
Impact of GST implementation on MSMEs- A Study with special reference to Bangalore City

Prof. Chaithra Y N¹, Dr. J. Murthy², Mr. Gowri Sankar Komma³

¹Assistant Professor, Department of Commerce and Management, International Institute of Business Studies College, Bangalore, Email: chaithrayn10@gmail.com

²Associate Professor, Sree Vidyanikethan Institute of Management, Tirupathi, Andhra Pradesh
Email:dearmurthymba@gmail.com

³Assistant professor, Department of Management Studies, GAYATRI VIDYA PARISHAD College for Degree and P.G COURSES (A) Visakhapatnam, Andhra Pradesh
E- mail: gowrigvp@gmail.com

Abstract

Goods and Services Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. The GST regime holds an enormous opportunity for various sectors of the economy and is expected to herald a new era of indirect tax regime. By replacing various indirect taxes, GST is expected to be a key step in the field of indirect tax reform in India. The uniform tax reform under GST is expected to provide a uniform market for MSMEs. By cutting down multiple taxes, this reform will increase the flexibility in transfer of goods, hence reducing the total business cost. While the lower Goods and Services Tax (GST) rates may lead to a decline in inflation, economic growth may not improve significantly in the short term even though it will benefit both India Inc and the government in the medium term. Present study carried out in Peenya Industrial area, Bangalore city with a random sample of 110 responses. It's concluded that there is significant relationship between dependent variable GST impacts on MSMEs.

Keywords: *Goods and Service Tax, MSME's, Inflation, Tax reform, Indirect Tax*

Introduction

Small and Medium Enterprises (SMEs) have been considered as the main stream and preliminary growth booster of the Indian Economy since Independence. It is further evident from the fact that today we have more than 3 million SMEs in India contributing almost 50% of the Industrial Output and 42% of India's Total Net 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. In this backdrop, we will examine what would be the impact of GST (Goods & Service Tax) on Small & Medium Enterprises (SMEs).

After the passage of the Goods and Services Tax (GST) Bill, the Industry is hailing the government for bringing up this reform which has been long pending because of political deadlocks.

But before we analyze the impact of GST on Small & Medium Enterprises, we should understand how GST is going to widen the taxpayer base. Earlier, any manufacturer with a turnover of Rs 1.5 Cr. or less was not required to comply with the provisions of Excise Law and were enjoying the benefit of SSI (Small Scale Industries). However, with the merging of all State and Central Level Taxes into the periphery of GST, any manufacturer with a turnover of Rs 20 Lacs (Generally for Normal States) or more will have to comply with GST and its procedures.

All the compliance procedures under GST — Registration, Payments, Refunds, Maintenance of Books of Accounts, Online Payment of Taxes 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.

Every major reform is faced with certain hurdles, and arguments from various stakeholders. However, from an SME perspective, GST will bring in many positives compared to the current systems such as easy process of availing input credit, single point tax, elimination of cascading tax system, and simpler taxation. These pros offset the negatives. While hopes rests with GST to boost the GDP growth and reduce the fiscal deficit. The extent of such impact will depend on a

favorable consensus on GST rates for all business segments and integrated implementation of the same.

Positive impacts of GST on MSME's:

1. Launching a new business becomes easier

Under the previous tax regime, if your business had operations across multiple states, you would need to register for VAT with each state's sales tax department in order to carry out business activities there. The fact that every state had different tax rules complicated the entire process, and business owners had to pay multiple procedural fees for VAT registration. Under GST, the registration is centralized and the rules are uniform for all the states across the country. All you have to do is complete and submit an online form to obtain a GSTIN (GST Identification Number). Launching a new business, and subsequently expanding it, will be comparatively easier under the GST regime.

2. The entire process of taxation becomes simpler

The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc.), because it levies a uniform tax on goods and services all over India. The taxes on goods and services levied under VAT, purchase tax, and luxury tax will now be merged into one single tax with one common return. If you've spent a large portion of your time on managing multiple taxes, you can relax under the new regime because filing and paying taxes is easier with the GSTN portal.

