

Impact of Goods and Services Tax on Micro, Small and Medium Enterprises

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ABSTRACT

In the present scenario Micro, Small, and Medium Enterprises face several challenges. One of the changes in the Indirect Tax regime was the implementation of the Goods and Services Tax. The changes in Goods and Services Tax regime laws and rules bring another challenge to the Micro, Small, and Medium Scale Sector. To find out the impact on various aspects such as applying of Goods and Services Tax, created the registration for taxation and high compliance burden by using random sampling technique in which 78 MSME entrepreneurs were selected in Udupi District of Karnataka State. The data required for this study is collected through both primary and secondary sources. The purpose of this study is to analyze the impact of goods and services tax on the MSMEs sector. It was concluded that the impact of Goods and Services Tax on the Micro, Small, and Medium Scale sector can go both positive and negative ways.

Keywords-- GST, MSME, Impact

I. INTRODUCTION

The MSMEs contribute significantly to employment generation, exports, and inclusive development of India. The exceptional growth of MSMEs has been a strict feature in the economic development of the country since independence. It has contributed to the overall growth of the GDP as well as in terms of employment generation and export in the global economy. According to National Statistical Office, the share of the MSME sector in the country's total GDP during 2018-19 has been 30.3%. According to the Directorate General of Commercial Intelligence and Statistics (DGGIS), in India, the share of MSME-related products in total exports during 2018-19 has reached 48%. (*Registration of MSMEs in India (Udyog Aadhaar Memorandum)*, 2019). The micro, small and medium enterprises contribute significantly to the economic and social development of the country by way of fostering innovation, entrepreneurship, and inclusive growth.

Under the provision of the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small, and Medium Enterprises (MSME) are classified as Table No:1.1.

Table No: 1.1: Definition of MSMEs

Types of Enterprises	Turnover	Investment (Plant and Machinery or equipment)
Micro Enterprises	Up to 5 Crore Rupees	Up to 1 Crore Rupees
Small Enterprises	5 Crore to 50 Crore Rupees	1 Crore to 10 Crore Rupees
Medium Enterprises	50 Crore to 250 Crore Rupees.	10 Crore to 50 Crore Rupees

(*PIB-Ministry of MSME Gears up to Implement the New Norms of Classification of MSMEs, 2020*)

Goods and Services Tax allows the government to have an improved hold on the taxpayers, which in turn, improves the complete tax scheme and has several other benefits. The impact of GST on MSME has been tremendous. For Micro, Small, and Medium Enterprises, the business proprietors and producers are required to pay different taxes as per the laws and so, fulfilling all the tax-related documentation has them running to different

departments. Without GST, these entrepreneurs faced harassment from the various departments they had to report to file their taxes. In this study, we comprehensively assessed the impact of the Goods and Services Tax on MSMEs using the interview method. To find out the impact on various aspects such as applying GST, created the registration for taxation and high compliance burden

by using a random sampling technique in which 78 MSME entrepreneurs were selected in Udupi District.

II. OBJECTIVES OF THE STUDY

- ✓ To study the satisfaction level of Micro, Small, and Medium Scale Entrepreneurs with Goods and Services Tax implementation
- ✓ To analyze the impact of Goods and Services Tax on Micro, Small, and Medium Scale Entrepreneurs.

III. RESEARCH METHODOLOGY

This study consists of both primary and secondary data. Primary data has been collected through interviews and questionnaires circulated to selected respondents of Micro, Small, and Medium Scale Industry on GST in the Udupi District of Karnataka State. To collect the responses from the primary survey, the questionnaire has been sent to 78 traders, industries, and professionals who deal with daily compliance under GST. The secondary data have been collected from published and unpublished reports, reports, DIC, etc. In addition textbooks, journals, reports of the government and internet, etc have also been used.

IV. REVIEW OF LITERATURE

(Kumari, 2017) the paper highlights the impact of GST on MSMEs. GST rollout will open up a can of worms and therefore the effect on SMEs throughout numerous industries will vary substantially. It's far quite

herbal for pervasive, county-wide tax reform, as GST is, to have a blended opinion. The only nation, one tax principle underlying Goods and Services Tax rollout is predicted to benefit Micro, Small, and Medium businesses (MSME) in long run.

