Impact of GST on Small and Medium Business & Enterprise (SME) of North Gujarat Region

Bansi B Patel.
M.Phil., Research Scholar
Faculty of Social Science & Humanities,
Ganpat University, Kherva
Email: bansipatel1521997@gmail.com

Dr. Jayesh D Patel.
Assistant Professor,
V. M. Patel Institute of Management,
Ganpat University, Kherva
Email: jayesh.patel@ganpatuniversity.ac.in

Abstract

Small and medium-sized enterprises (SMEs) have emerged in the country significantly and have been influencing the Indian economy remarkably. Besides, there is an implementation of a new tax model in India since July 1st of 2017. So, it is necessary to understand the impacts of a new tax model on small and medium-sized companies and enterprises to assist businesses and the economy of the country as well as make valuable changes in institutions. This paper aims to analyze some of these significant impacts of a new tax system in the country, GST on SMEs through primary and secondary research using qualitative as well as quantitative data. A group of 180 entrepreneurs, business owners, and executives of selected businesses were surveyed for the collection of data. Furthermore, the collected data has been analyzed using tools, such as statistics, pie charts, and tables.

"Micro, small, and medium-sized enterprises and businesses have been significantly affected by the implementation of Goods and Services Taxes (GST) in India. It is essential to find the impacts of GST on SMEs in North Gujarat and impose recommendations in the study for the betterment of business and economy of the country."

Key Words: *Goods and service taxes; GST; SMEs; MSMEs; impacts; small and medium enterprises.*

Citation: Patel, Bansi. & Patel Jayesh. (2019). Impact of GST on Small and Medium Business & Enterprise (SME) of North Gujarat Region , *Ganpat University Journal of Applied Research In Social Science & Humanities,* 8 (2), 23-39.

1. Introduction:

Enterprises, companies, firms, and businesses under the category of SMEs and MSMEs have been developing in India and have been influencing the economy of the country significantly (Nagaya, 2017; Bilal, Khan, & Akoorie, 2016; Javalgi & Todd, 2011). Besides, emerging markets and companies under SMEs remarkably get affected by a tax structure imposed by the state as well as the nation (Devereux & Maffini, 2007). So, as a new tax model has been imposed in India from July of 2017th, the companies and enterprises under SMEs will inevitably get affected and influenced (Kankipati, 2017;Ahmad[1], Ismail, & Halim, 2016;Dani, 2016). Though it is not easy and effortless to describe the real impacts of this new tax structure on these enterprises and businesses under SMEs, it is feasible to research some of the selected businesses to outline how this new tax structure has been affecting and influencing these enterprises.

A new tax model of GST was implemented in the Indian economy with specific purposes of abolishing all the other indirect taxes, reducing compliance cost, transparency in taxation, and for the development of the economy of the country (Nath, 2017). Nevertheless, the business and SMEs sector of the country has been unavoidably affected and has suffered fluctuations due to the execution of a new tax model in the Indian economy. Numerous scholars and researchers in the past have outlined some of those significant changes and affections after imposing the GST model in India. This paper aims to outline the impacts of a new tax model of GST on micro, small, and medium-sized enterprises in India after various proper tactics of research, literature review, survey, data collection, analysis, and conclusion.

2 Literature Review:

There is a significant growth in small and medium enterprises (SMEs) and businesses under MSMEs in the last two decades and have emerged as one of the most influential factors affecting the economy of the country (Nagaya, 2017; Bilal, Khan, & Akoorie, 2016). SMEs and entrepreneurs' businesses nowadays have been affecting the Indian economy directly and significantly by creating employment options through transformational leadership practices and improving the GDP of the country.

Goods and Service Taxes (GST) was implemented in India on 1st July 2017 as a unified and comprehensive tax system to abolish all other taxes from the country (Nath, 2017). GST is a comprehensive tax system that levies on productions, sales, and preservation of goods and carriers all over the country while abolishing all the other taxes, such as VAT, excise duties, and peripheral taxable of all kind (Sehrawat & Dhanda, 2015).

