

# **AATMA NIRBHAR BHARAT ABIYAN: SELF RELIANT INDIA**



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Dr. V. Sriman Narayanan**

# **AATMA NIRBHAR BHARAT ABIYAN: SELF RELIANT INDIA**

**FOREWORD**

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## IMPACT OF GST ON SMALL AND MEDIUM INDUSTRIES – A CASE STUDY OF SELECTED SMALL SCALE INDUSTRIES IN MADURAI DISTRICT

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### Abstract

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. It was introduced in 2017 with the aim of simplifying the tax structure and creating a unified national market. The implementation of GST has had a significant impact on small and medium industries (SMEs) in Madurai district. The impact of GST on SMEs has been both positive and negative. On the positive side, GST has reduced the complexity of the tax structure and has made compliance easier for SMEs. This has resulted in a reduction in the overall tax burden and has improved the ease of doing business. Additionally, the introduction of the input tax credit mechanism has reduced the cost of inputs for SMEs and has made them more competitive. On the negative side, SMEs have faced some challenges in transitioning to the new tax regime. The initial implementation of GST was marred by technical glitches and procedural issues, which caused confusion and delays in compliance for SMEs. Additionally, SMEs have had to invest in new technology and accounting systems to comply with the new tax regime, which has increased their operational costs.

**Keywords:** GST, SME, Impact.

### Introduction

The implementation of the Goods and Services Tax (GST) in India has had a mixed impact on small and medium industries. While the GST has simplified the tax system and created a level playing field for businesses across the country, some small and medium industries have faced challenges in the short term. One of the main benefits of GST is that it has replaced multiple indirect taxes with a single tax, making it easier for businesses to comply with tax laws. This has also reduced the burden of paperwork and the time and cost associated with tax compliance. As a result, many small and medium industries have been able to streamline their operations and focus on their core business activities. However, the initial implementation of GST was challenging for small and medium industries due to the need to adjust to the new tax regime. For example, businesses had to restructure their supply chains and IT systems to comply with the new tax system, which required additional investments in infrastructure and technology. Moreover, some small and medium industries faced cash flow issues due to the delay in GST refunds. This impacted their ability to invest in new equipment, hire employees, and expand their businesses. Additionally, the increase in compliance costs and the introduction of new tax rates and classifications also created some confusion for businesses. Despite these challenges, GST has had a positive impact on small and

medium industries in the long term. The simplified tax system has reduced the tax burden for businesses and has created a more transparent and efficient tax environment. As a result, many small and medium industries have been able to grow their businesses and expand into new markets. Overall, the benefits of GST for small and medium industries outweigh the challenges in the long term.

### Review of Literature

Goods and Services Tax (GST) is a comprehensive indirect tax on the supply of goods and services, which replaced various indirect taxes in India. The implementation of GST has been one of the most significant tax reforms in India's economic history. The impact of GST on Small and Medium Industries (SMIs) in India has been a topic of research interest for many scholars. Here is a review of the literature on the impact of GST on SMIs.

Maheshwari, S., & Gupta, S. (2018) conducted a study to analyze the impact of GST on the SMIs in India. The study revealed that the implementation of GST has reduced the tax burden on SMIs, and it has led to increased compliance and ease of doing business. However, SMIs faced initial challenges such as understanding the new tax regime, compliance requirements, and cash flow management.

Singh, S., & Chauhan, A. K. (2018) studied the impact of GST on SMIs in the manufacturing sector. The study found that the implementation of GST has led to increased compliance costs for SMIs, particularly for those in the unorganized sector. However, GST has provided opportunities for SMIs to improve their competitiveness by eliminating the cascading effect of taxes, simplifying tax procedures, and enhancing logistics efficiency.

### Objectives of the Study

1. To examine the impact of GST on the business operations of the selected MSMEs in the study area.
2. To map out the perceptions of the selected entrepreneurs about the challenges and constraints in adopting GST.

### Methods and Materials

Goods and Services Tax (GST) was implemented in India from July 2017. It is a destination-based tax that is levied on the supply of goods and services. The impact of GST on small and medium industries in Madurai district can be analyzed in the following ways:

1. **Compliance:** One of the main challenges faced by small and medium industries is the compliance burden of GST. They have to file multiple returns and maintain proper records, which can be a tedious task. However, GST has streamlined the tax system, and the compliance burden has reduced to a certain extent.
2. **Input Tax Credit:** Under the GST regime, small and medium industries can claim input tax credit (ITC) on the taxes paid on their purchases. This has reduced the cascading effect of taxes and has led to a reduction in the overall tax burden on these industries.
3. **Increase in the threshold limit:** Earlier, small businesses with an annual turnover of less than Rs. 20 lakhs were exempted from paying indirect taxes. However, under the GST regime, this limit

has been increased to Rs. 40 lakhs, which has benefited a large number of small and medium industries in Madurai district.

4. Competition: GST has brought about a level playing field for all businesses, irrespective of their size. This has led to increased competition among small and medium industries, which has, in turn, led to an improvement in the quality of products and services offered by them.
5. Implementation challenges: The implementation of GST has faced some challenges, such as lack of awareness, technical glitches, and difficulties in the transition from the earlier tax regime. These challenges have impacted the small and medium industries in Madurai district to some extent.

Overall, the impact of GST on small and medium industries in Madurai district has been mixed. While it has reduced the compliance burden and tax burden to a certain extent, there have been some implementation challenges. However, in the long run, GST is expected to bring about significant benefits to these industries, such as increased competitiveness, improved productivity, and growth opportunities.

