

Deconstructing the Impact of GST on Small and Medium Enterprises

The **Goods and Services Tax (GST)** was introduced on July 1, 2017, and has introduced extensive changes in the field of indirect tax reforms in India. The new regime amalgamates a large number of central and state taxes into a single tax, which is levied at all stages, and is to be ultimately borne by the consumer. Taxes paid by manufacturers and suppliers can be set-off at all stages, through the provision of **input tax credit**, thereby making only value additions to goods and services taxable.

When examining the effects of GST, an analysis of its impact on the Small and Medium Enterprise (SME) sector is crucial. India is a global manufacturing hub and SMEs contribute around **33% of the total manufacturing output**. It also supplies **40% of exports** and provides employment to over **117 million persons**. In addition, the alignment of these enterprises with the start-up and 'Make in India' policies, make them instrumental in the growth of the Indian economy.

The sector is set to undergo several changes due to the new tax structure, a few of which include:

- **Widening of the Excise Duty Net:** The existing regime requires no excise duty to be paid by a manufacturer having a turnover of less than 1.5 crores, exempting a large number of SMEs from paying this tax. However, the GST regime has expanded the taxable bracket to all manufacturers with a turnover of 20 lakhs (10 lakhs for special category states), making a large proportion of SMEs duty bound to pay excise.
- **Higher Service Costs:** Tax on certain services increases by **3% (from 15% to 18%)** in the new system. Service providers in this bracket would be subject to an increase in tax outflow, leading to an increased working capital requirement.
- **Complete Digitization:** The GST system solely technology based, and requires all registrations and returns to be filed through electronic means. While this may involve considerable adjustment for several small businesses, it can initiate the paperless process of taxation, bring down logistical costs, and a much higher standard of accountability.
- **Impetus to Multi-State Operations:** Previously, multiple state-wise VAT payments were to be made when transacting across state borders, resulting in a disincentive for SMEs to expand their businesses. The introduction of a Singular Integrated GST on inter-state trade results in a simplified procedure, with payment only to be made on the value-addition. SMEs may now choose to diversify their customer-base, since they are no longer limited to their state of operation.

The effects of the new system are still unknown, with both positive and negative effects being projected. Through a detailed discussion and in-depth understanding of the potential issues, Members of Parliament will be able to better support small traders and businesses within their constituencies through this transition phase, thereby sustaining the continuing growth of the SME sector.

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