2.1 Objectives of the GST Model:

- No flowing of indirect taxes
- Reduction in the compliance cost of goods and services
- The error-free flow of credits
- Easiness in paying taxes
- Elimination of all indirect taxes
- Transparent and corruption-free tax system
- Support in the development and growth of GDP and so, the economy of the country
- Enthusiasm in tax collection both for Central and State
- Minimum impacts of taxes on the inflation rate of the country
- Development of the collective national market

SMEs and micro, small, and medium businesses are some of the most affected business sectors due to the implementation of GST. In SMEs and MSMEs, there are some specific factors that are directly impacted due to the implementation of a new tax model in the country. By outlining and observing the changes levied on these factors due to the introduction of GST, one can further assist in defining the impacts of GST on Indian SMEs and MSMEs. The factors that come under core impact areas within the scope of GST implementation are as follows – duration of return, addition in tax, transparency in tax, the demand of goods and services, cost of good services, and tax system complexity.

2.2 Duration of Return:

One of the major aspects that define the change ushered in by GST implementation is the nature of the return process. The return filing process is a solely digital mechanism when it comes to GST, especially resulting in both increase ease on one hand as well as a slew of complexities arising from the same. Even though the duration of returns due to online filing has decreased, which is a definitive improvement as compared to previous taxation methods, there are increased incidences of issues and problems arising from an inability to upload proper documents as well as an increased lack of awareness associated with the digital medium. One of the fundamental issues in this case, as pointed out by Pandya (2018), is that most companies have not yet integrated the proper measures into their systems which may enable them to adopt e-filing as a part of the tax return process. This, in turn, has resulted in a considerable increase in the degree of investment of time, specifically pertaining to integration of e-filing procedures. At the same time, not only has the complexity and paradigm associated with the process changed, so has the number of returns. Tiwari (2018) noted in his research that there would be thirty-six returns that should be paid by business owners under the GST regime. So, the process will be time-consuming as well as longspun.

2.3 Addition in Tax:

Besides, there will be an addition of one percent tax that can cause a loss of revenue, specifically within the realms of manufacturing and production while shifting to a new tax system of GST (Kawle & Aher, 2017). This might be considered as a negative impact of GST on businesses and SMEs. However, the finance minister of the country, Arun Jaitley, stated that a new tax model would reduce prices in the long run. However, one more crucial aspect pertaining to the impact of GST on revenue stems from the increase in the frequency of filing, which has been instated on a quarterly basis. Companies with an annual turnover of 1 crore or above are also expected to file returns on a monthly basis, thereby resulting in a definitive increase in the amount of cost (Dani, 2016). This inherently indicates that GST would have a major role in increasing the costs associated with businesses. The addition of tax can be seen as a definitive issue with regards to the amount of capital that was once available to companies as far as investment options, in general, were concerned.

2.4 Transparency in Tax:

As Vasanthagopal (2011) noted, the transparency factor of a new tax model will also result in a considerable decrease in the degree of opportunities for corruption by the business owners and enterprise proprietors. Also, a new tax system that supports transparency in the tax system might also influence companies and firms in the country to pay returns with compliance and can form a trust relationship between taxpayers and the government. There will also, be a charge of ₹ 50 per day for the delay in normal cases and ₹ 20 per day charge for taxpayers that have nil tax liabilities for the month. The core unifying factor of the GST regime, specifically allowing inter-state dealers to register themselves and become a part of an online platform that connects all entities, will make correspondence and coordinate easier, more convenient, and much faster than before. However, it is not only coordination that becomes easier within a digitally powered unified taxation platform. With the help of email-based communication, compliance is bound to improve to a large extent (Khurana & Sharma, 2016). According to many authors, the degree of disclosure associated with GST is higher than the taxation regimes that came before it, thereby resulting in an increased degree of transparency.

