

IMPACT OF GST ON SME'S

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Introduction

Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today we have around 3 million SMEs in India contributing almost 50% of the industrial output and 42% of India's total export. For a developing country like India and its demographic diversity, SMEs have emerged as the leading employment-generating sector and has provided balanced development across sectors.

Opportunities & Challenges for SME's

- **GST is going to widen the taxpayer base**

Earlier, any manufacturer with a turnover of Rs 1.5 crore or less was not required to comply with the rules of excise duty. However, with the merging of all State and Central level taxes into the ambit of GST, any manufacturer with a turnover of Rs 20 lakh (others) /10Lakh (North Eastern States) or more will have to comply with GST and its procedures.

- **All the compliance procedures through online**

Registration, Payments, Refunds and Returns will now be carried out through online portals only and thus SMEs need not worry about interacting with department officers for carrying out these compliances, which are considered as a headache in the current tax regime.

Positive Impact of GST on SME's

- **Reduction of the tax burden on new business**

As per the present indirect tax structure, businesses with a turnover of over 5 lakh rupees (10 lakh in some states) need to pay a VAT registration fee. The central government has increased the basic exemption limit to 20 lakhs, which is a 75 percent relaxation in limit for small traders and manufacturers

- **Improved logistics and faster delivery of services**

Under the GST bill, no entry tax will be charged for goods manufactured or sold in any part of India. As a result, delivery of goods at interstate points and toll check posts will be expedited. According to an estimate, the logistics cost for manufacturers of bulk goods will get reduced significantly by about 20%. This is expected to boost ecommerce across the nation.

Positive Impact of GST on SME's

- **Elimination of distinction between goods and services**

GST ensures that there is no ambiguity between goods and services. This will simplify various legal proceedings related to the packaged products. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.

- **Ease of starting business**

A business having operations across different state needs VAT registration. Different tax rules in different states only add to the complications and incur high procedural fees. GST enables a centralized registration that makes starting a business easier and the consequent expansion an added advantage for SMEs.

Negative Impact of GST on SME's

- **Multiple registrations for Pan- India Businesses**

Under the new regime, a business will have to register online for GST in every state involved in its sales process. If your business delivers goods across 5 states, then you'll have to register for GST in those 5 states to carry out your business activities. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.

- **Returns must be filed on a monthly basis**

Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books on a monthly basis, which, realistically, will take a lot of time. The time that business owners spend filing these returns could instead be spent on other productive activities, like developing their business and acquiring clients.

To top it off, until you've filed the relevant returns, you cannot claim refunds and your customers cannot claim tax credit for the goods they bought from you. Should you miss a single return, you'll be penalized and your compliance rating on the GSTN portal will be reduced.

Negative Impact of GST on SME's

- **Cost of tax compliance is likely to increase**

As mentioned above, consistently filing 3 returns a month, periodically reconciling your transactions, and uploading invoices regularly will give rise to the need for an accountant with technical expertise. Hiring an accountant and paying them, adds to the burden on small businesses. It's tedious to maintain separate books of accounts for every state involved in the supply of goods/services and assess the records of various entities involved in every single transaction. To cope with the system, small businesses might use the services of licensed third parties that help firms comply with the GST regime. For this convenience, small businesses will have to dish out a sum ranging from Rs.1000-Rs.5000, depending on the kind of service that is rendered to them.

Negative Impact of GST on SME's

- **Registration will be mandatory for e-commerce suppliers and operators**

Businesses carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of businesses, e-commerce firms will not be eligible for threshold exemptions or for the Composition Scheme (which allows firms to file their tax returns on a quarterly basis instead of 3 times a year and pay taxes at a much lower rate).

Also, e-commerce firms should register for GST in every single state where they supply goods.

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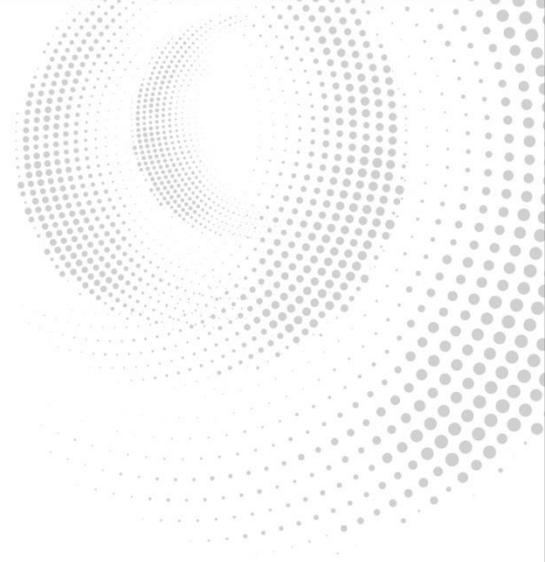
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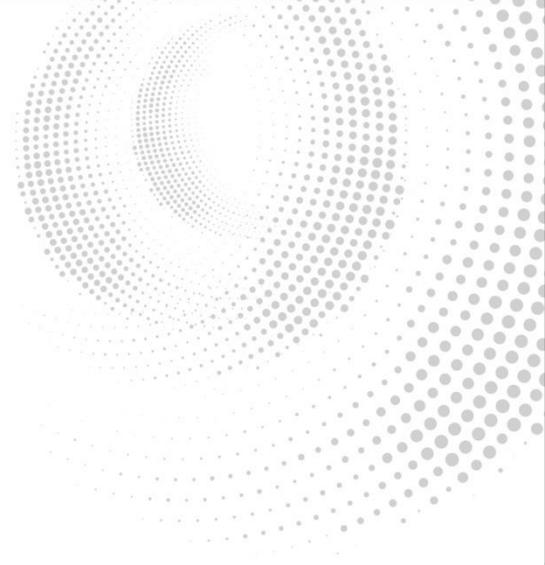
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