

THE GLOOMY PHASE OF GOODS AND SERVICES TAX ON SMALL SCALE INDUSTRIES AND INFORMAL SECTOR

**Dr. Lakshmimekala M. & **Dr. RemmiyaRajan. P*

**Assistant Professor, Dept. of Economics, Arumugam Pillai Seethai Ammal College (Affiliated to Alagappa University) Tirupattur, Sivaganga (District), Tamilnadu*

***Assistant Professor, Zamorins Guruvayurappan College, Calicut*

Abstract

Goods and services tax (GST) is one of the most significant tax reforms since independence; GST has ushered in an era of unified indirect tax regime on 1 July, 2017 for a great step towards transformation and transparency. It is a tax to replace all the other indirect taxes (almost). It aims to integrate the country economically and convert it into a single unified market. It may have a negative impact on the informal sector, as lakhs of small scale entities with more than Rs twenty lakh annual turnovers have to register under GST network (GSTN). It also changes the orientation of the tax base; from an origin-based taxation to a destination-based one. On the arrival of GST, the Small scale and Informal sectors has forced to revamp their strategies, systems, supply chains and costing apart from meeting the quality standards as per international norms. The overall impact of GST on Small scale and Informal sectors has to be reviewed by the Centre and the States periodically, and any adverse impacts observed should be addressed at appropriate times for the success of new tax regime.

Key words: Gloomy Phase, Small Scale Industry, Informal Sector

1. INTRODUCTION

The Goods and Services Tax (GST), that came into effect on 1st July, 2017, has been lauded as the most comprehensive contemporary reform of Indian indirect taxation. Aimed at creating a common, unified and integrated domestic market, allowing the free flow of goods and services across state lines, GST is supposed to deliver Indian industry and thereby the economy the competitive edge apparently lacking till now. Reality is entirely different from the picture painted by government. GST by creating platform conducive to economies of scale and nullifying regional tariffs is both conceptually and practically advantageous to big business and detrimental to the informal sector and small businesses. These groupings, informal and small, though quite different have some degree of overlap. Informal business is overwhelmingly small but not all small businesses are informal. GST's impact on these groups is quite different both with regard to extent of impact or in terms of results sought.

1.1 Small Scale Industry under GST

Small Scale Industry in India is defined, on the basis of investment in plant and machinery, as either micro, small or medium enterprises. These, collectively called the MSME sector, form the backbone of the Indian economy. These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding rupees one crore.

1.2 Informal sector

ILO defines "informal sector" as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The units operate at low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations- are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees. In India, the National Commission for Enterprises in the Unorganized Sector (NCEUS) made an important distinction between organized or formal and unorganized or informal employment - "Unorganized workers consist of those working in the unorganized enterprises or households, excluding regular workers with social security benefits,

and the workers in the formal sector without any employment/social security benefits provided by the employers.”

1. Work in the informal sector is less remunerative and the conditions are inferior to the organized sector.
2. They lack economic security and legal protection.
3. Women workers in particular, are in vulnerable position than their male counterparts.

2. RATIONALE OF THE STUDY

The repercussion of GST on macroeconomic indicators is likely to be very positive in the medium-term. Inflation would be reduced as the cascading (tax on tax) effect of taxes would be eliminated. The revenue from the taxes for the government is very likely to increase with an extended tax net, and the fiscal deficit is expected to remain under the checks. Moreover, exports would grow, while FDI (Foreign Direct Investment) would also increase. The industry leaders believe that the country would climb several ladders in the ease of doing business with the implementation of the most important tax reform ever in the history of the country. GST is meant to bring every indirect form of tax under one roof. For small and medium sized businesses, owners or manufacturers have to take care of different taxes and have to run to various departments to fulfil all the tax-related documentations. Some file different taxes biannually, annually, half-yearly, etc. The more the departments, the more is the harassment. Currently, the total tax levied by the central and the state governments add up to 32%, but with the implementation of GST, the business owners have to pay a much lower tax of around 18-22 percent. Moreover, they do not have to pay different taxes to various departments. It makes the job very much easier for every business owner.

2.1 Direct impact of GST on small scale and Informal sector

- GST will help and ease the process of starting a business in India. Earlier, every business in India was required to obtain VAT registration, which differs in every state, and the rules and regulations are different. Thus it was a very confusing procedure. However, under GST, the businesses have to only register for GST which will have a centralized process, similar to service tax.
- Currently, for any business, it is mandatory to make a VAT payment if the annual turnover is more than 5 lakh in few states and 10 lakhs in few other states. This difference in various states creates confusion. Under GST a business does not have to register or collect GST if the annual turnover is 10 lakh. This is applicable to every state. This will allow many small businesses which have a turnover between 5 lakh – 10 lakh to avoid applying for the GST return.
- GST allows small and medium business to do business with ease in India, due to the less complexity. The distinction between the services and goods will be gone, and this will make compliance easier.

