

## IMPACT ASSESSMENT OF GST ON ENTREPRENEURS

<sup>1</sup>Mukand Agrawal, <sup>2</sup>Mohammad Haneef

<sup>1</sup>Research Scholar, <sup>2</sup>Associate Professor (Vidyant Hindu Degree College)

<sup>1</sup>Department of Commerce

Lucknow University, Lucknow, India

<sup>1</sup>Mobile:9415001285 Email: mukand.ca@gmail.com, <sup>2</sup>Mobile:8318574766 Email: mhanif1968@gmail.com

### **Abstract**

*The initial impact of GST on businesses especially for entrepreneurs has not been very encouraging due to the high costs of technological changes required and the lack of clarity on several aspects. GST was designed to be a game-changer which will enable the country to improve competitiveness on the world stage and will further lead to greater business opportunities, increased employment, and eventually, more taxes for the state and central governments. However, given poor implementation it has given rise to number of challenges to the business, especially entrepreneurs. There is an imperative need to identify the causes and transform the present system into a simple and easy to comply taxation system.*

**Keywords: GST, Entrepreneur**

### **Introduction**

GST as outlined by the government is a transparent system of tax administration with almost all of the compliances including taxpayer registration, return submission, tax payment and refund claims being online through GSTN portal only. This according to the government will help entrepreneurs to focus on their business rather than being worried about tax compliances.

There will be no cascading of taxes, because of the systematic input tax credit along the full value chain. Thus, effectively only the value addition will be taxed at every stage of the supply chain.

Government has enumerated that compliance under GST are simple and easy to follow. In their opinion many small businesses lack resources to hire experts or deploy a dedicated resource to look after their compliance requirements. However, under the GST law, all compliances have been streamlined and made simple for the benefit of taxpayers. An entrepreneur can adhere to the compliances by himself under a “Self-Assessment” model. Taxes are to be paid on self-assessment basis. Returns need to be filed online through the GSTN portal. GSTN provides off-line utilities free of cost, to enable the small and medium taxpayers to compile invoice data and generate files without being online, which can then be

uploaded to the portal at convenience. As a matter of fact, the system enables auto-population of returns based on uploaded invoice details. There are Computer Based Training materials (CBTs) with embedded videos for each process to be performed on the GST portal. The system is designed in a way that everything can be done by the taxpayer himself, with a little familiarisation. GST works on a “Do it Yourself model”.

Uniform tax laws and regulations will apply across the country. GST aims to transform the country into a single common and unified market, thus enhancing the scope of business multi-fold. Artificial barriers in the form of entry taxes have also been abolished under the GST regime.

## **Background Study**

The major benefits highlighted by the government on introduction of GST were:

### **1, Competitive pricing under GST**

GST will be an enabler in helping businesses to ensure best prices for their products and services. The prices will no longer have tax embedded in costs and as a result entrepreneur will be in a much better position to offer competitive prices and attract customers.

### **2. Improving Logistics**

GST will improve the efficiency of logistics in India and will directly contribute to the profitability of e-commerce and other businesses involved in supply of goods through transportation. GST promises seamless movement of goods across state borders without elaborate and unnecessary paperwork. With abolishment of border check posts the turnaround time for road transport will reduce significantly. Quick and timely delivery of goods will reduce inventory and encourage ‘Just-in-Time’ manufacture and supply, which will significantly improve the financial health of the business enterprise and reduce the pressure on the working capital.

### **3. Improving Liquidity and working capital flows of businesses.**

Entrepreneurs today face major liquidity challenges. Many a times working capital is blocked in taxes and refund claims. The ITC mechanism under GST is aimed at preventing just that. Moreover, the refund

processes are completely online and streamlined under GST with set timelines and online credit of refund in the bank account of the claimant.

#### **4. Compliance Rating System**

A compliance rating system will be in place, which will rate all business on a scale. Better the tax compliance record of the business, higher will be the rating. The rating will be a guide to the prospective customers, to assess risk of engagement with a particular vendor. Thus, a businessman who is more tax compliant, will be able to leverage better rating to attract potential customers. GST compliance can actually result in improved volumes and margins in business. It will help entrepreneurs to source goods/services from better rated suppliers, thus promoting good trade.

