GST verses MSME

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Abstract

The MSME sector, which contributes 40% of Indian exports, is growing in the aftermath of recent reforms. Nowadays, financing for SMEs is underway by various governments and RBI-led initiatives. According to a recent Credit Suisse report, the SME loan market is expected to grow by $3.2 trillion over the next decade. This is good news for the existing and seedling small and medium enterprises in India. First, RBI reforms, such as the purchase and sale of PSLCs, help to promote efficient lending practices for SMEs. A government plan to evaluate MSMEs for the next 50 parameters will enable this sector to improve production quality and to acquire a position on the international market. Government-led initiatives such as the introduction of bankruptcy laws will improve the convenience of doing business for small businesses. All these parliamentary reforms in Montreal have adopted the GST legislation, forcing the government to pass parliament and ensure strong support for small businesses in India.

Introduction

The goods and services tax (GST) is an indirect tax that was introduced in India on 1 July 2017 and that applies throughout India to replace the multistage tax imposed by central and provincial governments. It has been included in the Constitution since the 122nd amendment was adopted. GST is governed by the GST Council and its President is the Minister of India. Under GST, goods and services are taxed at 0%, 5%, 12%, 18% and 28%. There are special ratios of 0.25% for gold and 3% gold for raw and semi-precious stones. Items such as canned drinks, luxury cars and tobacco products are also subject to 15% or other costs of GST of more than 28%. The GST was originally proposed to replace a number of indirect taxes with uniform taxes, and is expected to drastically change the country's $2 trillion economy. The GST rate in India is between two and four times in other countries such as Singapore.

History

In 2000 the Vajpayee government formed a commission of commissioners headed by Asim Dasgupta (Minister of Finance of the Government of West Bengal) to start a discussion on GST. The committee designed the GST model and supervised the preparation of the IT backend. At the end of 2006, Federal Treasurer Shri P. Chidambaram with a budget moved to GST and proposed to introduce it by 1 April 2010. The competent Council of Finance Ministers (EC), however, issued the first discussion paper (FDP). GST was announced in November 2009. This explains the characteristics of the proposed GST and thus far forms the basis for discussion between the central and the US. SMEs have been seen for decades as an important driver of the Indian
Today we can see that about 3 million SMEs in India account for almost 50% of industrial production and 42% of total exports in India. For developing countries, such as India, and their demographic diversity, SMEs have emerged as important sectors for job creation and have balanced development across all sectors. Following the approval of the tax on goods and services (GST), industries welcome the government to encourage this long-awaited reform due to the political deadlock.

Before analyzing the impact of GST on SMEs, however, it is important to understand how GST broadens the taxpayer base. In the past, manufacturers with a turnover of less than 1.5 crore did not have to comply with the rules governing consumption tax. If all state and municipal taxes are added to the VAT number, manufacturers with a turnover of more than 20Ls (other) / 10Lakh (countries with a special category) must, however, comply with GST and the corresponding procedures. All of the compliance with GST registration procedures, payments, refunds and returns are now carried out through an online portal, small and medium enterprises do not have to worry about interacting with the officers department to implement that compliance is considered a headache in current tax settings. As MSME contributes more to economic development, we need to study the impact of GST on MSME.

**Positive impact**

Start your business easier. Currently, the sales tax department has a number of sales templates that require VAT registration. In this case, companies operating in more than one country must follow different tax rules that apply to other states. This is a burden on the price because it not only causes excessive procedural complications Extra commission-sensitive small and medium-sized enterprises. A uniform GST standardizes the process. Improved MSME market expansion: the current system, large companies have purchased products based on the MSME area to reduce overhead costs. As a result, MSME limits its customers within the state by reducing the number of customers by meeting the final burden of weekly sales. When you execute GST, the tax credit is transferred, regardless of the location of the buyer and the seller, which is zero. This allows the MSME segment to extend its range beyond the limits.

- **Reducing overhead costs of logistics:** The logistics costs for companies that produce bulk carriers are reduced. These costs can be crucial for the survival of the MSME.
- **SMEs dealing with sales and services:** GST does not distinguish between sales and services. This is good news for small businesses that are engaged in sales and service models. Taxes are simplified and totalized.
- **Single market:** GST is due to the number of taxes imposed by the state and central governments GST ensures flexibility in moving goods from across the country to reduce and reduce business costs.
- **Purchases of capital goods:** In the current system, 50% of the input tax credit for the purchase of capital goods available only on the purchase year, and you can use the balance, the following year. Tax reductions are available for the full tax under the GST.
system. This supports the "Make in India" campaign. Negative impact: although SMEs are fiscally neutral, the reduction of wage thresholds is one

- **Optional taxation:** GST cannot be applied to alcoholic beverages for human consumption and oil-based companies and does not support the 'integrated market' ideology of GST, thus increasing the gap. High tax burden for service providers: the current service rate is 15%. The GST percentage is about 18%. As the concept of centralized registration disappears, the scenarios in the services sector will be more affected and different units must be registered separately. Tax is therefore levied, even if the service is provided by another unit of State B by a unit of company A in state A.

- **Excessive capital requirement:** taxes on share transfer mainly relate to working capital requirements. The quantum of influence can vary, depending on the throughput time of the stock in the warehouse, the credit cycle for the customer and the quantity of stock transfer. The increase in required capital increases the interest costs and ultimately increases the prices of finished products.

- **Purchasing and supply chain reorganization:** GST credit ratings are not provided to a compliant company if the supplier whose MSME purchases appear is not the same on return. The sourcing strategy will therefore change as a result of the GST credit mechanism. We will also assess the supply chain due to tax on the transfer of shares.

**Conclusion**

It is clear that sourcing, warehousing and other decision-making strategies based on current tax exemptions are being converted in a way that focuses on quality and convenience. Based on the above factors, it is clear that the impact of GST on the Indian SME sector can go both ways. It is therefore important to make the most of the benefits of radical taxation, taking into account the many challenges that SMEs face.

**References:-**