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The Impact of GST on Small Business: A Critical Analysis

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ABSTRACT

The impact of indirect taxes on small and medium businesses, such as Goods and Services Tax (GST), is a new research issue in India. Up to 2020, the pertinentworks, both national and globalwere studied, which included both available and non-accessiblecontent. Due carefulness and contemplation were completed in the selection of apposite material. Essentially variable themes have from germanetracedmatter have been examined, explored and offered in a topically organised manner. This research paper highlights the magnitude of GST in terms of potential for small and medium-sized enterprises, lessons gained from nations across the globe, and contemporary difficulties that small and medium-sized businesses in India are facing. An important protuberantdiscovery is that the impact of GST on Small and Medium Enterprises (SMEs) in various businesses and trades, as well as the bearing on politically sensitive industries, will differ depending on the state. This research is the initial step toward more research that will help Micro Small and Medium Enterprises (MSME) owners and policymakers make educated decisions.

Key Words: Impact, small businesses, indirect tax, trades, goods and services.

1. INTRODUCTION

Taxation is a method by which the government collects money from individuals, businesses, and other entities in order to fund government spending. Indeed, it is touted as one of the pivotal foundations of proceeds collected by the administrative machinery for escalating the pecuniary growth; which accelerates the position of anestablishednation with sustained means of livelihood. As a result, users are subjected to a variety of taxes, including direct and indirect taxes. Because taxes contribute to a country's development, low tax revenue turnover will have an impact on the country's development, and the country's financial position is likely to result in a deficit (Ahmad Azrin, 2015)

The proposed GST has the potential to completely transform the current oblique tax structure. In India, a complex oblique tax system is currently in place, with overlapping of leviesobligatory one by one with the help of the union and states. The proposed tax system i.e., Goods and Services Taxwill assist the financial system to develop in a more environmentally friendly means by enhancing the duty system because it will completely eliminate thedueblockades between states with a single tax levy. GST will bring together all indirect taxes under one roof, potentially resulting in a more efficient market across the country. GST was initially announced in France in 1954, which stands currently accompanied by a hundred and forty countries. Along with CGST and SGST, India has proposed a double GST device.

GST had repercussions, including a dual-taxation system (Central GST (CGST), State GST (SGST), and Integrated GST (IGST). In a scenario, wherein, the retailer and consumer are from the same state, the vendorrequires gathering both the CGST and the SGST from the customer, and the Union and state governments would approve on a revenue sharing ratio. The tax structure has been simplified and the cascading effect has been decreased. Rates are set by the government on a reciprocal basis; however, they cannot be greater than 14%. The new tax rates are 5%, 12%, 18%, and 28%, respectively; however, the GST rates do not apply to alcohol/liquor, electricity, or petroleum products. The government's huge revenue, which accounts for around 28% of total revenue, is one of the key reasons for not including petroleum in the GST; adopting GST would put a stop to their income. The same reason is that, in some states, the sale of alcohol provides more than half of the revenue due to the exemption of GST on liquor. Because power is a necessity for survival, it must be kept cheap and accessible. Some political parties may claim to provide electricity at a lesser cost, leading to citizen dissatisfaction. The most difficult part of adopting GST was persuading 133 crore people to understand the new system, particularly in areas where change is resisted. The majority of problems have been handled by categorising and explaining commodities and services into specific categories. In the early days, many commodities and services had their prices boosted, generating inflation in the economy. People have become more polite as a result of a lack of awareness about the economic benefits. Countlesstrades currently are deficient in the necessary technological infrastructure needed toward generation of GST bills and abstractessentialinformation, as well as the essential training and management re-skilling, causing further hardship across industries. Since they were new to the industry and had to learn about the new tax structure, it was difficult for new enterprises to deal with GST.

Finally, GST boosted tax transparency and provided a bigger taxing platform, according to some. Though corruption is difficult to eradicate as it is embedded in the structure, nevertheless it can be abridged to some extent.

