



GST: ITS IMPACT ON ECONOMIC GROWTH AND TRADE OF INDIA WITH SPECIAL REFERENCE OF MSMEs

Dr. H.R. Kaushal

Assistant Professor, Department of Commerce, Kumaun University, S.S. J Campus, Almora, Uttarakhand, India

Dr. Bhagwateshwari Karki

Guest Faculty, Department of Commerce, Kumaun University, S.S. J Campus, Almora, Uttarakhand, India

Prof. B.P. Singhal

Professor, Department of Commerce, Kumaun University, S.S. J Campus, Almora, Uttarakhand, India

ABSTRACT

Micro Small and Medium Enterprises (MSMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today we have around 36 million MSMEs are generating 80 million employment opportunities contributing 8% of the GDP, 45% of total manufacturing output and 40% of the total exports from the country. The Goods and Services Tax (GST) has already been implemented in the country. The new tax regime provided transparency and certainty in the tax system. The main aim of implementing GST is "One Nation, One Tax and one market." Globally, it is simple, efficient and will help to improve the economic growth of the country by eliminating a dozen of central and state levies like excise, service and VAT. GST will have both positive and negative effect on MSMEs. This paper look into how GST impact and what are its implications on the MSMEs of the country.

KEYWORDS: GST, MSMEs, GDP, Economic infrastructure, social engineering, ITC, VAT

INTRODUCTION

Indirect Tax plays a vital role in the business and development of a nation. Funds provided by taxation have been used by states and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure, public works, social engineering and the operation of Government itself. Most modern government also use taxes to fund welfare and public services. These services can include education systems, health care system and pensions for the elderly, unemployment benefits and public transportation.

GST the biggest tax reform in India founded on the nation of "One Nation, One Market and One Tax" is finally here. The moment that the Indian government was waiting for a decade has finally arrived. The single biggest indirect tax regime has kicked into force. dismantling all the inter-state barriers with respect to trade. The GST rollout with a

single stroke, has converted India into a unified market of 1.3 billion citizens. Fundamentally the \$2.4 trillion economy is attempting to transform itself by doing away with the internal tariff barriers and subsuming Central, State and local taxes into a unified GST.

GST would replace the following taxes currently levied and collected by the Centre: Central excise Duty (CENVAT), Service Tax, Additional Excise Duties, Additional Customs Duty or Counter Vailing Duty (CVD), Special Additional Duty (SAD) on Customs, all surcharges and cess, Central Sales Tax (CST).

State Taxes that would be subsumed within the GST are : State VAT or Sales Tax, Central Sales Tax (CST), Luxury Tax, Entry Tax (all forms), Entertainment and Amusement Tax, (except when levied by the local bodies), Taxes on advertisements, Purchase Tax, Taxes on lottery, Betting and Gambling, State surcharges and cess so far the are relate to supply of goods and services.

GST Rates : An over view

Rate	Goods	Services
0%	Food grains, cereals milk, jiggery salt, kaja, picture book, colouring books, human hair, sanitary napkin, frozen branded vegetables, music books.	chargeable services offered on Basic Savings Bank Deposit (BSBD) opened under the Pradhan Mantri Jan Dhan Yojna.
5%	Cashew, nuts, Ice and Snow, Sweets, Biogas, Insulin, Aggarabatti, Kites, Coirmats, matting and floor covering, Pawan chakki, postage, stamp, namismatic, coins, Braille papper, walking stick, natural cork, marble, rubble accessories	Railways, Transportation of goods, passengers, Renting a motor cab with out fuel costs, Transport services in AC contract, Transport by air/Tour operator services, leasing of air crafts, Printing media, ad. space, working for printing of new papers.
12%	Apparel above Rs. 1000, frozen meat products butter, cheese, Ghee, dry fruits, juices, Bhutia namkeen, Ayurvedic medicines, tooth powder, umbrella, sewing machine, cell phones, ketchup and sauce, Agricultural, horticultural, forestry, harvesting or threshing machinery.	State-run lotteries, Non AC hotels, business class air ticket, fertilizers and work contract, chit fund services by foremen, IP rights on a temporary basis, Movie tickets less than or equal to Rs. 100, Rail transportation of goods in containers from a third party other than Indian Railways, Renting of accommodation for more than Rs. 1000 and less than Rs. 2500 per day.
18%	Bidi patta, software, Biscuits, pasta, cornflakes, pastries and cakes flavoured, refined sugar, preserved vegetables, Jams sauces, soups, ice cream, chewing gum, white chocolate, cocoa butter, fat and oil, cocoa powder, mineral water, tissues, paints and varnishes, kaja pencil sticks, dental wax, plastic tarpaulin, Electronic Transformer, CCTV, computer monitor, Baby carriages, bamboo furniture, swimming pools and paddling pools, T.V. etc.	Food/drinks at restaurant with liquor license and AC/heating, outdoor catering, renting for accommodation for more than Rs 2500 but less than Rs. 5000 per day, supply of food, Shamiyana and party arrangement, circus, Indian classical folk, theatre, drama, movie tickets overs Rs, 100
28%	Bidies, molasses, Pan masala, aerated water, paints, sunscreen, wall paper, Ceramic tiles, water heater, dishwasher, weighting machines, washing machine, ATM, Vacuum cleaner, Auto mobiles, air craft, race club betting, Cinema, private-run, lotteries.	Entertainment events, amusement facility, water parks, theme parks, joy rides, merry-go round, race course, go-carting, casinos, ballet sporting event like IPL, race club services, Gambling, food/drinks at AC-5star hotels. Accommodation in 5 star hotels or above.
28% Cess	Cars, small cars (1%-3% cess luxury cars/ 15% cess	
Special tax 3%	Gold and silver, Pearls. Precious or Semi precious stones, diamonds (other than rough diamond) imitation jewellery coins.	
.025%	Rough diamond	

