

Pros and cons of gst on small scale industries

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Abstract:

Small scale industries play a significant role in the overall growth of an economy. This industry is mainly specialized in the production of consumer commodities. SSIs generate huge employment due to the utilization of labor power for the production of goods. In a developing country like India where unemployment is a major problem; these industries pave the way for employment of skilled and non-skilled persons. The implementation of GST is certainly going to affect this sector and the employees associated with it. Any tax-regime should ensure such an environment in which the proper growth of small scale industries may be assured. The First Discussion Paper (FDP) produced by the Empowered committee of state finance ministers and report of the thirteenth finance commission's Task Force have provided some important suggestions with respect to this sector.

Key words: GST, VAT, Service Sector

Introduction:

GST to create business efficiency in the medium term Under the Goods and Services Tax (GST), emphasis on value addition; amalgamation of a large number of central and state taxes into a single tax; and set-off allowance of prior stage taxes will mitigate the ill effects of cascading. This will also allow free flow of tax credit in intra and inter-state transactions, leading to a more efficient and leaner tax structure. 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. The tax is applicable on transaction value which includes packaging, commission and other expenses incurred during sales. It allows full tax credit from inputs and capital goods on procurement which can later be set off against the GST output liability.

Salient feature of GST

A salient feature of GST would be that goods and services are considered alike and within the supply chain, they are taxed at a flat single rate till the customers can access them. The tax reform thus gives equal footing to large enterprises and SMEs and taxes the stock transfers uniformly. Another salient feature of the GST rollout in India is that it will be dual based—that is, both center and various state governments will levy GST separately. The central government will levy CGST and the state governments will levy SGST respectively. However, the basis for classification of taxes, measure of levy and chargeability of taxes will be same for both. This is necessary keeping in mind the federal structure of the government, provided the governments at both levels have the liberty to administer their own taxes. In addition, GST will be levied on import of goods and services into India.

Another key feature of GST that needs mention is the elimination of the cascading effect of various state and central taxes. State taxes that will be subsumed within the GST are VAT, entertainment tax, entry tax, luxury tax, tax on betting and gambling. Various central taxes that will be subsumed are Central Excise Duty, Additional Excise Duty, Service tax, Additional Custom Duty, Special Additional Duty and Central Sales tax.

Turnover of goods and services are as under:

Turnover of goods	Turnover of services	Applicable taxes (according to FDP)
Below 10 lakhs	Below 10 lakhs	Both SGST and CGST are not applicable
Between 10 lakhs and 150 lakhs	Between 10 lakhs and ₹Y' figure	Only SGST
Above 150 lakhs	Above ₹Y' figure	Both SGST and CGST

But the Task Force is of the view that the small dealers (including service providers) and manufacturers should be exempted from the purview of both CGST and SGST if their annual aggregate turnover (excluding both CGST and SGST) of all goods and services does not exceed Rs.10 lakhs. However, those below the threshold limit may be allowed to register voluntarily to facilitate sales to other registered manufacturers / dealers, so that the cascading effect or tax may be avoided, if desired.

Further, the Task Force has suggested that to reduce administrative and compliance burden, small dealers with annual aggregate turnover of goods and services between 10 lakhs to 40 lakhs may be allowed to opt for a compounded levy of one percent, each towards CGST and SGST. However, no input credit should be allowed against the compounded levy or purchases made from exempt dealers. Although the compound levy scheme will make the day to day working easier, yet the cascading effect of tax will not be removed by the compounded levy. So the compound levy scheme should not be compulsory.

Positive Impact of GST on SMEs and Startups

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

- **Ease of starting business:** A business having operations across different state needs VAT registration. Different tax rules in different states only add to the complications and incur high procedural fees. 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, businesses with a turnover of more than rupees 5 lakh need to pay a VAT registration fee. The government mulls the exemption limit under GST to twenty five lakh giving relief to over 60% of small dealers and traders.
- **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 at interstate points and toll check posts will be expedited. According to an estimate by CRISIL, the logistics cost for manufacturers of bulk goods will get reduced significantly—by about 20%. This is expected to boost ecommerce across the nation.
- **Elimination of distinction between goods and services:** GST ensures that there is no ambiguity between goods and services. This will simplify various legal proceedings related to the packaged products. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.

