

IMPACT OF GST IMPLEMENTATION ON MSMES IN AHMEDABAD AND GANDHINAGAR: CHALLENGES, COMPLIANCE, AND GROWTH OPPORTUNITIES

Dr. Vineet Chouhan

Assistant Professor, Institute of Law, Nirma University, Ahmedabad, Gujarat-India

Dr. Neeraj Sharma

Assistant Professor, Institute of Law, Nirma University, Ahmedabad, Gujarat-India

Abstract:

The Constitution of India allows States to administer their own Sales tax regime. Each State/UT, till 2005, levied varied sales tax, had different taxable bases and list of exemptions etc., under each state's sales tax laws. This had no uniformity in rates of taxation on the sale of goods. This, in effect, led to various trade distortions due to a "tax war" among States, where each state to attract the transaction and trade would lower the tax rate. Later, in the first decade of this century, states decided to opt for a more efficient VAT taxation regime. The states agreed to adopt VAT in 2005¹. The successful switch-over to State Value Added Tax system in place of the erstwhile Sales Tax system has established that the value addition-based taxation principle, resulting from providing credit for taxes paid on inputs at each point of transaction of goods and /or supply of services, is the most transparent and efficient indirect tax system. However, VAT was specific to each state, and there would be no crossover of input tax credit across states or between centres and States. There was a need to achieve pan India unification of indirect taxes. This formed the basis for a much broader indirect tax reform attempt to design a comprehensive national-level VAT, also called Goods and Services Tax, covering the entire production-distribution chain, including goods and services, and integrating multiple indirect levies Central and State Governments². Goods and Services Tax introduced in India from July 2017 and is talked about as the mother of all indirect tax reforms. People cutting across all sections expect this reform as a panacea to all the taxation inefficiencies³.

Introduction:

The introduction of GST has subsumed many indirect taxes, both central and state taxes, and integrate goods and service taxes for ITC relief. It may also widen the dealer base and tax base by capturing value addition at each level and increasing tax compliance. In the erstwhile VAT structure of States, there were various flaws. For example, several taxes, like an indirect tax on goods and services, such as entertainment tax, luxury items, etc., have not been subsumed. In the State-level VAT scheme, the CENVAT load on the goods remains embedded in the value of goods and later taxed under VAT by State Govts. This led to cascading effect on account of the CENVAT element. Similarly, Service tax leads to cascading effect. In the GST, both CENVAT and service tax cascading effects are done with appropriate set-off at each stage and a continuous ITC chain from the original producer's point and service provider's point up to the retailer level. This is the essence of GST. Hence GST is not merely VAT plus Service tax but a marked improvement over the previous VAT system and disjointed taxation regime. Various provisions of the Constitution have been amended, forgiving taxing power also to the States. Therefore, the GST at the State-level is justified for giving additional power of levy of taxation of services for the States to ensure seamless and comprehensive ITC refund for

complete chain of production distribution⁴. Because of the removal of cascading effect, the burden of tax under GST on goods generally be reduced. The GST at the central and state levels thus offer more relief to industry, agriculture, trade & commerce and finally, consumers/ users.

Thus, the GST implemented from July 1, 2017, may usher in an era for collective gain and welfare of all stakeholders. Industry, trade and general consumers. The introduction of GST was a very significant step in the field of indirect tax reforms in India⁵. It amalgamates many Central and State taxes into a single tax to mitigate double taxation or cascading effect. For all persons & dealers, it opens the way for a common national market. From the consumer point of view, the most significant advantage would be a reduction in the overall tax burden on goods, estimated to be around 25%-30%. The introduction of GST would also make Indian products competitive in the domestic and international markets & would have a positive impact on economic growth. Due to GST, transparency increases & self-policy making is to be done. Integrating most central and state taxes in a single tax and adjusting the credit of taxes paid on supply paid at an earlier stage in the entire value-chain reduce cascading in businesses, increase competition, & improves liquidity⁶. GST is a destination-based tax & follows a multi-point collection method. Tax payment to be made at every stage & tax paid on the previous stage be available for set off at next step. The tax burden is transferred to the final consumer, and Industries get benefitted from better cash flows and better working capital management. This research attempts to do a gap analysis of the GST model in India after studying various Goods and Services (GST) models around the world and the models suggested by multiple institutions in India. Since GST is expected to have a benign impact on many sectors of the economy, it has been an endeavour to study the effect of GST on India's supply chain economics. The benefits of GST can be discussed from the point of view of different stakeholders. On interaction and interviews with various businesses and industries, it came out that as per their perception, this system is easy to comply with and simple to understand. It provides relief from the blockage of capital in the form of taxes. This can erase the competitive disadvantage of genuine dealers vis-à-vis unscrupulousness, as this is inherently self-compliant. Such a system would also be aligned to the procedures followed by an overwhelming majority of countries, exceeding 140 in number.

