Impact of GST on small firms

What is the issue?

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- India recently entered into a GST(Goods and Services Tax) regime.
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- Small firms are concerned that formalisation and tax compliance pressures under this would hinder their growth.
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What are the provisions in this regard?

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- The GST package for small firms has two options.
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- Those with annual turnover of up to Rs. 20 lakh (10 lakh for north-eastern States, Himachal Pradesh, J&K, and Uttarakhand) may remain outside the tax net.
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- For slightly bigger firms with turnover of less than Rs.75 Lakh (50 lakh for the NE, HP), the GST allows a low tax option called the composition scheme.

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- Firms under this scheme can pay tax at a low 1-2 per cent and file 4 returns a year.
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- This is better in comparison with a regular dealer who pays an average of 18 per cent GST and files 37 returns a year (three returns per month and one annual return) per state .
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- However, small firms feel that these concessions come with so many conditions that they are no more an option for a growing firm.

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What impact do these create?

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- **Low exemption limit** - The Rs. 20-lakh annual turnover limit for opting out of the GST net seems to be inadequate.
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- Small firms like shops, with meagre earning a month will find it difficult to join GST and file returns on par with a large firm.
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- **No composition scheme to service sector** - The service sector (except restaurateurs) which comprises of 70 per cent of all MSME units do not have low tax option.
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- Even if a firm’s annual turnover is less than Rs. 20 lakh, it must register as a regular dealer to **export or import.**
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- Not registering would lead to loss of business for a lakh small firms that contribute over 40 per cent of India’s exports.
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- **E-commerce** has created an entrepreneurship boom in small cities. In GST regime, a small firm must register as a regular dealer to sell online.
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- This is bound to affect more than 50,000 entrepreneurs.
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- A composition dealer cannot sell to **other States**. Small firms would face double trouble as they may lose their existing customer base and cannot supply to other States.
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- However, large firms are free to source from any State as they get input tax credit on such supplies. Earlier, large firms purchased from small firms of the same State to avoid paying Central Sales Tax.
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- Input tax credit feature makes trade beneficial between GST-registered firms as against between or with unregistered firms.
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- As this increases the **buyer’s compliance** burden, she/he would avoid a non-registered firm.
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Why are small firms reluctant to enrol as regular dealers?

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- **Tax liability** shoots up on registration. Pre-GST, a small firm paid only VAT @ 5 % which in GST would raise to 18%.
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- The small turnover of the small firms does not justify **high compliance costs** with respect to filing 37 returns for each State in which it operates, meeting audit requirements, etc.
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- Not all dealers are **tech** savvy, and so they need expert help.
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What is the way forward?

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- There are 5-crore plus informal and small enterprises.
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- The question now is that will they grow and join the formal sector or will the businesses shrink as tax exemptions come down.
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- For the first to happen GST **exemption limit** could be raised from the current Rs. 20 lakh to Rs. 1 crore which could free firms from the tax burden.
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- Concessions could be extended to **exports, inter-State sales and e-commerce.**
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- This is practically viable if we factor the earlier available Rs. 1.5-crore limit for central excise exemptions for small firms.
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Source: BusinessLine

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