The Micro Small And Medium Enterprises have played a great role in ensuring the socialistic goals like equality of income and balance regional development as envisaged by the planners soon after the independence. With the meagre investment in comparison to the various large scale private and public enterprises, the MSMEs are found to be more efficient providing more employment opportunities at relatively lower cost. The employment intensity of MSMEs in estimated to be four times greater than that of large enterprises. Currently around 36 million SMEs are generating 80 million employment opportunities, contributing 8% of the GDP, 45% of total manufacturing output and 40% of the total export from the country. MSMEs account for more than 80% of the total industrial enterprises in India creating more than 8000 value added products.

MSMEs have always been the backbone of an economy in general and secondary sector in particular. For a capil scarce developing country MSMEs are considered as panacea for several economic woes like unemployment, poverty, income inequalities and regional imbalance.

Definition of Micro, Small and Medium Enterprises in according with provision of Micro, Small and Medium Enterprises (MSMEs) Act 2018, the MSMEs are classified in two classes.

- (i) **Manufacturing Enterprises** - The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to industries (Development and regulation, Act. 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.
- (ii) **Services Enterprises**- The enterprises engaged or rendering of services and are defined in terms of investment in equipment. The limit for investment is plant and machinery/equipment for manufacturing/ Services enterprises.

Classification of Micro, Small and Medium Enterprises development Bill 2018

Types of enterprises	MSME Act 2006		MSMEs Bill 2018
	Manufacturing	Services	All Enterprises
	Investment in plant and machinery	Investment in equipment	Annual turnover
Micro	25 Lakh	10 Lakh	5 Crore
Small	25 Lakh to 5 crore	10 Lakh to 2 crore	5 crore to 75 crore
Medium	5 crore to 10 crore	2 crore to 5 crore	75 crore to 250 crore

REVIEW OF LITERATURE

Pandit (2015) found that Goods and Services Tax help to simplify the process of indirect taxation. It will bring many benefit such as availing of input tax credit, single taxation system etc. This study explained that the tax returns are filed on the quarterly basis and due to this the owner is free from the taxation matters. If the registered people buy goods from unregistered dealer then tax is paid by the registered person as per the provision of reverse charge. Earlier there is no time limit.

Prasad (2017) found that Goods and Services tax likely to be beneficial for Auto cement and organized retail sector, but will have a negative input on oil and gas and SMEs sector.

Kumari (2017) concluded that there will be impact of Goods and Services tax on working capital requirement, increasing the interest cost and also impact on pricing policy on Small and Medium Enterprises. Goods and Services tax predicted to benefit micro, small and medium enterprises in long run.

Jeff (2018) conduct a study on Goods and Services tax and collected data from various countries like U.K., U.S.A., New Zealand and Australia. This study investigated the importance of small business in economic growth and especially job creation, the high administrative and compliance costs of including a large number of small entities in the tax system. The study found that there is a high level of tax evasion because of high compliance costs on small industries.

Sharma (2017) found that Goods and Services tax would lead to increase to output, employment opportunities economic development and progress of the nation. Goods and Services tax is beneficial for the MSMEs. There will be positive effect on MSMEs. Goods and Services Tax reduce the burden of both producers and the end users and also helpful by providing the advantage of input tax credit. This will the federal distribution financially strong will helpful in balanced growth of economy as a whole.

