

Effects of GST on MSMES

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Abstract: The Indian economy is mainly featured as a Middle-Income developing market economy. Based on nominal GDP, India's economy has placed in Sixth largest position and on the basis of Purchasing Power Parity (PPP) it holds Third largest position. A young population with a low dependency ratio, robust savings and investment rates, increasing globalisation in India and long-term growth integration into the global economy, and other factors have all contributed to the country's long-term economic outlook. But in 2017, economic growth of the country was at a diminishing rate due to the shocks of "demonetization" in 2016 and the Introduction of the GST. Both primary and secondary sources are used to generate the data needed for this research project. , the sample Unit is the Manufacturing Units in Micro Small Medium Enterprises of Thrissur District. There is a total of 12,566 MSME Units in Thrissur District. Among this, 7835 Units are manufacturing units and 4731 Units are Service Units. The 7835 manufacturing units are considered as the Sample Unit for this particular study. a sample of 151 entrepreneurs of Manufacturing units under MSME Sector in Thrissur District were taken for collecting adequate data required for the study.

Keywords: GST, MSME, Small Scale, Industry, Awareness

INTRODUCTION

Historically, there are mainly three categories under which India's economy and GDP are allocated. Agriculture, Industry and Services are the three sectors. Agriculture includes crops, horticulture, milk and animal husbandry, aquaculture, fisheries, sericulture, aviculture, forestry, and allied activities. The term "industry" refers to a wide range of manufacturing sub-sectors. India's service industry includes construction, retail, software, IT, communications, hospitality, infrastructure operations, education, healthcare, banking and insurance, and many more economic activities. Industrial revolution has brought new manufacturing processes to the world when it emerged in Europe and

United States during 1820s. When India gained independence in 1854, the first steam-powered cotton mill in Aisa was established in Bombay. Growth was gradual in the beginning, and these modernised cotton mills, did not expand until the 1870s and 1880s.

But the significant advantage of industrialisation is that, it provides wide range of opportunities in industries operated on a small scale and large scale. It also aids in the recovery of commerce, the advancement of technology and the provision of key ingredients for the economy's strengthening.

Small-scale industry development took place in India in 1955, when a special committee known as the Karve Committee demanded it for the development of rural areas in the country. This idea is supported by the premise that, because small-scale companies are more labour demanding, it would result in more job opportunities. The availability lot many semi-skilled and unskilled workers at those times were much in favour of the industry. Mainly Small-scale Industries (SSIs) are classified into two. They are named as Traditional Industries and Modern Industries.

MSMEs are categorised into two groups by the provisions of the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. The two categories of businesses are manufacturing and service enterprises.

Micro enterprises dominate the MSME sector, according to data provided to the Rajya Sabha by the MSME Minister. They occupy a prominent part in the industrial segment of the nation.

SCOPE OF THE STUDY

The tax structure of a country is thought to be the backbone of that country's economic strength. GST System in India has renovated the Indirect Tax System prevailing in India. Many Indirect Taxes like Service Tax, Value Added Tax and Excise Duty etc. have replaced with the starting of GST in 2017. It is

regarded as a big step forward in India's indirect tax reform. It is possible to prevent double taxation by combining multiple state and central levies into a unified tax. Consumers also benefitted from a 25% to 30% curtailment in the altogether tax load on goods as a result of the GST. Because GST is a relatively new concept, related research projects are becoming increasingly important.

REVIEW OF LITERATURE

Dr. C. Eugene Franc and Dr. Chellammal T (2018) has conducted a study on GST - Positive and negative impacts on Small Scale Industries. The study discussed about the GST's impacts on MSMEs. The authors used the secondary data for the concerned study. The study revealed many positive and negative impacts of GST on Small Scale Industries. It also concluded that the rate of GST is higher and it would restrict their growth in the era of strict competition. The study also suggests the government to reduce the current rate of GST composed on MSMEs and there by promote the growth of such enterprises.

Chitra Suraj Ashtekar, P. L (2019) has undertaken a similar kind of study. The study was based on GST impacts and its implications on MSME Sector. It also looked into the problems of MSMEs relating to GST and suggested the measures to solve them. The study revealed that the GST regime brought the MSME Sector under Indirect tax net for the first time and there by increased the compliance costs for MSMEs at present. The study also states that this will benefit small and medium businesses as well as consumers in the long run.

