

## Goods and Service Tax and Micro, Small, Medium Enterprises in Tamil Nadu

**K. Murugan**

Assistant Professor, Department of Economics, Guru Nanak College, Chennai, India.  
E-mail: murugan.kaliappani@gmail.com

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**Abstract:** The objective of this paper is to the impact of GST on micro, small, medium enterprises in Tamil Nadu. After the implementation of GST in Tamil Nadu, this sector has been seriously affected in various ways. One is the number of small scale units shut down 50000 units and 5.20 lakh employees became jobless during the past two years. The MSMEs sector is investment has been reduced to Rs. 10,849 crore during 2016-17 and 2017-18. This paper is divided into five sections. First section deals with the introduction, the second section is a review of the literature and the third is discuss the importance of GST on MSMEs Development. The fourth section is deals about GST in Tamil Nadu and Impact of GST on Micro, Small and Medium Enterprises in Tamil Nadu and lastly is conclusions.

### 1. INTRODUCTION

The GST is the single largest tax reform by merging several central and state taxes in India. The GST Bill was passed in Parliament on August 2016. It reflecting cooperative fiscal federalism in India. The motives of the GST have been reforming the existing tax system and simplifying the tax structure. It is helpful to the federal structure of government for ensuring the success of such reforms like Brazil, India and Canada. Tax reform is to simplify federal and state indirect taxes in Brazil with a proposal to introduce a single integrated national VAT on goods and services. India's plan to have central GST (CGST) and State GST (SGST) has some resemblance to the structure of the system existing in the Canadian federal government (GST). Today, 160 countries have been used VAT/GST and but the United States is a prominent absentee. Singapore and Canada are levied at a single rate, while many other countries like France, Italy and the UK have to levy multiple rates (State Finances: A Study of Budgets of 2016-17, RBI).

It is the impact of the new dimension on Centre-state and inter-state financial relations. The implementation of GST in India is the largest indirect tax. The introduction of the taxation is bold reform and economic policy change it. The gross tax to GDP ratio declined to 10.9 per cent in 2018-19 as

indirect tax revenues fell short about 16 percent, due to shortfall in Goods and Services Tax (Economic Survey, 2019). The Government had budgeted to collect Rs 11.50 lakh crore from direct taxes and Rs 7.43 lakh crore from GST in 2018-19. Indirect taxes have fallen by 0.4 percentage points of GDP primarily due to shortfall in GST collections and are yet to stabilize. Revenue buoyancy of GST will be key to improve the resource position of the Central and State governments (Economic Survey 2019).

Impact of the GST on the MSMEs sector reduces the exemption to manufacturing in this sector. About 75 lakh (including the partial exemption) may cover micro-enterprises. The bottom part of the small, medium and the upper section of small manufacturing had its exemption stripped away and is being treated on par with big business. Even manufacturing units with turnover between 20 lakh and 75 lakh in spite of retaining a partial exemption, are burdened with a non-transferable tax rate of 1 percent.

## **2. REVIEW OF LITERATURE**

A study conducted by Poonam (2017) concluded that GST would be a really necessary step in the field of indirect taxation. Indian manufacturing products would become a lot more competitive in the domestic and international markets. This taxation system would instantly encourage economic growth. GST with its transparent mode will prove easier.

Lourdunathan and Xavier (2017) studied that efficient formulation of GST will lead to resource and revenue gain for Centre and States majorly through the widening of the tax base and improvement in tax compliance. It is necessary on the part of the government to educate, conduct proper training, continuous seminars and workshop on GST is need of the hour.

Shefali (2016) found that GST will simplify the existing indirect tax system. It will help to remove inefficiencies created by the existing current heterogeneous taxation system. Another study by Akanksha and Aastha (2016) concluded that GST will have a positive impact on various sectors and industry. Although the implementation of GST requires concentrated efforts by Central and State Government, trade and industry.

