

Impact of GST on Small Scale Business with Special Reference to Chennai

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Abstract: *The research paper focuses on the impact of enacting the Goods and Services Tax (GST) personified in the Indian Tax structure on small scale business. The paper also discusses the anticipated barriers and future predictions for GST. The Goods and Services Tax (GST) is a vast notion that simplifies the giant tax structure by supporting and augmenting the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. India's historic and bold move towards integrated tax structure is viewed by most economists as an answer to regressive indirect tax structure. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified the economy into a seamless national market. Descriptive research is used for this study and a total of 200 samples were collected from the general public by convenient sampling method. The independent variables include age, gender, educational qualification, occupation and the monthly income of the respondents. The dependent variable include whether GST is a fair taxation system, whether GST has become a major burden of compliance, level of satisfaction on present level of tax rate, whether GST has eliminated the cascading effects of various tax, the findings of the research suggest that GST is an positive step towards improving the economy of the country and also it is seen that GST helps in setting up small business and it does not have any negative impact on the small scale industries.*

Keywords: GST, cascading effects, small scale business, burden of compliance, reduce tax rate

I. INTRODUCTION

GST also known as the Goods and Services Tax is defined as the enormous indirect tax structure considered to support and improve the economic development of a country. The idea of GST in India Was proposed by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be approved by the Rajyasabha. However, there is an enormous type and cry against its implementation. It would be interesting to understand why this proposed GST regime may impede the development and progress of the country. The Goods and Services Tax (GST) is a vast notion that simplifies the giant tax structure by supporting and augmenting the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level (The Economic Times, 2009). The consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods.

Some of the initiatives taken towards the GST include the setting up of the Authority for Advance Ruling (AAR), anti-profiteering provisions and sector wise provisions have been made.

GST would help in lesser corruption and increased tax revenue. It contributes towards a better and improved economy with single taxation. The system will make it easier to identify the tax defaulters. The central government will charge CGST and the state will charge SGST respectively. However, the tax, tax and taxation standards are the same. This is necessary in view of the federal structure of the government if governments are free to manage their own taxes at two levels.

The GST structure will present a transparent system which will be helpful to reduce the burden of cascading effect and it will also improve the tax compliances and tax collection. GST will prove the uniformity of taxes in all over the

country. Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing a common national market.

France was the first country to implement the GST to reduce tax- evasion. Since then, more than 140 countries have implemented GST with some countries having Dual-GST (e.g. Brazil, Canada etc. model. India has chosen the Canadian model of dual GST.

1.1 Objectives:

- To find the impact of enacting GST on small scale business
- To suggest ways to improve the GST
- To find whether GST has reduced the effects of tax.

II. LITERATURE REVIEW

(Tang 2016) The Author studies the law provisions dealing with financial services under the Australian GST law with the intention to verify whether the provisions have been construed correctly in light of the original purpose of the legislation and how the concerns identified may be rectified. **(Gendron 2012)** The Author have studied the VAT rate and the EU economy and also the link between the VAT and macroeconomic indicators and their influence on the VAT rate.

(Pallot 2017) The Author concludes that there is a positive relation between macroeconomic indicators like GDP, per capita income and consumption, export, import etc and the VAT rate applicable.

(Millar 2014) The Author has discussed how assessee may comply with the VAT laws given that the GST is a destination based tax. The Author mainly deal with B2C cases where the VAT compliances would need to be done in the state where the customer is located.

(McKenzie 1993) The Author have discussed the difficulties in this compliance especially in the e commerce transactions.

(B. M. Gupta, n.d.) The Author uses a general equilibrium model to assess different instruments of indirect taxation in middle income countries.

(B. M. Gupta, n.d.) The Author used questionnaires and interviews to collect the data and then analyzed it using the regression analysis and established that the method of VAT collection in the said municipality was above average.

(Bhattacharjee and Bhattacharya 2018) The study is important because VAT is one of the primary revenue generators for any Government.

(Mahanta 2016) Indirect tax by its very nature is easier to govern, is neutral to the status of tax payer, and increases revenue but leads to inflation. On the other hand direct taxes depend on the tax payer and are difficult to govern. Further, indirect tax helps the government to an extent to direct consumption of the public. The Author conclude that both taxes are important for overall growth of the economy.

