GST (Goods and Services Tax) Preparedness in M/o MSME

The GST Act came into effect on 8th September, 2016 vide 101st Amendment to the Constitution of India. Hence, all existing Central Excise and Service Tax assesses will be migrated to GST starting 7th January, 2017. The GST will officially come into force on 1st July, 2017.

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market.

A Goods and Services Tax Council (GSTC) has been constituted comprising the Union Finance Minister, the Minister of State (Revenue) and the State Finance Ministers to recommend on the GST rate, exemption and thresholds, taxes to be subsumed and other features. This mechanism would ensure some degree of harmonization on different aspects of GST between the Centre and the States as well as across States.

Benefits of GST

(A) Make in India

(i) Will help to create a unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign;
(ii) Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
(iii) Harmonization of laws, procedures and rates of tax;
(iv) It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
(v) Ultimately it will help in poverty eradication by generating more employment and more financial resources;
(vi) More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports;
(vii) Improve the overall investment climate in the country which will naturally benefit the development in the states;
(viii) Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring States and that between intra and inter-state sales;
(ix) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a ” Manufacturing hub”.

(B) Ease of Doing Business

(i) Simpler tax regime with fewer exemptions;
(ii) Reductions in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
(iii) Reduction in compliance costs - No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintaining records;
(iv) Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;
(v) All interaction to be through the common GSTN portal- so less public interface between the taxpayer and the tax administration;
(vi) Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions;
(vii) Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;
(viii) Timelines to be provided for important activities like obtaining registration, refunds, etc;
(ix) Electronic matching of input tax credits all-across India thus making the process more transparent and accountable.

(C) Benefit to Consumers:

(i) Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and service supplier;
(ii) It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers;
(iii) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

Opportunities for MSMEs

MSMEs have a major presence in the Indian economy contributing to 37.54 percent of India’s GDP. The share of MSME manufacturing output in the total manufacturing output of the country is to the tune of 37.33 % as per the latest available information. Hence, GST will have a major impact on the working of the MSME units. It will pose significant opportunities to these units, which form a major backbone of the country’s economy.

Challenges for MSMEs

A sizeable portion of MSMEs are of the opinion that GST is not all good for the sector and their fears may not be totally vacuous. The tax neutrality that the MSMEs enjoy may be one of the prominent benefits. However, reduction
in duty threshold is one of the key concerns that have led them to be wary of the GST bill. Under the existing excise tax, no duty is paid by a manufacturer having a turnover of less than rupees 1.50 crore. But, post GST implementation; the exemption limit will get significantly lowered. During a speech at a news conference, Finance Minister opined that the limit can be as low as Rs 25 lakh. As a result, a large number of MSMEs and startups will be mandated to come under the tax net and will have to pay a large chunk of their earnings towards tax. Furthermore, there are other flipsides to the proposed tax neutrality. GST regime won’t differentiate between luxury goods and normal goods; this will hit hard the SMEs in competing against large enterprises. GST that is ultimately levied on supply will not be available for input credit. This will lead to an increase in the cost of the products for businesses that supply directly to end users.

Efforts undertaken by Ministry of MSME to ensure faster GST compliance

1) A GST Cell has been carved out at NIMSME, Hyderabad to exclusively train officials and entrepreneurs on the various nuances of GST. So far they have conducted 10 workshops and have trained over 600 officials/entrepreneurs. Furthermore, an exclusive meeting was held at NIMSME, wherein one officer of each MSME-DI was provided expertise to deal with various issues related to GST. Each MSME-DI, tool room and TC was issued a circular to send their officials in batches to NIMSME for hands on training on GST. So far no workshops have been held towards this purpose because of delay in sanction of the requisite funds to NIMSME for this purpose. Nevertheless all these field organisations of the O/o DC (MSME) have been directed to open an exclusive GST cell in their institutions which will subsequently be manned by the trained officials. The Tool Rooms on their own have conducted 5 workshops and have trained 242 participants.

2) A Meeting was convened under the chairmanship of Hon’ble Minister (MSME) on 14.10.2016 with various stakeholders to assess their preparedness for GST. Since then many MSME Associations have forwarded their concerns which have been taken up with the Deptt of Revenue.

3) An exclusive link i.e GST-MSME has been provided in the website of the O/o DC(MSME), wherein various relevant information regarding GST and its implementation have been placed for the benefit of MSME units.

4) MSME-DIs also keep on holding Vendor Development Programmes, workshops on lean manufacturing and IPR etc. They have been instructed to take up GST related issues in such programmes and workshops even if they are not primarily intended for that purpose.
5) A Digital MSME Scheme has been approved, which among other things will support the MSME-DIs to provide cloud based solution for the MSME units to become GST relevant.

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