


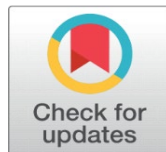
GST IMPLEMENTATION AND COMPLIANCE CHALLENGES FOR MSMEs: A POST-REFORM ANALYSIS

Dr. Amol Gawande ¹, Akshaya Kolhe ², Tanmayee Shekatkar ³, Sakshi Shrivastava ⁴, Tushar Khandelwal ⁵

¹ Professor & Director, Dr. D. Y. Patil B-School, Pune, India

^{2,3} Assistant Professor, Dr. D. Y. Patil B-School, Pune, India

^{4,5} Student, Dr. D. Y. Patil B-School, Pune, India



Corresponding Author

Dr. Amol Gawande,
amol.gawande@dpu.edu.in

DOI

[10.29121/shodhkosh.v5.i5.2024.2454](https://doi.org/10.29121/shodhkosh.v5.i5.2024.2454)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Copyright: © 2024 The Author(s). This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

With the license CC-BY, authors retain the copyright, allowing anyone to download, reuse, re-print, modify, distribute, and/or copy their contribution. The work must be properly attributed to its author.

ABSTRACT

With the inception of GST, one of the largest indirect tax regimes of India, many things fell into place. It was one of the long-awaited opportunities which simplified the tax system in India. An initiative by the Government of India which removed all the trade barriers between the states. Now, the states can easily and freely trade without paying multiple taxes at various levels and it has also become easy for the Government to administer the tax system with more transparency. Thanks to 'one nation-one market and one tax' principle. It is favorable to all—traders, manufacturers, consumers, and the government alike. It holds equal significance for all stakeholders. GST is implemented nationwide in 29 states and 7 union territories and has benefited manufacturers and traders by abolishing multiple taxes at various levels making it easy to expand their productions in low cost and to make the trade hassle-free. It helped the consumers to get the goods at cheaper rates than before due to cutting various taxes and decreased cost of production. It also helped the Government to refine the taxation process and improve the cascading of taxes thereby making more money and preventing the revenue leakage at various levels. It was enacted by an amendment to the Constitution. A Constitution Amendment Bill (122nd Amendment Bill) was passed by both the houses of the legislature (the Lok Sabha and the Rajya Sabha) through common and broad consensus and then approved by the then President of India, Shri Pranab Mukherjee thereby making it a law in the Year 2016 (101st Constitutional Amendment Act, 2016). It was launched on 30th June 2017, showcasing the evidence of the maturity and wisdom of the Indian democracy. The article demonstrates the compliance issues faced by MSMEs in the process of GST implementation.

Keywords: GST, MSMEs, Indirect Tax, One Nation, One Tax, Revenue Leakage



1. INTRODUCTION

A tax is a method of collecting revenue from people, corporations, or various entities by the government to finance state expenditures. It is considered the most important source of government revenue to support economic growth and achieve the status of a developed country and high income. The Goods and Services Tax (GST) combines all the current central and state taxes in the country into a single tax, eliminating the double taxation system and optionally creating a common nationwide market. The introduction of this tax enables the government to have better control over taxpayers, which in turn improves the entire tax model and has many alternative benefits. This sector of the SME market has been considered for years because of the main driver of the development of the Indian economy. MSMEs have emerged as a major employment generating industry in India and have ensured steady growth in many sectors of our society. The

impact of GST on MSMEs has brought huge changes. This study will be useful for small and medium business entrepreneurs and others to understand the impact of GST implementation.