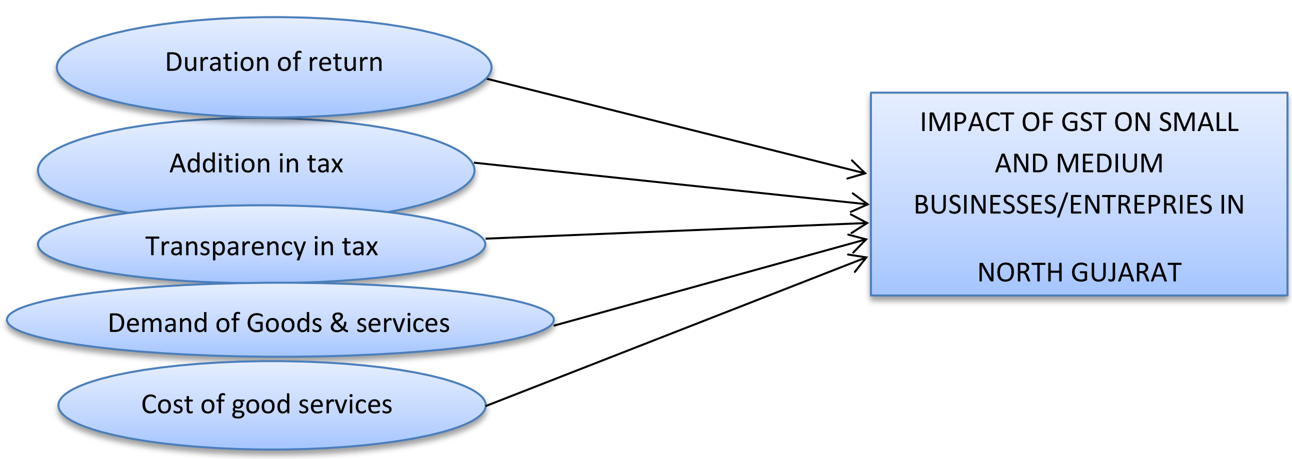
2.5 Demand for Goods and Services:

Reduction of all the other indirect taxes and levies will also enhance the opportunities for higher demands of products and goods. Also, compensation for entry taxes will boost the demand as well as sales of the enterprises' products and services overstate (Chouhan, Shakdwipee, & Khan, 2017). Different sectors are bound to be impacted differently as far as the influence of GST is concerned. The demand for goods in industries such as entertainment, air travel, restaurants, and hotels are bound to increase owing to the fact that GST levies lower tax burdens on consumers as compared to the influence that the previous tax regime based on service tax had on consumers (Dani, 2016).

2.6 Cost of Goods and Services:

In this case, the fundamental element of the noteworthy aspect is the impact that GST would have on the food sector. According to Khurana & Sharma (2016), the food sector in India is highly disorganized, which means that the inclusion of a central tax will levy heavily on the overall costs of the goods and services in this sector. Another sector that experiences an immense impact as far as cost is concerned through GST implementation is the construction and infrastructure sector. Before the amount of diversity as far as taxes in this sector was concerned neared a vast degree, especially owing to the several intricate mechanisms that are a part of this industry. However, with one single tax unifying the entire industry, there are bound to be repercussions in terms of both demand and costs. On one hand, interruptions in terms of ITCs would be removed, thereby making it easier on the pocket as far as inter-state project contracts are concerned for infrastructure companies. However, on the other hand, credit restrictions in terms of work contracts, caused due to the GST implementation, could result in a considerable increase in costs oriented with projects. The implementation of the new tax system also comes in with the removal of all concessions and exemptions, thereby further influencing cost to a large extent. The demand for increased work capital is bound to grow under such circumstances (Dixit, 2018).

2.7 Theoretical Modal of the study:



2.8 Hypothesis:

Besides the impacts of the GST tax model, several economic aspects in the region might affect the businesses, enterprises, and economy of the region.

H1: Duration of return has a significant influence on tax payer's impact of GST on small and medium businesses/ enterprises.

H2**:** Addition in tax has a significant influence on tax payer's impact of GST on small and medium businesses/ enterprises.

H3: Transparency in tax has a significant influence on tax payer's impact of GST on small and medium businesses/enterprises.

H4: The demand for goods and services has a significant influence on tax payer's impact of GST on small and medium businesses/enterprises.

H5: Cost of goods services has a significant influence on tax payer's impact of GST on small and medium businesses/enterprises.

