

A Study on the Effect of GST and Demonetization on the Growth of the MSME

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Abstract: GST and Demonetization are two striking choices taken by the Indian government to handle the issues which are available and to determine the developing issues which emerge step by step in the Indian economy. GST and Demonetization are probably going to be portrayed as distinct advantages of the Indian Economy. GST will expect organizations to be charge grievance as well as rearrange their structure and production network systems. Then again Demonetization is prompting blast the cashless installments. These two will render an incredible open door for clients to relook at their structure and update their stock chains since the present inventory network has been planned by interstate tax collection. This greatest Tax change in Independent India, the Goods, and Services Tax Act (GST) has expedited a platter, an idea called 'Piece Levy' to its citizens. One of the key highlights of GST is the consistent progression of info credit over the chain (from the assembling of products until it is devoured) and the nation over. Thriving in the midst of a difficult domain, the Small and Medium Enterprises (SMEs) of India encountered a few highs and lows in the previous barely any years. The cash in the economy is circling as a system of funnels through which water is streaming. The financial framework deals with this system, and the effectiveness of this framework is known as liquidity. The ethically and morally debased society of today is a result of these distinct imbalances. Dark economy additionally utilizes the cash it makes, however, concentrates more on resources and accumulating. It pushes up interest for property and gold. It accumulates the money locally and all-inclusive, regarding it as a store of significant worth. Dodgers will pay assesses on what they bring into the bank. Thusly money can be a store of significant worth, as the danger of demonetization is genuine.

Keywords: GST, Demonetisation, MSME, Indian Economy etc.

1. INTRODUCTION

Goods and Services Tax which is ordinarily alluded to as "GST" is utilization based tax/demand. It depends on the "Goal standard." GST is applied to goods and services at where last/real utilization occurs. In spite of the fact that GST is a tax change, it will affect each circle of business movement, be it acquirement, inventory network; IT, coordinations, evaluating, edges, working capital, and so on as various business choices are taken depend on the present tax structure which may never again be significant in the new GST system. Then again, Demonetisation which is a demonstration of stripping a

currency unit of its status as lawful delicate. The need for Demonetisation emerges at whatever point there is a difference in national currency. The old unit of currency must be resigned and supplanted with another currency unit. The significant thought process of this demonetization is to battle swelling, to battle debasement, and to dishearten a money framework. In this manner, the procedure of demonetization includes either presenting new notes or coins of a similar currency or totally supplanting the old currency with new currency [1].

2. IMPLEMENTATION OF GST

GST is a far-reaching backhanded tax that would supplant existing duties, for example, extract obligation, administration tax and VAT. The tax is required on the worth included and utilization as it were. All out weight of the tax is solely borne by the household customers [2]. The government reported to execute GST from 1st of July 2017 yet there are a few difficulties before GST Council which are as follows:

- It is hoped that GST would be simple and with low tax rates. Everyone wants a simple GST but there is a fear amongst the states that they might lose revenue. There is a problem in assigning commodities rate slab and currently, different states have their own priorities. For example; biscuits are an essential commodity in Kerala but are a luxury item in Bihar. Assigning anything a rate slab would be difficult.
- The biggest challenge of GST implementation is bringing all the indirect taxes under the same roof. There has been opposition asking to include purchase tax by a few States other states are reluctant about alcohol tobacco products coming under GST. This is due to the fact that a major part of state revenue is derived from these products.
- With the transportation services available everywhere the place of sale and consumption may not be the same. This makes it difficult to go forward with revenue allocation.
- Determining GST rates is a major step in ensuring the success of GST which should conducive to government and public.

- Input tax credit system which forms the backbone of GST like VAT system would be fully digital. To prepare the government system to cater the E-Filing of the tax a backend infrastructure named project SAKSHAM is being prepared by Wipro and the frontend system named GSTN (GST Network) is being developed with the help of Infosys. Training our officials to operate the system would be a onetime challenge specific to this year. Over which we are yet to know what impact would it make on state revenue and how would States respond to that.
- GST is absolutely different from the existing system; it, therefore, requires the tax administration staff at both state and Centre to be trained properly in terms of Concept, legislation, and procedure.
- GST has to develop the GST portal which ensures Technology support for GST registration, GST return filing, tax payments, IGST settlements, etc.

SMEs /informal sector which has been hit hard by demonetization is also the one to be hit hard by GST that should be another worry for policymakers as over 90% of the Indian workforce is employed by this sector.

