

GST and Small Scale Industries: An Critical Analysis

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Abstract

Small industries play an important role in overall economic growth. This industry is mainly specialized in the production of consumer goods. SSI creates huge employment opportunities by using the workforce to produce goods. In developing countries such as India, where unemployment is a big problem; these industries pave the way for adopting skilled and unskilled people. The implementation of the GST will certainly affect this area and its staff.

Introduction

The new tax system in the form of goods and services tax (GST) starts at midnight on 30 June. A number of SSI and trade organizations are against the GST in their current form and are working on correcting the concerns. The tax on goods and services (GST) is expected to be released within two months and there is a voice that can have a negative impact on small manufacturers. We heard this story early in 2001 when we removed quantitative import restrictions and opened up the sector to production by small industries.

One of the main characteristics of GST is that goods and services are considered in the same way and that they are taxed at a single price until they are accessible within the supply chain. Tax reform therefore offers equal footing to large and small companies and ensures that equities are transferred evenly.

Another remarkable feature of India's GST deployment is that it will be dual-based. In other words, the Center and various state governments will charge GST separately. The central government charges CGST and the state charges SGST. However, the tax classification, tax base and tax base are both the same. This should take into account the federal structure of the government if both governments are free to manage their taxes. GST is also charged when importing goods and services in India.

Another important feature of the GST that needs to be addressed is the elimination of the cascading effects of different state and central taxes. The state tax that must be included in the GST is tax on VAT, entertainment tax, import tax and advanced taxes, gambling and gambling. Included in the various central taxes are the central consumption tax, additional excise duty, service tax, additional excise duties, special additional duties and central sales tax.

Positive impact of GST on SMEs and start-ups

According to industry experts, SMEs and startups will be most affected by the launch of GST and its impact will be beneficial in many ways. Here are a few ways GST can help small businesses and startups:

- Easy start-up of companies: companies that do business in other states need VAT registration. Other tax rules in other states increase the complications and involve high procedural costs. GST

enables centralized registration, making it easier to get your business started and, as a result, additional benefits for small businesses.

- Reduce tax burden for new companies: companies with a turnover of more than 5 lakh under the current tax structure will have to pay VAT registration costs. Under the GST, the government sets the exemption limit to 25 lakh for more than 60% of small traders and traders.
- Improving logistics and fast service: the GST legislation does not levy taxes on products manufactured or sold in parts of India. As a result, deliveries are quickly processed at weekly and paid checkpoints. CRISIL estimates that the logistics costs for manufacturers of bulk products will decrease by about 20%. It is expected that this will activate national e-commerce.
- Making a distinction between goods and services: GST ensures that there is no ambiguity between goods and services. This simplifies the different legal procedures related to the packaged product. As a result, there will no longer be any distinction between materials and service components that can further reduce tax avoidance.

Consequences for the production sector

According to Deskera, a cloud-based provider of business management software for SMEs in Southeast Asia, GST will improve the competitiveness of its manufacturing sector, mainly by mitigating the cascading effects of different taxes. Headquartered in Singapore, the company offers GST-ready Enterprise Resource Planning software for the global small to medium business market, where small businesses account for more than 70% of global operations. Deskera is an excellent provider of cloud ERP solutions and has discussed comprehensive GST requirements with various organizations in countries such as Singapore and Malaysia. The company offers India a complete GST-compliant MRP solution, the Deskera MRP, to allow manufacturers and traders to switch smoothly to the new regime when the GST law is implemented nationwide. According to IBEF, India is a global manufacturing hub, and SMEs are about 90% of the industrial sector. The 'Make In India' campaign of the Indian government will be strengthened with the launch of GST. Currently, excise duties on prepackaged products for small consumption are charged at a percentage of the maximum sales price (MRP) of the package, not the factory price. This leads to higher MRP, which means higher costs for consumers. Under the GST scheme, manufacturers pay taxes while buying raw materials for their products. You can earn money for subsequent resellers until the product reaches the end consumer. This will considerably reduce the tax burden. Read how Deskera became the first GST-compliant cloud company in India to learn more about the impact of GST on production.

Challenges for small businesses

1. Many SMEs are of the opinion that GST is not good for the sector and that fear may not be completely empty. The tax neutrality of small businesses can be one of the remarkable advantages. Tariff reduction is, however, one of the main points of attention of the GST legislation. Manufacturers with a turnover of less than 1.50 crores per existing consumption tax do not pay any rights. However, after implementing GST; the exemption limit will be significantly reduced. During a press conference, Finance Minister Alan Zaittle said the limit could be as low as Rs 25 lakh. As a result, many SMEs and start-ups have to be tax-deductible and pay a large amount of tax. There is also another downside to the proposed neutrality of the detergent. The GST system does not distinguish between luxury goods and general goods. It is

difficult for SMEs to compete with large companies. Ultimately, the GST charged for the offer cannot be used for input credits. This results in higher product costs for companies that are provided directly to end users. "If the new tax system goes against their interests, the influx of Chinese goods will increase, resulting in huge income inequality," he said.