3. Research Methods:

3.1 Problem Statement:

GST has been noted as one of the most significant reforms in the history of tax systems in India. Moreover, there is a remarkable relationship between the implementation of GST and micro, small, medium businesses, and enterprises. Also, most of the businesses in the selected region for the study, North Gujarat, are under MSMEs or micro, small, and medium businesses enterprises. According to the same, the problem statement of this paper is: Micro, small, and medium-sized enterprises and businesses have been significantly affected by the implementation of Goods and Services Taxes (GST) in North Gujarat. It is essential to find the impacts of GST on MSMEs in North

Gujarat and impose recommendations in the study for the betterment of business and economy of the country."

3.2 Objectives of the Research Study:

1. To identify the factors affecting owners of SMEs post-GST roll out/implementation.

2. To empirically test the identified influencing factors affecting the owners of SME.

3. To outline the perspectives towards GST among the owners of SMEs post-implementation.

3.3 Scope of the study:

The present study on the impacts of GST on SMEs in North Gujarat is regulated to outline the impacts of a new tax system, GST in the region of North Gujarat on Micro, Small, and Medium-Sized Enterprises. Also, there are several businesses and enterprises in North Gujarat under MSMEs or Small Businesses. So, the scope of the study has defined the research that will cover the extent of the content for more logical conclusions and analysis of impacts on SMEs after the implementation of GST.

3.4 Research plan or Design:

The research plan of this study aims to relate the purpose and needs of this study with impacts on the economy in the process. The paper has comprised qualitative as well as quantitative data analyses for outlining the research objective. For qualitative research, we have gone through several studies, results, surveys, and literature in the past, while for the quantitative data, the paper has included a sample of 350 surveyed business owners in the selected region. The primary purpose of using qualitative research and quantitative data is; to explore an understanding of the research and outline remarkable conclusions and results in the past, and to create maximum impacts of the study using numeric values, and survey results studied the research.

3.5 Sampling Method:

The further research methodology part of the study has approached with the method of sampling, Probability Sampling, and Non-Probability Sampling, as we have offered every member who has participated in the survey, an equal opportunity to be part of the study and we have not selected any of the random researched data for the analysis. For the formation of questionnaires, we have used a non-probability sampling technique as per guided by our research guide and objective to outline the impacts. As we have intentionally purposed to outline the objectives of the study, we have also used a Purposive Sampling technique in the study.

3.6 Sample Size:

Three hundred (350) business owners and members from Small and Medium-Sized Enterprises (SMEs) were surveyed for further evaluation of impacts of the GST model on SMEs based in the six cities of North Gujarat, Mehsana, Kadi, Kalol, Becharaji, Vadnagar, and Kheralu. For the evaluation of impacts of GST on SMEs, formed questions in the questionnaire were distributed to **three hundred participants**. The data was collected after meeting different business owners, entrepreneurs, and MSME proprietors in the region of North Gujarat. A sample of 350 business owners or entrepreneurs has believed appropriate for further evaluation and analysis in the study.

3.7 Data Analytical Tools:

In this study, collected data will be processed and analyzed in accordance with the objectives and requirements of this study. Basic analysis through the use of pie charts along with the use of descriptive statistics was done in order to measure the overall perspectives and perceptual distribution of the individuals who took part in the survey.

3.8 Data Collection:

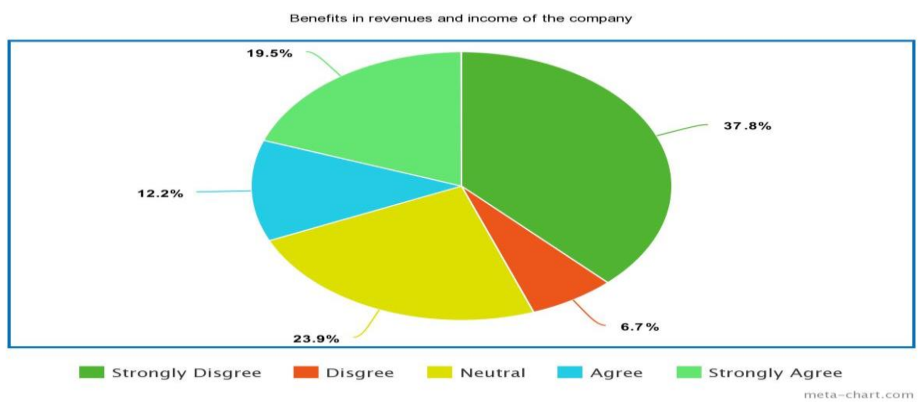
The paper has selected a random group of businesses and enterprises under SMEs and MSMEs in which most of them are from GIDC, corporate hubs, private go-downs, and city business centers. One hundred eighty **(180)** different enterprise proprietors have been selected to survey and collection of data.

