

# Effect of GST on Small and Micro Enterprises in Himachal Pradesh: A Study of South Zone

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**Abstract :** The introduction of GST simplified the country's indirect tax structure, ensuring smooth commercial transactions across the country. In this system there are four GST types namely Integrated Goods and Services Tax (IGST), State Goods and Services Tax (SGST), Central Goods and Services Tax (CGST), and Union Territory Goods and Services Tax (UTGST). The government must make GST a landmark tax reform rather than a tax regime laden with fears and apprehensions. The GST is help to avoid the tax on tax of production distribution chain of the business. By implementation of GST get many changes in the tax system.

**Keyword:** Indirect Tax, GST, Impact of GST, Cost Effect.

**Introduction** - The Central Government and the State Governments each levy their own taxes under the taxation system in India. A few small taxes are also collected by local governments like the municipality and other local governments. All the tax system is classified into two categories i.e. direct and indirect system. In 2017 a major change occurred in indirect tax system when GST implemented in India. The introduction of GST simplified the country's indirect tax structure, ensuring smooth commercial transactions across the country. In this system there are four GST types namely Integrated Goods and Services Tax (IGST), State Goods and Services Tax (SGST), Central Goods and Services Tax (CGST), and Union Territory Goods and Services Tax (UTGST). GST imposed by specific State governments on the intra-state trade and services or trade within the state is called SGST (State-GST). Here the revenues are earned by the state govt. due to SGST as the transaction occurred within the state. For example: suppose goods manufactured and sold within Himachal state then SGST will be collected by the Himachal state. In case of union territories such as Chandigarh, instead of state govt. the GST is collected by the central administration and is referred to as UGST (Union-GST). Intra-State transaction of goods and services, CGST (Central-GST) is levied by the central government. It is collected along with the SGST or UGST, and the revenues collected are distributed between the state and the central govt. For example: if the goods or services are provided within State Himachal, then along with SGST or UGST, CGST will also be collected. IGST: Integrated GST is collected on goods and services transactions between different states.

The government must make GST a landmark tax reform rather than a tax regime laden with fears and apprehensions. The GST is help to avoid the tax on tax of production distribution chain of the business. It is also applied to imports or exports of goods and services. Here the SGST portion of the tax collected is given to the state, which is the consumer of the said goods or services. The IGST earned is then divided between the state and the central government. The impact of GST on retail sector is going to be positive from taxation and operation point of view. During the implementation stage of GST, the retailers faced some complexities because they were not fully aware about GST. Sometimes consumers feel higher price for goods and services after the implementation of GST. But in certain circumstances, they will also get benefits from GST. They were relieved from earlier overall tax burden. Whether the impact of GST is good or bad, its implementation in retail shops helps our society work in more efficient and cost-effective manner.

## Literature Review

**Abhijith and Meenu Suresh (2019)** have concluded that most of the retailers are worrying about the fact that complex formalities and documentation coupled with vague or low clarity provisions has been adversely affected the retailers in their daily routine. Pre-GST is preferred to Post-GST in certain aspects constituting demand for products, services and compliance costs whereas Post-GST is dominated in transparency and tax credit availability. The study discovered that the implementation of GST created a bleak impact even though various wholesalers and retailers had benefitted from the same. Despite the idea is tenable and exemplary, still GST has made certain problems to the

business to operate. The major portion of the respondents have an opinion that GST can be revamped to an ideal system by eliminating technicality issues, diminishing tax rates, more clarity on provisions and avoiding needless complications. It can be concluded that GST is a scientific system of taxation but in India it needs lot of amendments, convenience e and rationalizations.

**Sheela et al. (2019)** observed that the GST is help to avoid the tax on tax of production distribution chain of the business. By implementation of GST get many changes in the tax system. GST system is an invoice matching by the way to ensure flow of return in various parts of country. By the GST return is use common language to filling the tax it so easy to understand to everyone in the country. GST increase the paying of tax payer and also increase the revenue level of the county. Now most of the retailer is get awareness about GST. The study also suggested that the GST is good to their business by avoiding the black money it makes digital India it benefits for the future business retailers. GST is improving step by step in future period cashless transaction are realized than the black money fully destroy in our economy.