(Vasanthagopal 2011) VAT is operative in a number of countries and primarily in countries where the federal government is not in existence. The Author has studied the various VAT systems existing in the world and tried to arrive at an appropriate VAT for Central and East Europe countries.

(Kapoor 2018) The Author has laid down various requirements to ensure that the said VAT is completely effective like it should be destination based, the input credit mechanism should be seamless, the law should be easy to understand, cost of conformity should be low etc.

(Amutha and mname Amutha, n.d.) The Author have examined the various methods adopted by assessee to evade VAT especially in intra country transactions. The Author have also recommended the documentation and returns which could be relied upon by both the Authorities and the assessee to ensure that there is no tax evasion.

(Chakraborty 2019) The Author in his paper has examined the cost of complying with the indirect tax laws in the Slovak Republic by doing research of small, medium and large businesses through a questionnaire and concludes that

businesses especially the small ones are not able to and do not make efforts to quantify the cost of compliance which is quite high due to the complex laws

(Garg 2015) The Author have explored the connection between the rate of VAT and the evasion of VAT by the public using varied experimental methods. They conclude that there is no connection between the two because in many countries where the VAT rate is high the compliance is also high and where it is low the evasion is high.

(Patil et al. 2019) GST on financial services has always been a subject matter of great debate. There is a problem in taxing financial services due to their intangible nature, the confusion around the location of service provider and service recipient and the value of the service.

(U. Gupta et al. 2018) The authors in their paper are trying to address these issues specially for the country of Canada. In Canada, there is an exemption for financial services, intermediary services in relation to financial services etc. The Author in their paper have discussed the existing laws and suggested changes to the existing laws for better efficiency in taxing financial services.

(Amand 2014) The Author study the chief features of VAT in the EU member states, the differences in them and the changes in VAT laws required across EU member states in order to assist intra EU trade and concludes that certain tax reforms are required to be undertaken by all member EU states to ensure optimum efficiency of VAT as a fiscal tool.

(Amand 2013) The Author has studied contemporary indirect tax systems in the world and compared them with the indirect tax or VAT system

(Oecd and OECD 2016) The Author has discussed the various advantages and disadvantages of the various VAT/GST systems in the world in light of adopting the best practice

(Milosevic, n.d.) The Author have examined the relation between the level of compliance by people especially in terms of payment of tax, with the type of tax i.e. direct and indirect taxes.

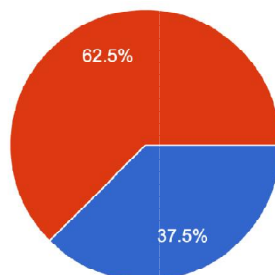
III. METHODOLOGY

The research was performed by empirical research . A total of 200 samples have been collected by forwarding questionnaires in social media. The sample frame taken is from the general public in chennai. The independent variables include age, gender, marital status, occupation and educational qualification. The dependent variables include whether GST is a fair taxation system, whether GST has become a major burden of compliance, level of satisfaction on present level of tax rate, whether GST has eliminated the cascading effects of various tax.

IV. ANALYSIS

Fig1:

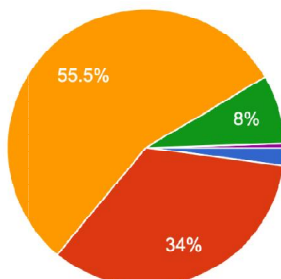
Gender
200 responses



Legend: figure 1 shows the respondents according to their gender and it is seen that 62.5% are female and 37.5% are males.

Fig2:

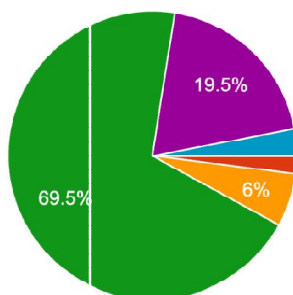
Age
200 responses



Legend: figure 2 shows the respondents according to their age and it is seen that 2% are below 20 ,34% are 21 to 30 , 55.5% are 31 to 40, 8% are 41 to 50 and 0.5% are above 50.