4 Findings and Data Analysis:

4.1. Impacts of GST on revenues and income of the company:

Benefits in revenues and income of the company

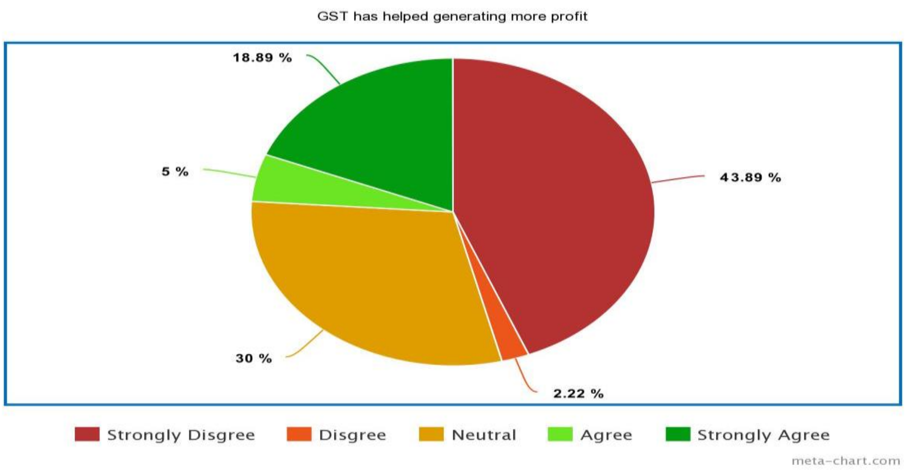
	Frequency	Percentage (%)
Strongly Disagree	68	37.8
Disagree	12	6.7
Neither disagree nor agree	43	23.9
Agree	22	12.1
Strongly Agree	35	19.5
TOTAL	180	100%



4.2 Impacts of GST on the generation of profits:

GST has helped generating more profit

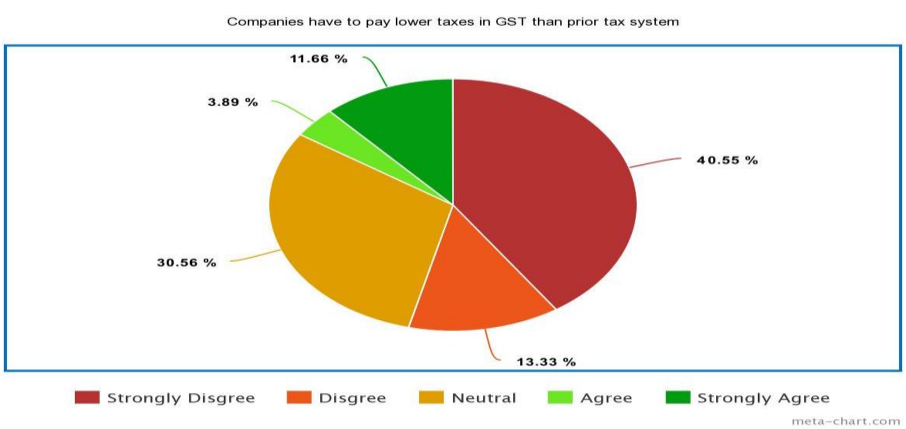
	Frequency	Percentage (%)
Strongly Disagree	79	43.89
Disagree	04	2.22
Neither disagree nor agree	54	30
Agree	09	5
Strongly Agree	34	18.89
TOTAL	180	100%



4.3 Direct impacts on taxes and returns:

Reduction in taxes and returns after GST

	Frequency	Percentage (%)
Strongly Disagree	73	40.55
Disagree	24	13.33
Neither disagree nor agree	55	30.56
Agree	07	3.89
Strongly Agree	21	11.66
TOTAL	180	100%