Similarly, on discussions with various policymakers of Central and State Governments, the GST would be a simple and easy to administer tax system. Its inherent mechanism to check tax evasion control leakage of revenue due to Governments. This also enable the States to realise tax commensurate to consumption within each state's territory, without tax payments to another State. This system would allow the governments to tax goods and services in an integrated manner which is extremely important in the present world where goods and services are getting more and more integrated. This would also provide a stable source of tax revenue, as it captures the entire value chain. From the viewpoint of the end consumer, the tax would be transparent and on the principle of the value of the goods and services procured/consumed, without a multiplicity of taxes and any cascading of tax. Hence the general public, in their questionnaire expressed satisfaction wherever the GST rate was below the current taxation of Vat and Excise Duty etc. Various studies in India, namely by Ahmed et.al, Poddar and Bagchi et.al (details given in latter section), show GST may benefit people by providing a competitive tax regime to domestic producers. GST has the potential of giving a boost to the economy. It has been established that there may be a reduction in transaction costs. World Bank ranks India poorly in its Doing Business Index, primarily because a business has to spend a lot of person-hours in

multiple filing of tax returns, almost double of OECD and other Developed nations in India. This diversity may be reduced under GST; hence transaction costs too may be subside. The overall cascading effect might diminish. As of date, more than Rs.30,000 crore is the cascaded value with all states combined. This amount may be erased; hence the tax burden may be reduced by 1-2%. This GST regime may also reap economic internalities by reducing supply chain costs by relocating warehouses and redesigning transportation logistics. The reduction in supply chain cost to serve may be up to 30%, as shown in this study. The GST system presents several limitations, such as the implementation of a tax rate structure with four slabs, the requirement of an e-Way Bill, the Reverse Charge Mechanism, the need for quarterly return filing and monthly payment under the QRMP scheme, the revenue generated from GST, and the complexity of administering composition schemes. These factors contribute to the challenges faced by both the government and individual MSMEs in managing the GST system.

Gujarat has around 1.126 million registered MSMEs, which represents 7.5% of the total 14.8 million MSMEs registered nationwide. It is working majorly in the area of Automobiles, Pharmaceuticals, Tourism, Textiles, Gem and Jewellery, Chemicals and Agriculture. The number of the same at Ahmedabad and Gandhinagar is 4,53,339 MSMEs. This research project is a milestone in the area of GST implementation at Ahmedabad and Gandhinagar district of Gujarat that deals with the MSME's to identify impact of GST on their business.

Aim of the study:

1. To measure that Goods and Service Tax implication has achieved to reduce overall burden of tax for the MSME's at Ahmedabad and Gandhinagar district of Gujarat.
2. To identify procedural ambiguity pertaining to compliance on the MSME's on implementation of Goods and Service Tax at Ahmedabad and Gandhinagar district of Gujarat.

Literature Review:

Kartik et al., (2024)⁷ revealed that the broader issue of insufficient data on Indian MSMEs, particularly concerning employment trends, export contribution, and GVC integration, further compounds the challenges. The lack of robust data impedes effective study of these factors, posing a substantial hurdle for policymakers seeking to formulate strategies for the MSME sector. While the UDYAM database stands as the sole regularly updated source, its limitations in capturing detailed data on economic activity for employment, exports, and productivity restrict its utility. Furthermore, the existing databases, including UDYAM and Prowess, fall short in providing comprehensive insights into value addition, exports, and GVC integration, highlighting the necessity for their enhancement.