A combined tax also means dealing with fewer tax authorities. Previously, business owners had to deal with many different tax authorities depending on the nature of their business and transactions. Under GST, you can be sure that the relevant authority is always either the Centre or the State government.

3. Reduced cost of logistics

The current tax regime has created a lot of hassles for the transportation sector. The long queues at checkpoints and inter-state entry points have caused vehicles to stand idle for long periods of time, adding to labor and fuel costs. Businesses transporting goods to other states have had a hard time filing paperwork and paying entry taxes at the inter-state borders, further delaying the delivery of goods.

Under GST, the current Central Sales Tax (CST) on interstate sales will be replaced with a combined tax called IGST, which is composed of CGST and SGST and collected by the Central Government. As the removal of border and check-post taxes makes state boundaries less significant under the GST regime, both the delay and the transportation cost will be reduced. This will increase inter-state business, facilitate faster movement of goods, and reduce maintenance costs.

4. The distinction between goods and services will be eliminated

Previously, businesses providing both goods and services had to calculate the VAT and service taxes individually. GST eases the process by removing the distinction between goods and services; tax will be calculated for the final total, not individual products or services. This will help SMEs take advantage of the tax incentives for payment on the procurement of input goods and services (like import, interstate and local purchases, and telephone services).

Currently, every invoice contains a long and confusing list of taxes levied on the goods and services involved in the transaction. GST will make invoicing simpler, as only one tax rate will need to be mentioned.

Review of Literature

Sundarajan (2017) - A study based on the “Implementation of Goods and Services Tax and Prospects and Challenges Ahead” is an exploratory study. The study is based on the secondary data. The data is collected from the various journals, annual reports, magazines and newspapers. As per the study, the manufacturers and traders stand to gain due to input tax credit system. The society is saved from the cascading effect i.e. tax on tax. The challenges which stay ahead is development of well-equipped IT support system to stand with the GST in its proper implementation and conduction of various training and awareness programmes for the various stakeholders.

Jaiswal (2019) - The study is conceptual in nature which has highlighted the conceptual framework of Goods & Services Tax. As per the study, the tax reform is expected to revolutionize the Indian economy as it did in the year 1991 at the time of LPG policy. GST is split into two components - CGST and SGST. Petroleum, electricity and alcohol is kept out of the gamut of GST. GSTN provides IT infrastructure to GST. The various benefits which GST accrues are no cascading effect, harmonized indirect taxation system, low logistics costs.

Kumar Rajesh (2021) studied, "Impact analysis of GST on Indian Hospitality Industry" concluded that The GST of 18 percent will thus lead to banquets becoming reasonable consequently offering a huge haul to the hospitality industry. In a nutshell, the GST is going to have a neutral impact on the Indian hospitality industry.

Bhat (2021) said that the Micro, Small and Medium Enterprises have become a cornerstone of Indian economy. This sector is playing an essential role in providing employment generation, entrepreneurship development, and poverty alleviation. He also pointed out that MSME sector in India was already facing problems by demonization and with the implementation of GST in the country. But with this current pandemic of Covid-19, production of goods and services in this sector has been curtailed and this sector has started suffering from the shortage of necessary inputs, which led to supply shock.

Subhash (2019) studied "Goods and Services Tax in India: An Introductory Study" and concluded that GST would be a really necessary step in the field of indirect taxation. The paper has tried to relinquish information concerning GST system. She additionally quoted in her research paper that Consumer's tax burden can just about scale back to 25% to 30%. Indian manufactured products would become a lot more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent mode will prove easier to administer.

Shefali (2016) found that GST will simplify the existing indirect tax system. It will help to remove inefficiencies created by the existing current heterogeneous taxation system. Another study by

Aastha (2019) concluded that GST will have a positive impact on various sectors and industry. Although the implementation of GST requires concentrated efforts by Central and State Government, trade and industry.

Upasana (2020) concluded that implementation of GST provides a simple, user- friendly and transparent tax system. GST stands for a coherent tax system will colligate most of the current indirect taxes. It will lead to higher output, more employment opportunities and flourish GDP by 1-1.5 percent.

