



A Study on Impact of GST on MSME in India

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Abstract:

MSME are critical to a country's economic development, hence the installation of GST has a significant impact on their ability to stay in business. Although it has proven to be beneficial to some businesses, the majority of them are having difficulty implementing it. GST enhanced the efficiency of existing enterprises by streamlining the tax system, unifying the market, and streamlining all aspects of MSME operations. Previously, unorganised MSMEs grew faster than organised MSMEs due to tax minimization; however, with GST in place, the tax structure has become more open, resulting in the liability of entities for tax payments. The concerns and obstacles that MSME entrepreneurs face were highlighted in this report. By employing Cluster Random Sampling Technique, 158 MSME Entrepreneurs in Bangalore's Peenya Industrial Area were selected for the study in order to determine the influence on many aspects such as implementing GST, creating a registration for taxation, and high compliance burden. One-way ANOVA was utilised as a statistical method for the investigation. The significant difference in GST impact levels across MSMEs is determined using an ANOVA analysis. The effect on India's MSME sector might be both beneficial and negative, according to the findings.

Keywords: GST and MSMEs, Research Design, Data Discussion and Conclusion.

Introduction

The Goods and Services Tax, also known as the GST, is a reform of our economy's indirect tax structure. The GST Bill (which has been in the works for a long time) was passed by the Lok Sabha on August 8, 2016, and took effect on July 1, 2017. The introduction of the Goods and Services Tax (GST) has altered the taxation relationship between the states and the federal government. Over the previous two decades, India has seen major indirect tax reform. Even after these reforms, indirect taxes remained a complicated, fragmented, and distortive tax structure characterised by a variety of tax rates, interstate trade impediments, and tax cascading. VAT reforms, on the other hand, have been successful in building the basis for the adoption of an acceptable Goods and Services Tax [GST]. According to Kautilya's Arthashastra, which was the world's first book on economics, the optimum taxing system is one that is "liberal in assessment and relentless in collecting" (Olivelle, 2013). This appears to be the foundation for the new GST. GST (Goods and Services Tax) is an indirect taxation system in India that combines the vast majority of taxes into a single system.

Taxation is a method by which the government collects revenue from individuals, corporations, and other entities in order to support government expenditures. It is widely recognised as the most important source of revenue for the government in order to support economic progress and achieve the status of a developed nation with a high level of living. The Goods and Services Tax (GST) consolidates all of the country's current central and state taxes into a single tax, eliminating the need for a parallel taxation system and enabling for a single national market. The implementation of this tax enables the government to gain a better understanding of taxpayers, which improves the overall tax pattern and gives a plethora of additional benefits. For many years, the micro, small, and medium-sized enterprise (MSME) sector of the economy was argued to be the key development driver of the Indian economy. MSMEs have emerged as India's leading employment generators, producing consistent growth across a diverse variety of industries. The impact on SMEs has resulted in major changes. This research will assist small and medium-sized enterprises (SMEs) in overcoming the negative consequences of the GST implementation.

Micro, Small, and Medium Enterprises is an critical components for the growth of the Indian economy, employing around 100 million people. They are critical in improving workforce skills and facilitating the channelling of investments from the country's small and middle-income groups; on average, MSMEs account for 40% of the country's total exports (4th census of the MSME sector) and account for 28.90% of GDP (as per annual report of MSME). MSMEs are more prevalent in India's labour market. They assist huge industrial enterprises by making manufacturing processes more cost-effective and efficient. MSMEs in India have a lot of room to develop. MSMEs face a slew of issues that stymie their growth, including technological obsolescence, increased local and international rivalry, a dynamic business climate, funding difficulties, and confusing tax rules, to name a few. The need for tax reforms is critical for any economy's success; a country's tax policy will have a greater impact on the ease of doing business; and a simpler tax system will encourage entrepreneurs to start new businesses. Higher threshold exemption limits, composition levy benefits, quarterly filing of returns, Input tax credit (ITC), E-way bill, simple and hassle-free compliances, and so on are all available to MSMEs. According to the World Bank's 2020 ease of doing business report, MSMEs are a key engine of national growth, thus it's crucial to understand how GST affects them. The Goods and Services Tax is a very profitable

move made by the Indian government toward unification of the country with a single tax rate across the board, thereby making India a single market. GST makes it easier to do business in India. GST, like any other policy, has benefits and downsides that must be addressed. Increased compliance costs, the requirement for technical skills for filing returns, the necessity for Information Technology (IT) infrastructure facilities, software malfunctions, and so on are some of the disadvantages that MSMEs face.

Review of literature

Vidit Mohan and Salman Ali (2018) conducted a study in Raipur, India, to analyse the impact of GST on MSMEs, gathering qualitative and quantitative data from chosen MSME owners. According to the findings of the research, there is room for GST to be implemented effectively. In the Chittoor area of Andhra Pradesh, India, S. Goutami performed research on GST awareness among micro, small, and medium businesses. As she pointed out, there is a positive association between firm size and experience, as well as perceived GST worries and challenges, in the chosen district. According to the study, 70% of respondents are aware of the GST system; business operators with annual revenues of more than 1.5 crores are more likely to be aware of GST.