3. RESEARCH PROBLEM

The conception of GST is the leading tax reform in decades throughout the world, but India has been taking diminutive steps to meet its target of rolling out GST on July 1st, 2017. The role of research intends to focus on indulgent concept of goods and services tax and its impact on small scale and informal sector in India

4. RESEARCH METHODOLOGY

On 7th October 2016 Government of India passed Process and Flowchart of GST. Now, GST is going to implement very soon and all the sectors have to register for it. The first step for each sector is to register under Central Goods and Service Tax Act (CGST) and State Goods and Service Tax Act (SGST). If a person is bound to be registered for GST he shall register himself under SGST Act of his respective state where he perform his business work, he shall also register under CGST Act. The Registration of GST is received within 30 days.

5. OBJECTIVES OF THE STUDY

1. To study the impact of G.S.T on small industries in India
2. To study the impact of G.S.T on Informal sector

6. ANALYSIS AND INTERPRETATION OF DATA**6.1 Impact of G.S.T on small industries in India**

The newly implemented GST regime is influencing on small industries which is shown in the table below. GST's impact on the MSME sector is tri-pronged. The first involves a substantial reduction in the turnover based exemption threshold. Turnover exemption under Indian indirect taxation, be it excise, service tax or VAT, even GST, is generally two tiered. The bottom tiers are those enterprises completely exempted from taxation and compliance while the upper is partially exempted by a reduction in the rate of taxation and level of compliance. This partial exemption could be generally applied to all eligible assesses or only to particular categories of assesses.

It is evident from the Table.1 that GST severely reduces the exemption to manufacturing in the MSME sector. 75 lakh (including the partial exemption) may cover micro enterprises and the bottom part of small, but medium and the upper section of small manufacturing has had its exemption stripped away and is being treated on par with big business. Even manufacturing units with turnover between 20 lakh and 75 lakh in spite of retaining a partial exemption, are burdened with a non-transferable tax rate of 1%. As all indirect taxes are ideally transferable to customers via a hiked price and not actually borne by the enterprise, this 1% directly touches the profitability of micro and small enterprises to which it applies. Also, those under a composition scheme (partial exemption under GST) are additionally burdened by being denied the benefits of input tax credit and hence cannot set off taxes paid on inputs (passed on by the supplier by a hiked price) from those payable on outputs, paying only the difference.

Even benefits from an increased GST exemption for traders when compared to the limits prescribed under the State VATs must be factor in the loss of exclusivity to local traders. VAT's composition scheme (partial exemption) was applicable to a firm only on satisfaction of certain conditions one of which was that all purchases and sales made by the firm were local, within the state. By negating the locational clause, small local traders and the employment they generate are left open to competition from outside the state. Admittedly, service providers have substantially benefited but service provision especially when job work (exempted separately as under the previous regime) is excluded pales in comparison to manufacturing and trade, from an employment perspective.

Table 1. GST Exemption Details

Tax	Complete Exemption	Partial Exemption
Excise (Manufacturers)	Up to 1.5 crore	Exemptions on a variety of factors including goods manufactured, location, etc.
State VAT (Traders)	Upto 5 lakh	Upto 40 lakh *
Service Tax (Service Providers)	Up to 10 lakh	Service centric exemptions
GST (All Firms)	Up to 20 lakh (10 lakh in NE)	Upto 75 lakh

GST's second blow to MSMEs comes from the abolition of regional tariffs. The absence of entry taxes, interstate levies, octroi, etc. has stripped small industry of its state sponsored protections leaving them open to being undercut out of markets by bigger firms operating at far greater economies of scale. Also, for these bigger firms, GST has had a tremendous impact on logistics cost with nearly a 30% reduction being witnessed. Abolition of state levies dispels the need to maintain state-wise depots to facilitate un-taxed stock transfers. For example, previously if one were to sell

goods, manufactured in Kerala to customers in Kerala, it was cost effective to incur capital costs needed to create depots in Kerala, to avoid interstate levies. These costs not only created a competitive edge for localized industry but also created employment and investment in the poorly industrialized states. Under GST, goods manufactured Kerala will be treated on par with those did not make in Kerala, nor will Kerala businesses be incentivized make investments in Kerala. Instead, it may be more cost effective to deliver straight to Kerala based customers sans a depot and resulting in a shrinking of Kerala job market, investments and industrial base. The most important small scale industry is cotton textiles; the rate of GST for all cotton products is 5%.