**Priyanka Sharma (2020)** observed that the government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST (like France was the first country to implement GST in 1954) and who overcame the teething troubles to experience the advantage of having a unified tax system and easy input credits. GST will make taxation easy for industries. Customer will also be benefited as the overall tax burden on goods and services are reduced. The government must make GST a landmark tax reform rather than a tax regime laden with fears and apprehensions.

**P. Sarkar and S. Rani (2020)** have observed that the Indian business situation producing industry is the assuming critical job, in business world. Assembling part is financial development of country. At the point when the nation centre's on assembling industry, the nation conquers mechanical hindrances. In spite of the fact that the positive effects are reliant on an unbiased and sound plan of the GST, adjusting the clashing interests of different partners, full political duty for a major expense change with a protected alteration, the switchover to an impeccable GST has been a major jump in the backhanded tax assessment framework and furthermore give another driving force to India's financial change.

**P. Varalakshmi and K. Santha Kumari (2021)** have exhibited that the customers may be pleased about the reduction in the amount of payments they are paying now in order to please their taste buds and hotel and restaurant owners can celebrate because they can now claim input tax credits easily. The restaurant industry has been burdened with high and multiple taxations. However, liquor should be included in GST. Exempting it defeats the very purpose of bringing in a uniform single tax structure. This

is neither beneficial for 'ease of doing business' nor for the customers, "Everybody likes consolidation of taxes as it leads to greater transparency and will help guests and buyers understand the overall costs. Overall, GST should be positive for the sector assuming that the multiplicity of taxes will go away in food and beverages.

**Anchal Ojha et al. (2022)** has observed that the tax policies play a vital role in the economy as a source of money. With the new online policies of Good and services tax, it will break all barriers between central and state government and help in boost the economy. The journey of indirect taxation is momentous. Few years ago the concept of GST was introduced in India but the bill was not passed; now the enforcement of GST has done under the guidance of honorable Prime Minister Mr. Narendra Modi. After this dynamic step, all the sectors in economy have clearer and transparent taxation system as all the process is online. It has reduced the hidden and embedded taxes. The Central and State Government's levies have been unified with the introduction of GST. The drawbacks of previous taxes have been overcome by GST as it removed the cascading effect of tax and multiple taxes to boost up the economy. With the implementation of GST, the difficulty of filing indirect taxes has decreased. Doing business at National and International level is easier now because of GST.

**S. Bhuvaneswari and Deepak. M (2022)** suggested that the Government has to create awareness regarding rules, regulations, and compliances of GST by arranging workshops, seminars, conferences to educate proprietors of SSIs, the government of India should have to increase threshold limit from 20 lakhs to 1.5 crores hence that reduces tax burden to small businesses, the government has to take initiative measures to reduce compliance cost. This will help full to lower their product prices. The study also suggested that the GST is IT backed infrastructure that needs necessary training to the employees hence government should provide necessary training facility to employees and proprietors of SSIs. The business is in different states needs separate registration may increase compliance cost hence one registration should be there for entire business. That encourages business to diversify their business activities beyond their states. The study also revealed that exemption should be given to certain products of small industries in order to encourage small traders in the country.

**Kanimozhi (2023)** has analyzed that the GST is one of the most significant tax reforms since independence. It has consolidated multiple indirect taxes into a single statute in order to achieve consistency in the form of "One Nation, One Tax." However, in order for it to be acceptable to everyone, it is critical that everyone's representation be taken into account. It should take into account the issues that MSMEs face and make it easier for them to accept it as a normal business element rather than a requirement for compliance. To obtain a broadly acknowledged

conclusion, the impact of GST on the economy must be examined in its entirety. The introduction of GST simplified the country's indirect tax structure, ensuring smooth commercial transactions across the country and beyond the world.