Impact on Manufacturing Sector

According to Deskera, a leading cloud-based business management software provider catering to SMEs in South East Asia, the GST will enhance competitiveness of enterprises in the manufacturing sector by mainly mitigating the cascading effect of various taxes. Headquartered in Singapore, the company offers GST ready Enterprise Resource Planning software to global SME markets, with small and medium enterprises contributing over 70% of the company's business across the world. A prominent provider of cloud ERP solutions, Deskera has been extensively working with various organizations in countries such as Singapore and Malaysia with their GST requirements. The company offers Deskera MRP, a fully GST compliant MRP solution in India to help manufacturers and traders to seamlessly migrate to the new regime once the GST law is implemented across the nation.

India is a global manufacturing hub and SMEs form around 90% of the industrial units in the country, according to IBEF. The 'Make In India' campaign promoted by the Indian government will get a boost with the rollout of the GST. Currently, excise duty on pre-packaged products for retail consumption is levied not on the transaction value at the ex-factory but on a fixed percentage of the maximum retail price (MRP) on the package. This leads to a higher MRP, which indicates a higher cost burden for the consumers. Under the GST regime, tax is paid by the manufacturers while purchasing raw materials for the products. The amount can be credited for subsequent resellers till the product reaches the final consumer. This will ease the tax burden significantly. Read Deskera becomes the first GST compliant cloud-based enterprise in India to know more about GST impact on manufacturing sector.

GST benefit to Startups and SMEs

1. Easy to Run a Business across all States Uniformly:

GST would replace VAT all over India. This means that a business wouldn't have to worry about keeping up with VAT compliances that are different in every state. Carrying out business activities will become comparatively easy as they do not have to deal with different kinds of VATs levied in different states.

2. Fewer Tax Compliances:

Central GST would replace – Service Tax, Central Excise Duty, Duties of Excise, Cesses and Surcharges and Customs Duty

State GST would replace – State VAT, State Cesses and Surcharges, Central Sales Tax, Tax on Advertisements, Lottery, Gambling, Purchase Tax, Luxury Tax and Entertainment Tax. This will further ensure improvement in the implementation of the tax system while cutting down on compliance rates whereby further ensuring a reduction in tax related disputes.

3. Faster Transportation of Goods:

It will be of immense help to the logistics sector and will also result in the faster transportation of goods as there will be no hour long waits at the Sales Tax check posts across borders due to the elimination of several indirect taxes.

4. Indirect Benefit to Startups:

Startups are required to register for VAT if their turnover is more than 5 lakhs, and in some states 10 lakhs. With the coming of GST, businesses with an annual turnover of over 10 lakhs (uniform across all states in India) are required to register for GST. Additionally, businesses with an annual turnover between 10 – 50 lakhs will be taxed at a lower rate.

5. Increase in Foreign Investment:

The goods manufactured within India will become more competitive in the international markets due to reduced costs which will, in turn, foster the growth of Indian exports.

6. Sectors that will apparently reap the most benefits:

Cement, Building materials, Automobiles, Metal, Consumer Durables, Entertainment, Fast moving consumer goods and Logistics.

Service Sector

At present, the service tax on rendered services is levied at 15% (including Cesses) on the Gross Amount but after GST implementation a service provider need to pay service tax at the rate that will be finalized for services. If the rate supposed to be 18% a service receiver has to pay 3% more on the cost of services received. Here GST will effect the IT-sector, Telecommunication Sector, Banking and Financial Sector etc. There are many businesses other than mentioned above will be effected by the GST like E-commerce, Import-Export, Pharmaceuticals, Logistics, Textile, Manufacturing etc. etc. It is just an effort to take out a picture of some major business sector which will have the impact of GST either positively or negatively.

Steel: GST a move towards a more organized sector. The steel sector is feeling bullish after the GST roll out. Players in the sector feel that with GST, unorganized players will have to move to organized form of doing business. Steel Users Federation of India (SUFI) has said GST has abolished the special additional duty (SAD) on imported goods which was a very cumbersome procedure. Indian Stainless Steel Development Association (ISSDA) President K KPahuja says GST will give the unorganized sector no other choice but to be tech-compliant.

—People evading taxes would not be able to survive any longer,|| Mr. Pahuja said.

Textiles – Cotton industry: The cotton textile industry is also feeling positive. Southern India Mills Association (SIMA) Chairman M Senthilkumar has welcomed the move to bring the entire cotton textile value chain at the lowest slab rate of 5% GST. He said the industry had been suffering with numerous taxes and different types of cess which were adding to the cost indirectly.

