Exploring Opportunities and Challenges in the MSME Sector: Navigating the GST Landscape

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Abstract

India's indirect tax system has undergone significant changes, one of which is the Goods and Services Tax (GST). Prior to this, state and federal laws operated independently of one another. A single, uniform tax, the GST, was therefore implemented in order to increase transparency and decrease "tax on tax." With the concurrent authority of the Center and the States, these tax systems impose a charge on the supply of commodities, services, or both. With the implementation of the GST by state governments by April 2017, this legislation would supersede all indirect taxes imposed on goods and services by the federal government. In the long run, the introduction of GST would affect almost every facet of Indian corporate operations. now using GST in more than 160 countries. The value addition to products and services at every point in the supply chain is subject to a single indirect tax that is dependent on destination. Creating a single tax by combining many indirect tax levies is the major goal of imposing this kind of tax. So, a variety of taxes are included in GST. It increases the efficiency of tax administration and completes the shortcomings in the prior indirect tax system.

The MSME sector and our economy were reformed by this tax change. IT has a considerable impact on the Indian economy, and the MSME sector is one of our largest contributors. One of the industrial sectors that is developing the quickest is MSME. The effect of GST and its repercussions on the MSME sector are examined in this article. Based on the perspective of the industry, five years offer a reasonable duration for evaluating the remaining tasks that must be completed before the Goods and Services Tax (GST) fully realizes its goals of tax rationalization, simplified compliance, uninterrupted credit flow, and granting all businesses the advantages of "One Nation, One Market, and One Tax."

Keywords: MSME, IGST, SGST, GST, CASCADING EFFECT

Introduction

Value-added taxes, or GSTs, are imposed at every stage of the supply chain. Any tax paid on input purchased to be used in the supply-making process is credited. It is fully applicable to both products and services, with very few exceptions allowed. It is suggested that the central government (CGST) and the state governments (SGST) levy the GST simultaneously under India's federal system. It is predicated on fundamental design elements shared by CGSTs and SGSTs for distinct states. In India, interstate shipments are subject to integrated GST (IGST), which is the total of the destination state's CGST and SGST. In order to guarantee effective and efficient tax administration, the GST introduces a new tax structure. Its enhanced openness and robust monitoring make tax evasion more difficult.

It is crucial for business to understand the implications and possibilities presented by the GST reform as the implementation process plays out over the coming several months. GST has an impact on every industry, regardless of sector. It will have an effect on all activities and phases of the value chain, including production, distribution, warehousing, sales, and pricing. According to the "Destination Principle," taxes would be applied to the supply of goods and services at the place of consumption. This implies that the destination-based tax regime under GST takes the place of the origin-based tax system.

Nonetheless, the "Value Added Principle" emphasizes that taxes will be collected on value-added goods and services at every point in the supply chain, from the initial manufacturer or service provider to the final customer. In other words, value-added taxes will be collected at every stage of the supply chain.

A model was created to manage GST in India, including the Center and the States in its execution. India is a confederation of states, which explains why. Here, taxes may be levied and collected by the Center and the States within the authority of their separate laws. As a result, the Center and the States were given different authority to charge the tax simultaneously under the Dual GST model. Components of GST are dependent on the kind of supplier.

The Central Government charges and collects the Central Goods and Services Tax (CGST) on intrastate transactions except alcohol for human consumption and is covered by the Central Goods and Services Act 2017. Section 15 of the CGST Act identifies the amount of tax based on the transaction value which is the actual value for the goods or services provided.

The State Government imposes the State Goods and Services Tax (SGST) on goods consumed inside the state except the alcoholic beverages which are controlled under the State Goods and Services Tax Act, 2017. Likewise, Section 15 of the SGST Act computes the tax on the value of the goods or services which is the amount paid or owed for the supply made.

The Union Territory Governments collect the Union Territory Goods and Services Tax (UTGST) on the intrastate supplies, excluding the alcoholic beverages destined for human consumption as governed by the Union Territory Goods and Services Act of 2017. As per Section 15 of the CGST Act, 2017, tax assessment is based on the price of goods or services offered.

The Intra-State Goods and Services Tax (IGST) at the national level is levied on inter-state transactions, excluding alcohol to be consumed by human beings under the Intra-State Goods and Services Tax Act of 2017, and then equally revenue shared between the central and state governments.

The primary goal of the Goods and Services Tax (GST) is to replace existing indirect taxes, which create cascading tax effect, instead of eliminating it. By means of doing so, GST is intended to overcome the drawbacks of the previous indirect tax system. The GST includes many indirect taxes within its scope.