Fig3:

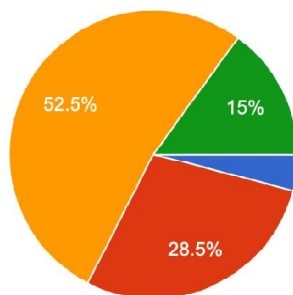
Educational qualification
200 responses



Legend: figure 3 shows the respondents according to their educational qualification an it is seen that 2% are SSLC, 6% are HSC , 69.5% are UG, 19.5% are PG and 3% are others,

Fig4:

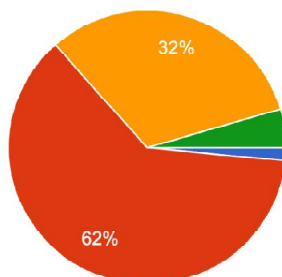
Occupation
200 responses



Legend: figure 4 shows the respondents according to their occupation and it is seen that 4% are government sector, 28.5% are public sector,52.5% are private sector and 15% are self employed

Fig5:

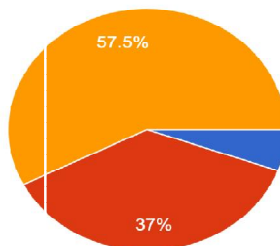
Monthly Income
200 responses



Legend: figure 5 shows the respondents according to their monthly income and it is seen that 1.5% earn below 20,000 , 62% earn between 20,001 to 40,000 , 32% earn between 40,001 to 60,000 and the rest of the 4.5% earn above 60,000.

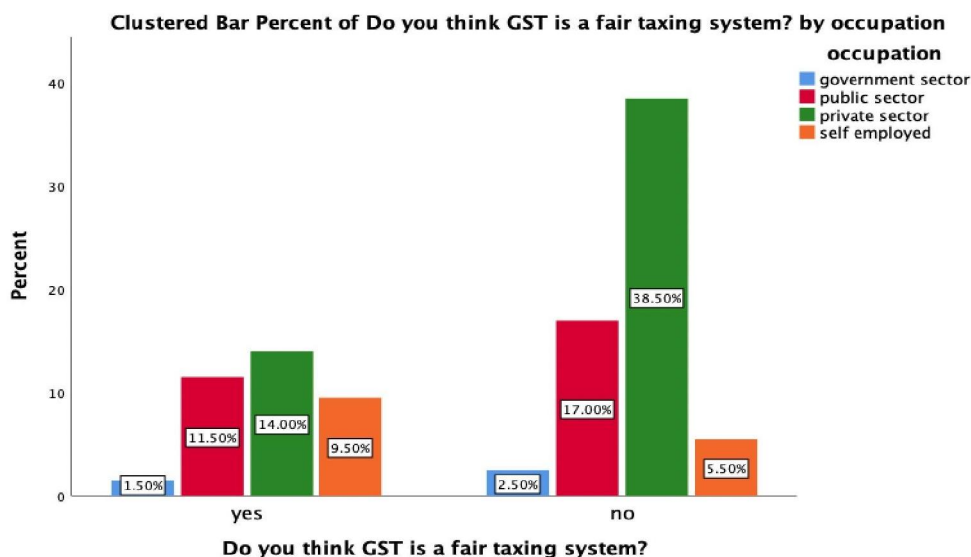
Fig6:

Place residence
200 responses



Legend: figure 6 shows the respondents according to their place of residence and it is seen that 5.5% are rural, 37% are semi urban and 57.5% are urban.

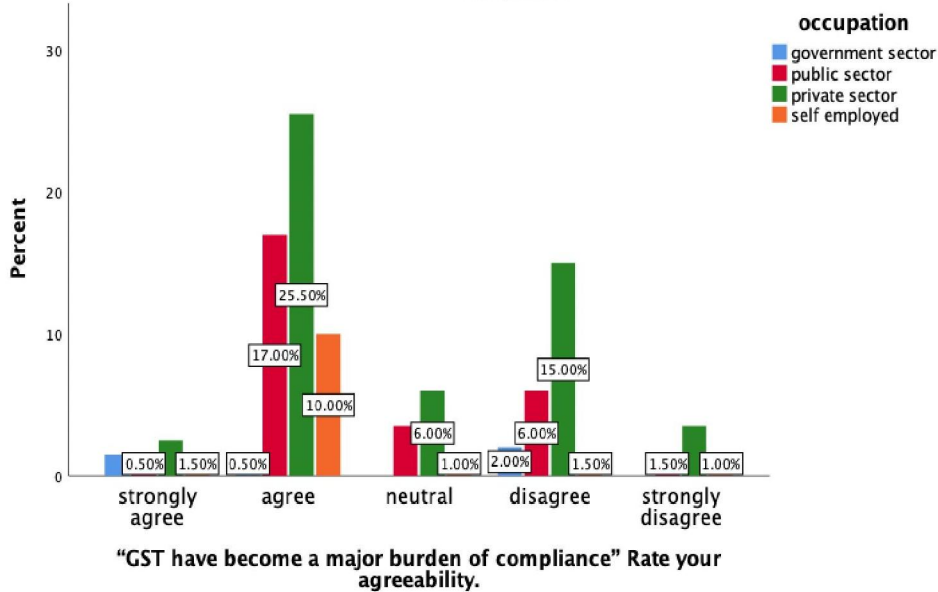
Fig7:



Legend: figure 7 shows whether GST is a fair taxing system with respect to the occupation of the respondents.

Fig8:

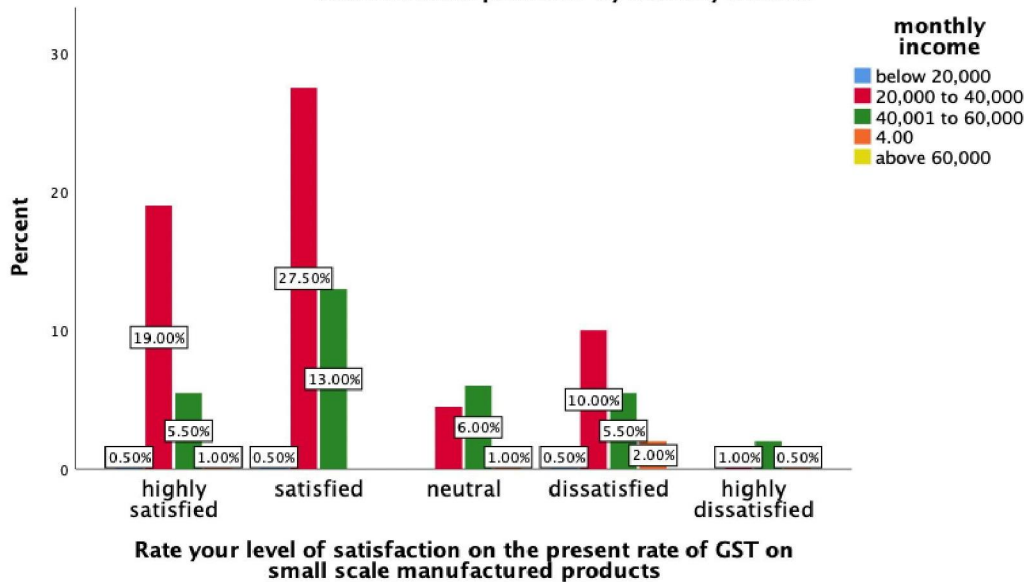
Clustered Bar Percent of "GST have become a major burden of compliance" Rate your agreeability. by occupation



Legend: figure 8 shows whether GST has become a major burden of compliance with respect to occupation of the respondents.

Fig9:

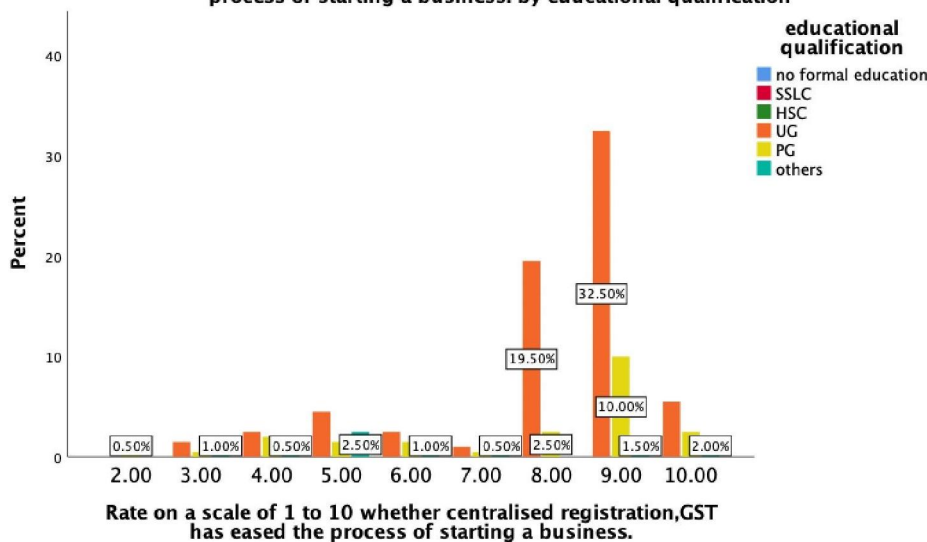
Clustered Bar Percent of Rate your level of satisfaction on the present rate of GST on small scale manufactured products by monthly income