(Murari & Chettri, 2020) this study tries to find out the impact of GST on the growth opportunities of MSMEs in the state of Sikkim. Using the data of 400 MSMEs from the East, West, and South district of Sikkim, conclude that the perceived impact of GST MSMEs is significantly associated with the type of enterprise i.e. manufacturing sector perceived the adverse impact of GST on its business operations while service sector MSMEs do not perceive it significantly. The growth of the manufacturing sector MSMEs is significantly affected by perceptions of ease of doing business and awareness and knowledge related to GST.

(Patel, 2022) this paper is based on secondary data sources. This paper concluded that GST has certain positive impacts like; GST will also help to build a transparent and corruption-free tax administration. There are negative impacts likes; some retail products currently have only four percent tax on them and after GST, garments, and clothes could become more expensive. Therefore, GST gives mixed impacts in India.

V. DATA ANALYSIS AND INTERPRETATION

The reliability analysis shows (Table No: 1.2) that all items in the scale for measuring the level of impacts of GST on MSMEs are acceptable.

Table No: 1.2: Scale Reliability Statistics

	Cronbach's α
Positive Impact of GST on the MSME Sector	0.928
Negative Impact of GST on the MSME Sector	0.911
Overall transparency in the GST Network	0.995
Changes in Flexibility level after the implementation of GST	0.985

Source: Computed data

The demographic variables of the study are shown in Table No: 1.3 among enterprises, 44.9 percent belong to the manufacturing sector, while 47.4 percent of enterprises belong to trading enterprises and 7.7 percent belong to the Service sector. The majority of respondents belong to micro-enterprises, with almost 71.8 percent of

strength whose turnover is below Rupees 5 Crore. Among the status of the industry, 67.9 percent belong to proprietorship, while 26.6 percent of enterprises were partnership businesses and 5.1 percent were private limited companies.

Table No: 1.3: Simple Statistics of Demographic Variables

Variables		Frequency	Percentage
Industry Category	Manufacturing	35	44.9%
	Trading	37	47.4%
	Service	6	7.7%
Status of the Industry	Partnership	21	26.5%
	Proprietorship	53	67.9%
	Public Listed Co.	0	0%
	Private Listed Co.	4	5.1%
Enterprise Type	Micro	56	71.8%
	Small	18	23.1%
	Medium	4	5.1%
Annual Gross Turnover	Less than Rs. 1.5 Crore	26	33.3%
	Rs. 1.5 Crore – Rs. 5 Crore	30	38.5%
	Rs. 5 Crore – Rs. 50 Crore	19	24.4%
	Rs. 50 Crore – Rs. 250 Crore	3	3.8%

Source: Primary Data

Table No: 1.4: The Transition to GST Regime

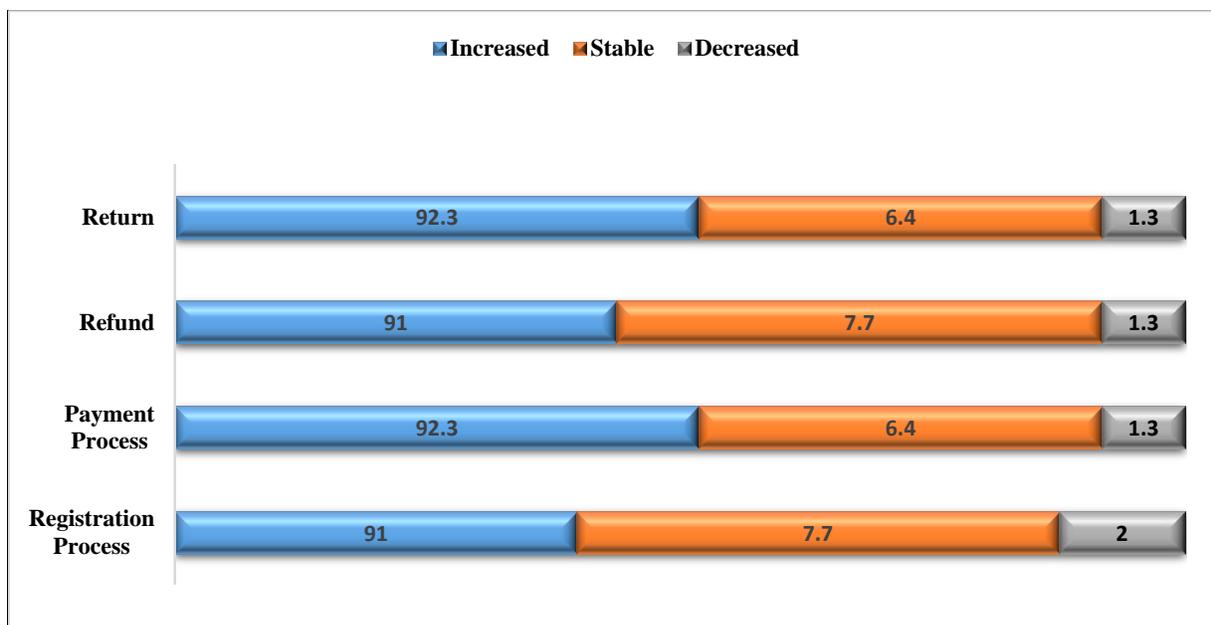
The transition of the GST Regime	Frequency	Percentage
Smoother	66	84.6%
Difficult	9	11.5%
Very Difficult	3	3.8%
Total	78	100%