6.2 Impact of G.S.T on Informal sector

We have witnessed a period of demand moderation across sectors. This scenario affected the informal sector more than others, due to various systemic issues. The sector, especially small and mid-scale export units, was already facing challenges prior to demonetization and GST. But the gain in market share of listed companies means a corresponding fall in the share of units operating in the informal economy. GST is sure to take a toll on the financial health of small- and medium-sized enterprises (SMEs) operating in these sectors. Economists say that the informal or unorganized sector accounts for nearly 50% of India’s gross domestic product and is responsible for more than 80% of total job creation in the country.

Impact of G.S.T on Informal Sector

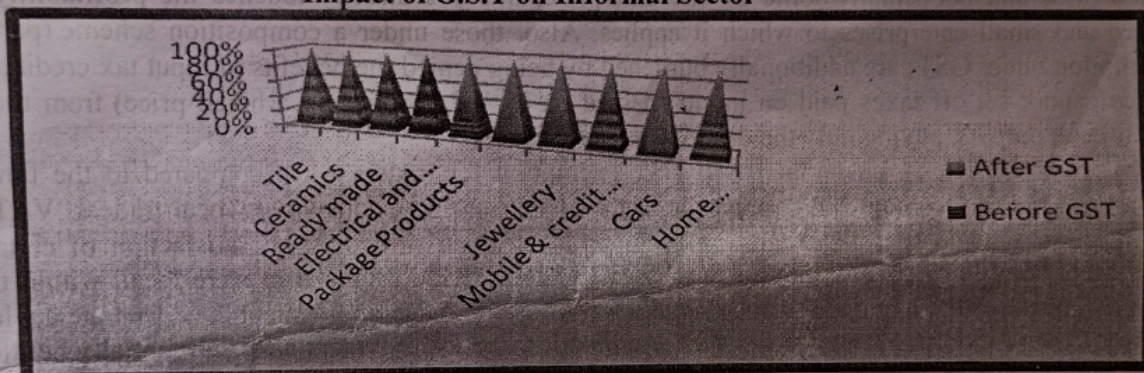


Table.2 Impact of G.S.T on Informal Sector

Informal Sector	Before GST	After GST
Tile	40%	20%
Ceramics	34	30
Ready made	60%	30%
Electrical and other	70%	35%
Package Products	5%	18%
Readymade Garments	4-5%	18%
Jewellery	3%	18%
Mobile & credit cards	15%	18%
Cars	30-44%	18%
Home appliance (Excise & VAT)	12.5%	18%

panies means a corresponding fall in the share of units operating in the informal economy. GST is sure to take a toll on the financial health of small- and medium-sized enterprises (SMEs) operating in these sectors. Economists say that the informal or unorganized sector accounts for nearly 50% of India’s gross domestic product and is responsible for more than 80% of total job creation in the country. Many of the firms operating in this part of the economy make profits largely due to tax evasion and non-compliance with regulatory norms, which allows them to offer products

at comparatively lower prices. However, in the GST-era, it will be a struggle for survival for such firms because they will be faced with taxes, lower margins and a sharp spike in the cost of compliance. Some firms in the unorganized sector may go under, while others could find their profits curtailed. To be sure, in some instances the two sets of companies cater to different customers, but there is always some overlap. And it is not just the manufacturers in the informal economy who will suffer but also the smaller dealers and wholesalers.

7. SUMMARY AND CONCLUSION

There was a dire need to integrate India into one economy and get rid of the multiple taxes and its cascading effect. Introduction of GST resulted in simplification of indirect tax system in the country and thereby ensures seamless business transactions across our nation and world over. On the arrival of GST, the Small scale and Informal sectors has forced to revamp their strategies, systems, supply chains and costing apart from meeting the quality standards as per international norms. So far, unorganized Small scale and Informal sectors have grown faster than organized peers because of lower cost structures stemming from tax benefits, (if turnover is less than 1.5 crore). India's paradigm shift to the Goods and Services Tax (GST) regime brought majority of Small scale and Informal sectors into the indirect tax net for the first time and thereby increased compliance costs for Small scale and Informal sectors. Complying with GST is bit complex for Small scale and Informal sectors at present. However in the long run it will benefit small and medium businesses as well as consumers. The overall impact of GST on Small scale and Informal sectors has to be reviewed by the Centre and the States periodically, and any adverse impacts observed should be addressed at appropriate times for the success of new tax regime.

