Goods and Services Tax (GST) Compliance Challenges for MSME

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Abstract

This study explores the compliance challenges faced by Medium, Small, and Micro Enterprises (MSMEs) in Delhi under the Goods and Services Tax (GST) regime. Despite the potential benefits of GST in streamlining taxation, many MSMEs encounter significant hurdles that hinder their ability to comply effectively. This research identifies key challenges, including a lack of understanding of complex regulations, the financial burden of compliance, technological barriers, and the impact of frequent changes in GST laws. Additionally, the study examines the implications of these challenges on the operational efficiency and financial health of MSMEs. By highlighting these issues, the research aims to provide insights and recommendations for policymakers and stakeholders to enhance the GST compliance framework, ultimately fostering a more conducive environment for MSME growth and sustainability in Delhi.

Keywords: Taxation, Goods and Services Tax (GST), Medium, Small, and Micro Enterprises (MSMEs)

Introduction

After Goods and Services Tax was introduced in India on 1st July 2017, it was one of the greatest tax reforms in Indian history. GST has replaced many indirect taxes charged by governments (central and state), aiming to create a uniform tax structure and promote ease of doing business. However, the execution of this tax has also had a huge impact on the

MSMEs region in India (Dhillon et al., 2022).

The implementation of the Goods and Services Tax (GST) in India marked a significant shift in the country's taxation landscape, aiming to simplify the tax structure and enhance compliance across various sectors. However, for Medium, Small, and Micro Enterprises (MSMEs), which form the backbone of the Indian economy, the transition to GST has presented a unique set of compliance challenges. MSMEs often operate with limited resources and expertise, making them particularly vulnerable to the complexities associated with GST regulations. Issues such as inadequate understanding of tax provisions, high compliance costs, technological constraints, and the frequent amendments to GST laws create substantial barriers for these enterprises. This introduction sets the stage for a comprehensive examination of the specific compliance challenges faced by MSMEs in Delhi, emphasizing the need for targeted interventions and support mechanisms to facilitate smoother compliance and promote the growth of this vital sector in the economy.

According to many economists and scholars, it was a noble step towards transformation and transparency in businesses. It has been embraced as a solution to the longstanding challenge of integrating the national market, aiming to streamline business operations, bolster financial resources and manage the fiscal deficit. This approach ultimately fuels economic growth (Jayalakshmi & Venkateswarlu, 2018). This critical assessment aims to evaluate the GST impact on the MSME in Delhi NCR. This assessment will analyze the challenges faced by MSMEs during the transition to GST, the impact of GST on their operations and competitiveness and the measures taken by the government to mitigate the negative impact of GST on MSMEs (Meena &Sodani, 2018).

Literature Review

The researcher has sourced more than 85 papers from online libraries like EBSCO, Google Scholar, and other sources. Also, an extensive literature review was conducted to identify studies that explicitly addressed or highlighted linkages between GST, its implications on different business entities, and MSME in Delhi NCR region. The search process utilized sodhganga and Google Scholar databases to find relevant articles. The literature searches on databases specifically focused on identifying original peer-reviewed research studies that examined linkages between GST, its implications on different business entities. Opinion

pieces, magazine articles or conceptual papers were excluded. The researcher has used keywords like "GST", "MSME", "Tax rates", "Tax compliances", "Indirect tax", "Tax impact", "cost", "Delhi", "Delhi NCR region" and "tax jurisdiction". Based on the above keywords, the researcher has chosen 85 papers for the study, the details are provided in the references section.Verifying GST compliance is crucial because It contributes significantly to governments' revenue bases, particularly in developing countries and it affects companies of all kinds, including micro, small & medium-sized firms (Alm, 2012). MSMEs are key forces for fiscal success in a number of countries, contributing to the creation of jobs and the reduction of poverty (Sanusi et al., 2017). It is estimated that India has roughly 63 million MSME units, with microbusinesses making up 99.4% of this market (Soni, 2020). Micro-enterprises-defined as those with an annual profit of up to US$ 662,715 at exchange rates as of 2020, make up the bulk of sectors in India (Rastogi, 2020; Rajshekhar- 2017; Vij et. al., 2017).