Shetty Deepa Thangam Geeta, S.P Mathiraj Subramanian and Thivya Sundar (2019) have done a research on Impacts of GST on MSMEs. The used descriptive and multivariate statistical tools it is found that GST has simplified the tax structure. In lines with the impact survey conducted with small and micro enterprises, it is evident that the people rate the impact of GST as a balance and there is potential scope for improvement in the process. The study also suggests the government that they should take measures in a rapid pace to implement the system is managed properly with addressing the gap in the process.

Mrs. Bhagyashree Deshpande and Mrs. Jyoti Harchekar (2021) in their study titled Impact of GST on Trading Community in Pune, revealed that majority

of the trading community people are not ready with the GST implementation. The study also mentions that the retailers facing problems in filing documentation submission and took long time for the same as compared with the previous system. At the same time majority of the traders have the opinion that GST brought transparency in their business. Along with this the study found that majority of the traders had an opinion that turnover of Small and cottage business had fallen down.

Gurender Pal Dang, Jyotika Kaur and Divneet Kaur (2021) had undertaken a study on Impact of Goods and Services Tax on Micro, Small and medium Enterprises of India. The objective of the study was to find out the inconveniences faced by the MSMEs due to the implementation of GST and also find out the impact of GST on Profitability of the MSMEs. The study was based on the factors like operating costs, inconvenience, market conditions, profitability and sales. The study revealed that there is a significant impact of GST on the profitability of MSMEs.

Dr. Manisha Shinde (2019) has conducted a study with regard to impact and challenges of GST on various constituents of Indian economy. The author carried out the study with different sectors of the economy which includes Consumer Goods sector, Brokers and Equity investments, Cement industry, food industry, Information technology services, Infrastructure sector, small scale enterprises, Telecom, Automobile and auto ancillaries. The findings of the study were, the GST will remove economic distortions and contributes towards the development of a common national market. The study also revealed that the GST is huge step in support of realizing Making in India and digital India Initiative.

OBJECTIVES

1. To analyses the effect of GST Implication on MSMES Annual profit.
2. To know the relationship between factors related to tax filing procedures of MSME industries after implementation of GST

RESEARCH METHODOLOGY

Research Methodology in other words Research Design is the way which describes how a research work has been conducted. The research should arrange the full research activity in such a way that the study

is completed correctly and within the time frame allotted. The results of a research study should also be reliable. This possible only when the conducting of research work is properly designed. As a result, preparing a research design or establishing research technique is a crucial effort in the context of a research project. The researcher should apply his knowledge and skills to make a practical research design. Both

primary and secondary sources are used to generate the data needed for this research project.

DATA ANALYSIS AND INTERPRETATION

1. *H₀: Opinion Regarding Statements on Annual Profit After The GST Implementation of MSME Entrepreneurs Are Equal To An Average Level*

Table 1 T Test For Specified Value (Average = 3) On Profit Related Statements.

FACTORS RELATED TO ANNUAL PROFIT	MEAN	SD	T VALUE	P VALUE
GST has a relationship with your Annual Net Profit	3.62	0.854	8.954	<.001
After implementation of GST your Annual Net Profit has increased	3.01	0.983	0.083	0.934
Cost of Production and other direct expenses have decreased with the implementation of GST	3.13	1.028	1.504	0.135
Late fine and other charges affecting your monthly profit	3.70	0.937	9.210	<.001
Operational efficiency has increased with GST implementation	3.40	0.967	5.051	<.001
Profit total after implementation of GST	16.854	2.965	7.685	<.001

Interpretation

Since p value is less than 0.01 with regard to four statements indicating relationship with annual profit including overall profit after implementing GST, the null hypothesis is rejected at 1% level of significance indicating a positive variation on all statements including total but it is not so in the case of two statements “increase in annual net profit” and

“decrease in cost production and other direct expenses.”

2. *H₀: There Is No Relationship Between Factors Related to Tax Filing Procedures of MSME Industries After Implementation Of GST*

Table 2- Pearson Correlation Coefficient Between Factors of Tax Filing Procedure in MSME Industries After Implementation Of GST

Factors of Tax filing procedure in MSM industries after implementation of GST	GST has helped to reduce tax burden	You are fully aware about the different GST slabs.	Tax filing and other proceedings become much easier.	Helped to have transparency in tax filing	Helped to avoid other indirect taxes related with your industry	Input Tax Credit Mechanism is favourable for your business	Reverse Charge mechanism of GST is useful for your business
GST has helped to reduce tax burden	1	0.370**	0.527**	0.450**	0.382**	0.368**	0.367**
You are fully aware about the different GST slabs.	—	1	0.413**	0.493**	0.373**	0.409**	0.334**
Tax filing and other proceedings become much easier.	—	—	1	0.543**	0.618**	0.567**	0.622**
Helped to have transparency in tax filing	—	—	—	1	0.614**	0.569**	0.459**
Helped to avoid other indirect taxes related with your industry	—	—	—	—	1	0.585**	0.607**