REFERENCES

1. Dhanabalan T, Subha K, Shanthi R. & Sathish A. (2018). Factors influencing consumers' car purchasing decision in Indian automobile industry, *International Journal of Mechanical Engineering and Technology*, 9(10): 53-63.
2. Dhanabalan, T. & Rajamohan, S. (2014). Impact of Mahatma Gandhi national rural employment guarantee scheme in Dindigul district, Tamilnadu. *International Journal of Entrepreneurship & Business Environment Perspectives*, 3(4): 1422-1427.
3. Dhanabalan, T. & Sathish, A. (2018). Transforming Indian industries through artificial intelligence and robotics in industry 4.0., *International Journal of Mechanical Engineering and Technology*, 9(10): 835-845.
4. Dhanabalan, T. (2011). Managerial effectiveness of Mahatma Gandhi national rural employment guarantees scheme and Indira Awaas Yojana in Dindigul district.
5. Dhanabalan.T & Rajamohan.S.(2015). Hut to Concrete House – Indira Awas Yojana, 5(1): 58-59.
6. Dr.Mugeshkannan Reguraman, Ms.M.Jensirani, Mrs.M.Sharmila Devi, Ms.R.Vijayalakshmi and Ms.T.Aiswaryagomathi (2019), "Perceptions Towards Initial Public Offerings Issues In Gulf Cooperation Council Countries, *International Journal of Scientific & Technology Research*, Volume 8, Issue 11, November 2019, ISSN:2277-8616, pp.916-923.
7. Dr.S.Ganapathy & Reguraman Mugeshkannan (2016), "Root of Smartphone; Route for a Smart Business @ Restaurant", *Pacific Business Review International*, Volume 9, issue 5, ISSN: 0974-438X, November 2016, pp.20-30.
8. Ganapathy S and MugeshKannan Reguraman.2016, A Study on Service Quality of Selected Web Browsers In Sivaganga District. *Int J Recent Sci Res*. 7(8), pp. 12824-12827.
9. Kumar, G. S. (2017). Anatomy of Indian energy policy: A critical review. *Energy Sources, Part B: Economics, Planning, and Policy*, 12(11), 976-985.
10. Malali, A. B., & Gopalakrishnan, S. (2020). Application of Artificial Intelligence and Its Powered Technologies in the Indian Banking and Financial Industry: An Overview. *IOSR Journal Of Humanities And Social Science*, 25(4), 55-60.
Park, Jin Yong, and Dhanabalan Thangam. "What Makes Customers Repurchase Grocery Products from Online Stores in Korea." *International Journal of E-Business Research (IJEER)* 15, no. 4 (2019): 24-39.
11. Mugeshkannan Reguraman & Dr.S.Ganapathy (2018), "Social Media Marketing: A Dynamic Purchasing Intention of Digital Marketing via Smartphone", *International Journal of Research & Analytical Review*, ISSN: 2348-1269, Volume 05, Issue: 04, December 2018, pp.754-760.
12. Mugeshkannan Reguraman & Ganapathy Subbiah (2019), "Omnichannel E-Tailing: Dynamics of Consumer Purchasing Decision Behaviour", *Pacific Business Review International*, Volume 11, issue 7, January 2019, ISSN: 0974-438X, pp. 07-13.

