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GST – IMPLICATIONS ON SMALL AND MEDIUM BUSINESSES

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INTRODUCTION

Goods and Services Tax (GST) was on the anvil for the past many years and 1-July 2017 finally saw India shift to the new taxation regime. GST will bring more than 5 million small businesses, majority of which were operating offline, into the digital ecosystem. It has the potential of becoming something much bigger than just a one-sided tax system. This digital tax system has the ability to help Small and medium-size business enterprises (SMEs) take advantage of their data for easier access to credit, operational efficiencies, managing cash flows, managing better customer relationships and thus becoming the operating system for Indian SMEs. Small business will witness a complete transformation of the taxation system once the goods and service tax (GST) (https://www.gst.gov.in/) comes into effect. The proposed system shall be more transparent, more paperless, but requires more compliance as well. On an average there would be additional 36 returns per year to be filed on a single registration. Hence, the small taxable person should be taken care of, to avoid unnecessary burden on him. There is no such term as 'small taxable person' under the GST law. We have given the name to the category of persons who had a turnover of less than Rs50 lakh in the preceding financial year. In this article, we shall discuss the possible exemptions and remedies available to the small taxable person and also the complexities involved in the procedure.

Small Taxable Person

As per the exemption and remedies available, we can categorise the small taxable persons into two divisions;

1. Those having turnover of up to Rs20 lakh (already covered under basic exemption limit)
2. Those with a turnover up to Rs50 lakh (remedy available in the form of composition levy)

One of the biggest tax revolutions of India is underway as businesses and tax payers are gearing up for the change. These enterprises and individuals are assessing how the GST rollout will make a difference to them. One such segment is the Small and Medium Enterprises (SME) segment, which contributes significantly to India's GDP and exports. The positive effects from GST are expected to drive decentralization of opportunities and provide an impetus to India's GDP. However there is some concern that some of its policy implications could slow down business, and that is what small and medium enterprises must prepare for. Gaining know-how on GST rules and implications is the first step towards becoming GST-compliant and becoming tax-savvy. This blog will help you understand which SMEs are eligible for GST and the impact on the sector as a whole.

How GST will impact business transactions

GST will typically impact any business at two ends of the spectrum where transactions are involved i.e. for input transactions and for output transactions.

- Input transactions: An input transaction is a transaction carried out for the supply of goods / services like raw material procurement, imports etc. Input transactions directly affected due to the changes in taxation levels of raw materials/industrial affecting the product or service pricing.
- Output transactions: An output transaction is one that is done for outbound supply service delivery. For example, sales is an output transaction. GST will directly imp sales by altering the taxation of the product or service being sold. Depending on the tax slab of the goods or service, the profitability of the enterprise will be impacted.

  Another significant impact area is due to the concept of "place of supply" and supply", calling for more stringent supplier compliances.

Why should SMEs enrol for GST?

An SME registered under GST will be recognized as a legal provider of goods and/or ser Tax accounting will be streamlined. Such an SME will be able to maintain proper accoun taxes paid on input goods or services, and be able to utilise the inputs credit facility to better cash flows. GST will provide an opportunity for SMEs to digitize their transa management, making it efficient for the future. If such an SME scales up, it will be prepa advance to manage large-scale transactions through software.

Moreover, digital transactions tend to leave a digital footprint. These footprints can be use assess the sector with greater accuracy, as Fintech lenders can create customized fin solutions for these SMEs, which are currently under-served from a credit perspective.

Impact of GST on SMEs

Overall, the SME sector seems to be skittish about the impact of GST. Here is a look at som the pros that GST brings to SMEs.

- **Ease of starting a business:** The old tax regime requires new entrepreneurs to ob VAT registration for every state separately, with each state having its own rules. Th GST too requires businesses to register in each state, the rules for GST are more un and outlined clearly on the portal. This will make it easier to set up an SME.
- **Ability to compete with multinationals and multi-state enterprises:** GST destination-based taxation system and not source-based. Locally manufactured good SMEs will pay the same amount of tax as imported goods from multinationals. More corporates generally 'stock transfer' transfer goods to escape the taxes on inter transfers. SMEs are not able to 'stock transfer' goods due to lack of infrastructure physically transfer goods and pay inter-state taxes, leading to higher expenses. GST, the stock transfers would be taxed.
- **Transparent transactions:** SMEs often do not have the resources (processes and p to dedicate to tax transaction management. GST will enable an online and trans view of tax obligations and on-goings, minimizing the need to liaison with tax auth offline. Though it will take some initial investment now, SMEs that streamline transactions now will be setting up future-ready systems and processes.

