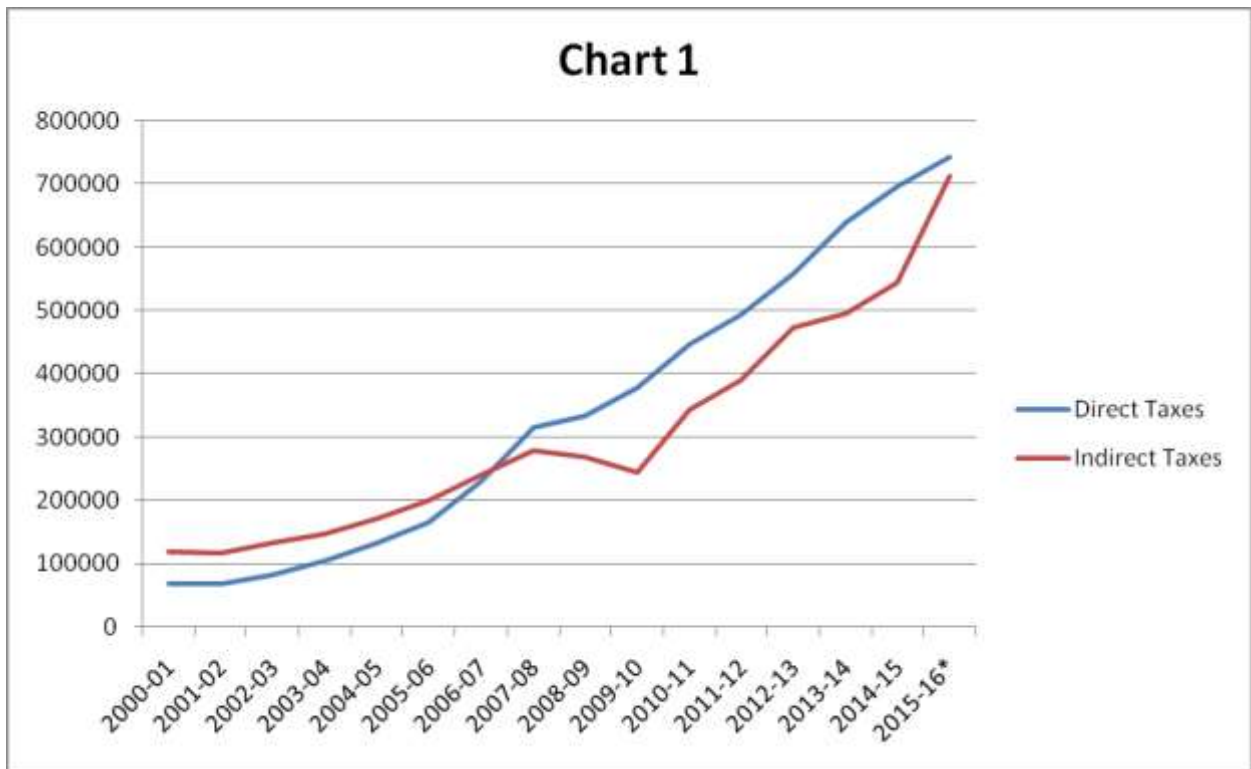
NEED FOR INDIRECT TAX REFORMS IN INDIA

Most of the laws relating to Indirect taxes in India have existed since a long time. The concept of tax on goods was made a provincial subject under Govt. of India Act 1935 and the state of Madras introduced sales tax in the year 1939 during 1941 Punjab introduced the same concept later on other states of India also followed. Even though there were amendments made on the said laws to suit to the contemporary requirement, they have become very complicated especially for MSMEs with respect to compliance, adherence of laws & regulations and heavy cost incurred for non-compliance etc., Indian Indirect Tax system is primarily based on origin tax or production tax principle which gives room for tax evasion, tax avoidance etc., but the reformed Indirect tax system “GST” is based on destination tax or consumption tax principle which subsumes various state and central taxes like local tax, VAT/Sales tax, entertainment tax, octroi, purchase tax, luxury tax, taxes on betting lottery etc, and excise duty, Service tax, Countervailing duty & Special additional duty etc., As per the estimation of CRISIL, the cost of Indian products will be competitive in the global market as the logistical cost will be reduced by around 20%. Such costs can be crucial for the survival of SMEs. GST facilitates the MSMEs ease of compliance through online portals with respect to registration, compliance, annual reports etc.

