

# **Impact of GST on Small Scale Business in Western Mumbai**

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**ABSTRACT:** Indirect taxes on goods and services have been consolidated into a single tax with a single return filing system. Dealing with tax authorities is also easier with a unified tax such as GST on small and medium business enterprises. Because GST imposes a single tax on goods and services across western Mumbai India, it eliminates the complexities produced by the overlap between Central taxes (excise duty, customs duty, service tax, and so on) and State taxes (VAT, purchase tax, luxury tax, and so on). All in all, the GSTN portal has made it easier for small enterprises to submit and pay taxes. The cascading impact of taxes was successfully abolished by GST, making the tax procedure clear for SMEs and lowering their tax burden. Furthermore, because the complete GST Registration Process is online, it saves time and effort. For SMEs in the transportation industry, the conventional tax structure was a huge headache. Because of the interstate entrance points and checks, the cars had to spend a lot of time in long lines. Fuel and labour expenditures were lost as a result of this. The fact that the GST replaced the Central Sales Tax with the Integrated GST or IGST, as well as the check-post and border levies, has had a considerable influence on small businesses. This has inadvertently aided the industry in lowering delays and transportation costs, allowing for speedier and more frequent travel in western Mumbai.

**KEYWORDS:** indirect, tax, GST, western Mumbai, VAT, business, small scale, costs, fuel, labour, sales

## **I. INTRODUCTION**

Since not all SMEs have the technological know-how to cope with online-based GST mechanisms, the majority of them will have to rely on professionals to get registered. However, this predicament can be tackled at a hassle-free and affordable pace with the help of the experts at western Mumbai. To add to this even small businesses that engage in e-commerce operations should register for GST, regardless of their yearly turnover rate. Moreover such enterprises, unlike other types of businesses,<sup>1</sup> will not be eligible for threshold exemptions or the Composition Scheme (which allows firms to file their tax returns on a quarterly basis instead of 3 times a year and pay taxes at a much lower rate). This is a rather regrettable setback small businesses face under the GST regime, especially in the digital era. With only a few months left before the implementation of GST, small business owners are engrossed in understanding the potential effects of GST on their business. It's a well-known fact that SMEs (Small and Medium Enterprises) are the primary growth drivers<sup>2</sup> of the economy and major contributors to the GDP. While some business owners have lauded the Government of India for implementing GST, others are not very convinced. To comprehend the overall effect of GST on your business, let's take a look at the pros and cons of the new regime from a small-business perspective.<sup>3</sup>

Positive impacts of GST on SMEs in Western Mumbai:

1. Launching a new business becomes easier Under the previous tax regime, if your business had operations across multiple states, you would need to register for VAT with each state's sales tax department in order to carry out business activities there. The fact that every state had different tax rules complicated the entire process, and business

# International Journal of Multidisciplinary Research in Science, Engineering, Technology & Management (IJMRSETM)

(A Monthly, Peer Reviewed Online Journal)

Visit: [www.ijmrsetm.com](http://www.ijmrsetm.com)

Volume 6, Issue 11, November 2019

owners had to pay multiple procedural fees for VAT registration. Under GST, the registration is centralized and the rules are uniform for all the states across the country. All you have to do is complete and submit an online form to obtain a GSTIN (GST Identification Number). Launching a new business, and subsequently expanding it, will be comparatively easier under the GST regime.<sup>4</sup>

2. The entire process of taxation becomes simpler The prime reason GST is implemented is to remove cascading taxation. It reduces the complications caused by the overlap between Central taxes (Excise duty, customs duty, service tax, etc.) and State taxes (VAT, purchase tax, luxury tax, etc.), because it levies a uniform tax on goods and services all over India. The taxes on goods and services levied under VAT, purchase tax, and luxury tax will now be merged into one single tax with one common return. If you've spent a large portion of your time on managing multiple taxes, you can relax under the new regime because filing and paying taxes is easier with the GSTN portal. A combined tax also means dealing with fewer tax authorities. Previously, business owners had to deal with many different tax authorities depending on the nature of their business and transactions. Under GST, you can be sure that the relevant authority is always either the Centre or the State government<sup>5</sup>