Legend: figure 9 shows the level of satisfaction of the respondents on the present rate of GST on small scale manufactured products with respect to the monthly income of the respondents.

Fig10:

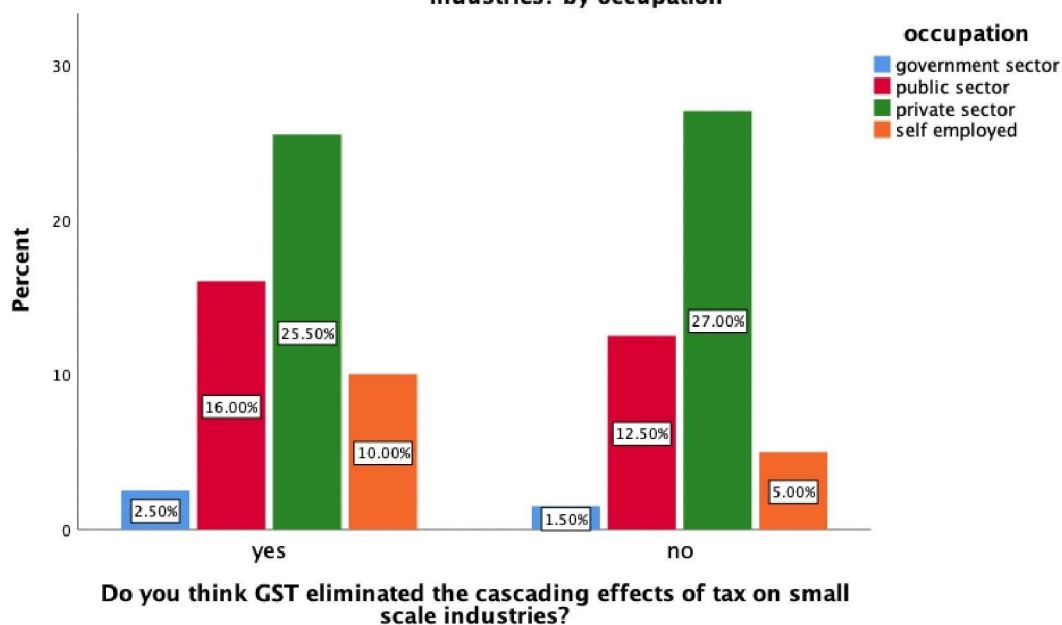
Clustered Bar Percent of Rate on a scale of 1 to 10 whether centralised registration, GST has eased the process of starting a business. by educational qualification



Legend: figure 10 shows whether GST eased the [rocess of starting a new business with respect to educational qualification of the respondents.

Fig11:

