



Mains Practice Question

Q. Evaluate the economic impact of GST implementation on small and medium enterprises in India. What strategies can be adopted to further simplify the GST framework to better support their growth and sustainability? (250 words)

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Approach

- Introduce by highlighting significance of GST as well as SMEs
- Give Positive and Negative Impact of GST on SMEs
- Suggest Strategies to Simplify the GST Framework for SMEs
- Conclude suitably.

Introduction

The **GST**, introduced through the **101st Constitutional Amendment Act, 2016**, streamlined India's indirect tax system, creating a unified market. As small and medium enterprises (SMEs) drive **India's manufacturing, employment, and exports**, assessing GST's impact on them is vital for sustained economic growth.

Economic Impact of GST on SMEs:

- **Positive Impacts:**
 - **Lower Logistics Costs:** By abolishing entry taxes at state borders, GST reduces **logistics costs and truck travel time by up to 30%**, enabling faster delivery.
 - **Example:** SMEs transporting goods across states **now save on toll taxes, boosting supply chain efficiency.**
 - **Unified Market:** GST facilitated interstate trade by **eliminating varied state-level taxes**. SMEs can now access national markets at lower costs.
 - **Example:** A **textile SME in Maharashtra** can now seamlessly trade with northern states without incurring high interstate tax burdens.
 - **Digital Compliance and Transparency:** The mandatory digital record-keeping under **GST formalized many informal SMEs**, increasing their access to credit and government schemes.
 - **Example:** SMEs with GST compliance records can leverage tools like **PSB Loans in 59 Minutes** for easy credit access.
 - **Improved Export Competitiveness:** GST eliminates cascading taxes and ensures timely refunds of input taxes under schemes like the **Export Promotion Scheme**, enhancing the global competitiveness of SMEs.
 - **Example:** A **small garment exporter from Tiruppur** benefits from a smoother refund process, enabling reinvestment in production.
- **Negative Impacts:**
 - **Compliance Burden:** SMEs face challenges in adapting to GST's complex filing requirements, such as monthly and annual returns.
 - A large number of small businesses **found GST compliance a significant**

challenge due to insufficient digital literacy.

- **Increased Working Capital Requirements:** GST mandates payment of tax at the time of supply, **leading to cash flow disruptions for SMEs awaiting payment from buyers.**
 - **Delayed refunds under GST Input Tax Credit (ITC) provisions aggravate liquidity issues for exporters,** impacting SMEs heavily reliant on overseas markets.
- **Uneven Playing Field with Larger Companies:** Larger corporations are better **equipped to handle compliance and pass on benefits of input tax credits,** while SMEs often lose competitiveness.
 - In industries like textiles and handlooms, smaller players face higher effective tax burdens due to **poor credit utilization compared to corporations.**
- **E-Way Bill Challenges:** SMEs involved in **logistics and supply chains face penalties and delays** due to errors or non-compliance with the e-Way Bill system.
 - Many SMEs reported delays in shipments due to technical issues in generating e-Way Bills.

Strategies to Simplify the GST Framework for SMEs:

- **Expand the Composition Scheme: Increase the turnover threshold for eligibility under the Composition Scheme from ₹1.5 crore to ₹3 crore,** enabling more SMEs to pay lower taxes.
 - Extend coverage to service-oriented SMEs, enhancing their competitiveness.
- **Faster ITC Refunds:** Streamline refund mechanisms with fixed timelines (e.g., 7 days) to address liquidity concerns. Automated ITC claims to avoid delays caused by supplier non-compliance.
- **Digital Training and Infrastructure:** Launch **government-backed GST literacy programs to equip SMEs** with technical skills for compliance.
 - Subsidize digital tools and software to enhance accessibility for smaller enterprises.
- **Sector-Specific Relief Measures: Reduce GST rates for SME-dominated sectors like textiles, food processing, and handicrafts** to boost their profitability.
- **Strengthen Grievance Redressal:** Set up dedicated SME help desks for GST-related queries, ensuring prompt resolution.

Conclusion

The **implementation of GST has had a mixed impact on SMEs.** While it reduced the tax burden, enhanced transparency, and created a unified market, challenges like compliance complexities and liquidity constraints persist. Addressing these issues through **simplified procedures, digital inclusion, and sector-specific incentives** will empower SMEs to thrive in a competitive economic environment.