Objectives of Study

The objectives of a study for a literature review on the "GST and MSME Growth Trajectories: Post- Implementation Trends in Delhi NCR" should be to systematically examine and synthesize existing research findings, identify patterns, and draw conclusions about the effects of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs) in this specific region. Here are some potential objectives that such a study might aim to achieve:

Assess the Overall Impact: To evaluate the overall impact of GST on the operational efficiency, financial performance, and competitiveness of MSMEs in the Delhi NCR region.

Understand Compliance Challenges: To identify the compliance challenges faced by MSMEs post-GST implementation, including understanding the complexities of the tax system and administrative burden.

Analyze Cost Implications: To analyze the cost implications of GST for MSMEs, including changes in tax liabilities, input credit mechanisms, and the cost of compliance.

By setting clear objectives, the literature review can be more focused and effective in contributing to the understanding of GST's impact on MSMEs in the Delhi NCR region, and

in providing valuable insights for stakeholders, including business owners, policymakers, and researchers.

Research Q1- What are the key compliance challenges faced by MSMEs under GST?

Micro, Small, and Medium Enterprises (MSMEs) face several compliance challenges under the Goods and Services Tax (GST) regime, primarily due to their limited resources and lack of awareness. One of the key challenges is the complexity of the GST framework itself, which includes multiple tax rates, frequent changes in regulations, and the requirement for detailed documentation. Many MSME owners lack the necessary knowledge and expertise to navigate these complexities, leading to difficulties in accurately filing returns and maintaining proper records. This often results in unintentional non-compliance, which can attract penalties and interest, further straining their financial resources.

Research Q2- How do these challenges impact the financial efficiency of MSMEs?

The compliance challenges faced by Micro, Small, and Medium Enterprises (MSMEs) under the Goods and Services Tax (GST) significantly impact their financial efficiency in several ways. Firstly, the costs associated with non-compliance, such as penalties, interest on late payments, and legal fees, can strain the financial resources of MSMEs. These unexpected expenses divert funds that could otherwise be invested in business growth, innovation, or operational improvements. Moreover, the time and effort spent on navigating the complexities of GST compliance can lead to inefficiencies in business operations, as owners and employees may need to allocate valuable resources to manage tax-related issues instead of focusing on core business activitiee.

Methodology

Research Design: Qualitative, quantitative, or mixed-methods approach.

Data Collection:

- Surveys: Design a questionnaire targeting MSME owners/managers.
- Interviews: Conduct in-depth interviews with tax consultants and MSME representatives.
- Case Studies: Analyze specific MSMEs that have faced compliance challenges.

Sampling: Conduct one-one interview with MSME owners, managers to explore their experiences with GST compliance.

Classifications of MSMEs in India:

The classification of MSMEs in India is primarily based on investment in plant and machinery or equipment. The Ministry of Micro, Small and Medium Enterprises (MSME) has defined the following categories:

Micro Enterprises:

Manufacturing Sector: Investment in plant and machinery does not exceed ₹1 crore (approximately $130,000).

Service Sector: Investment in equipment does not exceed ₹1 crore.

Small Enterprises:

Manufacturing Sector: Investment in plant and machinery is more than ₹1 crore but does not exceed ₹10 crores (approximately $1.3 million).

Service Sector: Investment in equipment is more than ₹1 crore but does not exceed ₹10 crores.

Medium Enterprises:

Manufacturing Sector: Investment in plant and machinery is more than ₹10 crores but does not exceed ₹50 crores (approximately $6.5 million).

Service Sector: Investment in equipment is more than ₹10 crores but does not exceed ₹50 crores.

Conclusion

In conclusion, the implementation of the Goods and Services Tax (GST) has introduced a complex regulatory environment that presents significant compliance challenges for Medium, Small, and Micro Enterprises (MSMEs) in the Delhi NCR region. The intricacies of the GST framework, coupled with the lack of adequate training and resources, have made it difficult for many MSMEs to navigate the compliance landscape effectively. As a result, these enterprises often face increased operational costs, potential penalties for non-compliance, and disruptions to their cash flow. The challenges are particularly pronounced for smaller MSMEs that operate with limited manpower and financial resources, highlighting the need for targeted support.

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