**Rajeev Kumar Gupta (2023)** conclusion has been drawn and has found that Direct tax collection is showing increasing trend. ii. In comparison to direct tax indirect tax collection is showing decreasing trend. iii. Direct tax to GDP ratio is also showing increasing trend. iv. Indirect tax to GDP ratio is not showing stationary trend but it was found that indirect tax contribution is continuously decreasing in trend total tax collection during the study period. v. Total tax collection to GDP ratio is also showing increasing trend.

**M. Senthil kumar (2023)** has observed that implementation of GST in retail shops affects our everyday lives in different ways. Implementation of GST is one of the best decisions taken by the Indian government. The impact of GST on retail sector is going to be positive from taxation and operation point of view. During the implementation stage of GST, the retailers faced some complexities because they were not fully aware about GST. Sometimes consumers feel higher price for goods and services after the implementation of GST. But in certain circumstances, they will also get benefits from GST. They were relieved from earlier overall tax burden. Whether the impact of GST is good or bad, its implementation in retail shops helps our society work in more efficient and cost-effective manner.

**K. Rithu Varjitha (2023)** has concluded that the tourism has been an important aspect in Agra since many decades' not only domestic but also international tourists visits the destination for its spiritual significance. The introduction of GST rates in tourism and hotel industry was initially from the company owners and it effects in understanding its implementation in various tourism companies in Agra, a city in the state of UP. The sector May benefit in the form of lower tax rates which should help in attracting more tourists in India. Since Agra is one among the leading tourist destinations in India thanks to its pilgrimage and spiritual significance, the taxes should be maintained intrinsically to chop down the value of the services. The rates should be maintained simultaneously in order that the tourist count doesn't fall and therefore the destination doesn't decline. GST may be a glimmer of hope for the Hotel and Tourism Industry if we will keep the GST rate between 10 to fifteen. GST might herald its uniformity of tax. To combat such issues steps should be taken not only by the government but also the host community and tourists to guard the rates of the services within the destination.

**Deepti Daga and P. Ganesh Anand (2024)** has observed that existing enterprises, GST has simplified the tax structure, unified the market hence improved the overall operational efficiencies of small, so far the unorganized small enterprises were growing fast than the organized ones because of the tax avoidance, with GST in effect, it has

made the taxation system has got transparent thus making the entities liable for tax payment. For a new entrepreneur, the application of GST, made the registration for taxation easy, relieved them from previous VAT registration. The Government has implemented GST with a view of long-term better prospect for the country by various aspects. The goods and services tax (GST) makes the tax system easy and thus contributing in the growth of the country. The Government applied GST by summing up of various taxes under CGST & SGST, transparent taxation, reduced raw material cost, to bring down the cost of goods and services and the ease of doing business in India. Initially there was huge chaos regarding the enactment of GST, but many successful businesspersons supported it and considered it as a boon for the long-term development of the nation. GST being the big step of Government of India to simplify the previous tax system has both positive and negative impact on business regulations of Micro, Medium & Small Enterprises.

**Objectives of the Study:** The objectives of the study will be as under:

1. To examine the impact of GST on Inflationary cost, income, documentary process, manual work etc.
2. To analyses the qualification-wise impact of GST on Income of entrepreneurs business.

**Methodology adopted:** The study primarily based on the primary data which is collected from 500 entrepreneurs selected randomly is base for the analysis. A questionnaire was developed exclusively for the purpose of collecting the primary data, particularly to examine the impact of GST on compliance factors. Consistent with the objective of the study, different techniques like the simple percentage, mean, standard deviation, skewness, kurtosis and chi-square have been used for the analysis of the collected data.