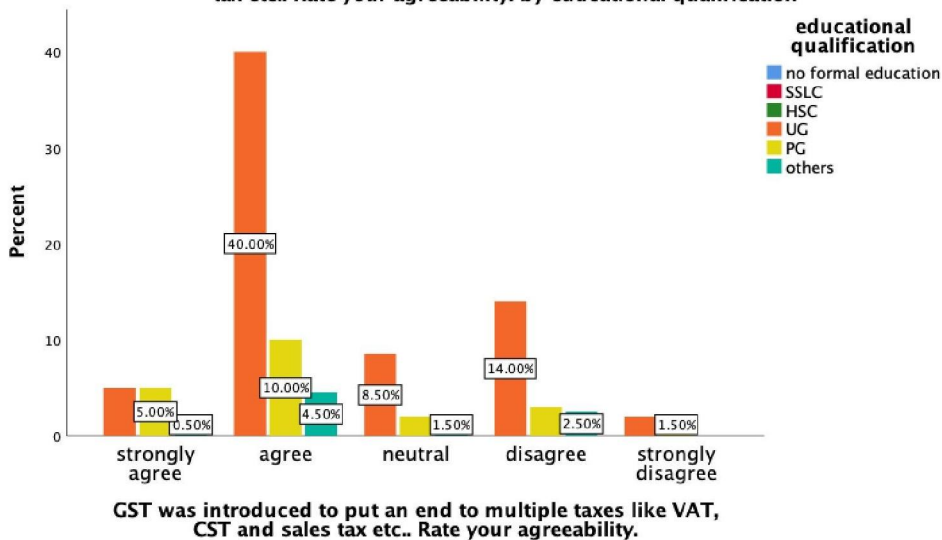
Clustered Bar Percent of Do you think GST eliminated the cascading effects of tax on small scale industries? by occupation



Legend: figure 11 shows whether the GST has eliminated the cascading effects of tax on small scale business with respect to occupation of the respondents.

Fig12:

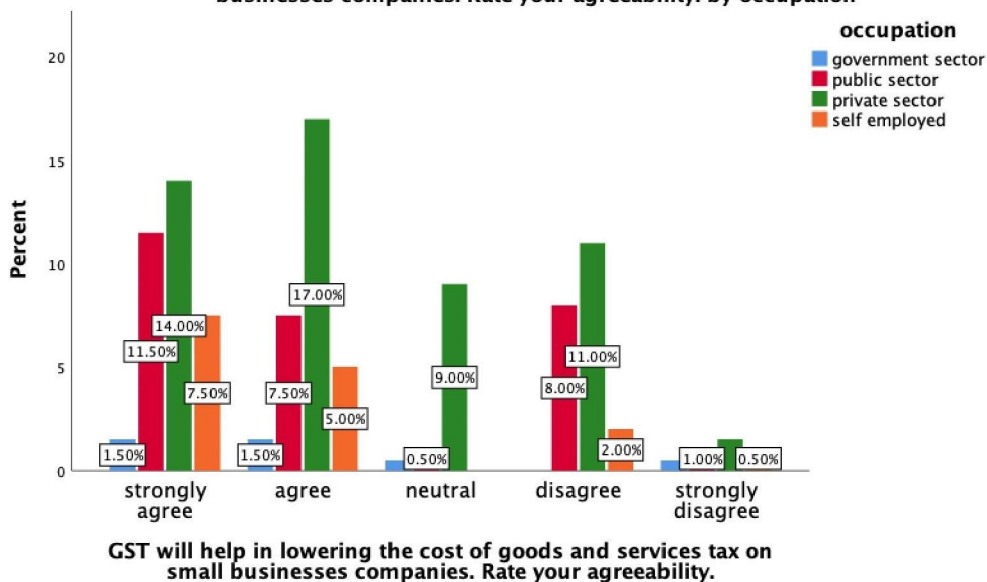
Clustered Bar Percent of GST was introduced to put an end to multiple taxes like VAT, CST and sales tax etc.. Rate your agreeability. by educational qualification



Legend: figure 12 shows the opinion of the respondents as to whether GST was introduced to put an end to various other taxes like VAT and CST etc. with respect to educational qualification of the respondents.

Fig13:

Clustered Bar Percent of GST will help in lowering the cost of goods and services tax on small businesses companies. Rate your agreeability. by occupation



Legend: figure 13 shows the level of agreeability as to whether GST will help in lowering the cost of goods and services tax on small scale business companies with respect to occupation of the respondents.

Table1:

Case Processing Summary

	Valid		Cases Missing		Total	
	N	Percent	N	Percent	N	Percent
Do you think GST eliminated the cascading effects of tax on small scale industries? * occupation	200	100.0%	0	0.0%	200	100.0%

Do you think GST eliminated the cascading effects of tax on small scale industries? * occupation Crosstabulation

Count

		occupation				Total
		government sector	public sector	private sector	self employed	
Do you think GST eliminated the cascading effects of tax on small scale industries?	yes	5	32	51	20	108
	no	3	25	54	10	92
Total		8	57	105	30	200

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	3.521 ^a	3	.318
Likelihood Ratio	3.570	3	.312
Linear-by-Linear Association	.054	1	.816
N of Valid Cases	200		

a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is 3.68.