3. Reduced cost of logistics The current tax regime has created a lot of hassles for the transportation sector. The long queues at checkpoints and inter-state entry points have caused vehicles to stand idle for long periods of time, adding to labor and fuel costs. Businesses transporting goods to other states have had a hard time filing paperwork and paying entry taxes at the inter-state borders, further delaying the delivery of goods. Under GST, the current Central Sales Tax (CST) on interstate sales will be replaced with a combined tax called IGST, which is composed of CGST and SGST and collected by the Central Government. As the removal of border and check-post taxes makes state boundaries less significant under the GST regime, both the delay and the transportation cost will be reduced. This will increase inter-state business, facilitate faster movement of goods, and reduce maintenance costs.<sup>6</sup>

4. The distinction between goods and services will be eliminated Previously, businesses providing both goods and services had to calculate the VAT and service taxes individually. GST eases the process by removing the distinction between goods and services; tax will be calculated for the final total, not individual products or services. This will help SMEs take advantage of the tax incentives for payment on the procurement of input goods and services (like import, interstate and local purchases, and telephone services). Currently, every invoice contains a long and confusing list of taxes levied on the goods and services involved in the transaction. GST will make invoicing simpler, as only one tax rate will need to be mentioned.<sup>7</sup>

5. Increased threshold limits for new businesses Under the current regime, businesses with a moderate annual turnover (Rs.5 lakh in some states and Rs.10 lakh in other states) are supposed to register and make payments for VAT. Under GST, this burden is eliminated for many businesses, since a business does not have to register or pay if its annual turnover is less than Rs.20 lakh (Rs.10 lakh in North Eastern states). Also, under the composition scheme, businesses with turnover between Rs.20-Rs.50 lakh will pay GST at a lower rate. This should have a positive effect on startups and other small businesses by relieving them from tax burdens.<sup>8</sup>

## II.DISCUSSION

The Good and Services Tax (GST), launched by the Government of India in July 2017, has revolutionised the way the business is carried out and the way a tax system works. The GST has simplified the return filing process for businesses and harbingered an era of accountability and transparency. This, in turn, has also paved the way for eliminating tax-related corruption to a large extent. GST also holds a big promise for taxpayers to streamline their business and accounting processes, and get the maximum tax benefits. The only caveat being businesses must be punctual and precise in following the procedures laid down by the GST Council. Let us explore how and why GST is proving to be a boon for small businesses in Western Mumbai.<sup>9</sup>

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Volume 6, Issue 11, November 2019

Leveraging the benefits of going online: A robust online portal for registration, payment, and filing of returns facilitates smooth GST compliance. The portal provides for flexibility and freedom to taxpayers to rectify and refile their returns in case they discover any errors after filing. The government has taken measures to enhance the ease of tax payment by decreasing compliance requirements for direct tax payments and moving more critical payments online

- Making compliance simpler, cheaper: GST brings in simplicity while decreasing the cost of compliance – a boon for micro, small and medium-sized enterprises (MSMEs). For the MSMEs, GST exemption limit has been raised to an annual turnover of ₹40 lakh from the erstwhile ₹20 lakh. Businesses with a turnover of up to ₹1.5 crore also enjoy a composition scheme wherein they pay only one percent flat rate and file only one annual return. Service providers with a turnover of up to ₹50 lakh can pay GST at a rate of six percent instead of 18 percent. Over 35 lakh enterprises stand to gain from these business-friendly initiatives. The government is also working on an initiative for allowing more than 90 percent of GST payers to file quarterly returns.<sup>10</sup>

- Robust audit system: The GST policy emphasises on a strong audit mechanism for ensuring and evaluating compliance by the taxpayer. It calls for taxpayers to undertake self-assessment of their tax liability and pay tax without the intervention of the Income Tax department. Every GST registered taxable entity, whose turnover during a financial year surpasses ₹2 crore, is supposed to get their accounts audited by a CA or cost accountant. This audit will check the correctness of information provided, taxes settled, refund claimed and input tax credit (ITC) availed by the taxpayer in western Mumbai

