

Critical Evaluation of GST's Impact on the Functioning of Small Companies: Evaluation of People Psychology and Perception

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ABSTRACT

One emerging topic of study in India is the effect of indirect taxes like the Goods and Services Tax (GST) on SMEs. Relevant works, both domestic and international, up to the year 2020 were researched; this includes both publicly accessible and privately held materials. Appropriate resources were chosen after considerable deliberation. Themes that might vary widely but are based on a common thread of tracing back to the original material have been investigated, explored, and presented. One significant emerging fact is that GST would have different implications for politically sensitive industries and SMEs in different sectors in different states. This study is conducted with the aim of identifying peoples psychology towards GST and its impact on their businesses. The research study is conducted using secondary and primary data. The data is analysed through frequency distribution method and it is explored that GST has impact on the small businesses.

Keywords: GST, Small business, small companies, indirect tax effect, perception of people.

1. INTRODUCTION

By taxing people, corporations, and other organisations, the government collects income. It's a major source of government money, helping a nation achieve wealth and stability. Consumers face upfront and hidden fees. Stagnant tax collection would limit national development and cause a budget gap. The planned GST might radically change the complicated tax structure since 2015. In India, taxes are complicated and indirect, with several necessary levies overlapping and the help of the federal government and states. All indirect taxes will be integrated under GST, which might simplify the national marketplace. France introduced a general sales tax in 1954, which 140 other countries have since implemented. India has proposed a double GST scheme.

Tax simplification reduces the domino effect. The government sets rates using reciprocity, although they can't exceed 14%. Alcohol, electricity, and petroleum are exempt from GST, hence the effective taxes are lower (5%, 12%, 18%, and 28%). Because alcohol is exempt from GST, it accounts for more than half of the revenue in certain states. Electricity is fundamental to human existence and must be affordable and accessible. Political parties' promises to provide cheaper electricity may increase public discontent. Most difficult was convincing the country's citizens accept tax system. Mittal, V., and A., Agrawal, (2021) Clearly classifying commodities and services has addressed most problems. Early price increases for products and services caused inflation. Due to widespread ignorance, civility has risen. Many occupations lack the training, management re-skilling, and Startups found GST compliance difficult due to inexperience and the new tax regime. Some say GST boosted tax clarity and provided a bigger tax platform. Even if corruption is entrenched, it can be prevented.

2. OBJECTIVES

- a) Determine the level of GST understanding and psychology of proprietors of small businesses towards GST.
- b) Assess the effect of the GST boost on small enterprises as planned

3. METHODOLOGY

The research is done based on the secondary sources such as scholarly publications (such books and journals), as well as articles and online resources. In addition the primary data is collected from 100 businessmen to analyse the impact of GST on their businesses. The data is analysed through frequency distribution method

4. Findings based on secondary data

AWARENESS QUOTIENT IN TRADERS

Adopting GST required 133 crore Indians to embrace a new classification system. Especially in change-resistant societies. Clearly classifying commodities and services has addressed most problems. Kulkarni, A., and A.K., Yadav, (2021) Widespread price hikes on products and services produced economic inflation. Due to widespread ignorance, civility has risen. Lack of technical support makes it difficult to prepare GST invoices and related documents. This cost has been distributed even thinner across industries due to a lack of IT infrastructure, skilled workers, and management re-skilling. Although most respondents embrace and appreciate the change in structure and consider GST as a sensible taxing measure, a loud minority remains unsatisfied notwithstanding GST and feels more adjustments are essential to the present duty system. The GST Act needs explanation and simplicity since it involves a difficult concept. GST has better impacts than the old tax system, and submitting and managing taxes is simpler, more reliable, and more adaptable.

There will always be those who oppose a reform, and there will always be others who have something to gain by preventing it from happening. In comparison to the current system, the "Goods and Services Tax (GST)" offers numerous welfares to small & medium-sized enterprises (SMEs), such as a streamlined process for collecting input credits, a uniform tax rate, the elimination of the complex and convoluted flow tax system, and simplified taxation. Despite certain downsides, it has more benefits than cons. Extent of this effect will be determined by how well all commercial regions agree on GST duties and how well they are coordinated.