Table 1
CONTRIBUTION OF TAXES TO GDP

Financial Year	Direct Taxes	Indirect Taxes	Total Taxes	Indirect Tax As % Of Total Taxes	Indirect Tax GDP Ratio
2000-01	68305	119814	188119	63.69	5.70%
2001-02	69198	117318	186516	62.89	5.14%
2002-03	83088	132608	215696	61.47	5.39%
2003-04	105088	148608	253696	58.57	5.39%
2004-05	132771	170936	303707	56.28	5.27%
2005-06	165216	199348	364564	54.68	5.40%
2006-07	230181	241538	471719	51.20	5.62%
2007-08	314330	279031	593361	47.02	5.60%
2008-09	333818	269433	603251	44.66	4.79%
2009-10	378063	243939	622002	39.21	3.78%
2010-11	445995	343716	789711	43.52	4.48%
2011-12	493987	390953	884940	44.17	4.34%
2012-13	558989	472915	1031904	45.82	4.68%
2013-14	638596	495347	1133943	43.68	4.36%
2014-15	695792	543215	1239007	43.84	4.33%
2015-16*	742295	711885	1454180	48.95	5.25%

Source: Income tax Dept – Time Series Data 2000-2015 * Provisional



INFERENCE:

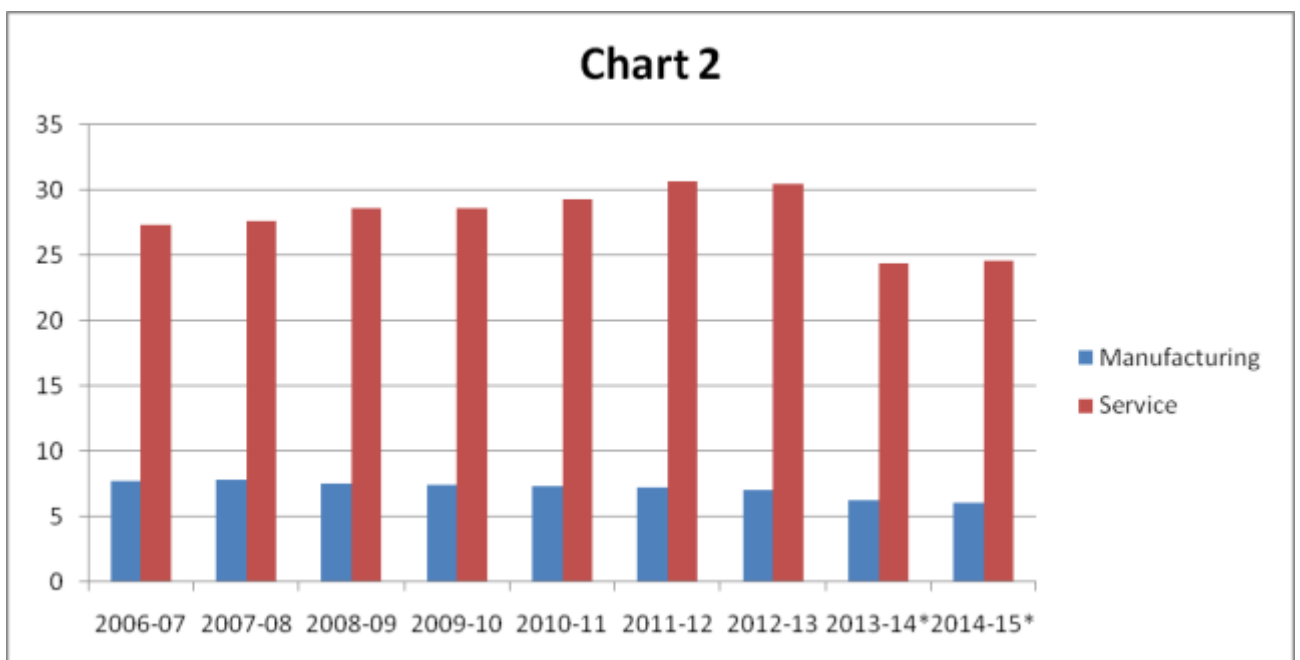
If we look at the contribution of various taxes like direct and indirect towards the total tax revenue of the country we find that of late, to be more specific, since 2007-08 the contribution has gone below 50% i.e indirect taxes as % of total taxes reduced from 47.02 to 43.84. Similarly proportion of indirect tax to GDP also mostly in declining trend i.e indirect tax GDP ratio fell from 5.60 to 4.33. whereas direct tax contributes more which is opposite to the basic principle which expects contribution of Indirect tax should be more. As per the fourth all India census of MSME, about 30% GDP constitute MSME. And with the reduction of exemption limit on turnover of MSME from 1.5 crores to 20 lakhs. GST the present tax reform aims at widening the tax base to include not only registered MSMEs but also every unregistered sector of MSME so that the Input Tax Credit can be availed. This way of inclusion of MSME will lead to strengthen the indirect tax revenue. The rolling of GST will definitely bring more number of tax payers especially MSME into the tax bracket. Hence there might be positive effect on the personal income tax in rates due to increased contribution from the indirect taxes.