#### **Aims and objective of this study**

It has been over 3 years since GST System was brought into effect. The implementation was quite chaotic with various industries asking for several clarifications, frequent revision of rates, and other teething troubles. This study aims to discover how far the benefits outlined by the government at the time of introduction of GST regime have impacted the business especially entrepreneurs.

#### **Methodology**

For the purpose of study, a questionnaire-based survey was conducted across the spectrum of entrepreneurs. The data was tabulated into meaningful outcome using appropriate statistical tools.

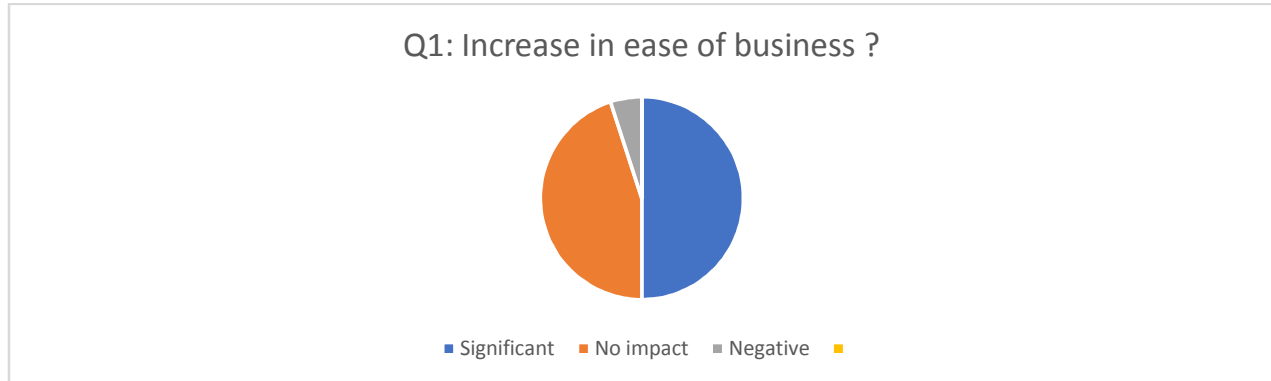
#### **Results and Analysis**

Q1: Has GST eased free movement of goods across the country?

One of the benefits outlined at the time of implementation of GST was that product companies shall no longer be required to maintain warehouses in every state of operation or through which the goods pass coupled with the fact that there will be single tax rate across the country. Previously each state had a differential tax rate as also local taxes such as octroi at the place of consumption of the goods. This caused

huge working capital requirements as well as loss of days due to long queues at each state border for checking of invoices by state tax authorities.

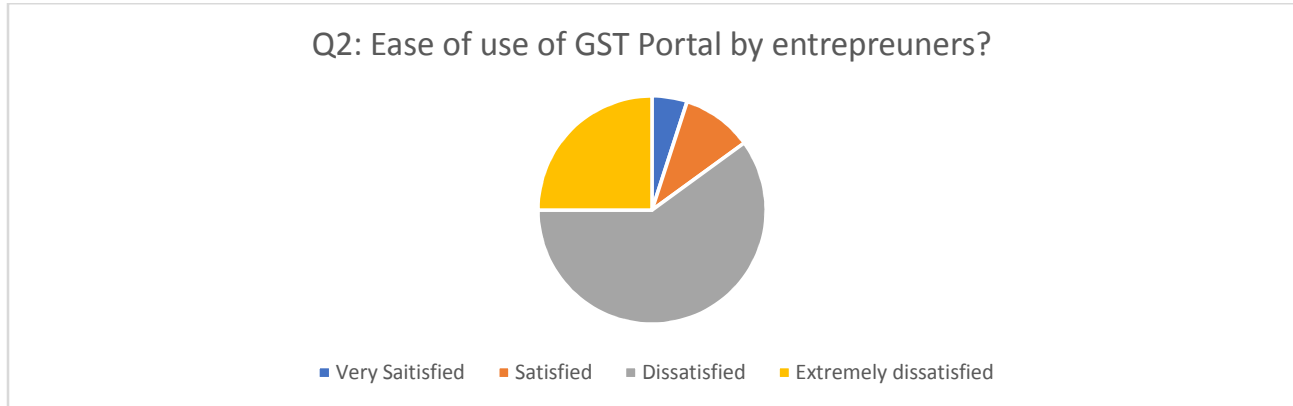
60% respondents were of the opinion that implementation of GST has eased movement of goods, whereas 35% were of the view that there was no significant change and 5% were of the view that there was negative impact.