GST on Arts & Theatre: GST is an indirect tax applicable on the sale, transfer, barter, purchase, lease, or Import of Goods and Services while replacing all the former applicable taxes. While some are happy with this upcoming change and some are frowning over the excess duty. GST is payable online through www.gstindiaonline.com - A comprehensive resource on GST in India and applies to even creative fraternity including visual arts, performing arts, literature.

GST affect the Indian economy and consumer experience

- GST will remove cascading effect of taxes imbedded in cost of production of goods and services and will provide seamless credit throughout value chain.
- GST will facilitate ease of doing business in India.
- Electronic processing of tax returns, refunds and tax payments through ‘GSTNET’ without human intervention, will reduce corruption and tax evasion.

It is important to understand that GST is not a tax concession scheme where the government has reduced the tax rates and hence all the goods and services would become cheaper once GST is implemented. Government was attempting to fix a **single Revenue Neutral Rate (RNR)** on the goods and services so that the total tax revenue of the State and the Central Government remain the same. However, due to practical considerations and keeping in view the social conditions of India, four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. There is also a special rate for precious metals. The rate of 18% would however be applicable for most goods and services.

Government is trying to see that the new GST rates remain more or less similar to the effective tax rates of excise, service tax and VAT in the present time. Hence, the prices of

most commodities would remain the same. However, the immediate impact of GST would be as following. All the services would become more expensive immediately since the present Service Tax rate is only 15% which is now raised to 18% in GST. Some goods would become cheaper due to lower rates levied on such items. Most goods would become more expensive since the GST rate of 18% or 24% is much more than the present VAT rates which are around 12-15 %. The dealers and retailers are NOT likely to pass on this extra rate immediately to the consumer and they would profit from the increase Input Credit Tax (ICT). However, soon the consumer would reap the benefit and the prices would come down.

This section highlights the impact of GST on major industries as well as on key stakeholders all tax payers:

With need for registration and filing of returns in multiple states, compliance costs are likely to go up. Overall tax compliance, too, is expected to go up. This will also impact some of the smaller entities in SME-dominated sectors. Over the longer term, this is likely to lead in consolidation and gain in market share for the organized sector

Impact on manufacturing states:

The destination-based taxation structure of GST implies that states with manufacturing bases will potentially lose revenue which will be compensated by the central government –about Rs. 500billion in the first year. The key states that will require compensation are Gujarat, Maharashtra, Uttar Pradesh, Tamil Nadu and Haryana. Proceeds from the additional cess on sin goods/ luxury items will constitute the pool from which the states would be compensated for any revenue loss

Existing companies which have signed MoUs with states for tax subsidies:

Several states have, in the past, offered tax incentives to companies for setting up manufacturing units. Dilution of the power of states to levy independent taxes/offer exemptions under GST regime, will impact existing projects too. State governments and impacted companies will need to find out solutions. However, at present there is lack of clarity on this issue.

Revenue authorities:

Tax monitoring will become easier on account of the robust GST network platform where all returns can be accessed instantly and in a user-friendly manner. This will help revenue officials monitor the sequence of supply of goods and services as well as flow of input tax credit

Financial institutes:

GST will increase working capital requirements across major manufacturing sectors on account of tax liability on inter-state ‘stock transfer’. Accordingly, businesses will not be able to claim their tax credits until the shipped goods are sold. To reiterate, stock-transfers in the current regime does not attract any tax even during an inter-state transfer.

Conclusion:

At present the small scale industries are entitled to exemptions from payment of CENVAT in respect of their turnover upto 1.5 crore. However, there is no such threshold exemption in respect of state level VAT. As per the recommendations of Department of Revenue (DOR), the threshold for goods and services should be common between the Centre and the State, on one hand and between goods and services, on the other. Also the DOR has suggested that the annual turnover threshold could be Rs. 10 lakhs or even more than that. This threshold exemption should not apply to dealers and service providers who undertake inter-state supplies. This would not be in the favor of small dealers, as it will restrict their growth or force them to get registered. As SSIs absorb surplus amount of labor in the

economy and helps the system in scaling down the extent of unemployment as well as poverty; every measure should be taken in the forthcoming GST to protect it.