Micro, Small, and Medium-Sized Enterprises (MSME):

The Micro, Small, and Medium Enterprises Act of 2006 introduced categories of industries that are characterized by minimal capital investments and are restricted to small or faster-moving output. On July 1st, 2020, a new classification system came into effect, outlining the following criteria:

- Micro business is a business entity having maximum turnover or both investment in machinery/plant/ equipment less than two crore rupees.

- SMEs can be called an organization which has income above the level of fifty crore rupees or the investments in the plant, machine or equipment mostly don't exceed the value of ten crore rupees.

- These micro businesses make below five crore turnover and have plant, machinery, or equipment's investment less than ten crore rupees.

MSME Units and Components

- The NSIC, or National Small Industries Corporation
- The MSME Office of the Development Commissioner
- The KVIC, or Khadi Village Industries Commission
- Coir board
- The NMSME, or National Institute for Micro, Small, and Medium-Sized Enterprises

Review of Literature:

In his research paper "Implementation of Goods and Services Tax and Prospects and Challenges," Sundarajan (2017) He went on to say that the input tax credit scheme benefits dealers and manufacturers. The consumer was spared from the levy on tax cascade effect. The remaining tasks include creating a robust IT support system to handle the GST, ensuring its correct implementation, and organizing a range of training and awareness initiatives for the many stakeholders involved.

Jaiswal (2019) emphasized the conceptual foundation of the Goods and Services Tax in his research study. He summarizes how the tax change is anticipated to transform the Indian economy, much as the LPG program did in 1991. CGST and SGST are the two separate components of GST. Alcohol, electricity, and petroleum items are excluded from the GST's chargeability. IT department is provided by GSTN to oversee the GST network. The many advantages that come with GST include less indirect taxes, reduced logistical costs, and no cascading impact.

According to Bhat (2021), MSMEs have emerged as a significant milestone in the Indian economy. This industry is specifically contributing to the creation of jobs, the growth of entrepreneurship, and the reduction of poverty. Additionally, he made note of the difficulties the MSME sector in India was already having as a result of the GST's introduction and demonization. As a result of the Covid-19 epidemic, this industry's output of products and services has decreased, and supply shock has resulted from a lack of raw materials and other essential inputs.

In 2019, Aastha came to the conclusion that the Goods and Services Tax (GST) would benefit a range of industries. Despite the fact that commerce, industry, and the federal and state governments must concentrate their efforts in order to implement the GST.

According to Upasana's (2020) research, the introduction of the Goods and Services Tax (GST) leads to a straightforward, easily navigable, and open tax structure. The majority of the current indirect taxes will be replaced by the GST, or comprehensive tax system. More production, more job possibilities, and a 1-1.5 percent growth in GDP are the results.

Objectives of the research:

1) To research how the GST affects MSME.

2) To comprehend the GST-related issues facing MSME.

3) To discuss about the government's attempt to address MSME concerns around GST.

Research Methodology: -

A variety of newspapers, articles, journals, magazines, and websites are the data sources utilized as secondary data in the research study. The nature of the article is both descriptive and exploratory.

Issues and challenges in MSME

They are dealing with a number of issues and difficulties during the pandemic, such as contract cancellation, a decline in sales, a shortage of supplies for logistics, etc. The federal government must provide greater financial assistance and digital literacy to MSMEs in order for them to offer their goods and services internationally. The aforementioned study clarifies that small and unorganized sectors were most negatively affected by the introduction of the Goods and Services Tax (GST), especially during the first phase of its implementation. However, with time, it helped the MSME sector as well as contribute to the growth of the Indian economy.