## Results and Discussion

**Impact of GST (Compliance Factors):** It is evident from the table-1 that the mean score of the respondent views regarding the impact of the GST on inflationary cost is more the standard average score. The variation in their opinions is recorded at 1.1934, while skewness is -0.591. It depicts that their opinion is distributed more towards the higher side to agree and strongly agree. Further, the calculated value of kurtosis reveals that the distribution is scattered towards the higher side of the mean score which supports the above opinion. The  $\chi^2$  test of goodness of fit is significant at 1 percent level of significance; so null hypothesis is rejected. It reveals that the opinions of the respondents are not equally distributed. Thus, it can be concluded that the major chunk of the respondents have opined that GST successful in reduction the inflation cost in the economy, around 24.8% of the businessman's considers that GST has failed in reducing the inflation.

It is revealed that the mean of the entrepreneurs' views regarding the impact of the GST on income is more than



the standard average score. The standard deviation is 1.1627, while skewness is -0.443. Thus, the major chunk of the respondents (56.4.%) either agrees or strongly agrees with the statement that the GST helps increase the income. The calculated value of kurtosis also supports the above opinion. Further, the value of  $X^2$  when compared with the table value is at 1 percent level of significance. It shows that the opinions of the respondents are not equally distributed. Thus, the above analysis reveals that the GST has helped in increasing the income of the businessman's of Himachal Pradesh.

It is inferred from the table that the mean score of the businessman's views regarding the Introduction of GST has increased the documentary process above the standard average score. The standard deviation is 1.3144. Further, the negative value of skewness implies that an overwhelming majority of the respondents either agree or strongly agree to the statement that the implementation of GST has increased the documentary work in the state. The test of goodness of fit also indicates significant difference in the distribution of opinions of these respondents with maximum concentration towards the higher side on the five point scale. Thus 55.8% of the responded answered that GST has increased in their documentation as for each transaction they need proofreading.

It is exhibited that the mean score is 3.566 and it is above the average mean score (3). It depicts that the majority opinion is divided between agree and strongly agree responses. The standard deviation is 1.3570 and negative value of skewness is (-0.812), which also point out that the majority of opinions of the respondents are highly concentrated towards the higher side on the five point scale. The  $X^2$  test of goodness of fit also supports the above findings as there is significant difference in the distribution of opinions of the respondents. Thus, it is clear from the above statistical analysis that the GST has made it mandatory to provide bill to the customers.

It is inferred that the mean of the responses of entrepreneurs relating to the impact of the GST on reduction of manual work is higher than the standard average mean score. It reveals that the majority of the respondents agree with the statement that the reduced the manual work by providing the online registration in the filing process of tax. The value of skewness also supports that the opinion of the businessmen is tilted towards the higher side of the mean score. The calculated value of kurtosis is 1.127 which depicts that the distribution of responses is platykurtic. The highly significant value of  $c^2$  also supports the fact that the opinion is not equally distributed. Thus, it is clear from the above statistical analysis that a large number of respondents, about 55.02 percent are of the opinion that the introduction of online filling of tax has reduced their manual work as they need to submit the framed form with required information in the state.

**Table 1 (See last page)**

**Educational Level and Impact of GST on Income:** The total sample of 500 businessmen is categorized into four different education groups, matric, 10+2, graduate and post graduate or above. It is exhibited from Table 2 and Figure-1 that the mean scores of the respondents of each qualification level is more than the mean standard score. It infers that an overwhelming majority of the respondents either agree or strongly agree to the statement that the GST has increased the income of the respondents and their business in the state.

**Table 2 & Fig. (See last page)**

The standard deviation is recorded more in the respondents of the graduate group and the lowest in the matric group. The value of skewness of the aggregate opinion of the respondents is negative (-0.443) and it ranges between -0.431 to -0.819 qualification wise. It also indicates that the responses are highly concentrated towards the upper side of the standard mean score. While applying the test of goodness of fit, it depicts significant difference in the distribution of opinion of the respondents. Thus, it is clear from the above statistical analysis that a large chunk of the respondents opine that the GST has helped to increase the income of the entrepreneurs and their enterprise in the state.