Table 2
CONTRIBUTION OF MSME SECTOR IN GDP AND OUTPUT(at 2004-05 prices)

Year	Gross Value of Output of MSME Manufacturing Sector (Rs.in crore)	Share of MSME sector in total GDP (%)			Share of MSME Manufacturing output in total Manufacturing Output (%)
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.1	42.02
2007-08	1322777	7.81	27.60	35.4	41.98

2008-09	1375589	7.52	28.60	36.1	40.79
2009-10	1488352	7.45	28.60	36.0	39.63
2010-11	1653622	7.39	29.30	36.6	38.50
2011-12	1788584	7.27	30.70	37.9	37.47
2012-13	1809976	7.04	30.50	37.5	37.33
2013-14*	2653329	6.27	24.37	30.6	33.27
2014-15*	2783433	6.11	24.63	30.7	33.40

Source: Fourth All India Census of MSME 2006-07, * Sixth Economic census.



INFERENCE:

The above table portrays that the service sector of the MSME, on an average contributes 23% to the India's GDP than the Manufacturing sector (7%) of the MSMEs. As per the recent reports of CBEC, about 74% of the Assessee had shifted from VAT to GSTN and only 28% of excise and service tax had registered till the end of March 2017, that is 5.4 million out of 8 million assesseees are not coming under the threshold limit of 20 lakhs. Hence the GST Council had taken sufficient steps to enable environment for MSMEs through GST so that the inclusive growth is ensured without disturbing the MSME sector.

Implication OF GST on MSME

- **Good and Simple Tax:** The intention behind the GST is to facilitate the businessman be it Micro, Small, Medium & Large whether manufacturing or service sector, Good and Simple Tax (GST) to simplify present system of Indirect tax and reduce the burden of -Tax on Tax.
- **Uniform Tax:** The main Objective of the GST is to implement uniform tax rates throughout the country. So that the computation and the understanding of the subject matter is made easy for every common man.

