Impacts of GST on MSMEs

Why in news?

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- It is found that a simplified tax structure and unified market will **improve operational efficiencies,** especially of MSMEs with a wider reach.
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- India’s paradigm shift to the Goods and Services Tax (GST) regime in July 2017 will increase their compliance costs and snare a majority of them into the indirect tax net for the first time.
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What is GST?

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- The Goods and Services Tax bill, touted to be India's biggest tax reform, will simplify the current system of taxation. The bill will convert the country into a unified market by replacing all indirect taxes with one tax.
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- Brining all tax under single umbrella, Various Taxes like Excise Duty, Value Added Tax (VAT), Central Sales Tax, Luxury Test and Entry Tax, etc. will all be included under a single roof by GST.
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- The very important Feature of GST bill is that instead of collection of Taxes at every step, it will be collected in one step. Goods and Services will be treated equally and will be taxed similarly.
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What are the benefits of GST?

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- Subsume all indirect taxes at the centre and the state level.
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- One-Country-One-Tax.
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- Reduce the cascading effect of taxes on taxes.
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- Increase productivity and transparency, increase tax-GDP ratio.
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- Reduce/Eliminate tax evasion and corruption.
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What is the status of MSMEs?

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- Unorganised MSMEs have grown faster than organised peers because of lower cost structures stemming from tax avoidance, and not having to pay social security benefits to employees and excise duty (if turnover is less than Rs 1.5 crore).
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- GST is expected to provide a boost to this segment because of **lower tax incidence.**
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- Last fiscal, MSMEs were expected to record on-year top line growth of 14 to 16%.
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- The impact of demonetisation has been severe in the second half and they would have closed the year with an increase of just 6 to 8%.
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- As the effects of demonetisation fade, growth will pick up in the current fiscal and “Make in India” is promising in leading this sector.
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- Though growth is expected to be strong this fiscal, cheaper imports, especially from China, remain a challenge.
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What are the impacts of GST?

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- Organised players with the ability to hold their price-lines, or pass on any increase in cost to customers, will be able to maintain or improve profit margins.
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- Organised players will benefit and record moderate growth given the thrust on digitisation and lower tax rates under GST.
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- Unorganised players catering mostly to the non-OEM (Original equipment Manufacturer) replacement market **will be forced to move into the organised domain.**
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- GST will have a marginally negative impact because of higher tax rates expected.
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- A unified market would create more competition in an already crowded and price-sensitive arena with a large number of unorganised players.
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Source: Business Line.

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