

**'GST: MSMEs to gain via better competitiveness'**

**Booster potential:**The market for MSMEs will grow as tax complexities of interstate sales disappear. Gettyimages/istock

The Goods and Services Tax (GST) is all set to enhance the competitiveness of the almost five crore Micro, Small and Medium Enterprises (MSMEs) that account for 25% of employment, 40% of industrial output and 45% of exports of the country. This, by making them a part of organised commerce and offering them a level-playing field.

A simplified tax structure and a unified market are the two great promises of GST but the key benefits for MSMEs, a majority of whom are getting into the indirect tax net for the first time, include lower freight costs, which is estimated to come down by 1.5-2%. Significant benefits will be seen in lower cost of raw materials (in the past 2% CST was applied to raw materials imported from other states), and a lower tax burden. These benefits will have a more significant effect on boosting the cost competitiveness of MSMEs — a sector comprising tens of thousands of self-funded proprietary firms, private self-help groups, private cooperatives, khadi, village and coir industries.

The market base for MSMEs will grow as tax complexities of interstate sales disappear. Original equipment manufacturers and corporates will come forward to procure components, semi-finished and finished products from MSMEs irrespective of location. Since there is no burden of tax on interstate sales, MSMEs will also have no issues in accepting orders from other States. They can also compete with low-cost imports, as the tax is the same for both locally manufactured as well as imported products — especially those coming from overseas low-cost producers.

GST treats sales and services as one and the same. Hence, there is no additional tax burden for MSMEs that operate on the sales and services model of business.

MSMEs will also enjoy ease of doing business as there will be no complexities in registration. Centralised registration has now replaced multiple tax and registration rules in different states. There will be no, or minimal, physical interface of bureaucracy as registration, payments, input tax credit and tax liability adjustment, returns, and refunds will now happen electronically. This will bring transparency in compliance and will also reduce the compliance cost.

Thus, GST will allow flexibility in transfer of goods across states and reduce the cost of doing business for MSMEs.

**'Varying impact'**

However, the impact of GST on MSMEs will not be the same for all segments — electrical equipment, for instance, is expected to benefit from lower freight costs and tax rates, while there may be no big positive impact for leather and footwear sectors that are facing stiff foreign competition.

On the other side, the cost of compliance is a big issue for MSMEs that do not have enough specialised manpower, managerial bandwidth, access to facilitation services. GST-registered organisations will have to file returns more often and regularly.

MSME staff are, mostly, not familiar with using computers and web portals. Hence, they may have to seek the help of intermediaries to use a technology-enabled platform like the GST.

In this context, it is important that there is handholding for MSMEs in transitioning them to this new tax regime. There is also a need to educate MSMEs about the various provisions and compliance requirements under GST for MSMEs through seminars, conferences, training sessions.

There is a view that availing input credit only for tax paid by the supplier shifts the onus on to the customer and this could affect the trust between supplier and customer, especially for one-time transactions. On the other hand, there will be a new situation where the customer and supplier relationship will be based on compliance.

That is, customers will prefer to do business only with suppliers who are compliant. MSMEs will have to get used to regularising the filings of their returns, as compliance will become a business imperative.

GST is a massive reform and some hiccups in the initial months are unavoidable. The advantages of having a unified tax system and easy input credits will outweigh the teething troubles the industry may experience in the short term.

MSMEs can hope that most of the current challenges will be a story of the past soon. If the government can take corrective measures in a proactive manner, the GST system will prove to be a boon for industry in general, and MSMEs in particular.

*(The writer is chairman, CII Andhra Pradesh State Council and CEO, Better Castings)*

**This is the fifth instalment of a six-part series on GST implementation across industries. The series has been facilitated by the Confederation of Indian Industry**

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