- **Inclusive growth:** Annual report of MSME 2016-17 states that about 1.6 million of almost 20 million enterprises are registered. This indicates that the GST will bring more MSME into the formal system of trade and commerce.
- **Make in India:** By the introduction of GST, Indian market will become unified, competitive so as to create a overall investment climate and tempt the Foreign investors to invest under –Make in India campaign
- **Compliances:** Introduction of dual authorization system of matching under the GSTN will ensure effective compliance by the tax payers. The MSME sector has to face the serious risk of losing business and its reputation with the purchasers for non compliance under the GST. Due to one nation, one tax concept compliance under various laws are eliminated hence GST helps the MSME to comply the laws more effectively.
- **Exemption limit:** Government grants exemption to MSMEs whose turnover is less than 20 lakhs as against a turnover of more than rupees 5 lakh under VAT regime,.
- **Effective delivery of Goods & services:** GST has nullified the entry tax on goods manufactured or sold in any part of India. This will result in faster delivery at a reduced cost which is estimated at about 20% by CRISIL.
- **Assessment Procedure:** The previous indirect tax regime had different assessment procedure under different acts. This is not only lengthy but also costly especially for MSMEs. Since GST subsumed about 17 taxes and considered to be the simple tax system of filing, filling, accounts & audit, enquiry etc will be under one authority.
- **Non-Corruption:** Since GST is through online system i.e., GST Network (GSTN). The automated system will match the buyers and the supplier's invoices and ensure input tax credit. This will reduce the interaction between the assessee and the administrative authority. When there was more than one authority to deal a particular enactment, there was a possibility of corruption. Since the assessee does not know who is his assessing officer hence the room for corruption with respect to filing, registration etc., will no more exist. Hence GST will be a help to eradicate the corruption in the economy.
- **Transparency:** GST is considered to be the most transparent system of tax. Electronic matching through GSTN helps the traders to avail input tax credit which ensures the transaction to be more transparent and accountable.
- **Cashless economy:** GST is subject to online tracking, monitoring and control system of the movement of goods & services through the GSTN. Now the traders cannot declare false turnover by way of making cash transaction. GST will be a help to implement a cashless economy.
- **Input tax credit:** The concept of Tax on Tax will be eliminated with respect to GST i.e., whatever the manufacturer pay by way tax that tax can be claimed by the other middle man who add subsequent value to the goods and services.
- **Balanced treatment to goods and services:** Under GST system both Goods and Services are treated without ambiguity. So the GST brings balanced treatment for goods and services.
- **Composition scheme for MSME:** A Composition scheme for small traders and businesses whose annual turnover is less than 50 lakhs have been introduced under the GST at the rate of 2.5% to the manufacturing industries and 1% for other industries. To avail this facility one has to register oneself under GST and pay tax quarterly instead of monthly.
- **Benefit the exporters:** By way of subsuming the major central and state taxes, GST will definitely reduce the cost of manufactured goods and services. This will help the

exports to fix a competitive price for Indian products in the international market and give boost to Indian exports.

- **Benefit the consumers:** The ultimate gain of the GST is only for the consumers i.e., by way of integrating the various indirect taxes and implementing the input credit tax concept the common consumers will experience quality goods and services at competitive prices than the pre-GST prices.
- **Rating facility:** GST has introduced the concept of rating for the purpose of claiming input tax credit hence the buyers rate their vendor in payment of taxes and compliances which will help the vendor to gain a reputation and goodwill amongst the other vendors.
- **Employment Creation:** Competitive price will definitely boost the export and the manufacturing activity in India and create employment opportunity and thus help in building the GDP.
- **Employee benefits:** The abnormal growth of the unorganized MSME over the organized MSME will no longer avoid the taxes and social security benefit to its employees due to reduced tax threshold limits i.e., annual turnover of 20 lakhs will be cast into the GST regime

CONCLUSION:

As the Prime Minister of India rightly stated that –the primary responsibility of the Government is to develop and create growth oriented employment opportunity to its citizens. In line with the primary responsibility, the Government had taken numerous initiatives such as Make in India, Stand up India, Start-Up India, Digital India and Pradhan Mantri Mudra Yojana (PMMY) etc., India is considered to be the manufacturing hub and more than 90% of the industrial units are from MSMEs. MSMEs have shown constant growth rate of over 10% in recent years much ahead of the large-scale sectors. The success of the implementation of any tax reform depends largely on shielding the MSMEs sectors because developing countries economy is primarily depends on the MSMEs. The indirect tax reform considers both large enterprises and SMEs equally. No discrimination with respect to taxes on transfer of goods and services. The systematic implementation of GST will surely ensures inclusive growth of MSMEs by incorporating systematic changes rather than giving incentives and emphasizing overall efficiency in governance. The implication of GST on MSME is surely for enabling the MSMEs to innovate, compete and prosper not only in Indian Market but also in global market. Through the vibrant mantra of GST, the entire nation will be governed by –**one nation, one tax** principle, which leads to single, unified market. GST will add efficiency to the system as it is expected to be location-agnostic and reduce logistics costs.

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