2. OBJECTIVES

a) To evaluate the stimulus of GST as scheduledon small businesses

b) To gauge the awareness of GST among small business owners

3. RESEARCH METHODOLOGY

The conceptual analysis is the cornerstone of this paper. As a result, secondary sources such as journals, books, working papers, articles, and websites were used to acquire data.

4. DISCUSSION

Every major reform encounter stumbling blocks and counter-arguments from a variety of stakeholders. GST will give SMEs with a number of advantages over current systems, including a simpler method for collecting input credits, a unison form of tax, the purging of the flowing tax structure, and simplified taxing. Indeed, its advantages outweigh the drawbacks. Expectations are high for the GST, which is projected to enhance the GDP progress, further condense the budget discrepancy. A solid agreement on GST duties for altogethercommercial areas also their coordinated execution will decide the magnitude of such an impact.

4.1.1 POSITIVE IMPACT

a) As the Department of Sales and Tax has numerous revenue blocks that define the essential factors for VAT recordkeeping. In this situation, an organization with an interstate functionalityobligates the abeyanceto several duty imperatives applicable to diverselands. This not only adds to the intricacy, but it also supplements the technicallevies, which will stress the price-sensitive MSMEs. The process will remain standardised with anunvarying GST.

b) In the current arrangement, large firms purchased items based on the location of MSMEs in order to cut costs. As a result of bearing the final burden of tax on interstate transactions, MSMEs limit their customers within the state, reducing their client base. This will be neutralised with the installation of GST, as tax credits will be transferred regardless of where the buyer and seller are located. This enables the MSME sector to expand their reach across national borders.

c) As this structure of taxation is an unbiased amalgam of levies, therefore, it will eradicateonerousboundaryduty procedures and toll checkpoints, promoting cross-border trade. As a result, the logistics costs for enterprises that manufacture large quantities of goods will be decreased. MSMEs' survival may be dependent on such expenditures.

d) Under the GST, there would be no distinction amidauctions and facilities. Thereafter, it is an excellent update for MSMEs that operate on the aforesaid basis, as taxation will be simplified and assessed on a whole basis.

e) GST will allow for greater freedom in the movement of goods between states while also lowering the cost of doing business by reducing the number of taxes levied by both the state and federal governments.

f) The present arrangement, merelypossess half of the involvementlevyacclaim for Capital Goods purchases is accessible in the year of purchase, with the remainder available in later years. The complete amount of input tax credit can be claimed in the year of purchase under the GST regime. This will help the "Make in India" movement.

g) For commercialproceeds supplementaryto Rs. 5 lakh it isobligatory to recompense a VAT registration fee under the present tax structure. The government is considering raising the GST exemption which would benefit over 60% of small dealers and entrepreneurs.

h) GST guarantees that the distinction between commodities and services is clear. This will make many legal actions involving packaged products easier. As a result, there will be no differentiation between the material and service components, reducing tax fraud significantly.

4.1.2 NEGATIVE IMPACT

a) To broaden the tax net, the Goods and Services Tax bill recommends lowering the brink to an amount of Rs. 9 lakhs for North Eastern states. (However, the GST council has lifted the threshold limit for North Eastern states from 10 lakh to 20 lakh and from 41 lakh to 10 lakh. Any service provider or merchant will be liable to a tax levy as a result of the reform. The present central excise law has a Rs.1.5 crore barrier. This cut will have a big impact on MSMEs' working capital. For example, a producer that currently trades at Rs. 25 lakhs without paying any tax will be required to do so after GST is implemented. Because the barrier is so low, most MSMEs are presently exempt from paying tax and will have to pay a portion of their capital in the future.

b) The dutyobjectivity will not distinguish between the indulgent and ordinary items. Currently, luxury products and services are subject to higher taxes from both the state and the federal government. With the adoption of the GST, all goods and services will be subject to the same tax, resulting in the rich growing wealthier and the poor becoming poorer. For MSMEs competing against giant corporations, this is not an ideal situation.