Objectives

- To study the understand level of MSME's towards implementation of GST in Peenya Industrial area, Bangalore city
- To examine the impact of GST on MSME's in Peenya Industrial area, Bangalore city

Research Methodology

Primary data conducted from MSME owners through interview schedules. The study was conducted during January 2022 –March 2022 and the study covers selected MSMEs. In this study convenient random sampling technique has been used and 110 respondents were selected on random basis. The study is undertaken in Peenya Industrial area, Bangalore city.

Data Analysis and Interpretation

Descriptive Analysis

Demographics		No. of respondents	Percentage (%)
Gender	Male	89	81%
	Female	21	19%
Age(in Years)	18-25	13	12%
	26-40	25	23%
	41-50	30	27%
	Above 50	42	38%
Educational Qualification	No formal Education	16	15%
	SSLC	46	42%
	Degree Level	29	26%
	Others	19	17%
Size of Business	Micro	30	27%
	Small	45	41%
	Medium	35	32%

Source: own calculation

In Table 1 shows the demographic profile of the 110 responses. It reveals that Male respondents are higher than female respondents. Majority of respondent’s falls in the age group of 50 years above and SSC educational qualification are high as compared to other education groups. Majority of the business size is small enterprise and followed by medium enterprise.

Factors affecting business practices of GST Implementation

S.N.	Factor	SA	A	SD	D	N
1	GST Filing Procedure is Complicated	61	34	10	4	1
2	Cost of Training to Existing Staff	59	46	3	2	0
3	Compliance Cost is high	55	42	8	5	0
4	GST Rates are Higher than previous Regime	69	40	0	0	1
5	Delays in Refund	80	30	0	0	0
6	We Hired Trained Manpower To Manage GST/ Additional Activities	52	39	8	9	2

Source: own calculation

According to Table 2 shows the 55% of respondents said the GST registration process was completed, 63% of respondents said the tax rate was higher than the previous regulation, and the majority of respondents were i.e. 50% say the GST Compliance cost is high. Respondents at 73% said delays in GST refund. 47% of respondents stated that the we Hired Trained Manpower to Manage GST/ Additional Activities

Reliability Test

Statement	Cronbach's Alpha
1. GST reduces the paper work	0.841
2. GST is simple, transparent and easy tax structure	0.910
3. Stock transfer to branches reduces cash position under GST	0.719
4. Filing of taxes	0.837

5. Tax rate was high under earlier indirect tax system	0.907
6. GST paid on goods purchased from unregistered dealer is not available to claim Input Tax Credit	0.866
7. Online Compliance Procedures	0.788

Source: own calculation

In table 3 shows that out of 111 items in the scale for measuring level of impact of GST on MSMEs is acceptable and the entire variable above 7 Cronbach's alpha coefficient this indicating an excellent reliability among 11 scale items. Based on this results can be proceed for further analysis

ANOVA

Relationship between MSME's and Impact of Implementation of GST

Statement		Sum of Squares	df	Mean Square	F	Sig.
GST reduces the paper work	Between Groups	2.891	2	2.199	3.199	0.519
	Within Groups	78.983	107	0.811		
	Total	81.874	110			
GST is simple, transparent and easy tax structure	Between Groups	11.099	2	3.618	4.881	0.411
	Within Groups	99.453	107	0.519		
	Total	110.552	110			
Stock transfer to branches reduces cash position under GST	Between Groups	3.991	2	3.888	2.982	0.078
	Within Groups	66.343	107	0.912		
	Total	70.334	110			
Filing of taxes	Between Groups	12.641	2	2.543	2.562	0.211
	Within Groups	98.104	107	0.811		
	Total	110.745	110			
Tax rate was high under earlier	Between Groups	2.522	2	3.244	4.433	0.059
	Within Groups	88.901	107	0.221		

indirect tax system	Total	91.423	110			
GST paid on goods purchased from unregistered dealer is not available to claim Input Tax Credit	Between Groups	11.119	2	3.463	1.191	0.088
	Within Groups	71.99	107	0.021		
	Total	83.109	110			
Online Compliance Procedures	Between Groups	14.319	2	4.194	4.322	0.099
	Within Groups	88.569	107	0.302		
	Total	102.888	110			

significant *denotes Significant at 5 % level

In table 4 shows since p value is more than 0.05 the null hypothesis is accepted at 5% level of significance. Hence it is concluded that there is difference between impact of MSME's and GST implementation of the respondents in the Peenya Industrial area, Bangalore city.

Regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822 ^a	.749	0.298	1.91739

In table 5 indicates that the multiple regression tables it is noted that the value of coefficient of regression (R^2) is 0.749 which implies that 74.1% of the variance on impact of GST is explained by the independent variables. The f value obtained is 1.91739 ($P < 0.001$) and hence it is concluded that there is significant relationship between dependent variable GST impact on MSMEs.

Conclusion

The impact of GST on the entire Indian economy needs to be thoroughly investigated in order to reach a generally accepted conclusion. The introduction of GST is aimed at expanding the taxpayer base, primarily SME, but incurs compliance issues and associated charges. . COVID-19 Pandemic affected MSMEs sector. During that time, they are facing many problems and

challenges like cancellation of contract, reduction of sales, lack of logistics supply etc. For MSMEs upliftment central and government have to give more financial support and give digital literacy to sell their products and services at global level. From the above analysis, it is understood that, implementation of GST adversely impacted mainly to small scale industries and unorganized industries particularly in the beginning period of implementation. Study found that there is significant relationship between dependent variable GST impacts on MSME's in Peenya Industrial area, Bangalore city.

References

- Agrawal, D. K. (2022). An Empirical Study On Socioeconomic Factors Affecting Producer's Participation In Commodity Markets In India. *Journal of Positive School Psychology*, 2896-2906.
- Basha, M., Singh, A. P., Rafi, M., Rani, M. I., & Sharma, N. M. (2020). Cointegration and Causal relationship between Pharmaceutical sector and Nifty—An empirical Study. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 17(6), 8835-8842.
- Basha, S. M., & Ramaratnam, M. S. (2017). Construction of an Optimal Portfolio Using Sharpe's Single Index Model: A Study on Nifty Midcap 150 Scrips. *Indian Journal of Research in Capital Markets*, 4(4), 25-41.
- Basha, S. M., Kethan, M., & Aisha, M. A. A Study on Digital Marketing Tools amongst the Marketing Professionals in Bangalore City.
- Dr. Mohammed Khizerulla¹ Ms. Aaminah Firdos² Ms. Saira Banu³ Mr. Mahabub Basha⁴ "A Study on Emotional Intelligence on the Decision Making by the Employees of Financial Institutions in India", *Journal of Science and Technology*, Vol. 07, Issue 04, June 2022.
- DrSanthosh Kumar, V., & Basha, S. M. (2022). A study of Emotional Intelligence and Quality of Life among Doctors in PandemicCovid 19. *International Journal of Early Childhood*, 14(02), 2080-2090.
- Durgaraju, R., & Sekhar, S. C. (2021). A Perspective Research Study on the New Age Currency (The Case of Bit coin Currency System). *International Research Journal of Innovations in Engineering and Technology*, 5(2), 16.