Source: Primary Data

As per Table No: 1.4 maximum business owners (66 respondents) found that the GST Regime is a smoother process due to the fixed rate of taxation on goods and

services. Therefore, the impact of Micro, Small, and Medium Scale sectors is getting profitable from the systematically planned and implemented GST.

Figure No: 1.1: Flexibility Level after implementation of GST

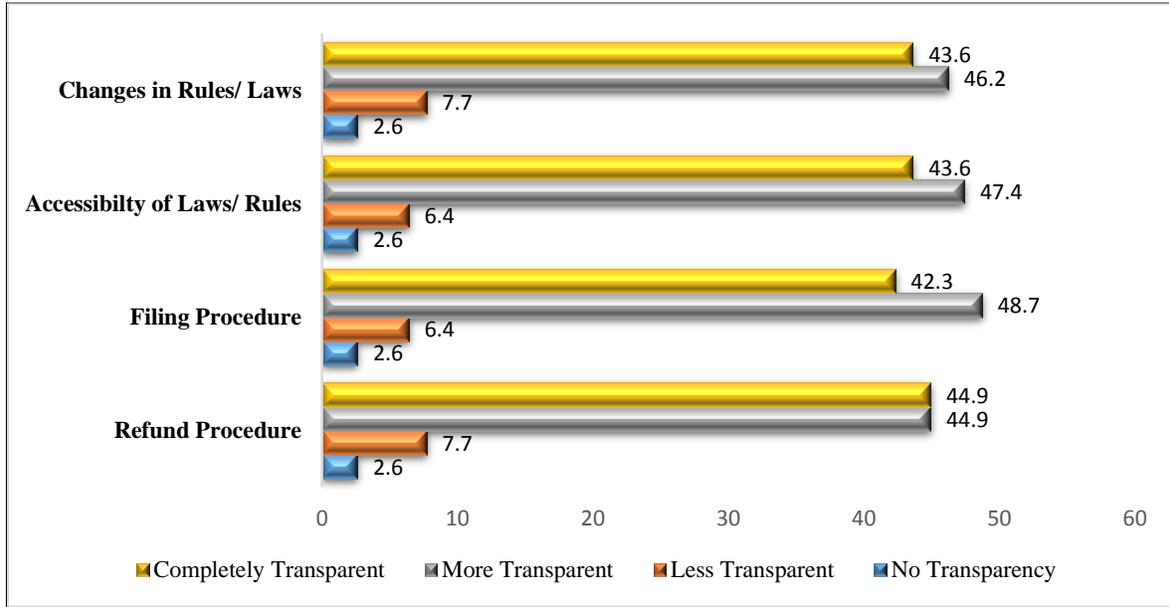


Source: Primary Data

As per Figure No: 1.1 maximum entrepreneurs opines that the GST registration process, Payment Process, Refund, and Return procedure was flexible compared to the previous indirect tax regime. Out of 78 respondents, 91

percent agreed that the existing law has increased the level of flexibility in the case registration process and refund procedure. 92.3 percent agreed that the payment process and return process in GST was flexible.