### **Q2: Is GST Portal User – friendly?**

GST System is fully automated and is web portal based. GST law mandates E-filing of all documents be it registration, return, deposit of tax, electronic storage of records, generating e-way bills, and so on. This has led to an increase in the cost of compliance for all enterprises as they now have to maintain up-to-date records in an electronic system. However, the GST Portal is only in English Language with no vernacular language support.

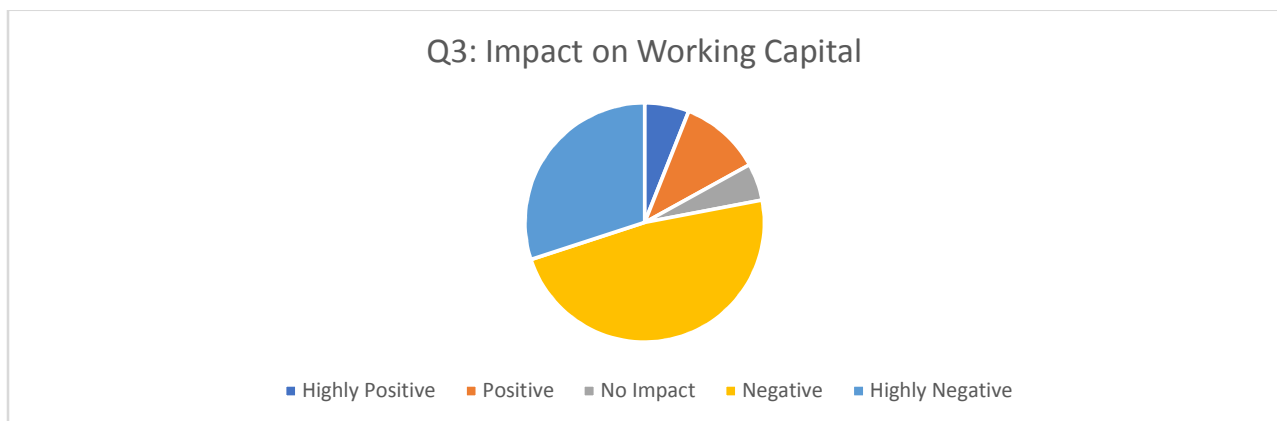
Only 5% respondents were happy with working of portal, 10% respondents were satisfied with the designing and ease of use of GST portal while a majority of 60% respondents reported dissatisfaction while 25% were extremely dissatisfied.



**Q3: Has GST system reduced availability of Working Capital?**

Working capital is a very important component of any businesses' short-term liquidity. Enterprises, especially smaller ones, deftly manage working capital flow to minimize the quantum of external credit to run their businesses. Under the tax regime allows entities to claim Input Tax Credit (ITC) only once the goods have been sold and delivered and are reported by the manufacturer/wholesale supplier on portal. This adds to the working capital requirements of the business as the waiting period for claiming ITC can stretch to months, which in turn leads to increased borrowing and higher cost of conducting business for enterprises besides the need for extensive paper-work.

Only very few respondents (17%) were of the opinion that working capital position has improved with implementation of GST with vast majority reporting significant negative impact on availability of working capital.