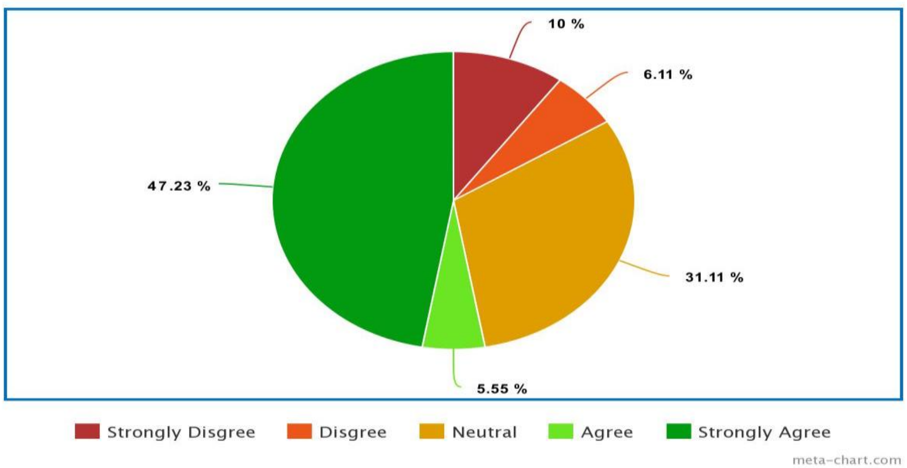


4.4 Impacts of GST on the primary investment and manufacturing costs:

Cost of production and manufacturing has been reduced

	Frequency	Percentage (%)
Strongly Disagree	18	10
Disagree	11	6.11
Neither disagree nor agree	56	31.11
Agree	10	5.55
Strongly Agree	85	47.23
TOTAL	180	100%

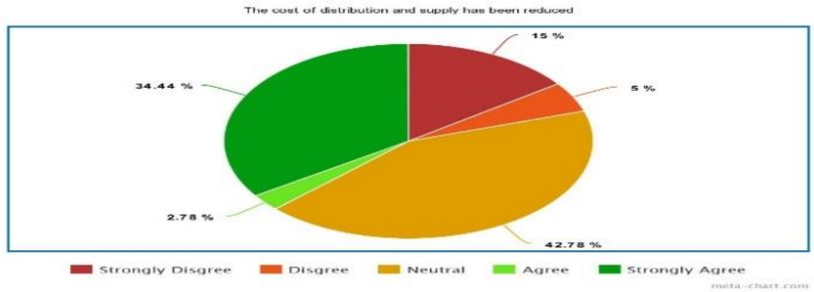
Cost of production and manufacturing has been reduced



4.5 Impacts of GST on supply and distribution of goods:

The cost of distribution and supply has been reduced

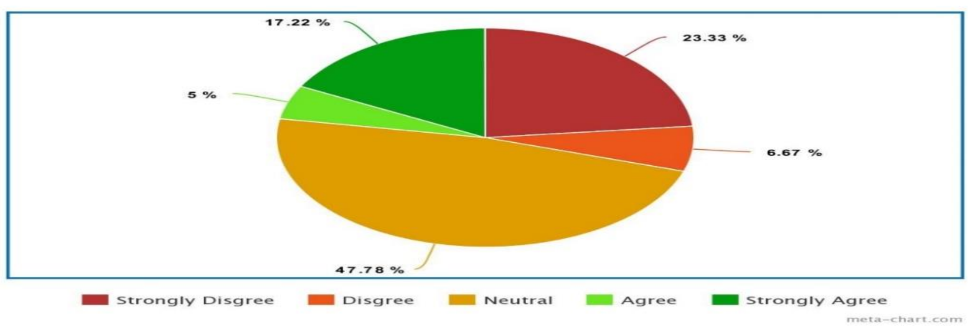
	Frequency	Percentage (%)
Strongly Disagree	27	15
Disagree	09	5
Neither disagree nor agree	77	42.78
Agree	05	2.78
Strongly Agree	62	34.44
TOTAL	180	100%