3. IMPACT OF DEMONETISATION

With the declaration of the Government of India on the eighth of November, 2016 about the demonetization of existing rupees 500 and 1000 currency notes and presentation of new notes, the Indian economy has moved towards the cashless economy.

The IMF cuts India's development rate for the flow financial year to 6.6% from its past gauge of 7.6% due to the "impermanent negative utilization stun" of demonetization. The decrease in development rate is relied upon to continue into 2017-18 with development set to diminish to 7.2% against the gauge of 7.6% this is because of less accessibility of money in real money escalated areas like assembling and land. Indeed, even the car business which was becoming quickly before has seen a compression in the October-December quarter in 2016. Obtaining the intensity of customers has been adversely influenced because of the money crunch. In India over 90% of exchanges are occurring in real money and advanced exchanges only for staying 10%.

Banks have additionally been concentrating on the single errand of stores and withdrawals. These outcomes in that their fundamental significant capacity of giving advances has been antagonistically influenced. Current record clients who need a huge measure of money at short notice have not had the option to get to money and credit because of limitations on withdrawal [3].

The little and medium estimated venture sector(SME) as we comprehend is a major piece of the economy adding to 8% of the GDP while working in excess of 18 individuals

consistently. The work compensation in this division are to a great extent paid in real money and along these lines, the wages have been antagonistically influenced by the demonetization. Low wages prompt low acquiring force and along these lines the low interest for goods and which prompts joblessness. Different divisions like eateries and transport administrators have additionally been adversely affected because of the stoppage of monetary exercises and furthermore because of the actuality that in the areas mostly the installments are through money as it were [4].

The discount vegetable markets have been seeing declining requests and costs of nourishment things have fallen gravely making it inconceivable for the ranchers to deliver these yields. Farming is the one area where every one of the exchanges is in real money. The withdrawals of old currency notes have put pressure on the Mandis and in these manners; ranchers are having issues in selling their produce in the market.

Additionally, since there is an intense lack of rupees 500 group notes directly, change for the high division rupees 2000 notes isn't effectively accessible with the vegetable and natural product sellers. This additionally affecting the occupation of the disorderly division. The Employment age has been antagonistically affected by the currency demonetization, the customer's interest has eased back and along these lines, mechanical creation has declined. Indeed, even the assembling area is seeing lull underway which represents the most elevated work of talented and Semi-gifted works, it made fewer employments as well as occurring at a higher rate [5].

Upwards of 4 lakh individuals for the most part day by day bets may have either lost their positions or disregarded work briefly because of an absence of installment up until now and the number is just going to develop in the money crunch perseveres.

4. IMPACT OF GST ON MSME

At present, the absolute tax assortment in India is around 14.5 Lakh Crore, of which 34% is roundabout tax. Circuitous taxes incorporate help tax, stump obligation, customs obligation, VAT, and so on. It alludes to the assortment of tax in a roundabout way by the Government of India. In a large portion of the creating nations, the portion of the roundabout tax is higher than the immediate tax. Be that as it may, in the created nations the portion of the circuitous tax is a lot of lower. Thusly, the new GST usage will enable the government to have a superior hold on the taxpayers. This ought to be fit for advancing the whole tax framework.

Little and Medium Enterprises (SMEs) have been considered as the essential development driver of the Indian economy for quite a long time. It is further apparent from the way that today we have around 3 million SMEs in India contributing practically half of the industrial yield and 42% of India's all-out

fare. For a creating nation like India and its statistic decent variety, SMEs have risen as the main work producing area and has given adjusted advancement crosswise over segments. We should look at what might be the effect of GST on Small and Medium Enterprises [6].

All the consistency systems under GST — Registration, Payments, Refunds and Returns will presently be brought out through online entrances just and in this manner SMEs need not stress over cooperating with division officials for doing these compliances, which are considered as a migraine in the present tax system.

A. Direct Impact of GST on Small and Medium Enterprises

GST will help and ease the process of starting a business in India. Earlier, every business in India was required to obtain VAT registration, which differs in every state, and the rules and regulations are different. Thus it was a very confusing procedure. However, under GST, the businesses have to only register for GST which will have a centralized process, similar to service tax.

Currently, for any business, it is mandatory to make a VAT payment if the annual turnover is more than 5 lakh in a few states and 10 lakhs in a few other states. This difference in various states creates confusion. Under GST a business does not have to register or collect GST if the annual turnover is 10 lakh. This is applicable to every state. This will allow many small businesses that have a turnover between 5 lakh –10 lakh to avoid applying for the GST return. GST allows small and medium businesses to do business with ease in India, due to the less complexity. The distinction between the services and goods will be gone, and this will make compliance easier [7].