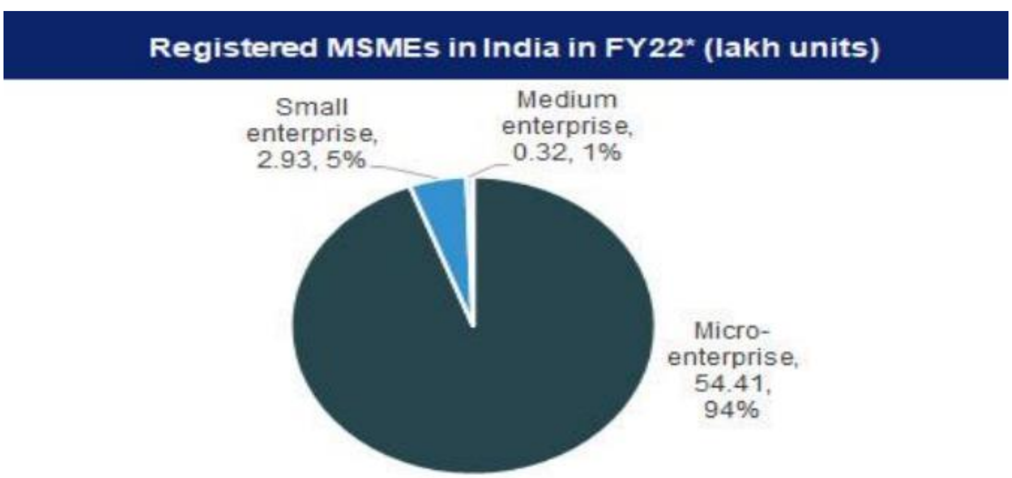
Analysis & Discussion

Aware of the sector's enormous contribution, the government has been making several efforts to create an environment that is more conducive to MSMEs' expansion. Five years of GST has been a great breakthrough in many respects. It is significant for the government in terms of income.

States are guaranteed protection against revenue loss after the adoption of the GST, with compensation provided. Reiterating "trust" is crucial for laying the groundwork for the cooperative federalism that the GST intends to establish, especially in light of the recent ruling by the Supreme Court holding that state governments are not bound by the decisions made by the GST Council.

Over 1.38 crore medium-sized, small, and micro companies (MSMEs) are registered in India. According to official statistics, there were around 634 lakh MSMEs in the nation that were non-agricultural, unorganized, and involved in a variety of economic activities in 2022–2023.

Aware of the sector's significant contribution, the government has been moving in many directions to create an environment that is more conducive to the expansion of MSMEs.



The GST framework has also faced difficulties. The government has loosened several regulations for MSMEs under GST. The first exemption level for products, which was set at Rs 20 lakh, has been raised to Rs 40 lakh. The annual threshold for the composition plan was raised to Rs 50 lakh for services and Rs 1.5 crore for commodities. Dealers in composition have been permitted to provide services. Products that are primarily produced and/or used by MSME businesses are eligible for a preferred rate treatment. Recently, the GST Council decided to exclude small online sellers from the need to register if their annual revenue is less than Rs. 40 lakh for goods and services, and Rs. 20 lakh for services. The ruling would stimulate the entry of several small e-commerce businesses into the market and restore equilibrium between online and offline retailers.

Composition plan dealers with a turnover of up to Rs 1.5 crore are permitted to use e-commerce enterprises for intrastate supply. Despite these actions, MSMEs continue to face financial difficulties and a number of compliance requirements, while larger companies have benefited from the GST through a single market, the removal of the cascading effect of multiple taxes, lower tax compliance costs, and a transparent tax structure focused on technology.

One of the difficulties MSMEs have when attempting to claim the input tax credit is matching invoices. When a provider complies with additional requirements and provides the GST return and pays taxes, credit is permitted under GST rules. The receiver of the delivery of goods or services often encounters inconsistencies between the dates and invoice numbers that change from the format used originally.

Due dates that are set out for the reconciliation of external and inward supplies represent a significant burden of compliance for small taxpayers with limited resources. Small companies with annual revenue up to Rs 5 crore should be able to get credit based on the invoices they receive in order to alleviate the situation. The intrastate supply of products and services was supported by this alleviation.

Reducing the restrictions further may improve the attractiveness of the composition scheme for tiny entities. For example, the program is not yet accessible to anybody making interstate supplies.

Additionally, the individual is not permitted to charge GST to the receiver of the supply or claim any input tax credits for his purchases. Adding small dealers with both intrastate and interstate supply to the program will make it easier for more people—including exporters—to adjust to the composition scheme.

The composition dealer should be granted an input tax credit up to the amount of output tax that is due. Once again, the composition scheme rates should be streamlined to have a single 1% rate instead of three different GST rates: 2% for manufacturers, 5% for restaurant service providers, and 1% for dealers.

Many small firms benefited from the composition plan; the threshold turnover should be raised to Rs 5 crore from the present Rs 1.5 crore.

Credit smoothing A further step to facilitate compliance for MSMEs is to extend the deadline for submitting input tax credit claims. Currently, a taxpayer has to request credit for an invoice by the deadline for filing a monthly report for September after the end of the financial year in which the invoice was acquired, or by the deadline for filing the applicable annual return, whichever comes first. In some legitimate situations (such as when bills are delayed), the imposition of this deadline may make it more difficult to obtain credit. In some circumstances (such as a delay in receiving invoices), the time restriction may be loosened up to (iii) years from the date of submitting the annual return for the relevant fiscal year. It is made possible by the In this case, the claim of credit will be permitted by extending the deadline to three years from the date of submitting the annual return for the relevant fiscal year.