- **Reduced tax burdens due to rise in threshold:** Under the old regime, business owners with an annual turnover of Rs 5 lakh (Rs 10 lakh in the North East), mandatorily need to register for VAT and make VAT payments. Under GST businesses above Rs 20 lakh turnover (Rs 10 lakh for North East) qualify for GST registration, which brings huge relief to SMEs. Thus, businesses that fall in the Rs 5 lakh – Rs 10 lakh revenue bucket need not register and will experience better cash flows because they are exempt from GST.
- **Better Cash flow due to input credit facility:** Cash flows may increase because of facility of input tax credit, wherein businesses will be able to avail credit on input expenses such as supplies. For example, for a business that procures steel as the raw material to manufacture utensils, the businessman will need to pay tax on the raw materials procured i.e. iron ore. He can adjust the tax paid on inputs from the taxes collected on outputs. This means that only the actual "value addition will be taxed.
- **Better logistics:** GST will help eliminate time-consuming border tax protocols, allowing for free flow of goods across borders. This will result in savings in logistical costs. CRISIL estimates that the logistical cost for companies manufacturing bulk goods will be reduced by around 20%.

Key Concerns around GST

- **Investment to go tech-savvy:** SMEs are typically not used to managing complex tax compliances, but GST will need SMEs to go digital. SMEs may need to hire or consult with GST experts to bring about a technology makeover resulting in additional expenses.
- **Reduced tax exemptions:** SMEs are eligible to avail a central excise threshold exemption of Rs 1.5 crore gross turnover; under the GST regime this exemption will reduce to Rs 20 lakh. As a result, SMEs with turnovers between Rs 20 lakh and Rs 1.5 crore will not be eligible for this tax exemption. This is an additional cost that will pinch SMEs that were previously used to being tax exempt.
- **Higher tax rates may impact profitability:** Despite assurances by the Finance Minister that overall tax slabs will not increase, the GST slabs indicate otherwise. The services tax rate has distinctly increased from 15% to 18%. Higher tax outflows means lesser profitability.
- **Strict tax-compliance norms means more costs:** GST will bring in an era of stringent compliance. For example, purchase invoices raised will have to be reconciled with the supplier of the goods. These invoices have to be uploaded by the entity by the 10th of every month and will need to be reconciled by the 15th of every month. SMEs are not used to carrying out such detailed and timely tax transactions and will need to hire personnel to help with tax management and compliance.
- **Supplier-side compliance will affect the GST compliance rating:** The ability of an SME to claim refunds is a direct result of its GST compliance rating. Going ahead, SMEs will be accountable for their suppliers' non-compliance and they may take a hit on their Compliance Rating due to non-compliance at any leg of the operating cycle, right from procurement to service. Maintaining compliance records, periodic audits will need to be instated to ensure compliance of all stakeholders. This responsibility of supplier-side compliance is an added cost to the company.

- **Time lag in input credit process:** Input credit will only be available after a su declares the particulars of the supply and after these details are validated by the electronically. Thus, a supplier is heavily dependent on the buyer's response, leadin probable time lag in availing input credit. Moreover, the timeline for claiming inp credit is very limited— before the due date of filing returns for September of the financial year, or, the due date of filing annual returns, whichever is later.

CONCLUSION:

GST is all set to usher in an era of simplified taxation. SMEs must decide on the investments to optimize the benefits of the change. This means investing time and resourc understanding the change, getting the right people and processes to change the way the business to ensure GST-adherence. Such SMEs will emerge future-ready and poised to their business like never before. One other point does need to be made; looming in background is always the question of corruption. Having a huge number of registered small on the roster who are finding it difficult to comply is a recipe for building a corruption-p regime which only serves to perpetuate the "inspector raj" culture. On the other hand, sell business permit with a fixed, moderate, flat fee is easy to administer and comply with, pro businesses a legitimate right to carry on business, and saves them from corrupt tax offici would like to make a conclusion that don't judge the honesty with which the GST has been let us wait and see for some period of time whether the fruits are useful or not.

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