5. IMPACT OF DEMONETIZATION ON MSME

The smaller scale, little and medium-sized undertaking (MSME) area is a major piece of the economy, adding to eight percent of the GDP while utilizing in excess of 80 million individuals year on year. Most SMEs are customarily worked, family-run organizations. Extensively, there are two sorts of players in the market in this section. One, the organizations that were framed on the grounds that their advertisers saw the open door at an early stage before any other individual could and proceeded to become effective organizations rapidly. While much consideration has been centered on the way in which demonetization has troubled the overall population, the unexpected nullification of 86% of Indian money may make a short-to-medium-term sway that is fierce for independent ventures. The significance of Micro, Small, and Medium Enterprises (MSMEs) can't be exaggerated. As per the assessments of the Ministry of MSME, the division produces around 100 million occupations through more than 46 million units [8].

Where GDP development balance because of demonetization is evaluated at 50bps at the lower end to as much as 300bps at the better quality, it very well may be assumed that the effect on MSMEs will be higher than the remainder of the economy because of their more noteworthy reliance on hard money. Their ethical money cycle starts from a cost base that is solely money based. This at that point boosts the business to acquire incomes in real money too.

The following are the impact that demonetization will have on the SME sector.

A. Impact on Receivables from Customers

Most MSMEs found demand for their products and services taking a dip. The impact was uneven in rural and urban areas. The rural segment was hit even more badly than their urban counterparts because of greater availability of cash, a sparse bank branch network and rather no digital payment systems. The MSMEs' receivables have been increasing due to a lack of bargaining power with large corporate customers. And the compulsion to deal with large corporates to avail of bulk orders and to increase scalability has meant many MSMEs face difficulty in managing their working capital.

B. Impact on Credit

MSME is one segment of the economy which is credit constrained. About 17% of bank lending is to MSMEs. Expansion in the potential credit in the economy could expand the credit available to this segment of the economy which is more employment-intensive than the organized manufacturing. In other words, if the access to credit for this segment can be improved, it can generate many positive spin-offs. One reason why this segment might get better access to formal sector credit would be if all their transactions move to the digital format, thereby making available to the lending institutions evidence of creditworthiness. However, for this, the transactions need to move digital before they can get access to credit. In other words, unless the banking sector is exploring more risky asset categories, they would not be the beneficiaries of the expansion in potential credit. It should be kept in mind that credit is not the only constraint faced by the MSMEs. There is a cost of compliance with the regulation in the formal sector both tax legislation and other legislation which would increase the cost of operation. In the absence of economies of scale, after incurring all these costs, some of the MSMEs might not be viable in the new environment. 41% of MSMEs say that their clients have shifted to cheque/electronic payment since demonetization [9].

C. Impact on Employment

Demonetization has had an adverse impact on job creation in the economy as the micro, small and medium enterprises (MSME) sector bore the brunt of the reduced cash in circulation. MSMEs that primarily engage in infrastructure

projects reported a 35% cut in employment and 45% revenue loss. Industries engaged in export-oriented activities (including foreign companies) reported 30% job losses and 40% revenue fall. In the manufacturing sector, medium and large scale industries reported a revenue hit of 20%.

D. Impact on Operations

MSMEs stopped operations for a certain period of time as the withdrawal limits were small and they would therefore not be able to source material or pay off workers, particularly those on a weekly basis. MSMEs sector has been impacted significantly as the sector is majorly driven by the contractual and daily wage workforce and most of the mobile workforce doesn't have their bank accounts at the place of their working whereby lots of working capital and transaction of money from various entity to the target entity but due to demonetization the market lacked the sufficient amount of currency which is essential for this units to run fluently and smoothly. The impact on prices is prevalent on most of the products due to demonetization. As cash withdrawal was limited, even the basic functioning of units got choked. Units found it difficult to pay wages and meet expenses for transport.

6. DEMONETISATION PAVING BETTER WAY FOR GST IN PLACE

The 8th of November, 2016 was an important day in the calendar of Indian reforms. On this day, a significant milestone in the implementation of the Goods and Services Tax Network (GSTN) portal was achieved with over 80 lakhs of indirect tax assesses starting to shift to the portal. There is also a striking similarity between the aims of demonetization and GST. Here are some points to consider:

A Planned Step: Much is said of demonetization being a planned step, rather than a haphazard decision that might have been arrived within a span of one week. It is said to continue from the Jan Dhan Yojana, Income Declaration Scheme, conversion of local post offices into semi banks and then the announcement on the same day when the GSTN portal's biggest step into its implementation had commenced.