- Durgaraju, R., & Sekhar, S. C. (2021). A Perspective Research Study on the New Age Currency (The Case of Bit coin Currency System). *International Research Journal of Innovations in Engineering and Technology*, 5(2), 16.
- Geeta, S. D. T., Mathiraj, S. P., & Bharathi, M. T. (2019). Impact of GST on MSMEs. *Management Research*, 8(2), 91-95.
- JagadeeshBabu, M. K., SaurabhSrivastava, S. M., & AditiPriya Singh, M. B. S. (2020). INFLUENCE OF SOCIAL MEDIA MARKETING ON BUYING BEHAVIOR OF MILLENNIAL TOWARDS SMART PHONES IN BANGALORE CITY. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 17(9), 4474-4485.
- Jayalakshmi, M., & Venkateswarlu, G. (2018). Impact of GST on Micro, Small and Medium Enterprises (MSMEs). *International Journal of Engineering and Management Research*, 8(2), 91-95.
- Karumuri, V. (2017). A theoretical framework on employee engagement. *Asia Pacific Journal of Research*, 1, 150-155.
- Karumuri, V., & Kore, G. (2021). Effective Talent Management Practices: A. *Eprajournals. Com*, no. June, 32-35.
- Karumuri, V., & Singareddi, S. (2014). Employee attrition and retention: A theoretical perspective. *Asia Pacific Journal of Research Vol: I Issue XIII*.
- Krishnamoorthy, D. N., & Mahabub Basha, S. (2022). An empirical study on construction portfolio with reference to BSE. *Int J Finance Manage Econ*, 5(1), 110-114.
- Kumar, T. S., & Sekhar, S. (2019). Impact of e-Marketing on Influencing Consumer Purchase decision. *International Journal of Scientific Development and Research*, 4(11).
- Kumar, T. S., & Sekhar, S. (2019). Impact of e-Marketing on Influencing Consumer Purchase decision. *International Journal of Scientific Development and Research*, 4(11).
- Kumarai, G. S., Bajaj, P. K., Rana, S. S., Kethan, J., Basha, S. M., & Karumuri, V. (2022). An empirical study on customer satisfaction towards organized Retail outlets in Bengaluru city, Karnataka. *Academy of Marketing Studies Journal*, 24, 1-11.
- Mohammed, B. Z., Kumar, P. M., Thilaga, S., & Basha, M. (2022). An Empirical Study On Customer Experience And Customer Engagement Towards Electric Bikes With Reference To Bangalore City. *Journal of Positive School Psychology*, 4591-4597.
- Murthy, B. S. R., Manyam, K., & Manjunatha, M. (2018). A Study on Comparative Financial Statement of Hatsun Agro Product Ltd (With Reference Last Five Financial Year 2013 To

- 2017). *International Journal for Science and Advance Research In Technology JSART*, 4, 2395-1052.
- Murthy, B. S. R., Manyam, K., Sravanth, K., & Ravikumar, M. (2018). Predicting Bankruptcy of Heritage Foods Company by Applying Altman's Z-Score Model. *INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH IN TECHNOLOGY (IJIRT)*, 4(12).
 - Naidu, N. G. (2014). Emotional intelligence in leadership. *International Journal of Entrepreneurship & Business Environment Perspectives*, 3(1), 727.
 - Naskar, D. (2019). Implications of Goods and Services Tax on Micro, Small and Medium Enterprises in India: An Explorative Study. *International Journal of Research in Engineering, IT and Social Sciences*, 9(01), 86-89.
 - Nethala, V. J., Pathan, M. F. I., & Sekhar, M. S. C. (2022). A Study on Cooperative Banks in India with Special Reference to Marketing Strategies. *Journal of Contemporary Issues in Business and Government Vol*, 28(04).
 - Nethala, V. J., Pathan, M. F. I., & Sekhar, M. S. C. (2022). A Study on Cooperative Banks in India with Special Reference to Marketing Strategies. *Journal of Contemporary Issues in Business and Government Vol*, 28(04).
 - Ojha, R., & Vrat, P. (2019). Implications of Goods and Services Tax reform on the Make in India initiative: A system dynamics perspective. *Systems Research and Behavioral Science*, 36(4), 551-563.
 - Pandit, S. (2017). GST: Opportunities and challenges for Indian MSMEs. *Inspira-Journal of Commerce, Economics & Computer Science (JCECS)*, 3(3), 208-214.
 - Prabaharana, K., & Kavithab, R. (2019). A study on impact of GST on MSME.
 - Prakash, M., & Manyam, K. (2018). Changing Paradigms of Service Sector Employment in India. *INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)*, 5(1).
 - Prasad Kotni, V. V., & Karumuri, V. (2018). Application of Herzberg Two-Factor Theory Model for Motivating Retail Salesforce. *IUP Journal of Organizational Behavior*, 17(1).
 - Rajasulochana, D., & Khizerulla, M. (2022). Service Quality In SBI: An Assessment Of Customer Satisfaction On E-Banking Services. *Journal of Positive School Psychology*, 4585-4590.
 - Rana, S. (2022). Consumer Awareness And Perception Towards Green Marketing: An Empirical Study In Bangalore City. *Journal of Positive School Psychology <http://journalppw.com>*, 6(5), 4240-4245.