- Ease of doing business: GST has been the key catalyst to simplifying the indirect tax system in Western Mumbai. While eliminating the cascading effect of the tax, GST has done away with several pre-existing taxes like Central Excise Duty, Service Tax, Countervailing Duty, Value Added Tax or Sales Tax, Central Sales Tax, Octroi and Entry tax, etc. Thus, it has brought ease in doing business for all. Moreover, as filing returns happens online and inter-state movement of goods and services have become quicker, it has become streamlined and trouble-free. Tax for entry into other states, presence of check posts and vehicular queues are things of the past. Standardised tax structures across states and Union Territories have decreased compliance expenses and got rid of a variety of taxes.<sup>11</sup> The GST rates on goods and services have been put into five slabs - nil, 5 percent, 12 percent, 18 percent, and 28 percent. These have been done based on the pre-GST aggregate indirect tax incidence both of Central and State taxes, including embedded taxes, which are incorporated in GST to ensure revenue neutrality. Since there are no multiple taxes imposed by multiple governing bodies, some imposed even at the city level, the accuracy levels of data filed for returns have seen a vast improvement.

- Improved transparency, taking care of future complications: By ensuring transparency, the GST regime has paved the way for minimising frauds, tax avoidance, pestering of taxpayers and corruption. It has replaced a multi-dimensional, complex indirect tax system with a simple, transparent and technology-centric tax regime, leaving no room for ambiguities. The result: ease for the taxpayer and increased revenues for the government in western Mumbai<sup>12</sup>

- Disruption, but for a better future: There have been disruptions after the GST regime started, which were expected of a reform of such a mammoth scale. But benefits for businesses are inevitable in the long term, thanks to the easier route to tax compliance, which is devoid of the multiplicity of taxes, complexities and corruption.<sup>28</sup>

- Digitalisation, giving businesses greater scope to expand: The implementation of GST has brought MSMEs under the ambit of digitalisation, which has helped fast-track the digitisation process in India. Digitalisation leads to transparency with supplementary benefits, such as reduced frauds and chances of error. This has resulted in an eco-system that is conducive to business growth.<sup>13</sup>

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Volume 6, Issue 11, November 2019

- Access to markets across India: As the new GST regime has done away with different taxations applicable for transacting business at different states, it has removed the tax-related hassles and complexities that businesses with an all-India footprint had to face. With GST, businesses have now easy access and freedom to conduct businesses at any location across India without the fear of paying multiple taxes and cumbersome transaction processes.<sup>27</sup>

- Seamless, universal viability of ITC: New GST rules have paved the way for a systematic mechanism to provide ITC between excise duty and service taxes. This ensures a stronger mechanism for crediting input taxes applicable on the outputs. Previously, central excise duty was levied at the manufacturing stage, which poured into the final retail value. The state VAT was also collected on the excise duty paid value.<sup>14</sup>

## III.RESULTS

Even as GST assures a range of benefits, its true value can be accrued when companies invest in software solutions for complete business process automation. There exist a few good GST-compliant software products today that automates a company's accounting to billing to GSTR filing processes in less than three minutes. Internationally acclaimed systems play a crucial role in streamlining accounting processes, billing, bill-wise/ledger-wise data, generating balance sheets and most importantly generating GST compliant invoices.<sup>26</sup> Also, the responsibility of reconciliation is on the taxpayer, who has to continuously follow up with the vendor and also, maintain his records precisely. An advanced GST ready software system can also streamline the reconciliation process in western Mumbai.<sup>15</sup> One of the big barriers for small businesses to compete with larger names has been the difficulty in starting and sustaining any business in the Indian context. Be it approvals, compliance, multiple registrations or reporting; GST simplifies the life of a start-up in a variety of ways. Consider some of these instances. Currently, for a business operating in multiple locations you require VAT registration in each state as well as a variety of state and local level permits<sup>25</sup>. GST subsumes all these taxes. The entire GST requires centralized registrations and the entire process is online which not only is simpler but also leaves an audit trail and makes the process easier. Post-GST, the entry barriers to small businesses is largely reduced in western Mumbai.<sup>16</sup> One of the big complaints that small businesses and start-ups have today is the plethora of compliance and regulatory requirements to adhere to. What the GST effectively does is to combine over 17 different central and state level taxes into the GST. The GST subsumes, inter alia, excise duty, VAT, central sales tax, service tax, entry tax, Octroi duty, entertainment tax, CVD, SAD etc. Thus, instead of multiple registrations, you can have one centralized registration for GST. The business can manage its entire tax department with a singular focus on GST instead of worrying about excise duties, CVDs, service tax, VAT, CST etc. A reduction in the compliance cost will be a big boon for small and start-up businesses which are mostly bootstrapped on a shoe string budget.<sup>17</sup>