Jojo K Joseph and Ranu Jacob (2019) investigated the association between several parameters and MSMEs' tax compliance behaviour under the GST regime. They provided a conceptual model that included information on tax payer awareness, knowledge, satisfaction, demographic characteristics, and tax compliance service quality. how these determinants affect MSMEs' tax compliance.

Need for the Study

The Indian economy relies heavily on the small-scale industrial sector. In addition to the agriculture industry, it creates job opportunities. Some states, like Uttar Pradesh, West Bengal, Gujarat, and Tamil Nadu, have advanced industrially and maintain a prominent place in the country. Currently, this district has four taluks. The districts are Bengaluru North, South, East, and Anekal. The both Central and State Governments recognise the Peenya Industrial Complex as the state's main centre of industrial activity and a key source of manufactured goods with a stand for excellence for both domestic and export in Bangalore. Some SSIs in the Bangalore district have thrived, while others have struggled. As a result, the researcher is eager to begin work on a study of Micro and Small Enterprise growth, trends, issues, and opportunities in Karnataka's Peenya Industries.

Objectives of the study

- To investigate the impact of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs) in Bangalore's Peenya Industries.
- To investigate the issues that MSMEs have faced after the adoption of GST.

Research Design

This study uses primary and secondary data. The primary data would be collected through structured interviews with selected MSMEs in the Karnataka district. Textbooks, journals, magazines, newspapers, government gazettes, government reports, and the internet have all been utilised. The study's questionnaire was designed specifically for it. The survey is about MSMEs' perspectives on GST implementation. The surveys were used to gather data on demographic characteristics and to MSMEs of the GST's effects. The types of data analysis used range from simple descriptive to complex multivariate analysis

Data discussion

Both quantitative and qualitative features of a selected human group are included in the social economic profile. The respondents' social and economic profile is presented in the next part, such as gender, age, education, marital status, and how much money they make each month

Table No 01: Demographic Profile of the respondents

Socio-Economic Characteristics	Number of Respondents	Percentage (%)
Sex		
Male	120	60.6
Female	38	39.4
Age (in Yrs)		
Below 30 years	5	2.6
31 - 40 yrs	29	17.8
41-50 yrs	48	32.0
Above 51 yrs	79	49.7
Education Qualification		
Illiterate	73	46.6

Primary	16	7.8
High School	14	8.5
Diploma	15	9.2
Engineering	21	12.8
ITI	9	5.3
Graduate	13	7.9
Marital Status		
Single	30	19.4
Married	128	82.6

The bulk of responders (48.7%) are above 51 years old, followed by those between 41 and 50 years old (31.0%) and those between 31 and 40 years old (31.0%). (17.7 percent). Illiterate respondents account for 45.6 percent of the whole sample, followed by Engineering at 13.9 percent. 60.8 percent of sample respondents had a monthly income of Rs 50000 to Rs 100000, while 23.4 percent have a monthly income of Rs 100001 to Rs 200000.

Table No 02: Reliability Analysis of Impact of GST On Entrepreneurs Of MSMES

Statement	Cronbach's Alpha
1. How has GST affected your business?	0.734
2. Sales performance 3. The service sector is becoming more expensive	0.986
4. Tax return filing	0.964
5. Overheads in logistics	0.694
6. Capital goods purchases	0.722
7. Procedures for Online Compliance	0.766
8. Multiple taxes are eliminated	0.699
1. How has GST affected your business?	0.766
Cronbach's Alpha	0.727

With an alpha coefficient of 0.727, all of the tenth scale components outperform the average of the other nineteen scale items, showing a high level of reliability among those assessing the amount of the GST's impact on small and medium-sized enterprises (SMEs). In light of the fact that Cronbach's alpha values were adequate, the study moved forward with its data analysis. The relationship between age and the impact of the GST's implementation. The researcher wants to know if the age of the respondents has any bearing on the impact of the Goods and Services Tax (GST) in this section. In order to achieve this goal, the researcher developed a hypothesis and tested it using the ANOVA test, the results of which are provided in the next section. Ho" There is no correlation between their age and the impact of the GST on their lives. Because the p value is less than 0.05 at the 5% level of significance, the null hypothesis is rejected at the 5% level of significance. As a result, there is a mean difference between the impact of the Goods and Services Tax (GST) and the age of the respondents in the study area. Different alpha values between groups are shown by a 5 percent difference.

