

Challenges Faced By MSMEs After GST: An Analysis Over Financial Perspective**BY**

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Abstract

This article has analysed the challenges being faced by MSMEs since the inception of GST – new tax regime of India, till now; in financial perspective. Though MSMEs have gained a momentum of contributing 30% of GDP, in India; with a fivefold surge in credit and financial assistance from banks besides subsidies, there is a huge gap between the demand and supply of funding measured almost 11% of the total budget of India. Thus, MSMEs are in pressing need of a strategic support for uplifting from the decline of 0.02% by every year, since 2017; after GST implementation.

Introduction

Micro, Small & Medium Enterprises (MSMEs) play a crucial role in Indian economy, generates a vast employment opportunity as well as business after the agriculture sector. By mapping, this sector alone contributes to 45% of the manufacturing sector, and 40% in the export sector of its output and overhaul; employs 111 million people through a vast network of 63 million units all around the country and 30% of GDP (Gross Domestic Product), otherwise. Consequently, MSMEs have a major role to play in realizing the goals of Inclusive Economy, Make in India, skill India program and other development projects. In fact, they constitute a skeletal system of support services and operations in any industry and fuel major share of tax revenue to the corresponding States and the Central government of India. After, several changes in tax calculations like State Excise, Central Excise duties, VAT (Value Added Taxation); GST (Goods and Service tax) has been rolled out from July 2017 to create a single uniform tax across the country with a slogan, 'One Country One Tax' though it has faced several practical difficulties in implementations and practice by MSMEs. This article analyses GST with a perception of MSMEs in their way ahead of a developing nation.

challenges faced by msmes over gst implementation

MSMEs have experienced this new tax revenue system with some common difficulties, such as

- Confusion and Fear about the new regime of computation, high percent of tax and fiscal liabilities invariably towards all MSMEs' services.
- Lack of awareness on Tax Calculations, Digital Infrastructure and training in a digital environment necessitated as GST system relied on an online digital platform called GSTN, as 97% of MSMEs operates in the informal sector.
- Delay in Input Tax Credit, which affects adversely the working capital of MSMEs
- Complex compilation procedures.
- Increase in Compliance cost and operating cost as most of MSMEs brought to tax net as over 60% of them were not ready for the new tax system and regulations

Stumbling Blocks Ahead Of Msmes Over Gst

ITC: According to the survey report of the Economic Times, GST has made a huge dent in the supply chain and washed off small entrepreneurs from the scene of suppliers to the intermediaries to big companies, in terms of delayed **Input Tax Credit**. In addition, with most MSMEs not registered entities, their monthly or quarterly business performance and their tax revenue are also unfolding one – filings largely unavailable.

DSO: Daily Sales Outstanding¹ is Accounts an important factor to consider in the context of MSMEs, since it shows the number of days that it hires a company to collect payments in lieu of commodities or services offered. On trade, MSMEs have a high dependency typically on receivables; from 58 days to 70 days or more after the implementation of GST. In fact, most of the payments in MSMEs are daily, weekly or monthly base. Ultimately, the high receivable period directly affects the working capital of MSMEs. Virtually 70% of trade receivables MSMEs have been preserved as open till 90 days in Q1 (1st Quarter) in 2018 and this delay of trade receivable has hit not only export business but the MSMEs.

Increased Cost Borrowing: MSMEs have faced a lot of difficulties due to a lack in infrastructure to map their trade outstanding inventories with tune to the GST regime or tax invoices. Further, their weak credit profile and risk weightages attached to MSMEs; by Banks push them closer to higher Credit Change options from the non-banking finance segments. MSMEs face difficulties in accessing finance is an impediment to their global competitiveness; estimated broadly from 11% to 18% based on their loan and credit history. Otherwise, it can be stated, the financial assistance or credit to MSMEs is very low in India, since the Banks are averse to bear the risk. Agreeing to a PTI (Press Trust of India) report, the share of credit to overall bank credit has steadily declined to 14% by the end of March 2018 since 17% in 2007.

“According to an International Finance Corporation (IFC) estimate, the potential demand for the MSME finance is about USD 370 billion as against the current credit supply of \$139 billion, resulting in a finance gap of \$230 billion which is equivalent to 11% of GDP”.

Decline In Sales Volume: MSMEs have been struggling to sustain in their operations even prior GST era due to global economy meltdown, exposure to strong competitors from global market with competitive price over technology besides demonetization. After GST implementation, it is evident that the MSMEs have booked sales volume in decline mode. It has been observed that MSMEs has declined 0.02% since FY17, by every year.

Tax Neutrality: The tax neutrality has not been differentiated to luxury and normal goods, though, the GST Council has revised some percentage on day-to-day usages, consumer products like cosmetics, toilet soaps, domestic LPGs etc. and services like eateries and hotels.

Selective Tax Levying: GST has not covered Petroleum based businesses, even petrol and diesel; which creates a huge gap and does not hold up the unified market of ideology propagated by the union government.

Higher Tax Burden: GST imposes 18% - 28% from the previous slab of 12%. The scenario in the service sector has further been impacted as the concept of Centralized Registration carried away by a

¹ **DSO = Accounts Receivables / Net Credit Sales X Number of Days**



single window system and implication of each unit in different states will have to take separate registration. Thus, the companies have attracted tax even if any service or goods are supplied or exchanged between units of the same company located in different states.

Conclusion

As, MSMEs are well blended of the organized and unorganized sector since from their origin; not being registered each as business entity fully and practiced a foolproof system of bookkeeping, auditing, payment through invoices, auditing and tracking tax until-then, GST will be a nightmare to either MSMEs or GDP of the Country. Indeed, MSMEs need strong supports in terms of financial assistance, free training in terms of accounting, auditing, filing and so forth and a definite time line to get themselves rejuvenated and steam-lined according the visionary's goal as 'One Country One Tax'.

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