One of the underlying principles of the GST has been to reduce the layers of taxation and complexity for small businesses so that such entities can focus more on their core business rather than worry about compliance. To begin with, the annual turnover limit for full exemption from GST has been raised to Rs.20 lakhs, although the level has still been maintained at Rs.10 lakh in case of North Eastern states.<sup>24</sup> This will keep a lot of start-up players and small units outside the purview of GST and focus on materiality. There is a catch here! If you are supplying goods or services on an inter-state basis, then you will be subject to GST irrespective of the size of your turnover. Secondly, there is a special composite scheme for select players in the manufacturing services sector, where the business unit or start-up can opt for paying a composite rate of around 5% tax and will not be liable for going through the GST compliance. Of course, once you opt for the composite scheme, the benefits of input tax credit will no longer be available to the business in western Mumbai.<sup>18</sup>

Cascading effecting is nothing but the dual taxes that businesses pay when they pay tax on inputs and also on the output. This has been a major drawback for many small businesses as that way they are not able to compete with the larger players. GST proposes to address this issue by opting for seamless input tax credit (ITC) in GST. There are two advantages for small businesses. Firstly, many of these levies like excise, VAT and CST are levied at different

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points and therefore credit is not entirely seamless<sup>23</sup>. GST, once implemented, will overcome this problem. Secondly, the seamless credit transfer between goods and services is not happening today. That is because services are taxed by the centre while goods are taxed by the states and the centre. Hence input tax paid on services that are used to make the final product, are not available as credit on the final product. This makes the product uncompetitive and hits smaller companies the most. With GST, since all taxes come under a single umbrella, the ITC transfer between goods and services is also seamless.<sup>19</sup>

## IV.CONCLUSIONS

GST, when fully implemented, will bring about a greater level-playing field between large and small businesses. Today distribution networks and logistical frameworks are designed keeping in mind the state level taxes and barriers. Under GST, the driving logic will be business needs. That means most small companies and start-ups will be able to run more efficient and lean distribution and logistics networks that can give them a big advantage vis-à-vis their larger counterparts. The ability to sustain a large and unwieldy distribution network will no longer be a USP for larger companies as is the case today.<sup>20</sup> Currently major ecommerce platforms like Flipkart and Amazon India require separate VAT registrations in each state and a plethora of compliances. For ecommerce companies there is a unique concept of Tax Collection at Source (TCS) that will be applied. Under the TCS, the ecommerce company will be required to deduct 1% of the value of the transaction value as TCS and deposit it into the coffers of the government. This substantially reduces the cost and uncertainty for the small businesses and start-ups; most of whom are looking to leverage the online platform to push sales.<sup>21</sup> Of course, there is still lack of clarity over whether GST will treat all transfer of goods from godown to showroom as an inter-state sale and impose IGST. One only hopes that such minor issues will be ironed out. The good news for small businesses is that GST will give them the benefits of simplicity and reduced compliance. Of course, the big benefit will be that they will get a level playing field in taking on the competition from larger players more effectively.<sup>22</sup>

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& Management (IJMRSETM)**

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**Volume 6, Issue 11, November 2019**

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