**Conclusion :** The major portion of the respondents have an opinion that GST can be revamped to an ideal impact on cost reduction, increasing income of retailers, GST increase easy way for implementation of documentary process and reduced manual work. After implementation of GST it reduces technicality issues, diminishing tax rates, more clarity on provisions and avoiding needless complications. It can be concluded that GST is a scientific system of taxation but in India it needs some amendments, convenience e and rationalizations.

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**Table 1: Respondents Views Regarding Impact of GST on Compliance Factors**

Responses	Nature of Response					Total	Mean	S.D.	SKW	Kurt.	X <sup>2</sup>	P. Value
	Strongly agree	Agree	Undecided	Disagree	Strongly agree							
Inflationary cost reduce due to GST	84(16.8)	215(43.0)	77(15.4)	81(16.2)	43(8.6)	500(100)	3.432	1.1934	-0.591	-0.641	176.20	<0.01
GST Effect the Income	100(20.0)	182(36.4)	101(20.2)	88(17.6)	29(5.8)	500(100)	3.472	1.1627	-0.443	-0.732	119.10	<0.01
Implementation of GST increase the Documentary Process	85(17.0)	194(38.8)	83(16.6)	60(12.0)	78(15.6)	500(100)	3.296	1.3144	-0.521	-0.911	114.34	<0.01
GST Made it Mandatory to Provide bills to the Customers	134(26.8)	205(41.0)	45(9.0)	42(8.4)	74(14.8)	500(100)	3.566	1.3570	-0.812	-0.602	192.46	<0.01
Implementations of GST Reduces the Manual works	98(19.6)	178(35.6)	99(19.8)	41(8.2)	84(16.8)	500(100)	3.330	1.3374	-0.549	-0.861	98.26	<0.01

**Note:** Figures in parenthesis indicate the percentages of the row total

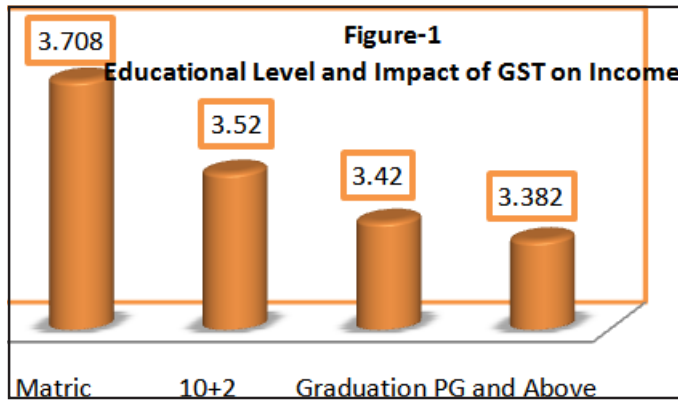
**Source:** Various Questionnaires from Respondents.

**Table 2: Educational Level and Impact of GST on Income**

Educational Level	Nature of Response					Total	Mean	$\sigma$	SKW	$\chi^2$	P. Value
	S.A.	A.	UD.	D.	S.D.						
Matric	5(10.4)	16(33.3)	10(20.9)	15(31.3)	2(4.1)	48(100)	3.708	1.091	-0.819	32.76	<0.01
10+2	12(7.9)	77(50.7)	21(13.8)	25(16.4)	17(11.2)	152(100)	3.520	1.139	-0.471	76.55	<0.01
Graduation	47(21.0)	92(41.1)	31(13.8)	34(15.2)	20(8.9)	224(100)	3.420	1.199	-0.431	154.63	<0.01
PG & Above	20(26.3)	30(39.5)	15(19.8)	7(9.2)	4(5.3)	76(100)	3.382	1.143	-0.196	29.20	<0.01
Total	84(16.8)	215(43.0)	77(15.4)	81(16.2)	43(8.6)	500(100)	3.472	1.163	-0.443	119.10	<0.01

Note: Figures in parenthesis indicate the percentages of the row total

Source: Various Questionnaires from Respondents



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