Ratha (2023)⁸ revealed that the Indian constitution is considered to be quasi-federal in nature as it has more unitary features. However, it has a clear distribution of legislative, administrative, and financial power between the center and the states, and through this distribution of power, it seeks to promote the concept of cooperative federalism. The introduction of the GST through the 101st amendment act, of 2016 was made on the lines of cooperative federalism to improve the center-state financial relationship. The GST was brought into the picture to overcome the problem of double taxation and to avoid the complexity of taxation that was levied by different states under different state tax codes. The introduction of GST can be seen as a major breakthrough that aims at making India a unified market with the objective of a one nation one tax system.

Breen(2002)⁹ deals with the issues faced by small businesses in Australia, during its implementation phase. The author has mentioned in detail the challenges faced by the proprietors of micro, small, and medium enterprises. The methodology adopted was empirical and parameter used is the compliance cost. For the purpose of the research article, the author bifurcated the compliance cost as implementation cost and ongoing cost. Further, each subcategory was further divided into out-of-pocket expenses and time costs. The author has surveyed a group of businesses to understand the impact of GST on the compliance cost of the small business. The overall cost ranged from three thousand Australian dollars to thirty-three Australian dollars, depending upon the type of the business. For small businesses, the cost exceeds three percent of the turnover. Overall, the author generalised the conclusion, wherein the cost of upgrading the book keeping has increased. The research provides the insights that time devoted by the employees in GST compliance has reduced their focus on new business development.

Pheng (1994)¹⁰ discussed the evolution of the GST framework in Singapore in general and specifically in Singapore's construction industry. The high income tax and the corporate tax rate have been deleterious for revenue generation as individuals and corporations preferred to leave the country to low tax jurisdiction. Also, the author discusses that the country has to look into the aspect of the aging population, as it will also reduce the country's tax base in the future. Thus, the reliance on the indirect tax has to be increased. The author analyzed that the compliance cost in the construction sector will be higher owing to the involvement of many different individuals and organizations in the process. This is different from the manufacturing sector, where generally, the suppliers involved are the same over a period of time. The author also discusses the challenges in computing the compliance cost in implementing GST. In the cases where the company already had a tax department, the author mentions that the extra work, in those cases, can be taken up by the existing department, which may not add up to the extra costs. The author points out that the compliance cost needs to be measured based on the time spent by the additional workforce hired for the compliance work. Additionally, compliance costs include expenditures on stationery and printing.

Research methodology:

For our study, the MSME's entities consider those whose taxable turnover for the supply of goods and services is not more than Rs. 500 lacs. For our research study the Business entity whose aggregate turnover more than Rs. One hundred lacs at present to Rs. 500 lacs is considered. The research methodology for this study focuses on examining MSMEs located in Gujarat, specifically in Ahmedabad and Gandhinagar, using a stratified random sampling technique to ensure representation from various organizational levels. The target sample size comprises 100 respondents, including accountants, managers, financial staff, and CEO-level personnel from the finance departments of these enterprises. Data collection will be conducted through a structured questionnaire incorporating Likert-rating scales, nominal scales, and rank-order scales to gather comprehensive insights. To ensure the reliability of the measurement instrument, the internal consistency of the scales will be assessed using Cronbach's alpha. The research will employ a survey approach, with personal interviews as the preferred mode of administration, ensuring direct interaction with respondents for more accurate and in-depth data collection. The study will rely on both primary and secondary sources of data. Primary data will be collected through field surveys and face-to-face interviews with respondents, providing first-

hand information directly from the targeted population. Secondary data will be gathered from a variety of sources, including the annual reports of selected MSMEs, academic literature, books, and other relevant published materials, offering a theoretical and contextual foundation for the research. This mixed approach will facilitate a holistic understanding of the financial and operational dynamics of MSMEs, ensuring that the findings are grounded in both practical insights and existing literature. The combination of diverse data sources and rigorous scale reliability testing will contribute to the robustness and validity of the research findings, ultimately aiding in meaningful insights and recommendations for the MSME sector.

Research Questions:

With implementation of GST dual model, the government's view is to eradicate the multiple taxes on a product and reducing overall burden of the tax for the end consumer. This research work will measure that : Whether the objectives of reducing overall burden of tax is achieved or not? And whether there are procedural ambiguity pertaining to compliance on the MSME's regarding implementation or post implementation of Goods and Service Tax for the MSME's of Ahmedabad and Gandhinagar? This research is a noble work in the area to find out the solution of above-mentioned research questions.