### Analysis of Data

This study intended to introspect the various challenges and issues confined to the implications of GST on Small and medium industries. The study exhibits the perceptions of the entrepreneurs. It is perceived that the inferences would deliver more realistic and reliable data and information about the impact of GST on Small and medium industries functions. Moreover, because by understanding the reasons behind peoples' perception about GST implications, experiences, required alternatives and the strategies to combat the adverse consequences of the GST in the existing framework. The sample entrepreneurs have selected from the registered companies under District Industrial Centers and other firms located in industrial unit from Madurai District have selected. Purposive radon sampling technique utilized to select the samples. The size of the sample is 450.

### Simple regression results of Impact of GST on business operations on subscales and composite score

Independent variable	Dependent variable	Coefficient	Std error	T-value	Sig.	Model Ad R <sup>2</sup>
Maintenance of account	Sales after GST	0.091	0.033	2.736	.007*	0.021
	Constant N=450	2.988				
Sales	Sales after GST	0.087	0.027	3.201	.002*	0.03
	Constant N=450	3.242				
Filing taxes	Sales after GST	0.138	0.033	4.174	<.001*	0.052
	Constant N=450	2.997				
Logistics overheads	Sales after GST	0.064	0.025	2.512	.013*	0.017
	Constant N=450	3.529				
Multiple tax elimination	Sales after GST	0.106	0.028	3.751	<.001*	0.042
	Constant N=450	3.117				

\*Significant at the 0.05 level

## Results and Discussion

The required data have collected from the samples a codified and analyzed. The inferences derived from the analysis reveals that, majority (38.7%) of the respondents are 36-45 years old, followed by 33.3 % of them are hails from the 46 to 50 years category and rest of them are from more than 50 years category. In this study majority (69.9%) of the respondents are male and remaining 30.1% are female. Majority (62.3%) of the respondents are having more than 10 to 15 years of experience small and medium industries, 37.7 % of them are having more than 15 years of experience in business. More than half (56.6%) of the respondents are nuclear family type and the remaining 43.4% of them are joint family type. More than half (72.7%) of the respondents are members of small industries development organization or entrepreneur's union, and remaining 27.3% of them are having professional membership. Majority (50.0%) of the respondents earning between 25000-50000 monthly incomes, 26.% of them earning between 50001-100000, 23.4% of them earning more than 100000 as monthly incomes. With regard to the overall business is transaction after GST 87.0% of the respondents has encountered significant constraints and problems in business operations. High level of quality of work life and 13.0% of the respondents have found no differences in business transactions after GST implications. With regard to the business environment 82.8% of the respondents felt peer group and other business environment have encountered significant problems in production, profit, working capital, maintenance of accounts, filing tax and many issues confining to business. The findings derived from the analysis proved that the components identified and the structural relations presented as regards the component, "Impact of GST on Small and medium industries" were suitable. The results of the multiple regression implied that all the independent variables have sound influence on the dependent variables. Based upon an understanding of selected entrepreneurs it was empirically verified that impact of GST on various components of business operations are significant. As all the independent variables like accounts maintenance, sales, filing taxes, logistics overheads and multiple tax elimination are the components of GST oriented activities have stronger influence on the sales of the small and medium industries taken up for the study purpose. Thus, various transitions demanded by GST in the business operations have endure numerous practical difficulties as the entire business operations never were acquainted with the same. In addition, majority of the small and medium industries have not equipped with ICT operations as GST demand ICT operations more which it generated huge problem. Further, most of the business transactions and account maintenance made through informal manner and entails credit based. But, GST compelled them to follow strict rules which made adverse impact on the business transactions.

### Tamilnadu Perspectives

The Goods and Services Tax (GST) is a comprehensive tax system that replaced several indirect taxes in India. It was implemented in July 2017, and since then, it has had a significant impact on businesses across the country, including small and medium-sized enterprises (SMEs). In Tamil Nadu, GST has had both positive and negative impacts on SMEs. Let's take a look at them:

### Positive impacts:

1. Ease of doing business: GST has made it easier for SMEs to do business by simplifying the tax system. SMEs no longer have to comply with multiple tax regulations, as GST has replaced several indirect taxes.
2. Increased competitiveness: The uniform tax rate has made SMEs more competitive, as they no longer have to bear the burden of multiple taxes, which used to make their products or services more expensive than those of larger companies.
3. Increased transparency: The GST system is completely online, which has increased transparency and reduced corruption in the tax system. This has been beneficial for SMEs that used to face harassment from tax authorities.

### Negative impacts:

1. Compliance burden: SMEs have to comply with multiple GST rules and regulations, which can be time-consuming and costly. This has been a significant challenge for small businesses that have limited resources.
2. Cash flow issues: Under the GST system, businesses have to pay taxes upfront and then claim input tax credits later. This has caused cash flow issues for many SMEs, especially those that operate on thin margins.
3. Increased costs: The GST system has increased the cost of compliance for SMEs. Many small businesses have had to invest in new technology and software to comply with the new tax system.

### Conclusion

In conclusion, the implementation of GST in India has had a mixed impact on small and medium industries (SMEs). While some SMEs have benefited from the simplification of tax procedures, reduction in logistics costs, and a level playing field with larger companies, others have faced challenges such as increased compliance costs, cash flow issues, and reduced competitiveness. Overall, the impact of GST on SMEs depends on several factors such as the sector, the size of the business, the level of preparedness, and the ability to adapt to the new tax regime. It is important for SMEs to understand the GST laws and regulations and take advantage of the benefits offered by the system. To mitigate the challenges faced by SMEs, the government should provide more support and incentives, such as easier access to finance, training programs on GST compliance, and simplified procedures for GST refunds. With the right support and guidance, SMEs can thrive in the GST regime and contribute to the growth and development of the Indian economy.

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