The Bull's Eye: GST had hit the target of making traders aware that each of their transactions would be tracked. With demonetization announced at the same time, the cumulative effect is to make the 'target people' worried and uncomfortable, thus trying finding new options and solutions! However, the real target had been to get all the hoarded cash into the circulation and also to have all the taxpayers on-board into one single system. One of the most important functions of GSTN will include running the matching engine for matching, reversal and reclaim of input tax credits.

GST is yet again one more reform in the Indian economy which is to assist India in moving further to the goal of a digital

India, encouraging paperless transactions by ensuring, Electronic Tax Liability Register, E-Register for Cash Payments, Credits, mandating proper documentation and record-keeping [10].

7. GST AND DEMONETISATION WILL CHANGE INDIAN ECONOMY

Goods and Services Tax (GST) and Demonetisation move started by Prime Minister Narendra Modi drove the government as monetary distinct advantages. GST will guarantee higher taxation to the extent the Center is concerned and furthermore higher taxation for states. In the wake of the raising restriction assault on the government, all worries of the Indian economy enduring because of demonetization was subsequently dismissed. Head administrator Modi has made another ordinary in the nation where there will be not so much money but rather more of computerized currency exchanges. To the extent currency changes are concerned, the size of the GDP just as tax base will essentially extend over the long haul. The demonetization is a tremendous advance to swap 86 percent of the currency of the country. The shrouded currency turns out, which likewise incorporates counterfeit currency, cash which is utilized to complete crimes, cash which is utilized by psychological militant association [8]. The usage of Demonetisation change is an exceptionally intense choice takes by our Indian Government. This progression started by the government has fortified the banks. In this current situation, the capacity of the banks to help the economy was diminishing. Consequently to fortify the banks we used to contribute from the budget [10].

8. CONCLUSION

Several policy interventions alongside innovation and development will keep on assuming a crucial job in making a business-accommodating environment for the MSMEs. Almost certainly that GST is expected to build the taxpayer base, significantly MSMEs into its extension and will put a weight of consistence and related expenses to them. Be that as it may, over the long haul, GST will turn these MSMEs increasingly aggressive with a level playing field between huge ventures and them. Actually, as of late government has additionally framed an uncommon panel to care for the issues looked by the MSME area in GST. It is asked to the business that they proactively feature the above issues and get the help preceding coming of GST as once GST is executed; the odds of reprieve would be negligible for the division. Then again, De-adaptation has just influenced the smaller scale, little and medium undertakings. Since the greater part of exchanges in this segment is money-based, a liquidity crunch will probably cause a log jam in monetary movement. In the medium and long haul, in any case, there is an explanation behind idealism. The inflow of stores ought to intelligently take into account lower financing costs, prodding interest in this segment. Further, the move towards cashless exchanges will support enlistment

among such endeavors and enable them to profit by focal and state plans and impetuses. The entrance to minimal effort capital ought to likewise improve if there is a noteworthy move to a computerized and cashless economy.

Therefore GST will frame a for all intents and purposes unbreakable chain of exchanges directly from the underlying crude material, till the goods are offered to the buyer. Demonetization then again is a humongous reset button on the parallel economy, where each lawbreaker is compelled to begin once more. It resembles dismantling a few sprinters back to the beginning line since they excelled in the race utilizing unreasonable methods. Be that as it may, nothing prevents these sprinters from utilizing similar methods again and dashing ahead. Yet, the main things that can stop these sprinters, or make them slower, are obstacles. Also, GST will be one such significant obstacle. Till now GST's showcasing has just been that of "One Nation One Tax". Something which will render dead, an intricate arrangement of taxes which was made over numerous years, and join it into one single, business benevolent, buyer inviting tax system. While this is valid, GST merits more credit than this. The main future-situated impact of demonetization will be, once an individual stores an enormous entirety of money stashed away, the tax specialists are in a flash alarmed that this individual has so a lot of riches, henceforth he can stay on the radar later on. GST, similar to demonetization, would be another instance of transient agony for long haul gain. So we should be set up for the standard suspects to rake a wide range of issues about GST and Demonetization just to slow down it.

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