13. Mugeshkannan Reguraman & Vijayalakshmi R (2019), "Rural Development: Micro Financing Through Self-Help Group". International Journal of Retailing & Rural Business Perspective, Volume 08, Issue 01, January-March 2019. ISSN: 2279-0942, pp 3486-3508.
14. Mugeshkannan Reguraman, Dr.S.Ganapathy & Ms.G.Flarans Skylark (2018), "Omni-channel Retailing: Social Media Key to Marketing Up Gradation Efficiency", International Journal of Scientific Research, Volume No. 07, Issue No. 02, February, 2018, pp. 37-39.
15. Muthukumar, E., & Vidhya, S. (2015). Enriching Human Resources Capital through Training and Development in Hotel Industries at Coimbatore. International Journal of Emerging Research in Management & Technology. 4(6), 85-91.
16. Muthukumar, E., & Vidhya.S (2015). Study on the Effectiveness of Training Programme in Vardhman Yarns and Threads Limited (III Unit) at Sipcot Perundurai. Research Journal of Social Science & Management. 5(06), 86-91.
17. Muthukumar, E., Vidhya, S. and Devika, S. (2016). Employee's Attitude towards Job Satisfaction in Star Hotels in Chennai. Journal of Current Research, 8(02), 27030-27033.
18. Muthukumar, E., Vidhya.S & KS, M. A. (2016). Impact Of Organizational Culture on Commitment of Employees in Hotels at Pondicherry. Asia Pacific Journal of Marketing & Management Review. ISSN, 2319, 2836.5(4), 1-9.
19. Muthukumar, E., Vidhya.S, & Babu, M. J.(2014) Effectiveness & Evaluation Of Training And Development Programme In Pollachi Hotels—A Case Study. Researchers World- Journal of Arts, Science & Commerce. 73(2), 1-7.
20. Park, Jin Yong, and Dhanabalan Thangam. "What Makes Customers Repurchase Grocery Products from Online Stores in Korea." International Journal of E-Business Research (IJEBR) 15, no. 4 (2019): 24-39.
21. Rajamohan, S. & Dhanabalan, T. (2012). Analysis of deposits and their mobilisation by the Dindigul district central co-operative bank. Zenith International Journal of Multidisciplinary Research, 2(12): 251-259.
22. Rajamohan, S. & Dhanabalan, T. (2013). Rural development through ICT: opportunities and challenges. International Journal of Retailing & Rural Business Perspectives, 2(2): 354 - 358.
23. Rajamohan, S. & Dhanabalan, T. (2013). Self help groups and its current status in India. International Journal of Entrepreneurship & Business Environment Perspectives, 2(2): 371-374.
24. Rajamohan, S. & Dhanabalan, T. (2013). Women empowerment through rural development schemes. International Journal of Retailing & Rural Business Perspectives, 2(1): 253-255.
25. Rajamohan, S. & Dhanabalan, T. (2014). Beneficiaries' opinion towards the mahatma Gandhi national rural employment guarantee scheme. International Journal of Retailing & Rural Business Perspectives, 3(4): 1256 -1261.
26. Rajamohan, S. & Dhanabalan, T. (2014). Functional effectiveness of the mahatma Gandhi national rural employment guarantee scheme in Dindigul district of Tamilnadu. International Journal of Logistics & Supply Chain Management Perspectives, 3(4):1288 -1291.
27. Rajamohan.S & Dhanabalan,T.(2013). Sustainable Rural Development through Science and Technology. Global Research Analysis, 2(2): 11-12.
28. Rajamohan.S & Dhanabalan.T. (2013). Rural Development Schemes and Their Contribution towards the Human Resource Development. Indian Journal of Applied Research, 2(2): 51-52.
29. Rajamohan.S &Dhanabalan.T. (2013). From Poverty to Prosperity through Mnrega, Paripex Indian Journal of Research, 2(2): 23-24.
30. Rajesh, G. A. A , Dr.E.Muthukumar, S.Vidhya (2014).Critical Analysis Of Quality Of Work Life Practices At Salem Steel Plant And Jsw Steel Limited, Tamil Nadu. International Journal of Business and Administration Research Review (IJBARR).2(3),92-99.
31. Ramaswamy, S., & Sathis Kumar, G. (2010). Tourism and Environment: Pave the Way for Sustainable Eco-Tourism. Tourism and Environment: Pave the Way for Sustainable Eco-Tourism (March 5, 2010).
32. S. Vidhya & Dr.E. Muthukumar (2017). Organisational Climate And Commitment Amid Employees Of Star Hotels At Coimbatore. Journal of Advanced Research in Dynamical & Control Systems. 7,214-219.
33. S. Vidhya.S, DR. E. Muthukumar & G. Anees Fathima (2016). Labour Welfare Measures In Hotel Industries Reference To Kanyakumari. International Journal of Research in Computer Application & Management. 6(10), 47-49.
34. Solairaja.R, S.Banumathi & Dhanabalan, T. (2013).Primary School Education in India: An Overview. Indian Journal of Applied Research, 3(5): 59-61.
35. Sridhar, L. S., Sumathy, M., Sudha, N., & Charles Ambrose, A. (2016). Price Discovery in Commodity Market—An Empirical Study on the Silver Market. IOSR Journal of Economics and Finance (IOSR-JEF), 7(2), 88-95.
36. Sumathy, M. (2009). E-commerce and its Application in Indian Industries. SRELS Journal of Information Management, 46(1), 37-42.
37. Sumathy, M., & Vipin, K. P. (2017). Digital payment systems: Perception and concerns among urban consumers. IJAR, 3(6), 1118-1122.
38. Vidhya, S, Pavan. K.A, Vishnupriya. S (2019). An impact of employee commitment and organizational climate on employee job satisfaction and retention in star hotels in coimbatore district. International Journal of Recent Technology and Engineering (IJRTE).8(3), 6500-6503.