POSITIVE IMPACT

- a) Each "revenue blocks" collected by the Department of Sales and Tax has its own standards for retaining VAT records. Since the organisation has interstate operation, abeyance must follow several responsibility imperatives. This raises complexity and boosts technical taxes, straining price-sensitive MSMEs' margins. The GST process won't change. Kumar, S., D. D. (2021).
- b) Big corporations make purchases based on MSMEs' locations to save money. MSMEs can only conduct business in their own state since they pay the transaction tax. With GST, of the customer's supplier's regions. MSMEs may grow their global footprint.
- c) This tax scheme removes border duties and toll checkpoints since it fosters international business. Large-scale manufacturers will save money on logistics. MSMEs may need such expenditures to survive. Kulkarni, A., and A.K., Yadav, (2021)
- d) Auctions and other facilities will be taxed equally under the GST. This is a wonderful change for MSMEs using the above paradigm, because taxes will be simplified and reviewed holistically.
- e) Businesses with yearly sales above Rs. 5 lakh must pay a VAT registration fee. Increasing the GST exemption will aid 60% of small dealers and businesses.
- f) GST separates items and services. This will simplify many packaging-related legal situations. Eliminating the material and service components will reduce tax fraud.

NEGATIVE IMPACT

- a) Duty objectivity treats indulgent and boring products equally. State and federal governments tax luxury items more. This isn't good for MSMEs confronting huge companies.
- b) It violates the GST's single market concept since alcoholic beverages and fuel-based firms are exempt.
- c) Unification would boost the current Service Tax rate by 18%. Losing centralised registration would have serious ramifications for the service industry, which would require separate registration procedures in various states. A company's division in State A must pay taxes on services to State B.
- d) Stock transfer taxes affect operational capital.
- e) A compliance business won't get GST credit if the merchant who sold them the products didn't report it. GST credit scheme will need sourcing strategy changes. Stock transfer taxes will also affect the Supply Chain.

Many MSMEs doubt GST would benefit their industry. Tax neutrality might transform SMEs. Dropping the tariff threshold is a major issue with the GST bill.

5. Findings based on primary data:

The perception of people towards indirect tax system it is explored that many people believe that the new tax system known as GST is more trustable as compared to previous indirect tax system.

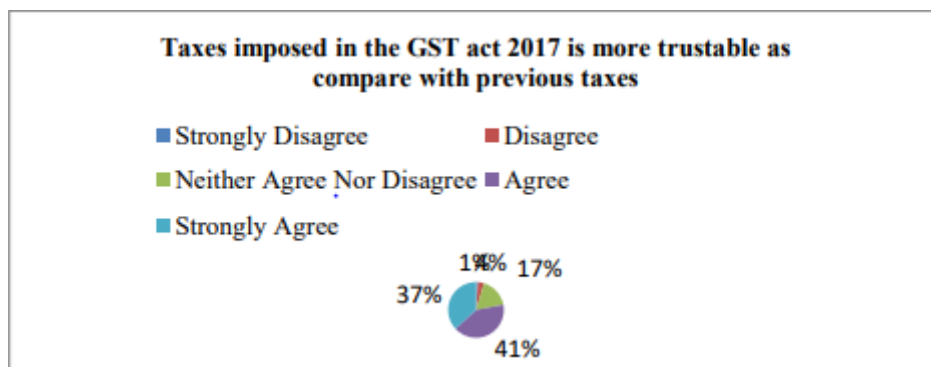


Figure:1

The above figure 1 shows that 78 percent people agreed that they trust new GST tax system and just 5 percent people disagree with the statement that “GST tax imposed is more trustable as compared to previous tax”.

When discussing with them about the impact of GST on the their businesses, it is explored that most of the people mentioned that it is safe to do the business under GST tax system.