2. LITERATURE REVIEW

India's micro, small and medium enterprises (MSMEs) operate in a vulnerable environment State. In the last few years, Indian MSMEs are facing financial problems due to demonetisation and introduction of Goods and Services Tax (GST). Currently, the industry is being hit hard by the COVID-19 pandemic, the nationwide lockdown and the global recession. Declining demand for goods and services, a labor crisis and negligible exports have combined to contribute to the financial woes of small Indian firms (Ghosh, 2020). Recognizing the recent disruption in the economic activities of small businesses, the Government of India (GOI) has introduced liquidity measures to revive the sector. However, the actual impact of financial assistance is still a concern. According to a CreditWatch report, access to institutional credit is limited to only 5-10% of Indian SMEs, so among eligible borrowers, only half of SMEs have access to the relief package offered by the Indian government (Suryakumar, 2020). Thus, despite efforts, poor access to finance remains problematic in India. The stalemate that it is, the gap exists primarily because of emerging financial constraints from the supply and demand side; where the supply side is represented by finance providers and the demand side represents MSME borrowers (Fastenbauer, 2015). Many researchers like Binks and Ennew (1997), Howorth and Moro (2006), Ayyagari et al. (2008), Singh and Kaur (2019) divided the factors contributing to the financing gap into supply-side constraints and demand-side constraints. Furthermore, these constraints lead to the classification of the funding gap into supply gap (SG), demand gap (DG) and knowledge gap (KG) (Seet et al., 2010; Rao et al., 2017).

3. METHODOLOGY

To draw meaningful inferences and conclusions, a minimum sample size of 100 is recommended (Alreck and Settle, 2003). Accordingly, 120 MSME traders from Pune were surveyed through a questionnaire containing agreement accorded to the 5 statements pertaining to the pressing issues in GST implementation:

1. Cost of compliance
2. Issues with portal
3. Procedures/Documentation
4. Lack of IT infrastructure
5. Lack of trained manpower

Likert scales were used for response options. The response options were - 0 - Can't Say, 1 - Somewhat agree, 2 - Completely agree, 3 - Somewhat Disagree, 4 - Completely Disagree.

Responses were received from 120 MSME owners. The questionnaire was tested for reliability, and it returned a Cronbach Alpha score of 0.87 and hence was considered reliable. Following hypotheses were formulated:

Ho: There are no pressing issues faced by MSMEs in GST implementation

Ha: There are pressing issues faced by MSMEs in GST implementation

The hypothesis was tested based on the average agreement/disagreement responses to the five statements of the questionnaire. The average agreement/disagreement response of the 120 respondents for all the five statements was taken as the sample mean and it was compared with a hypothesized population mean of 50% agreement/disagreement connoting an event by chance and not due to any statistical significance. A t-test was applied at 95% confidence level and based on the p-value the null hypothesis was tested for rejection or non-rejection.

4. DATA ANALYSIS AND INTERPRETATION

35 respondents were from the Northern region of Pune, 30 were from the Eastern region, 25 were from the Western region, and 30 were from the Southern region. 37 respondents were from the age-group of <30 years, 53 were from the age-group 30-40 years, and 30 were from the age-group of >40 years.

Table 1 gives the five statements items and their agreement ratings by the 120 respondents:

Table 1: Average ratings for the five statements

Sr. No.	Item	Agreement %
1	Cost of compliance	83%
2	Issues with portal	84%
3	Procedures/Documentation	89%
4	Lack of IT infrastructure	78%
5	Lack of trained manpower	84%
	Average	84%

The average agreement for the five statements was 84% and this was compared with the hypothesized population mean of 50%. Results were as under:

Table 2: Summary statistics

Parameter	Value
Sample mean	84%
SD of sample	1.10364
Hypothesized population mean	50%
N	120
t-value	3.37475
p-value	0.00050
Alpha	0.050

As the computed p-value is lower than the significance level $\alpha=0.05$, one should reject the null hypothesis H_0 , and accept the alternative hypothesis, H_a .

Thus, the null hypothesis that there are no pressing issues faced by MSMEs in GST implementation was rejected in favor of the alternate there are pressing issues faced by MSMEs in GST implementation.