Input Tax Credit Mechanism is favourable for your business	—	—	—	—	—	1	0.703**
Reverse Charge mechanism of GST is useful for your business	—	—	—	—	—	—	1

INTERPRETATION

The correlation coefficient between the factor, GST has helped to reduce tax burden to the factors like awareness of GST Slabs, easiness of tax filing and other proceedings, helped to achieve transparency in tax filing, helped to avoid other indirect taxes in the country, input tax Credit Mechanism is favourable, and Reverse Charge Mechanism is useful etc. is .370, .527, .450, .382, .368 and .367 respectively, and show a positive relationships between factors and is significant at 1% level. Similarly, awareness about different GST Slabs also shows a positive relationship with easiness of Tax filing proceedings, transparency in tax filing, helped to avoid other indirect taxes, favourability of Input Tax Credit Mechanism and Reverse Charge Mechanism with the percentage of positivity as 41.3, 49.3, 37.3, 40.9 and 33.4 respectively at 1% significance level. There is also positive correlation between easiness of tax filing and other proceedings with transparency in tax filing, avoidance of other indirect taxes, favourability of Input Tax Credit Mechanism and useful reverse charge mechanism as .543, .618, .567, and .622 respectively at 1% significance level. When consider the relationship between transparency in tax filing with factors like avoidance of other indirect taxes, favourability of Input Tax Credit Mechanism, Usefulness of the Reverse Charge Mechanism, it shows a positive correlation with values like .614, .569 and .459 respectively at 1% Significance level. There is also positive relationship between the factor of helping to avoid other indirect taxes concerned with the industry with the factors like favourability of Input Tax Credit mechanism and Usefulness of Reverse Charge Mechanism with the values such as .585 and .607 respectively at 1% Significance level. Easiness of Input Tax Credit Mechanism is also positively related with usefulness of Reverse Charge Mechanism and shows 70.3 percent relationship. Since all the factors

related with Tax Filing Procedures are positively correlated, we can reject the null hypothesis.

FINDINGS

The Statement that the “awareness about the GST requirements when it is implemented” is equal to average level. Based on mean score, opinion is slightly above average level. GST has helped to reduce tax burden to the factors like awareness of GST Slabs, easiness of tax filing and other proceedings, helped to achieve transparency in tax filing, helped to avoid other indirect taxes in the country, input tax Credit Mechanism is favourable, and Reverse Charge Mechanism is useful etc. is .370, .527, .450, .382, .368 and .367 respectively, and show a positive relationships between factors and is significant at 1% level. Similarly, awareness about different GST Slabs also shows a positive relationship with easiness of Tax filing proceedings, transparency in tax filing, helped to avoid other indirect taxes, favourability of Input Tax Credit Mechanism and Reverse Charge Mechanism with the percentage of positivity as 41.3, 49.3, 37.3, 40.9 and 33.4 respectively at 1% significance level. There is also positive correlation between easiness of tax filing and other proceedings with transparency in tax filing, avoidance of other indirect taxes, favourability of Input Tax Credit Mechanism and useful reverse charge mechanism as .543, .618, .567, and .622 respectively at 1% significance level. When consider the relationship between transparency in tax filing with factors like avoidance of other indirect taxes, favourability of Input Tax Credit Mechanism, Usefulness of the Reverse Charge Mechanism, it shows a positive correlation with values like .614, .569 and .459 respectively at 1% Significance level. There is also positive relationship between the factor of helping to avoid other indirect taxes concerned with the industry with the factors like favourability of Input Tax Credit mechanism and Usefulness of Reverse Charge Mechanism with the values such as .585 and

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CONCLUSION

When anything new is introduced to a system, there may be lot of confusions and problems. Just like that, when the entire Indirect Tax system of the country has replaced by GST in July, 2017, there were lot of pitfalls initially. But as the years pass by, it may get reduced. The economic system of the country has rejuvenated after GST implementation. But there should be even more studies needed for the implementation of GST in an efficient and professional way. This particular study mainly focuses on the entrepreneurs' perspective about the effects of GST on MSME Units in Thrissur District. Their views on the effects of GST on their Annual Profits, Sales, Purchases, Operating expenses and Tax filing procedures were taken into consideration.

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