Legend: table 1 shows the chi square test between whether GST eliminated the cascading effects of tax and occupation.

Table2:

Crosstabs

Case Processing Summary						
	Valid		Cases Missing		Total	
	N	Percent	N	Percent	N	Percent
Do you think GST is a fair taxing system? * occupation	200	100.0%	0	0.0%	200	100.0%

Do you think GST is a fair taxing system? * occupation Crosstabulation

Count

		occupation				
		government sector	public sector	private sector	self employed	Total
Do you think GST is a fair taxing system?	yes	3	23	28	19	73
	no	5	34	77	11	127
Total		8	57	105	30	200

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	14.068 ^a	3	.003
Likelihood Ratio	13.817	3	.003
Linear-by-Linear Association	1.269	1	.260
N of Valid Cases	200		

a. 1 cells (12.5%) have expected count less than 5. The minimum expected count is 2.92.

Legend: table 2 shows the chi square test between whether GST is a fair taxing system and occupation.

Table 3:

Oneway

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
"GST have become a major burden of compliance" Rate your agreeability.	Between Groups	5.350	3	1.783	1.524	.210
	Within Groups	229.405	196	1.170		
	Total	234.755	199			
GST will help in lowering the cost of goods and services tax on small businesses companies. Rate your agreeability.	Between Groups	7.079	3	2.360	1.556	.201
	Within Groups	297.241	196	1.517		
	Total	304.320	199			

Legend: table 3 shows the anova test

Table 4:

Oneway

ANOVA

Rate your level of satisfaction on the present rate of GST on small scale manufactured products

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	14.769	3	4.923	3.910	.010
Within Groups	246.751	196	1.259		
Total	261.520	199			

Legend: table 4 shows the anova test.

V. RESULT

Figure 7 shows whether GST is a fair taxing system with respect to the occupation of the respondents and it can be seen that and it is seen that 38.5% of the respondents belonging to private sector , 17% belonging to public sector,2.5% of the respondents belonging to the govt sector and 5.5% belonging to the self employed thinks GST is a fair taxing system

Figure 8 shows whether GST has become a major burden of compliance with respect to occupation of the respondents and it is seen that 23.5% of the private sector employees ,17% of the public sector employees,10% of the self employed have agreed to this.

Figure 9 shows the level of satisfaction of the respondents on the present rate of GST on small scale manufactured products with respect to the monthly income of the respondents and it is seen that 27.5% of the respondents who earn from 20,000 to 40,000 per month , 13% of the employees who earn between 40,001 and 60,000 are satisfied with the present rate pf GST while only a minor portion of the respondents are dissatisfied with the present rate of GST.

Figure 10 shows whether GST eased the process of starting a new business with respect to educational qualification of the respondents and it is seen that most if the respondents have rated between 8 to 10 and the majority being 9.

figure 11 shows whether the GST has eliminated the cascading effects of tax on small scale business with respect to occupation of the respondents and it is seen that 40% of the respondents who are UG graduates have agreed to this and only about 14% of the respondents have disagreed to this.

figure 12 shows the opinion of the respondents as to whether GST was introduced to put an end to various other taxes like VAT and CST etc. with respect to educational qualification of the respondents and it is seen that 40% of the UG graduates have agreed to this while most of the other respondents have strongly agreed.

Figure 13 shows the level of agreeability as to whether GST will help in lowering the cost of goods and services tax on small scale business companies with respect to occupation of the respondents and it is seen that majority of the respondents have agreed and strongly agreed and strongly agreed to this and only about 20% of the respondents have disagreed to this.

Table 1 shows the chi square test between whether GST eliminated the cascading effects of tax and occupation and it can be concluded from the table that the null hypothesis is rejected since $P > 0.05$

Table 2 shows the chi square test between whether GST is a fair taxing system and occupation it can be concluded from the table that the null hypothesis is accepted since $P < 0.05$

VI. DISCUSSION

Figure 7 shows whether GST is a fair taxing system with respect to the occupation of the respondents and it can be seen that and it is seen that 38.5% of the respondents belonging to private sector , 17% belonging to public sector,2.5% of the respondents belonging to the govt sector and 5.5% belonging to the self employed thinks GST is a fair taxing system and this is because ,GST would be simpler and easier to administer than all other indirect taxes of the Centre

and State levied so far. o Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure.