Small taxpayers are permitted by law to submit returns on a quarterly basis. Small taxpayers benefit from the extended schedule, but it also means that taxpayers who make zero-rated supply—such as exporters or suppliers to SEZs—must wait until the end of the quarter to seek a refund of the input tax credit they have accrued as a result of their zero-rated supplies. The small taxpayers' access to operating capital is impeded by the wait. Small suppliers who file quarterly returns need to be able to request provisional refunds on a month-to-month basis in order to assist these taxpayers. Provide unregistered MSMEs with RCM. Because unregistered MSME suppliers are afraid of compliance pressure, they are reluctant to register under GST, which has resulted in serious issues, including destruction of the supply chain. Larger units that purchase from unregistered suppliers will be negatively impacted by this as they would be unable to collect the credit.

Reverse charge mechanism (RCM) allows for the taxation of supplies obtained from unregistered sellers, made possible by technological advancements. E-way bill preparation is challenging and requires a lot of work. Goods having a consignment value of more than 50,000 rupees must presently be pre-registered electronically before being carried, according to the regulations pertaining to e-way bills. Small enterprises that ship products have a significant compliance burden as a result of this rule. Small taxpayers with a revenue of up to Rs 1.5 crore should be eligible to apply for the e-way bill method. An alternative would be to limit it to the interstate exchange of commodities and services.

Modification of the GST laws regarding payments in advance for services rendered Generally speaking, the date of invoice issue or payment collection, whichever comes first, marks the moment of service delivery. Tax is also due on advances for the provision of services. The rules governing the timing of service provision for small service providers should be changed to only tax the advance payment received by the service provider at the time the invoice is raised or the service is provided, whichever comes first. It will increase the working capital of small service providers.

GST is a useful tool and a reform that benefits all parties involved. The aforementioned working capital and compliance-related issues will aid in mitigating real difficulties and contribute significantly to the GST's status as a Good and Simple Tax that benefits smaller businesses as well.

The future of MSME

The MSME industry, behind the agricultural sector, is the second biggest employer. above the course of the next 10 years, MSME employment contribution might rise to above 50% due to its increased GDP contribution. In five years, the Indian government hopes to double the country's GDP to US$ 5 trillion. MSMEs have the ability to play a significant role in creating jobs, and professional options for the younger generation have been created in order to accomplish this aim. In order to generate new employment in the industry, the government has thus started to promote MSMEs. The government also wants to increase the percentage of MSME exports and their GDP contribution.

The government must make investments to increase back-end services in order to meet these aims since the MSME sector provides products and services to large industrial businesses. The industry's inability to become competent is hampered by a lack of technology-based industrial activities and a low investment in research and development. The government can provide subsidies for globally accessible technologies so that MSME businesses might use the resources already in place to enhance the quality of their products. Academic institutions must also assist with this by offering research and development (R&D) services for new product invention.

Conclusion

Based on the analysis and discussion above, we have concluded that GST plays a major role in the growth of the MSME sector through the online registration portal, online GST registration process, transparent tax filing, input tax credit, and smooth flow of ITC, all of which support the expansion of

MSME businesses. As of early February in current fiscal year, there had been 0.59 percent of closures among the over 18 lakh new MSMEs that had been established; in FY22, that figure was 0.28 percent among the 21.72 lakh new MSMEs.

The Udyam Registration site registered 1,22,014,48 MSMEs as of November 25, 2022, according to statistics from the Ministry of Micro, Small, and Medium Enterprises. This replaced the previous procedure of submitting for an Udyog Aadhaar Memorandum (UAM). 11,735,117 (96.17%) microenterprises were registered, with small and medium-sized businesses coming in second and third, respectively, at 426,864 (3.49%) and 39,467 (0.32%). State-wise, Maharashtra, Andhra Pradesh, Gujarat, Tamil Nadu, West Bengal, Uttar Pradesh, Kerala, and so on are ranked from top to bottom among MSME's According to a government spokesperson on Thursday, the MSME sector in Uttar Pradesh has risen to the top of the nation in terms of investment and job creation. Over the previous four and a half years, approximately 90 lakh MSME units in the state have attracted over Rs 5 lakh crore in investment and employed three crore people. Roughly 60% of the workforce works for MSME companies.

With its increased GDP contribution, the MSME sector has the potential to become the second biggest employer in terms of employment, after the agricultural sector. Over the next 10 years, its share of employment might rise to over 50%.

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