Data analysis:

For the study the data of 100 MSME's were gathered and the demographical profile is presented as under:

Table 1. Demographical profile of respondents

	Frequency	Percent		Frequency	Percent
Age			Turnover		
18-25	28	28.0	Not Covered Under GST- Less than 20 lakhs	31	31.0
24040	36	36.0	Covered under Composition Scheme 20-150 Lakhs	40	40.0
Above 40	36	36.0	Covered Under Regular Scheme 20-150 Lakhs	19	19.0
Qualification			150-500 Lakhs	10	10.0
Graduate	28	28.0	Primary Industry		
Post Graduate	56	56.0	Manufacturer	41	41.0
Professional	16	16.0	Retail traders	34	34.0
Gender			Wholesaler Trader	13	13.0
Male	64	64.0	Service providers	12	12.0
Female	36	36.0	Business type		
Legal Entity			Marble Business	20	20.0
Micro unit	26	26.0	Plastic Product	30	30.0
Small unit	42	42.0	FMCG Product	14	14.0
Medium Scale	18	18.0	Cotton and Textile	11	11.0
Large Scale	14	14.0	Jewellery Pharma & chemical	13	13.0
District			Handicraft business	7	7.0
Gandhinagar	32	32.0	Steel and Iron	5	5.0
Ahmedabad	68	68.0			

The data shows the distribution of various attributes by percentage. In terms of age, 28% are between 18-25 years, 36% are 26-40, and 36% are above 40. For turnover, 31% are not covered under GST (less than 20 lakhs), 40% are covered under the Composition Scheme (20-150 lakhs), 19% are covered under the Regular Scheme (20-150 lakhs), and 10% have a turnover of 150-500 lakhs. Regarding qualifications, 28% are graduates, 56% have post-graduate degrees, and 16% are professionals. Gender-wise, 64% are male and 36% are female. Business types include 41% manufacturers, 34% retail traders, 13% wholesaler traders, and 12% Service providers. Specific business types include 20% in Marble, 30% in Plastic Products, 14% in FMCG, 11% in Cotton and Textile, 13% in Jewellery, Pharma & Chemicals, 7% in Handicrafts, and 5% in Steel and Iron. Geographically, 32% are in Gandhinagar, while 68% are in Ahmedabad.

With the above data for the purpose of data analysis, the following hypothesis is used:

H₀₁: Goods and Services Tax has led to a significant reduction of overall compliance burden for the MSME's at Ahmedabad and Gandhinagar district of Gujarat.

To analyse the above hypothesis, the data is analysed using multiple regression analysis with the SPSS 30 software and following results are found:

Descriptive Statistics				
Variables	SPSS code	Mean	Std. Deviation	N
Implementation of GST will make a significant impact on Turnover, profitability and solvency position of the business	Imp	2.4200	1.36463	100
The overall sale of the concern has reduced with high rate of GST	Turn_1	2.7800	1.36759	100
The overall sale of the concern has increased with low rate of GST	Turn_2	2.4500	1.41689	100
Small sales are done only without bills and in case of bill is prepared the customer is not ready to pay GST	Turn_3	2.4500	1.16667	100
Sales return compliance procedure is badly effected	Turn_4	2.9600	1.23844	100
The higher rate of GST adversely affects profitability	Imp_1	3.3500	1.05768	100
The lower rate of GST increases the profitability	Imp_2	2.4500	1.41689	100
The cost of the working has increased, and profitability is reduced (making bills, preparation of return etc.)	Imp_3	2.4500	1.16667	100
For small business, the profitability is reduced due to lack of knowledge and increased cost of accounting compliance.	Imp_4	2.9600	1.23844	100
Cost of Auditing is also higher	Imp_5	3.3500	1.05768	100