Figure 8 shows whether GST has become a major burden of compliance with respect to occupation of the respondents and it is seen that 23.5% of the private sector employees ,17% of the public sector employees,10% of the self employed have agreed to this

GST is proposed to be levied at all stages right from manufacture up to final consumption, with the credit of taxes paid at previous stages available as set off. In a nutshell, only value addition will be taxed and the burden of tax is to be borne by the final consumer.

Figure 9 shows the level of satisfaction of the respondents on the present rate of GST on small scale manufactured products with respect to the monthly income of the respondents and it is seen that 27.5% of the respondents who earn from 20,000 to 40,000 per month , 13% of the employees who earn between 40,001 and 60,000 are satisfied with the present rate pf GST while only a minor portion of the respondents are dissatisfied with the present rate of GST.

Figure 10 shows whether GST eased the process of starting a new business with respect to educational qualification of the respondents and it is seen that most if the respondents have rated between 8 to 10 and the majority being 9.. This is mainly becasue Although it is voluntary, the GST offers a reduced tax rate for small enterprises with a turnover of between 20 Lakhs to One crore. This is referred to as the composition scheme under GST. This will ease the burden of taxation on new firms.

Figure 11 shows whether the GST has eliminated the cascading effects of tax on small scale business with respect to occupation of the respondents and it is seen that 40% of the respondents who are UG graduates have agreed tothis and only about 14% of the respondents have disagreed to this.GST has had a positive impact on the manufacturing sector by removing the cascading effect of taxes resulting in the reduction of manufacturing costs.

Figure 12 shows the opinion of the respondents as to whether GST was introduced to put an end to various other taxes like VAT and CST etc. with respect to educational qualification of the respondents and it is seen that 40% of the UG graduates have agreed to this while most of the other respondents have strongly agreed.The Goods and Services Tax (GST), which has replaced the Central and State indirect taxes such as VAT, excise duty and service tax, was implemented from 1st July 2017

Figure 13 shows the level of agreeability as to whether GST will help in lowering the cost of goods and services tax on small scale business companies with respect to occupation of the respondents and it is seen that majority of the respondents have agreed and strongly agreed and strongly agreed to this and only about 20% of the respondents have disagreed to this.nder GST, small businesses (with a turnover of Rs 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition scheme.

Table 1 shows the chi square test between whether GST eliminated the cascading effects of tax and occupation and it can be concluded from the table that the null hypothesis is rejected since $P > 0.05$ nder GST, small businesses (with a turnover of Rs 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition scheme.

Table 2 shows the chi square test between whether GST is a fair taxing system and occupation it can be concluded from the table that the null hypothesis is accepted since $P < 0.05$

VII. LIMITATION

The time period of the study is limited. One of the major limitations of this research paper is the sample size and sample frame. The sample size of the research is limited to 200 and the sample frame is restricted to an area.

VIII. SUGGESTION

Rates should be rationalized and reduced to make India competitive and in interest of compliance and economic growth. The highest rate should be kept at 18% and there should be only few items that fall in 28% slab. Daily use items such as soaps, cremes, movie tickets, electrical goods should not be taxed at 28%.

IX. CONCLUSION

The research paper focuses on the impact of enacting the Goods and Services Tax (GST) personified in the Indian Tax structure on small scale business. The research was performed by empirical research . A total of 200 samples have been

collected by forwarding questionnaires in social media. The sample frame taken is from the general public in Chennai. The independent variables include age, gender, marital status, occupation and educational qualification. The dependent variables include whether GST is a fair taxation system, whether GST has become a major burden of compliance, level of satisfaction on present level of tax rate, whether GST has eliminated the cascading effects of various tax. The findings of the research suggest that GST is a positive step towards improving the economy of the country and also it is seen that GST helps in setting up small business and it does not have any negative impact on the small scale industries. Rates should be rationalized and reduced to make India competitive and in interest of compliance and economic growth. The highest rate should be kept at 18% and there should be only few items that fall in 28% slab. Daily use items such as soaps, creams, movie tickets, electrical goods should not be taxed at 28%.

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