- Rana, S. (2022). Consumer Awareness and Perception towards Green Marketing: An Empirical Study in Bangalore City. *Journal of Positive School Psychology* <http://journalppw.com>, 6(5), 4240-4245.
- Roy, A., & Bhusan, B. (2020). Impact of covid-19 on goods and services tax (GST) with respect to micro small and medium enterprises (MSME) Sector. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 17(9), 4792-4799.
- SATPATHY, D. S., KARUMURI, D. V., SUSANTA, D., & SATPATHY, K. (2021). Analysing the impact of retail store attributes on unplanned buying intention with mediating role of shopping enjoyment and store perception: An Empirical study. *Journal of Contemporary Issues in Business and Government* | Vol, 27(2), 2157.
- Sekhar, M. S. C., Ashalatha, D., & Gorkhe, M. (2022). Corporate Governance-Impact on Financial Performance of Selected IT Companies in Bengaluru City. *Journal of Contemporary Issues in Business and Government* Vol, 28(03).
- Sekhar, M. S. C., Murthy, J., Karim, S., Reddy, M. M. S., & Bhupathi, C. Factors Influencing Customers' Buying Behaviour: A Study of Electric Vehicles with reference to Tirupati City.
- Sekhar, M. S. C., Murthy, J., Karim, S., Reddy, M. M. S., & Bhupathi, C. Factors Influencing Customers' Buying Behaviour: A Study of Electric Vehicles with reference to Tirupati City.
- Sekhar, S. C. (2020). A Study on Effectiveness of Electronic banking System. *Sanshodhan*, 9, 8-13.
- Sekhar, S. C., & Radha, N. (2019). Impact of globalization on msme: prospects, challenges and policy implementation on economic growth. *International Journal of Trend in Scientific Research and Development*, 3(6), 536-541.
- Sekhar, S. C., & Radha, N. (2019). Impact of globalization on msme: prospects, challenges and policy implementation on economic growth. *International Journal of Trend in Scientific Research and Development*, 3(6), 536-541.
- Shaik, M. B. ., , M. K., T. Jaggaiah, & Mohammed Khizerulla. (2022). Financial Literacy and Investment Behaviour of IT Professional in India. *East Asian Journal of Multidisciplinary Research*, 1(5), 777–788. <https://doi.org/10.55927/eajmr.v1i5.514>
- Shaik, M. B., Kethan, M., & Jaggaiah, T. (2022). Financial Literacy and Investment Behaviour of IT Professional With Reference To Bangalore City. *Iloomata International Journal of Management*, 3(3), 353-362.
- Shaik, M. B., Kethan, M., Rani, I., Mahesh, U., Harsha, C. S., Navya, M. K., & Sravani, D. (2022). WHICH DETERMINANTS MATTER FOR CAPITAL STRUCTURE? AN

EMPIRICAL STUDY ON NBFC'S IN INDIA. *International Journal of Entrepreneurship*, 26, 1-9.

- Shetty Deepa Thangam Geeta, Mathiraj.SP, Saroja Devi, N. Nagalakshmi & M. Vinoth (2019) “Performance & Consequences of GST on Micro, Small & Medium Entrepreneurs”, in *International Journal of Research and Analytical Reviews (IJRAR)* UGC Approved Journal no-43602 Vol.6, Issue 1, ISSN-2348-1269, pp-26-37, February 2019
- Singh, A. N. (2018, February). A Comprehensive Analysis of Goods and Services Tax (GST) in India. *Indian Journal of Finance*, 12(2). doi: 10.17010/ijf/2018/v12i2/121377.
- Sipahi, E. (2020). COVID 19 and MSMEs: A revival framework. *Research Journal in Advanced Humanities*, 1(2), 7-21.
- Sukanya, N. (2018). MSMEs in Indian Economy Growth and Contribution in Recent Years. *SEDME (Small Enterprises Development, Management & Extension Journal)*, 45(1), 1-17.