5. CONCLUSION

There are pressing issues faced by MSMEs in GST implementation. The study reflects that little part of MSME entrepreneurs' readiness for GST, need for GST network improvisation and other similar related trends be bottleneck factors in realizing the actual outcome of GST implementation. In line with the impact survey conducted on small and micro enterprises, it is clear that people rate the impact of GST as balanced and there is potential room for improvement in this process. However, to ensure a smooth and successful outcome, it is very important to ensure that the implementation system is managed and addresses gaps in the process. If such measures are taken by the government at a rapid pace, it can be a very resourceful outcome for sustainable economic development.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

REFERENCES

- Alreck P.L. and Settle R.B (2003). *The Survey Research Handbook*. McGraw-Hill Education. London.
- Ayyagari, M., Demirguc-Kunt, A. and Maksimovic, V. (2008), "How important are financing constraints? The role of finance in the business environment", *World Bank Economic Review*, Vol. 22 No. 3, pp. 483-516.
- Binks, M.R. and Ennew, C.T. (1997), "Smaller businesses and relationship banking: the impact of participative behavior", *Entrepreneurship: Theory and Practice*, Vol. 21 No. 4, pp. 83-92.
- Brar, V., Wadajkar, V., & Kumar, A. (2019). Recent research trends in reward management - A systematic literature review. *International Journal of Enhanced Research in Management & Computer Applications*, 8(4), 26-33. DOI: <https://doi.org/10.5281/zenodo.6671882>
- Fastenbauer, J.M. (2015), *Access to Finance by Entrepreneurs in the UK and Austria: Discouraged Borrowers*, School of Management, Royal Holloway, University of London, London.
- Ghosh, S. (2020), "Examining the Covid-19 relief package for MSMEs", *Economic and Political Weekly*, Vol. 55 No. 22, p. 11.
- Howorth, C. and Moro, A. (2006), "Trust within entrepreneur bank relationships insights from Italy", *Entrepreneurship: Theory and Practice*, Vol. 30 No. 4, pp. 495-517.
- Kumar, A., & Brar, V. (2016). *Retailing Strategy: Products & Customer Services Perspective*. LAP LAMBERT Academic Publishing, Germany. DOI: <https://doi.org/10.5281/zenodo.666284>
- Kumar, A., & Brar, V. (2018). Digital marketing and role of blockchain in digital marketing industry. *International Journal of All Research Education and Scientific Methods*, 6(12), 23-26. DOI: <https://doi.org/10.5281/zenodo.6676929>
- Kumar, A., Brar, V., & Wadajkar, V. (2019). Significance of effective HRM practices in organized retail sector - A literature review. *International Journal of Enhanced Research in Educational Development*, 7(1), 22-26. DOI: <https://doi.org/10.5281/zenodo.6671920>
- Kumar, A., Joshi, J., & Brar, V. (2019). Impact of sales promotion on customer purchase intention with respect to organized retail industry. *International Journal for Research in Engineering Application & Management*, 5(2), 905-913. DOI: <https://doi.org/10.5281/zenodo.6671797>
- Patil, S., & Kumar, A. (2021). ITC: is aggressive dividend policy good enough? In A. Gawande, A. Kumar, F. Mobo, M. M. Momin & A. B. Rahul, *CASEPEDIA Volume 1: Case Studies in Management* (1st ed., pp. 14-21). Dr. D. Y. Patil B-School, Pune. DOI: <https://doi.org/10.5281/zenodo.6740031>
- Rao, P., Kumar, S. and Madhavan, V. (2019), "A study on factors driving the capital structure decisions of small and medium enterprises (SMEs) in India", *IIMB Management Review*, Vol. 31 No. 1, pp. 37-50.
- Seet, P.-S., Graves, C., Hadji, M., Schnackenberg, A. and Gustafson, P. (2010), "The effect of finance, knowledge and empathy gaps on the use of private equity amongst family-owned", *International Journal of Entrepreneurship and Small Business*, Vol. 11 No. 1, pp. 85-104.
- Singh, P. and Kaur, C. (2019), "Factors determining financial constraint of SMEs: a study of unorganized manufacturing enterprises in India", *Journal of Small Business and Entrepreneurship*, pp. 1-19.
- Suryakumar, M. (2020), "Assessing impact and analysing Risks of COVID-19 on Indian businesses", available at: <https://www.credwatch.com/> (accessed 25 September 2020).
- Walke, S. G., Shetiya, M. M., & Kumar, A. (2019). A study of sustainable business practices for online business. *International Journal of All Research Education and Scientific Methods*, 7(3), 51-58. DOI: <https://doi.org/10.5281/zenodo.6671901>