



LEVERAGING DIGITAL GOVERNANCE FOR INCLUSIVE ECONOMIC GROWTH: GST REFORMS AND FISCAL FEDERALISM IN TAMIL NADU

Editors

Dr. A. Anandhiprabha

Dr. M. Jeeva

Ms. A. Gomathi

Dr. S. Mahalakshmi

Volume - I



A One Day National Seminar on

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Volume I

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Dr. M. Jeeva
Ms. A. Gomathi
Dr. S. Mahalakshmi

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AN OVERVIEW TOWARDS IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES (SMEs)



Dr. M. Deepa

Assistant Professor, Department of Commerce CA
NGM College, Pollachi

Abstract

The implementation of the Goods and Services Tax (GST) in India represented a substantial alteration in the nation's indirect tax framework, with the objectives of optimizing taxation, eliminating cascading effects, and establishing a cohesive national market. Small and Medium Enterprises (SMEs), integral to the Indian economy, have encountered both prospects and obstacles under this new environment. This research study examines the diverse effects of GST on SMEs, concentrating on operational efficiency, compliance obligations, cost frameworks, and market competitiveness. Primary and secondary data sources are employed to evaluate the impact of GST on company processes, cash flow management, and supply chain integration within the SME sector. The analysis indicates that although GST has improved transparency, broadened market access, and streamlined inter-state trade, it has concurrently heightened the compliance burden, necessitated technological deployment, and intensified working capital pressures on smaller firms. Policy implications and ideas are presented to tackle these difficulties and utilize GST for sustainable expansion of SMEs.

Keywords: Goods and Services Tax, SMEs, compliance burden, working capital, market competitiveness, indirect taxation, India, economic impact

1.1 Introduction

After independence, the largest indirect tax reform in India has begun with goods and services tax (GST). After much deliberation, the GST bill was passed at Rajya Sabha and this winter session will be discussed at the state assembly. Having the ball for integrated national tax reforms, the market is full of new expectations among industry leaders and government officials. According to the IBEF, India is a global production plant, and SMEs account for about 90% of its industrial facilities. The Indian government's "Make In India" campaign will

Promote the launch of GST. Consumption tax for current pre-packaged retail products is not charged at the factory's transaction price, but at a percentage of the package's maximum Selling price (MRP). This increases MRP and increases consumer costs. Under GST, the Manufacturer pays taxes while purchasing raw materials for the product. This amount can be

Credited to the next reseller until the product reaches the end consumers.



Impacts of GST on SMES

The following are the impact of GST among SME are as follows:



1. Launching a new business becomes easier

Under the previous tax regime, if your business had operations across multiple states, you would need to register for VAT with each state's sales tax department in order to carry out business activities there. The fact that every state had different tax rules complicated the entire process, and business owners had to pay multiple procedural fees for VAT registration. Under GST, the registration is centralized and the rules are uniform for all the states across the country. All you have to do is complete and submit an online form to obtain a GSTIN (GST Identification Number). Launching a new business, and subsequently expanding it, will be comparatively easier under the GST regime.

2. The entire process of taxation becomes simpler

The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc.), because it levies a uniform tax on goods and services all over India. The taxes on goods and services levied

under VAT, purchase tax, and luxury tax will now be merged into one single tax with one common return. If you’ve spent a large portion of your time on managing multiple taxes, you can relax under the new regime because filing and paying taxes is easier with the GSTN portal.

A combined tax also means dealing with fewer tax authorities. Previously, business owners had to deal with many different tax authorities depending on the nature of their business and transactions. Under GST, you can be sure that the relevant authority is always either the Centre or the State government.

3. Reduced cost of logistics

The current tax regime has created a lot of hassles for the transportation sector. The long queues at checkpoints and inter-state entry points have caused vehicles to stand idle for long periods of time, adding to labor and fuel costs. Businesses transporting goods to other states have had a hard time filing paperwork and paying entry taxes at the inter-state borders, further delaying the delivery of goods. Under GST, the current Central Sales Tax (CST) on interstate sales will be replaced with a combined tax called IGST, which is composed of CGST and SGST and collected by the Central Government. As the removal of border and check-post taxes makes state boundaries less significant under the GST regime, both the delay and the transportation cost will be reduced. This will increase inter-state business, facilitate faster movement of goods, and reduce maintenance costs.

4. The distinction between goods and services will be eliminated

Previously, businesses providing both goods and services had to calculate the VAT and service taxes individually. GST eases the process by removing the distinction between goods and services; tax will be calculated for the final total, not individual products or services. This will help SMEs take advantage of the tax incentives for payment on the procurement of input goods and services (like import, interstate and local purchases, and telephone services).

Currently, every invoice contains a long and confusing list of taxes levied on the goods and services involved in the transaction. GST will make invoicing simpler, as only one tax rate will need to be mentioned.

5. Increased threshold limits for new businesses

Under the current regime, businesses with a moderate annual turnover (Rs.5 lakh in some states and Rs.10 lakh in other states) are supposed to register and make payments for VAT. Under GST, this burden is eliminated for many businesses, since a business does not have to register or pay if its annual turnover is less than Rs.20 lakh (Rs.10 lakh in North Eastern states). Also, under the composition scheme, businesses with turnover between Rs.20-Rs.50 lakh will pay GST at a lower rate. This should have a positive effect on startups and other small businesses by relieving them from tax burdens.



Conclusion

The GST impact study report shall be prepared considering all the possible areas where the attention of management is needed. The scale of impact study would differ from one entity to another depending on its size, volume and nature of operation. In-depth knowledge in subject and clear cut understanding of the client’s business would yield fantastic result in order to provide optimum value addition along with protection from possible threats when the GST is implemented. Overall, the new tax proposals under GST will have a mixed verdict. In essence, the GST’s effect on the entire Indian economy will have to be scrutinized in totality to reach a widely accepted conclusion.

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