4.6 Business owners' perception on the GST reform:

Overall, GST was worthy reform and have positive impacts on business

	Frequency	Percentage (%)
Strongly Disagree	42	23.33
Disagree	12	6.67
Neither disagree nor agree	86	47.78
Agree	09	5
Strongly Agree	31	17.22
TOTAL	180	100%



	Strongly Disagree	***Disagree***	***Neutral***	***Agree***	***Strongly Agree***
Mean	52.28571429	14	60.71428571	10.57143	39.57142857
Standard Error	8.9381853	3.031579818	5.697594671	2.080031	9.724434475
Median	59	12	55	9	34
Mode	#N/A	12	54	9	#N/A
Standard Deviation	23.64821548	8.020806277	15.07441857	5.503246	25.72843526
Sample Variance	559.2380952	64.33333333	227.2380952	30.28571	661.952381

5. Discussion & Conclusion:

As per the analyzed data, it can be interpreted that a tax reform of GST has several positive as well as negative impacts on businesses and firms under the SME sector. The new model of taxation seems to be beneficial and has positive impacts on SMEs by looking at the changes made in initial investments, as 47.23% of surveyed business owners believed that GST has reduced the cost of manufacturing. Moreover, 34.44% of surveyed participants have agreed that GST has also helped in reducing the costs of supply chain and distribution in and around states.

However, business owners are unable to relate these changes and reforms to their opportunities of generating profits or revenue, as only 31.6% of SME owners have agreed that GST has helped them generate more income or revenue. Also, no strong evidence of generating more profits than the prior tax system can be seen as per surveyed participants' experience and perception. Furthermore, it also not seems to be beneficial to the customers, as the majority of the surveyed SME owners (80%) have not agreed with the statement that GST has reduced the costs of goods and services for customers. Nevertheless, the reform of GST has helped newcomers to start up their business with less effort than the previous tax structure. Finally, as 30% of surveyed SME owners disagree with the statement that GST was a helpful reform while only 22.22% agree with the same, it can be deliberated that GST was not a worthy enough reform for the SME and business sector of the country.

The mean of the data indicates a central deviation towards a neutral standpoint towards the GST regime implementation, even though there appears to be an inclination amongst most business owners towards a negative perceptual outlook towards the same. This might be a result of the low level of adaptability amongst most organizations in India, specifically pertaining to the online mode of filing returns. At the same time, the standard deviation of all the different classes of perspectives pertaining to the respondents shows a considerable spread of data, which sometimes also is less than half of the mean. This indicates a wide difference in opinion, even though a majority of the individuals in a specific class of perspective lean towards the same more or less. The lowest ratio of mean to standard deviation exists in the strongly agree class, while the highest exists in the neutral class. The observation pertaining to the former indicates that those who find the GST regime to be agreeable have sworn by its benefits and advantages to their business, while the latter shows that a neutral stance is inherently temporary owing to the fact that variation is high. On a closer look at the sample, the variance indicates a considerable degree of difference pertaining to the mean, thereby indicating that the impacts of GST are widespread and based on industrial domain, operational levels, income levels, and several other factors. This further posits the fact that there is a great influence of GST on business owners from varying and diverse perceptual positions, indicating the inherent vastness of the impact. As per the research findings of the paper, it can be surely elaborated that there is a significant relationship between the SME sector and the tax structure of GST. The tax model of GST has also affected and influenced businesses and companies under the SME sector of the country to an extent. However, there is a limitation of this research that the region and frequency of survey are limited. Nevertheless, there is an absolute opportunity for further research on the topic of the impact of GST on Indian SMEs and MSMEs. As per the results, one of the core aspects that becomes apparent is that the diversity of impact of GST on businesses is vast, especially owing to the consolidated nature of this particular tax regime. On one hand, there are definitive indications of its positive and negative impacts while on the other hand, there are variations in overall opinions and perspectives which can only be understood through further research into specific industrial domains and corporate environments. However, it serves the researcher and the reader well to consider the fact that there is no clear indication of an agreeable and positive stance towards GST implementation, especially as reflected in the median and mean values provided above. In this case, aspects such as e-filing play a major role in the inherent lapse in positivity associated with the tax regime. The region in consideration is home to numerous businesses that are not yet advanced enough to completely hone and master digital means of tax return filings, thereby resulting in a negative reaction to the same. Moreover, the region in concern is also home to numerous food businesses, construction companies, infrastructural companies, and other such sector-based corporate entities that used to benefit from a diversified tax regime rather than a cohesive or consolidated one. This could be another reason behind the negative reaction. Only further research into the depths of industry and sector-based opinions and perspectives can afford us a glimpse into the intricacies of the impact of GST on businesses in general.