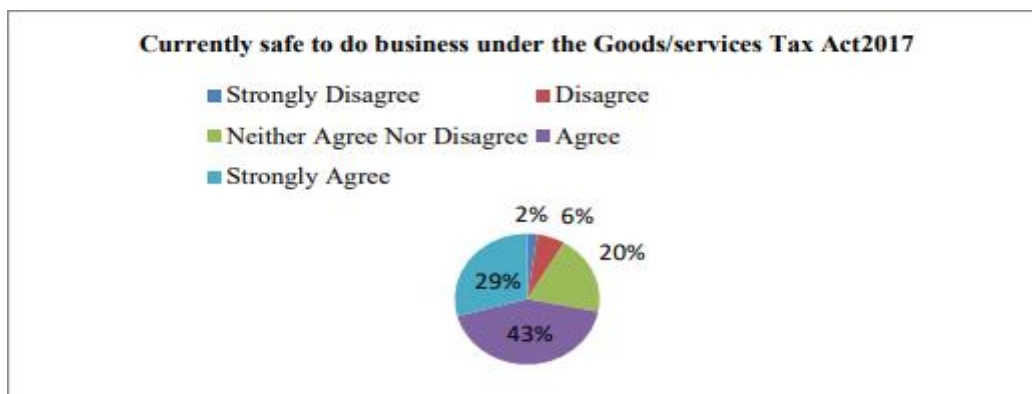


Figure 2

According to respondents (Figure 2), it is currently safe to conduct business under the Goods and Services Tax Act of 2017, with 43 percent of respondents agreeing with this statement and 29 percent strongly agreeing. Almost 20 percent of respondents were gave neutral reaction as they neither agree not disagree with the statement. But at the same time the statement is disagreed upon by 6 percent of respondents, and strongly disagreed upon by 2 percent of respondents.

The next question when asked related to the impact of GST on functioning of the small businesses. The people have almost same perception

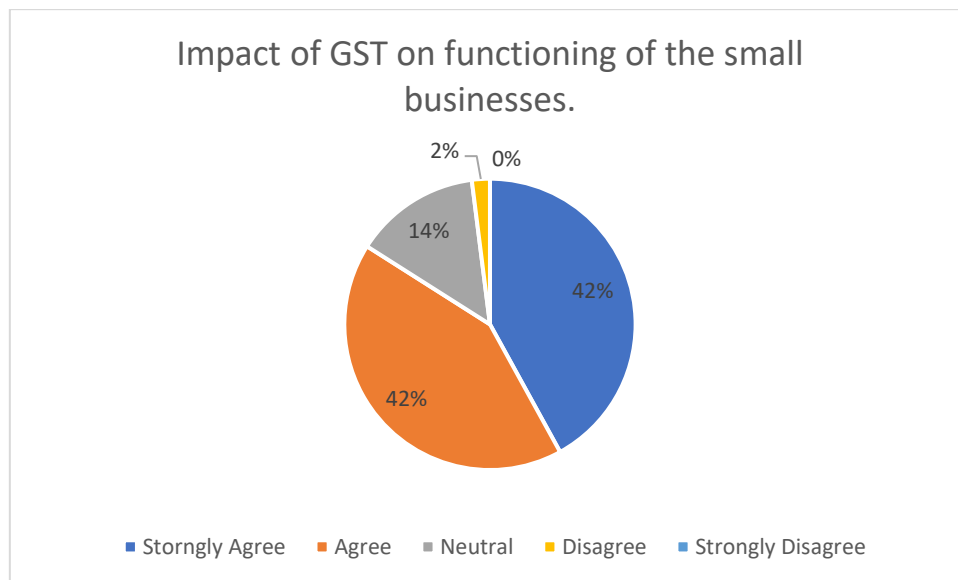


Figure 3

Most of the people in the figure 3 mentioned that GST has impacted the functioning of their businesses to some extent. Almost 84 percent people agreed on the same and 14 percent people were neutral.

Thus, it is critically explored from the above 3 mentioned figures that the people have knowledge about GST Tax. At the same time they have perception that GST has impacted the functioning of their businesses as well.

CONCLUSION

To comply with regulations, SMEs will need to employ an electronic compliance system for everything from registration to tax filing. The effects of the aforementioned tax system, in accordance with the GST, will be felt not only on the products and services themselves, but also on self-supplies and ordinary regional transactions. Interest rates and pricing policies will go up as a consequence of changes in working capital needs. The GST is proved to be a great step taken by the government and the businesses should also cooperate in the same.

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