The higher penalties caused more concern about the procedure than the sales and that affect profitability.	Imp_6	2.4000	1.13707	100
No clear process of Refund has decreased the liquidity	Liq_1	2.3800	1.19578	100
The payment of GST on reverse charge basis reduced the liquidity	Liq_2	2.4100	1.03568	100
Short term liquidity crises have emerged with GST implementation	Liq_3	2.4500	1.41689	100
Registration under GST and HSN No. creation has increased the cost and reduced liquidity	Liq_4	2.4500	1.16667	100
Exempted services be notified instead of taxable services thus there is always a dilemma and high rate of tax on input have reduced the liquidity	Liq_5	2.9600	1.23844	100
Whether advance to suppliers is required to pay before order of Goods.	Liq_6	3.3500	1.05768	100
GST has Long Term impact over the small business that increases the solvency position of the business.	Sol_1	2.3800	1.07101	100
GST will increase the long-term position of big players and in against of solvency of the small business operators.	Sol_2	2.4500	1.41689	100
With GST the big player also moves in the reserved area of small traders and their solvency will be affected.	Sol_3	2.4500	1.16667	100
GST implementation reduces the sources of long-term finance for the small traders.	Sol_4	2.9600	1.23844	100
GST reduces the investment of the new players in the business and the solvency of existing players will be affected	Sol_5	3.3500	1.05768	100
High rate of GST on Banking and Loan services will decrease the solvency of small business.	Sol_6	2.7900	1.15728	100
Do you feel that solvency position adversely affects the small businessman on implementation of GST	Sol_7	2.8400	1.17825	100
The requirement of loans from banks has been entertained easily.	Sol_8	2.4900	1.15902	100
The demonetisation and GST in two consecutive years was the right steps by the Government.	Sol_9	3.0100	1.15027	100

Model Summary					
Main Variable	Model	Adjusted R Square	Std. Error of the Estimate	ANOVA F Value	Sig
Impact of GST on Turnover	Turn_2, Turn_1	.169	1.24380	11.085	.000 ^c
Key impact of GST on Profitability	Imp_1, Imp_2	.240	1.18939	16.661	.000 ^c

Liquidity impact	Liq_6, Liq_3	.241	1.18939	16.661	.000 ^c
Solvency position	Sol_5, Sol_2, Sol_1	.289	1.15042	14.434	.000 ^d

The table presents the model summary of the impact of GST implementation on various financial dimensions of MSMEs in Ahmedabad and Gandhinagar. For turnover, the variable "Turn_2" indicates that the overall sales of MSMEs increased with a lower GST rate, and "Turn_1" captures the adverse impact of high GST rates on sales, yielding an adjusted R-squared value of 0.169, a standard error of 1.24380, and a significant ANOVA F value of 11.085 at $p < 0.001$. In terms of profitability, the variables "Imp_1" and "Imp_2" show that higher GST rates negatively affect profitability, while lower rates have a positive impact, with an adjusted R-squared of 0.240, a standard error of 1.18939, and a significant F value of 16.661 ($p < 0.001$). Liquidity analysis reveals that "Liq_6" and "Liq_3" highlight the need for upfront payments to suppliers and emerging short-term liquidity crises, respectively, yielding similar statistical results as profitability. Regarding solvency, "Sol_5" suggests that GST reduces investments by new players and affects the solvency of existing small operators, whereas "Sol_2" and "Sol_1" indicate that GST supports the long-term stability of large businesses but negatively impacts small operators' solvency. The adjusted R-squared for solvency is 0.289, with a standard error of 1.15042 and a significant F value of 14.434 ($p < 0.001$). These findings underline the nuanced effects of GST on turnover, profitability, liquidity, and solvency within the MSME sector.

Conclusion:

The GST system presents several limitations, such as the implementation of a tax rate structure with four slabs, the requirement of an e-Way Bill, the Reverse Charge Mechanism, the need for quarterly return filing and monthly payment under the QRMP scheme, the revenue generated from GST, and the complexity of administering composition schemes. These factors contribute to the challenges faced by both the government and individual MSMEs in managing the GST system. The study results concluded as the overall sale of the MSME concern has increased with low rate of GST while it has reduced with high rate of GST. The higher rate of GST adversely affects profitability. The major change in the liquidity condition is due to advance to suppliers is required to pay before order of Goods causes the short-term liquidity crises. Further, it reduces the investment of the new players in the business and the solvency of existing players will be affected while the increase the long-term position of big players was found and in against of solvency of the small business operators. Although it was also found that the GST has Long Term impact over the small business that increases the solvency position of the business.

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