Figure No: 1.2: Overall Transparency in the GST Network

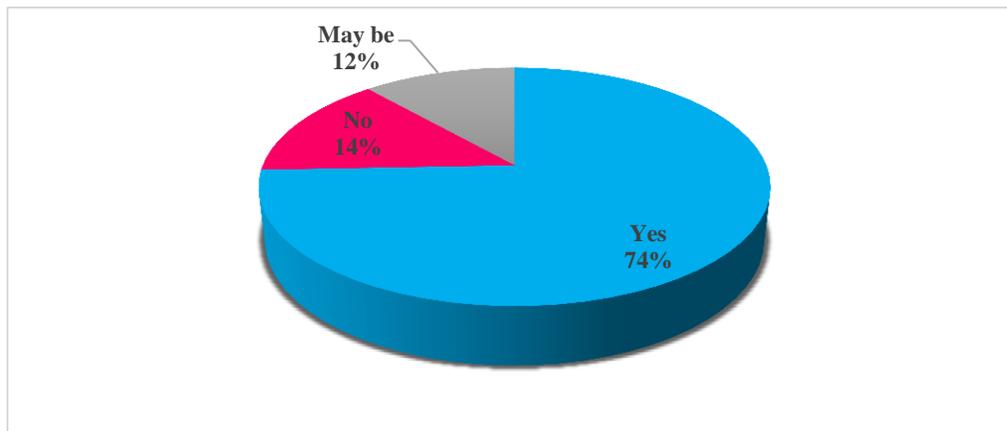


Source: Primary Data

As per Figure No: 1.2 among 78 respondents, 89.8 percent agreed that the existing law was transparent in case of refund procedure. 91 percent agreed that filing

procedure in GST, accessibility of laws or rules was transparent, and changes in rules/ laws.

Figure No: 1.3: Have your sector received benefits after GST applications?

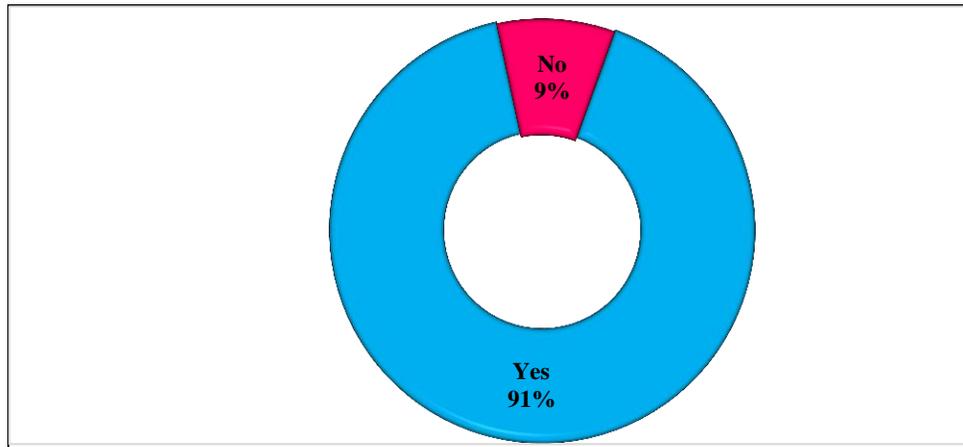


Source: Primary Data

As per Figure No: 1.3 majority of respondents (74%) opine that they received benefits from GST applications. If they implemented GST systematically then

they can get the benefit. Lack of awareness about GST accessibility, rules, laws, and filing will create problems while getting benefits from GST impact.

Figure No: 1.4: Are you satisfied with the implementation of GST?



Source: Primary Data

Figure No: 1.4 shows the results of the MSMEs owners' satisfaction with GST implementation. It can be seen from the results that a greater number of respondents (91%) are satisfied with the implementation of GST.

VI. IMPACT OF GST ON MSMEs

The GST impact MSMEs positively as well as negatively. Pearson Correlation Analysis was performed among GST Satisfaction, Positive Impact of GST, and Negative Impact.

Following are the research hypotheses:

H_{1A}: there is a relationship between GST satisfaction and the positive impact of GST on MSMEs

H_{1B}: there is a relationship between GST satisfaction and the negative impact of GST on MSMEs

Table No: 1.5: Correlation Coefficient Test of Satisfaction Level and Positive Impact of GST