STATEMENT OF THE PROBLEM

Goods and Services Tax a major disruptive measure for the Indian economy is expected to bring a paradigm shift in doing business in India. This pioneering indirect tax reform is likely to give a major boost to all the sectors including MSMEs by making goods and services produced in India competitive in the national and international market. It will simplify indirect taxation, reduce complexities and remove the cascading effect.

GST regime will introduce 'digitalization' to the core of Indian business where every transaction, will be captured on the nation wide platform of GST Network and resulting pay-offs to the economy by way of speed, transparency and information reliability will be significant. However, good understanding of non complexities and trouble free

implementation of GST by the business, particularly MSMEs would be a key factor to manage the transition smoothly. Therefore the present research is targeted to study the impact of GST on the MSMEs in India.

OBJECTIVES OF STUDY

1. To evaluate the performance of GST in current system of taxation.
2. To study the role of MSMEs in Indian economy.
3. To study the impact of GST on MSMEs in India.

SIGNIFICANCE OF THE STUDY

According to Goods and Services Tax council (GSTC) will help to create a unified common national market for India, giving a boost to foreign investment and 'Make in India' campaign. It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth simply tax regime with fewer exemptions. Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacture, retailer and supplier of services. So to examine above said statement of Govt. on ground reality using MSMEs in India.

THE IMPACT OF GST VARIOUS MSMEs-

Leather Industries- Leather is one of the most traded commodities in the world. The leather industry occupies a prominent place in Indian economy due to substantial export earnings. The Indian Leather industry accounts for around 12.93% of worlds leather production of hides and skins. The country ranks second in terms of footwear and leather garments production in the world and account for 9.75% in world's footwear production.

According to the council for leather exports the levy of IGST is that "loss of competitiveness due to GST issue will be huge loss to the industry which currently has an annual export turnover of \$5.6 billion and employment of about 4.5 billion with predominant women employment". Thus, from the study we can say that GST has a negative impact on leather industry.

Electronic Appliances Industry- Electronic appliances such as T.V., Fridge, Micro wave oven, washing machine etc. are used in almost every household The GST has definitely created a stir in the market, but it won't be totally appropriate to say that it has ruined the market because it has not GST is actually good for the industry. The manufactures and retailers have the option of claiming input credit on their purchases, so they keep getting good margins on their goods. The consumer, however, may experience a slight rise in the cost of household products. Because of the increased tax rate, the manufactures might not be able to pass on the benefits of GST to their consumers which was supposed to be one of the goals of the new tax system. The prices of electronic goods are increased by 2-3%.

Agro based Industries and Agro services-

Agriculture is one of the most critical sectors of the Indian economy. The impact of GST on Agro based industries and agro services is foreseen to be positive. This sector is the largest contributing sector the overall Indian GDP. It covers around 16% of Indian GDP. The implementation of GST would have an impact on many sections of the society. It is highly probable that GST shall resolve the issue of transportation. GST may provide India with its first National market for the agricultural goods.

In the GST ambit, the government wishes to include as many products to gain tax benefit in the agri-based foods which will be including contract farming, dairy farming, frozen foods, poultry and stock breeding seed raising, food processing. These agricultural activities are directly attached to the retailing as being chain contract with the farmers and take lot towards their commercial processing. However, the impact on the agro-based industries and agro-services for a long term is assured to be beneficial along with the implement in the supply chain.

fertilizers an important element of the agriculture was previously taxed at 6% (1% excise +5% VAT). In the GST regime, the tax on fertilizers has been increased to 12% has been imposed. It can be said from the above that GST is expected to have both positive and negative impact on the Agro sector. In case of milk, tea and fertilizer it is expected to show a negative impact.

Manufacturing sector- The manufacturing sector in India contributes a mere 16% to the overall GDP. However, the potential to make this a high growth and high GDP sector is huge. The Goods and Services Tax regime has the potential to amp up that growth, especially if you run a small business. With its simplified tax structure and effect on inter state sales, the GST can help your company cut costs and become more competitive.

After GST was implemented, many state border check points were immediately shutdown. You can now use the e-way bill system to register shipment and pay taxes online. This means you save valuable time on logistics and spend less money of fuel. Overall, one can say that the impact of GST on the manufacturing sector is positive. It provides a unique opportunity to streamline business operation to become more compliance and profitability-oriented, rather than tax oriented. It puts power in the hands of business leaders to bring about positive change and steer their enterprises on a growth path, powered by GST compliance.