2. According to Swadeshi Jagran Manch, when determining the exchange rate of GST, we have not considered lowering the tariffs for raw materials produced by small industries. Beedi hosts, crackers, beverages, biscuits, pickles, confectionery, scissors and other products produced in the SSI and house industry have a high GST percentage that may affect competitiveness. "In the new GST, Beedi has a high tax rate of 28%, which threatens the employment of tendu patta-collectors and Beedi workers, especially women," says the Beedi industry, which offers direct and indirect employment and protects for almost five people. The statement said.
3. Small industries are the key to India in terms of production, employment and exports. In addition, SSI fought fiercely against Chinese attacks, despite the many drawbacks.
4. The risk of declining small businesses has been challenged again and again every time, but when the sector has remained elastic and actually has grown faster than the entire production sector, it was buried quietly. Fear of GST impact on small businesses is also likely to be misplaced.
5. Small and medium-sized enterprises in India (MSME) account for 6% of GDP, one third of industrial production and 45% of exports. They employ around 51 million companies and employ 111 million people. The impact on that sector will have a ripple effect on the entire economy.
6. The GST is a breakthrough in almost 20 years. The main indirect tax reforms in an independent country are target-based taxes, including a number of other indirect taxes imposed by central and provincial governments. This includes taxes, service tax, octroi, local taxes and central sales tax, so the previous tax benefits are abolished.
7. The whole country to which the total tax rate applies will be a single market. In addition to tax simplification, GST will add efficiency to the system as it is expected to reduce logistics costs regardless of location.
8. In particular, GST must be implemented via the online GST Network (GSTN) system. An automated system that is ready to process approximately 3.5 billion transactions per month, corresponds to invoices and guarantees tax credits. Companies must register with the network up to 37 times per year and connect up to the system for tax refund applications up to 37 times per year.

GST and small-scale industry progress and performance

1. The GST commission has set a basis point of 20 lcs turnover for income exemptions (10 lcs for businesses in the northeastern and mountainous regions). Previously this limit was ₹ 10 for consumption taxes. This means that most SMEs are not included in the tax network.
2. In addition, the board has made configuration costs available to companies with a turnover of 5 billion Swiss francs, with a percentage of 2.5% of the total turnover of the manufacturer and 1% of others (excluding suppliers of food and beverages). Companies with a turnover between 20 lakh and 50 lakh have to register for GST, but pay only one tax per quarter at a predetermined rate.
3. GST is expected to introduce more companies into formal systems. Currently about 1.6 million of the approximately 20 million companies are registered under the Ministry of MSME. In addition,

SMEs become more competitive, efficient and productive because they impose a discipline on operations and reduce tax incidence.

4. After the rigorous process of online matching of invoices, there is a high incentive for companies to receive pre-tax deductions and to introduce a full multiplier. Since the self-help group in the microcredit sector is applying equal pressure to guarantee the repayment of microloans, it is important that buyers can submit tax refunds to the seller in time to receive tax benefits. For example, a company that sells bicycle parts for the Rs 200 pays Rs 20 for tax purposes. The buyer of this part adds the value of Rs 100 and sells the product for Rs 300 + Rs 30 as tax and receives the tax return Rs 20 paid by the seller. If the supplier does not pay 20 rupees, the buyer is liable for the full amount of Rs. This is a strong incentive for all nodes in the supply chain to pay taxes and pay taxes on time.
5. Companies that avoid up-to-date reporting of total turnover and prefer cash outside the tax system find it more difficult to work in this way. With regard to the increase of digital transactions via GSTN and the monitoring of product movements, these companies will be investigated by tax officials.
6. Part of the underground economy, estimated at about a quarter of India's GDP, can be forced out of the shadow. According to the 2015-16 economic survey, about 15.5% of net national income, excluding taxes, is reported to the tax authorities and almost 85% of the economy is outside the tax system. Companies that exceed the threshold turnover should consider putting on the sleeves quickly in order to comply with the new regulations. Critics have pointed out that SMEs often fail to report profits within the prescribed time frame in case of disruptions such as illness or unexpected events. As a result, you not only run the risk of losing your business, but this can also have consequences for buyers. Perhaps it is another small company that does not have enough working capital to absorb the loss of tax credits. These risks must be handled by the owner and the replacement employee must submit the file.

Conclusion

On the basis of the above discussion it can be said that the DOR seems to be closer to the proposal of the task force, while the other group has not reached a consensus. SSI will absorb surplus workload in the economic system and poverty, but also help to reduce the scale of unemployment. All actions must be taken to protect it in future GST.

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