Satisfaction level	Pearson Correlation	Sig (Two-tailed)
Positive Impact of GST		
Ease of doing business	0.418	<0.001
Reduction in tax burden	0.252	0.026
Uniformity of tax rates and structure	0.473	<0.001
Better logistics and quick delivery of services	0.417	<0.001
Removal of distinction between goods and services	0.500	<0.001
Create unified market	0.481	<0.001
Remove cascading effect	0.422	<0.001
GST's implementation will expand the market of your business	0.377	<0.001
Benefits of Input Tax Credit	0.387	<0.001
GST improved the transparency in the taxation system and prices	0.484	<0.001
Better tax awareness programs	0.324	0.004
Reduced price of goods	0.171	0.134
Gain to manufacturer and exporter	0.395	<0.001
Better cash flows	0.401	<0.001
Improved competitiveness	0.454	<0.001
GST has reduced the material costs	0.177	0.122
Ease of filing of GST online	0.337	0.003

Source: Primary Data Correlation is significant at the 0.05 level

From Table 1.5, it was clear that ease of doing business and level of satisfaction ($r=0.418, p=0.001<0.05$) were significantly correlated, which means there is a significant relationship between ease of doing business and level of satisfaction. There is a significant positive correlation between reduction in tax burden and level of satisfaction ($r=0.252, p=0.026<0.05$). The uniformity of tax rates and structure and level of satisfaction were significantly correlated ($r=0.473, p=0.001<0.05$). Better logistics and quick delivery of services and level of satisfaction were significantly correlated ($r=0.417, p=0.001<0.05$). Removal of distinction between goods & services and level of satisfaction were significantly correlated ($r=0.500, p=0.001<0.05$). Creating a unified market and level of satisfaction were significantly correlated ($r=0.481, p=0.001<0.05$). Remove cascading effect and level of satisfaction were significantly correlated ($r=0.422, p=0.001<0.05$). GST's implementation will expand the market of your business and the level of satisfaction was significantly correlated ($r=0.484, p=0.001<0.05$). Better tax awareness programs and level of satisfaction were significantly correlated ($r=0.324, p=0.004<0.05$). Gain to manufacturer and exporter and level of satisfaction were significantly correlated ($r=0.395,$

$p=0.001<0.05$). Better cash flows and exporters and level of satisfaction were significantly correlated ($r=0.401, p=0.001<0.05$). Ease of filing GST online and level of satisfaction were significantly correlated ($r=0.337, p=0.003<0.05$). GST has reduced material costs and the level of satisfaction was not significantly correlated ($r=0.177, p=0.122>0.05$). Reduced price of goods and level of satisfaction were not significantly correlated ($r=0.171, p=0.134>0.05$).

Therefore, it was clear that manufacturers, traders, and service providers were satisfied with GST implementation in case of a positive impact. The impact of GST on the satisfaction level of manufacturers, traders, and service providers was not significantly correlated with the case of the price of goods and the material cost effect. The reason behind this result could be that, the price effect and increase in material cost, hence the manufacturer, traders, and service provider might not have expressed their satisfaction related to the price effect and material cost effect. Therefore null hypothesis was rejected in the case of all states of the positive impact of GST except for two statements i.e. reduced price of goods and reduced material cost.

Table No: 1.6: Correlation Coefficient Test of Satisfaction Level and Positive Impact of GST

Satisfaction level Negative Impact of GST	Pearson Correlation	Sig (Two-tailed)
Increase in overhead expenses	0.140	0.221
Supply chain restructuring	0.279	0.013
Liquidity crunch due to lock-in period under GST	0.255	0.024
Excessive compliance and filings	0.390	<0.001
Delay in refund	0.318	0.005
Hire new personnel to manage GST matters	0.142	0.214
Existing staff attend training courses in order to learn to manage GST matters	0.154	0.178
Decline in business	0.258	0.023
GST filing- cumbersome procedure and documentation	0.376	<0.001
Refund procedure and documentation has increased	0.380	<0.001
The reverse charge mechanism impact negatively	0.270	0.023
Exemption of Petroleum and alcohol products	0.142	0.214
Excess working capital Requirement	0.262	0.020
Increase in cost of the product for businesses	0.231	0.042
Lack of proper digital knowledge	0.065	0.572
The service sector gets costlier	0.031	0.785
GST on the purchase of capital goods impacted positively	0.081	0.479

Source: Primary Data Correlation is significant at the 0.05 level

From Table No: 1.6, it was clear that the increase in overhead expenses and level of satisfaction ($r=0.140, p=0.221>0.05$) were not significantly correlated, which means there is no significant relationship between the

increase in overhead expenses and level of satisfaction. Hire new personnel to manage GST matters and level of satisfaction were not significantly correlated ($r=0.142, p=0.214>0.05$). Lack of proper digital knowledge and level

of satisfaction were not significantly correlated ($r=0.065$, $p=0.572>0.05$). The service sector get costlier and the level of satisfaction was not significantly correlated ($r=0.031$, $p=0.785>0.05$). Exemption of Petroleum and alcohol products and level of satisfaction were not significantly correlated ($r=0.142$, $p=0.214>0.05$). Existing staff attend training courses to learn to manage GST matters and levels of satisfaction were not significantly correlated ($r=0.154$, $p=0.178>0.05$). GST on the purchase of capital goods impacted positively and the level of satisfaction was not significantly correlated ($r=0.081$, $p=0.479>0.05$).