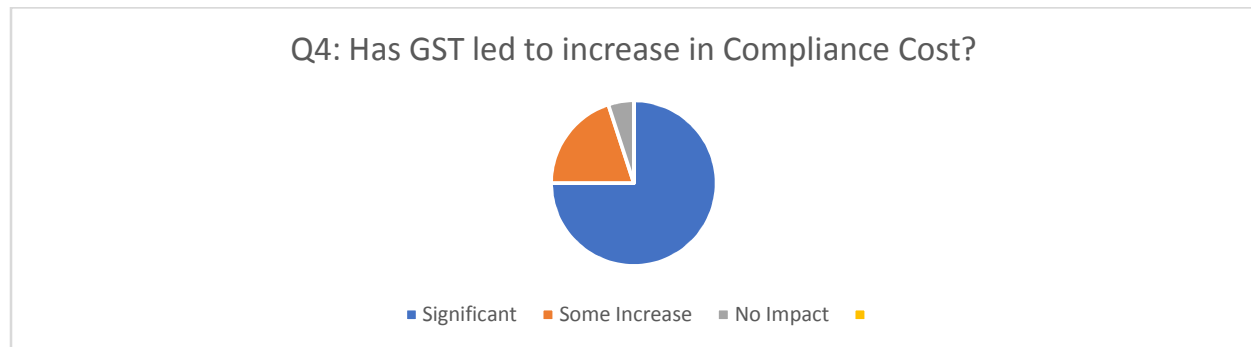


**Q4: Has implementation of GST led to increase in compliance costs?**

This is proving to be a very difficult task for the small and medium businesses as most of them lack the necessary technical resources for the same.

The SMEs are having trouble understanding and adopting the necessary requirements to comply with the new system of indirect taxation. Filing three returns in a month, registration rules, complex refund rules - there are multiple compliance issues that are worrying the businesses.

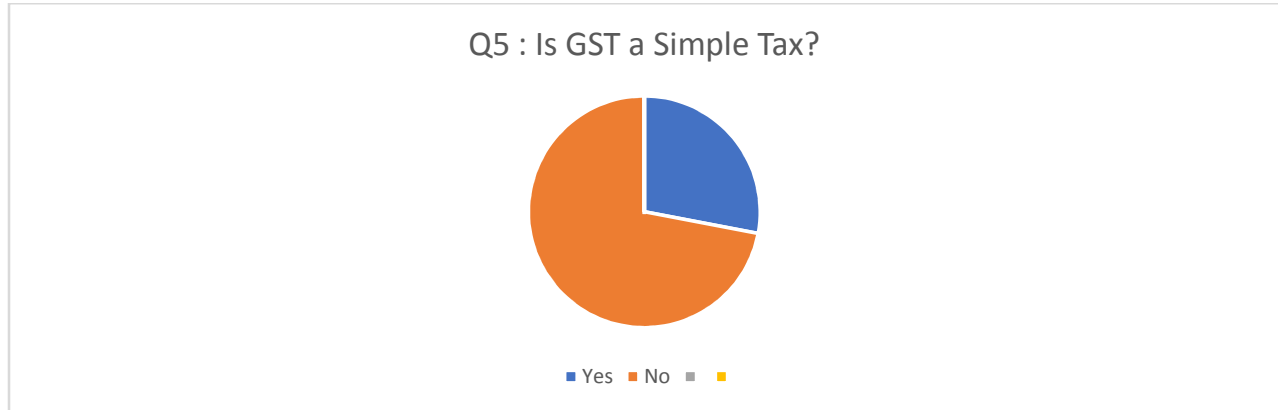
Majority of respondents (75%) reported significant rise in compliance cost while only 5% were of the opinion that there has been no impact.



**Q5: Is GST law a simple tax?**

With the implementation of GST, the owners of small businesses have been the ones who have been negatively impacted the most. They are fraught with hesitation while working in the new regime and does not have enough resources at their command to hire tax experts, automate etc.

Over 71% of the respondents were opinion that GST is a very complex law to understand with multiple notifications and authorities coupled with very high number of changes and did not find GST anyway simpler than earlier laws.



### Limitations

The research findings in this study are based on the survey conducted in and around Lucknow. Therefore, the generalization of these findings should be done with care. The findings may have been influenced by local geographical, social and political conditions.

### Conclusion

GST was designed to benefit entrepreneurs of all kind, with a transformational shift in the indirect tax administration in India. GST should have been an enabler and facilitator for entrepreneurs when it comes to doing business. However there has lot of teething problems arising out of poor implementation and design, glaring disparities and disconnect between policymaking and implementation. The large sector, equipped with resources and access to information, is somehow coping with this disruption, but entrepreneurs are heavily suffering. It's high time government acts and works to remove the bottlenecks and eases the process of compliance to facilitate entrepreneurial development.

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