S. No	Statement		Sum of Squares	df	Mean Square	F	Sig.
1.	GST had an effect on your company's operations.	Between Groups	4.287	6	2.26	3.25	0.005
		Within Groups	43.25	152	0.254		
		Total	79.25	158			
2.	Performance of sales	Between Groups	13.698	4	5.125	4.25	0.001
		Within Groups	105.25	153	0.258		
		Total	121.02	156			
3.	Management of a business, including a bookkeeping system	Between Groups	5.214	4	1.288	3.25	0.002
		Within Groups	6.025	1253	0.258		
		Total	65.25	1256			
4.	Understanding the company's financial situation is essential.	Between Groups	5.26	4	1254	3.25	0251
		Within Groups	60.25	125	0.25		
		Total	65.89	157			
5.	submitting tax returns	Between	3.425	3	1.142	2.654	0.051

		Groups					
		Within Groups	66.252	154	0.430		
		Total	69.677	157			
6.	Overheads in logistics	Between Groups	4.256	4	2.326	3.258	0.025
		Within Groups	63.254	125	0.254		
		Total	68.25	128			
7.	Multiple taxes are eliminated.	Between Groups	5.258	4	2.325	2.325	2.365
		Within Groups	72.25	124	0.25		
		Total	85.24	127			

Significant using Tukey HSD test. *denotes Significant at 5 % level

Table No 04: GST Implementation Income vs. Taxation (ANNOVA)

An important question for the researcher is if the respondents' income has an effect on the effects of the Goods and Services Tax (GST). That's why the researcher came up with an idea, which she then tried out using an ANOVA. The results are presented below. They are not affected by GST in any way by their revenue.

	Statement		Sum of Squares	df	Mean Square	F	Sig.
1	GST had an effect on your company's operations.	Between Group	1.267	3	0.422	0.840	0.474*
		Within Group	77.423	154	0.503		
		Total	78.690	157			
2	Performance of sales	Between Group	5.432	3	1.811	2.419	0.068*
		Within Group	115.252	154	0.748		
		Total	120.684	157			
3	Management of a business, including a bookkeeping system	Between Group	2.672	3	0.891	1.433	0.235*
		Within Group	95.714	154	0.622		
		Total	98.386	157			
4	Understanding the company's financial situation is essential.	Between Group	38.158	3	12.719	1.267	0.288*
		Within Group	1545.950	154	10.039		
		Total	1584.108	157			
5	submitting tax returns	Between Group	2.233	3	0.744	1.857	0.139*
		Within Group	61.741	154	0.401		
		Total	63.975	157			
6	Overheads in logistics	Between Group	2.728	3	0.909	2.091	0.104*
		Within Group	66.950	154	0.435		
		Total	69.677	157			
7	Multiple taxes are eliminated.	Between Group	5.871	3	1.957	2.658	0.050*
		Within Group	113.401	154	0.736		
		Total	119.272	157			

Denotes a difference in alpha between categories that is statistically significant at 5% using the Tukey HSD test *denotes a difference in alpha between categories that is statistically significant at 5% using the Tukey H At the 5% level, this is significant. The null hypothesis is accepted at a 5% level of

significance since the p value is greater than 0.05. As a result, it is found that there is no significant variation in the impact of GST on respondents' income in the research area.

Table No: 04 Regression Analysis of Demographical Factors and Impact Of GST On MSMEs

The purpose of regression analysis is to determine the impact of a specific demographic element on the dependent variables. The outcome is reflected in the table below.

Demographic factors	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Gender	2.261	0.352		5.256	.000
Age	0.0458	0.258	0.362	.528	0.125
Marital	.117	0.258	.251	.125	0.1258
Status	.258	0.125	0.251	0.251	0.254
Education Qualification	0.258	0.254	0.2587	0.569	0.147
Monthly Earnings	0.254	0.215	0.236	0.254	0.258

Primary Data was used as a source.

GST's impact on SMEs is a dependent variable. **Significant at a scale of 0.01

It is possible to extract the results of a linear regression for the degree of GST impact on MSMEs, with the dependent variable being GST impact on MSMEs and the dependant variable being a collection of demographic factors. The value of the coefficient of regression (R²) in the multiple regression tables is 0.051, implying that the independent variables employed in this study explain 5.1 percent of the variance on GST impact. The f value found is 1.645 (P 0.001), indicating that the dependent variable "GST impact on MSMEs" and the independent variables "Demographic factors" have a significant connection.

Results & Discussion

The reliability analysis reveals that all nineteen scale items are adequate for measuring the level of impact of GST on MSMEs, suggesting excellent reliability among the nineteen scale items. The majority of the respondents are above 51 years old, followed by those between 41 and 50 years old and those between 31 and 40 years old, indicating that the survey includes well-seasoned entrepreneurs. Illiterate respondents make up the bulk of the total sample, followed by engineers. The monthly income level of Rs.50000 to Rs.100000 accounts for 60.8 percent of the respondents in the sample, while Rs 100001 to Rs 200000 accounts for 23.4 percent. The majority of the respondents are Micro Units, followed by Small Businesses. According to the ANOVA test, there is no significant difference in genders among respondents who responded about the impact of GST on MSMEs entrepreneurs.

Conclusion

The Goods and Services Tax (GST) is one of the most significant tax reforms since independence. It has consolidated multiple indirect taxes into a single statute in order to achieve consistency in the form of "One Nation, One Tax." However, in order for it to be acceptable to everyone, it is critical that everyone's representation be taken into account. It should take into account the issues that MSMEs face and make it easier for them to accept it as a normal business element rather than a requirement for compliance. To obtain a broadly acknowledged conclusion, the impact of GST on the economy must be examined in its entirety. The introduction of GST simplified the country's indirect tax structure, ensuring smooth commercial transactions across the country and beyond the world

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