c) As it has no application to intoxicating beverages for social use or fuel-founded enterprises, widening the divide and contradicting GST's unified market theory.

d) Since the current Service Tax rate is 15% and the proposed unison will crudely enhance it by 18%. Therefore, service industry will be further impacted by the elimination of the notion of centralised registration, which means that each unit in various states would have to register separately. Thus, even if services are provided by one unit of a firm in State A to another unit in State B, taxes must be paid.

e) The impact of stock transfer taxes on working capital will be significant. The magnitude of the impact will vary depending on warehouse stock turnaround time, customer credit cycle, stock transfer volume, and other factors. Capital Requirement is greater.

f) Supposedly, the retailerwho sells his produce to MSME is unable toor does not demonstrate the equivalent in his return, a compliance company will not be eligible for GST credit. As a result of the GST credit scheme, sourcing tactics will alter. Also, due to the taxation of stock transfers, the Supply Chain will be reconsidered.

g) A significant number of SMEs believe that GST is not fully beneficial to their industry, and their fears are not entirely unwarranted. One of the most significant benefits for SMEs may be their tax neutrality. However, one of the key concerns they have about the GST bill is the reduction in the tariff threshold. Under the existing excise tax, a producer with a reduced revenue than Rs 1.50 crores pays no duty. The exemption ceiling will, however, be dramatically decreased once the GST is imposed.

4.2 AWARENESS QUOTIENT IN TRADERS

The largest issue in implementing GST was persuading 133 crore people to understand the innovativeclassification, particularly in areas whereversocietyis hesitant to admitto change. The majority of problems have been handled by categorising and explaining commodities and services into specific categories. Many commodities and services had their prices raised in the early days, causing inflation in the economy. People have become more polite as a result of a lack of awareness about the economic benefits. Due to the deficit of the requisite technological substructure the creation of GST bills and its related documents will be challenging.Many businesses still lack the necessary IT infrastructure to create GST bills and extract relevant reports, as well as a lack of adequately trained personnel and management re-skilling, which has increased the burden across industries. Because they were new to the industry and had to learn about the new tax structure, it was difficult for new enterprises to deal with GST. Finally, GST boosted tax transparency and provided a bigger taxing platform, according to some.

According to the findings, the mainstream respondents believe that the GST operation is a reasonable taxation initiative and that it is adequate to them; this indicates that the respondents have accepted and welcomed the transition in the edifice; however, some respondents remain dissatisfied through the GST execution and believe that more changes are imperative to the present duty structure. Further, GST Act being a complicated concept has to be clarified and simplified. The ramifications of GST are significantly better than those of the former tax system, and filing and maintaining taxation is far simpler, more reliable, and adaptable. It reduces the amount of labour and paperwork required. Many traders recognise the GST as an indirect tax, showing that each respondent has a good awareness of the country's taxation structure.

5. CONCLUSION

Through the new and unified tax system, though it is expected to benefit the automobile,adhesive and structuredmerchandizingtrades, nevertheless it would hurt the oil and gas, as well as small and medium-sized businesses. Property, power, telecommunications, pharmaceuticals, and fertiliser sectors, on the other hand, would be mostly unaffected.

From registration to filing online taxes, SMEs will be required to use an electronic compliance system. This will largely result in teething problems, as well as a rise in compliance costs. GST would boost demand and make ‘Made in India' items more competitive. With the exception of a few cases, the burden of indirect tax will almost certainly be reduced for both the producer and the ultimate end user, for example, the retailer wouldprofit from input tax credits (ITC), wherein, the customer will only have to pay the secondaryduty levied by the precedingvendor in the sourcehawser. Not only is the applicability of the aforesaid tax system on the goods and services but it’s implications will be evident on self-supplies and regionalroutine transactions, in compliance with the GST. Working capital requirements will be affected, resulting in higher interest rates and, as a result, pricing strategies.

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