References:

Ahmad, M. A., Ismail, Z., & Halim, H. A. (2016). Awareness and perception of taxpayers towards goods and services tax (GST) implementation. *International Journal of Academic Research in Business and Social Sciences, 6(11)* , 2222-6990x.

Bilal, A. R., Khan, A. A., & Akoorie, M. E. (2016). Constraints to growth: a cross country analysis of Chinese, Indian and Pakistani SMEs. *Chinese Management Studies* .

Chouhan, V., Shakdwipee, P., & Khan, S. (2017). Measuring Awareness about implementation of GST: A Survey of Small Business Owners of rajasthan. *Pacific Business Review International, 9(8)* , 116-125.

Dani, S. (2016). A research paper on an impact of goods and service tax (GST) on Indian economy. *Business and Economics Journal, 7(4), 1-2* .

Devereux, M., & Maffini, G. (2007). *The Impact of Taxation on the Location of Captial, Firms and Profit: a Survey of Empirical Evidence.*

Dixit, P. (2018). Impact Of GST In Indian Scenario. *GST Simplified Tax System: Challenges and Remedies, 1(1)* , 245-249.

Javalgi, R. R., & Todd, P. R. (2011). Entrepreneurial orientation, management commitment, and human capital: The internationalization of SMEs in India. *Journal of Business Research, 64(9)* , 1004-1010.

Kankipati, A. (2017). A Journey of Goods and Services Tax (GST) and Structural Impact of GST on the Growth of GDP in India. *Advances in Sciences and Humanities, 3(5)* , 50-53.

Kawle, P. S., & Aher, L. (2017). GST: An economic overview: Challenges and Impact ahead. *International Research Journal of Engineering and Technology, 4(4)* , 2760-2763.

Khurana, A., & Sharma, A. (2016). Goods and services tax in India-A positive reform for indirect tax system. *International Journal of Advanced Research, 4(3)* , 500-505.

Kumari, R. L. (2017). Imact of Goods and Service Tax (GST) on Indian MSMEs. *International Journal of Research in Economics and Social Sciences, 7(7)* , 334-348.

Loo, E. C., Evans, C., & McKerchar, M. A. (2012). Challenges in understanding compliance behaviour of taxpayers in Malaysia. *Asian Journal of Business and Accounting, 3(2)* .

Mawuli, A. (2014). Goods and services tax: An appraisal. *Paper presented at the PNG Taxation Research and Review Symposium, vol. 29* (p. 30). Taxation Research and Review Symposium.

Nagaya, N. (2017). SME impact on output growth, case study of India. *Palma Journal, 16(13)* , 11-170.

Nath, B. (2017). Goods and services tax: A milestone in Indian economy. *International journal of applied research, 3(3)* , 699-702.

Pandya, N. D. (2018). *An Analysis of Pre and Post GST Impact on Revenue.* Ahmedabad: ATMIYA Institute of Technology & Science.

Sehrawat, M., & Dhanda, U. (2015). GST in India: A key tax reform. *International Journal of Research-Granthaalayah, 3(12), 133* .

Tiwari, A. (2018). GST and its effect on common man in India. *GST Simplified Tax System: Challenges and Remedies, 1(1)* , 412-414.

Vasanthagopal, R. (2011). GST in India: A Big Leap in the Indirect Taxation System. *International Journal of Trade, Economics and Finance, 2(2), 144* .
Vasanthagopal, R. (2011). GST in India: A Big Leap in the Indirect Taxation System. *International Journal of Trade, Economics and Finance, 2(2), 144* .