The Supply chain restructuring and level of satisfaction were significantly correlated ($r=0.279$, $p=0.013<0.05$). The Liquidity crunch due to the lock-in period under GST and the level of satisfaction were significantly correlated ($r=0.255$, $p=0.024<0.05$). The Excessive compliance and filings and level of satisfaction were significantly correlated ($r=0.390$, $p=0.001<0.05$). Delay in refund and level of satisfaction were significantly correlated ($r=0.318$, $p=0.005<0.05$). The decline in business and level of satisfaction were significantly correlated ($r=0.258$, $p=0.023<0.05$). GST filing-cumbersome procedure and documentation and level of satisfaction were significantly correlated ($r=0.376$, $p=0.001<0.05$). Refund procedure and documentation have increased and the level of satisfaction was significantly correlated ($r=0.380$, $p=0.001<0.05$). Reverse charge mechanism impact negatively and level of satisfaction were significantly correlated ($r=0.270$, $p=0.023<0.05$). Excess working capital requirements and level of satisfaction were significantly correlated ($r=0.262$, $p=0.020<0.05$). An increase in the cost of products for businesses requirement and level of satisfaction were significantly correlated ($r=0.231$, $p=0.042<0.05$).

Therefore, it was clear that manufacturers, traders, and service providers gave favorable responses to the negative impact and were satisfied with GST implementation. The impact of GST on the satisfaction level of manufacturers, traders, and service providers was not significantly correlated in case of increase in overhead expenses, Hiring new personnel to manage GST matters, Lack of proper digital knowledge, Service sector getting costlier, Exemption of Petroleum and alcohol products, Existing staff attend training courses to learn to manage GST matters, and GST on purchase of capital goods impacted positively (The Null hypothesis of these statements is accepted). The reason behind this result could be that they agreed on these issues in GST.

VII. DISCUSSION AND CONCLUSION

Through the survey, it has been found that manufacturers, traders, and service providers are registered under the MSME Act, which is beneficial for both the

enterprises and the government. But all MSMEs are not coming under the registration of GST because of the threshold limit. Registered MSMEs allow firms to get secure under the umbrella of indirect taxation and hence promote better management and revenue collection for the government. Out of 78 respondents, 87.8 percent (68 respondents) took the Input Tax Credit benefit, and 12.8 percent (10 respondents) took the benefit of the Composition Scheme. The registration under MSME Act assists enterprises in getting policy benefits, a business enabling environment, and credit utilization. Such benefits shall reduce the overall cost of operating and manufacturing. MSMEs are the dominating taxpayer models, which time and again prove themselves as a pivotal contributor to direct and indirect taxes and thus assist in revenue generation for the country. Since GST does not define the enterprise category as per the MSME Development Act (2006), the linking of enterprises with the GST network has not been possible yet.

We have also witnessed a positive correlation between satisfaction with GST and its Impact of GST. Though there can be few enterprises, specifically the manufacturing industry which are not much affected by the significant impact of MSMEs. As per the opinion of traders, it creates a negative impact on them because they have to handle multi-product. With the introduction of GST, the manufacturers shall be benefited significantly. The majority of the respondents depend on a tax consultant/ chartered account for filing returns so they have less aware of GST. GST is considered beneficial, but it also creates a few hurdles in business operation. This includes, terms of the continuous flow of credit and avoidance of double taxation has further amplified a certain burden of compliance. A lot of changes in the economic condition of the country may also be the reason for the decline in the business of MSMEs such as Pandemic situations, War, inflation, etc. MSMEs face several challenges during GST implementation. MSMEs are eagerly looking forward to government training and awareness programs, which can help their financial and operational profitability while implementing GST. Therefore, Goods and Service Tax requires few amendments and due considerations to make the reforms more understandable and easily interpretable for MSMEs growth.

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