IMPACT OF GST

Negative Impact –

- **The burden of lower threshold-** The GST bill proposed a reduction in threshold to be Rs. 9Lakh to increase the tax net, Rs. 4Lakh for North Eastern states. Under the reform, any service provider or retailer will be subject to tax levy. In the current central excise law threshold is Rs. 1.5 crore. This reduction will significantly impact the MSMEs working capital. As the threshold is low, most MSMEs are now exempted and will have to pay a chunk of their capital towards tax in future.
- **No Tax differentiation for luxury items and services-** The tax neutrality will not differentiate luxury goods and normal goods. Currently the state and central government levy higher taxes on luxury goods and services. Under GST implementation, all goods and services will

have to pay the same tax which will lead to rich becoming richer and poor becoming poorer. It is not an ideal situation for MSMEs competing against large business.

- **Selecting tax levying-** GST will not be applicable to alcoholic liquor for human consumption and petroleum based business, which creates further gap and does not support the 'unified market' ideology of GST.
- **The burden of higher tax rate for services provider-** Presently service Tax rate is 15% GST rate will be around 18%. The scenario in the service sector will further be impacted as the concept of centralized registration has been done away with and each unit in different states will have to take separate registration. Thus even if services are supplied by company's one unit in state to another unit in state B, then also taxes will be payable.
- **Excess working capital Requirement-** Taxation of stock transfer will primarily impact the working capital requirements. The quantum of impact will vary depending on stock turnaround time at warehouse, credit cycle to customer, quantum of stock transfer, etc. Higher amount of capital requirement will increase interest cost which ultimately will increase the price of finished goods.
- **Realignment of purchase and supply chain-** Under GST credit will not be available to a complainant company if the vendor from whom MSME is purchasing goods does not show the same in his return. Thus sourcing strategies will change on account of GST credit mechanism. Also there will be re-consideration of supply chain on account of taxation of stock transfers.
- **Dual Control-** In recent GST council meeting it was decided that those assesses having turnover of less than 1.5 crore will be assessed by state government and existing service tax assesses, irrespective of turnover will be assessed by central government as there is lack of expertise with the state Government in relation to service tax matters. As a result of this, small traders dealing in both goods and services will have dual administrative central both by centre and state.

Positive Impact-

- **Starting Business Become Easier-** Currently, the Sales Tax department has various turnover slabs which require VAT registration. A business with multi-state operation in this case has to follow varied tax rules applicable to different states. This not only creates excess complication but also adds to procedural fees, due to which the price sensitive MSMEs will be burdened. Uniform GST will standardize the process.
- **Improved MSME market expansion-** In the current system, big corporations procure goods based on MSMEs locality in order to reduce overheads. Thus MSMEs limit their customers within state as they will bear the ultimate burden of tax on interstate sales, reducing their customer base. With implementation of GST, this will be nullified as tax credit will transfer irrespective of location of

buyer and seller. This allows MSME segment to expend their reach across borders.

- **Lower logistical overheads-** As GST is tax neutral it will eliminate time consuming border tax procedures and tall check posts and encourage supply of goods across borders. Accordingly the logistical cost for companies manufacturing bulk good will be reduced. Such costs can be crucial for the survival of MSMEs.
- **Aids MSMEs dealing in sales and services-** GST will not distinguish between sales and services. This is good news for the MSMEs that deal with sales and services model of business for them the taxation is simplified and will be calculated on total.
- **Unified market-** GST will allow flexibility in transfer of goods across states and reduce the cost of doing business as the reform will cut down multiple taxes imposed by state and central government.
- **Purchase of capital Goods-** In the current system only 50% of the impact tax credit against purchase of capital goods is available in the year of purchase and the balance amount in the subsequent years. Under GST regime, entire amount of input tax credit can be availed in the year of purchase itself. This will support "Make in India" campaign.

CONCLUSION

Micro, Small and Medium enterprise (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy, MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. GST is the biggest tax related reform in the country bringing uniformity in the taxation structure and eliminating the cascading of taxes that was levied in the past. Introduction of GST resulted in simplification of indirect tax system in the country and there by ensures seamless business transaction across our nation and world over. Main aim of GST is "One Nation, One Tax and One Market". India paradigm shift to the Goods and service tax regime brought majority of MSMEs into the indirect tax net for the first time and thereby increased compliance costs for MSMEs. However in the long run it will benefit MSMEs as well as consumers. The overall impact of GST in MSME sector has to be expected to have both positive and negative.

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