Monika and Upasana (2015) concluded that implementation of GST provides a simple, user- friendly and transparent tax system. GST stands for a coherent tax system will colligate most of the current indirect taxes. It will lead to higher output, more employment opportunities and flourish GDP by 1-1.5 percent.

The objective of this paper is to the impact of GST on the MSME sector in Tamil Nadu. This paper is divided into five sections. First section deals

with introduction, the second section is a review of the literature and the third is discuss the importance of GST on MSMEs Development. The fourth section is deals about GST in Tamil Nadu and Impact of GST on Micro, Small and Medium Enterprises in Tamil Nadu and lastly is conclusions.

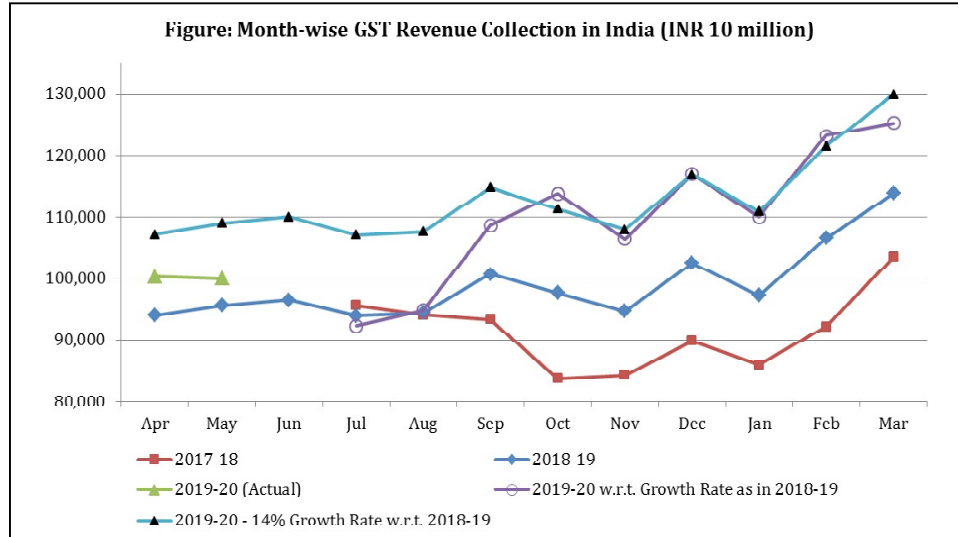
### 3. IMPORTANCE OF GST ON MSMES DEVELOPMENT

MSMEs have the driving force of the Indian economy for several decades. It largely operates in the informal sector and comprises a large number of micro-enterprises and daily wage earners. The share of MSMEs in overall GDP is around 30 percent and the sector accounts for about 45 percent of manufacturing output and around 40 percent of total exports of the country. These sectors provide employment opportunities to 120 million people and contribute to around 46 percent of the overall exports from India. After the demonetization in November 2016, these sectors were seriously affected and as a result, the growth was deteriorated. Their operations are mostly in cash-based and due to sudden effects in cash flow and could not pay for their running costs. Another problem is the implementation of GST and small and medium enterprises, currently being considered by the government, is to raise the threshold for GST registration. These sectors have generated the highest employment per capita, providing livelihood in rural areas. It is like inclusive growth, supports the needs of the local people and livelihood to vulnerable and marginalized groups (Annual Report, Government of India, 2018).

**Table 1: Monthly-wise GST Collection in India (Rs. in Crores): 2017-18-2019-20**

Month	2017-18	2018-19	2019-20
April	0	103459	113865
May	0	94016	100289
June	0	95610	99939
July	21572	96483	102000
August	95633	93960	98202
September	94064	94442	0
October	93333	100710	0
November	83780	97637	0
December	84314	94726	0
January	89825	102503	0
February	85962	97247	0
March	92167	106577	0
Total	740650	1177370	514295
Average	89885	98114	102859

Source: GST Council of India, New Delhi.



Sacchidananda Mukherjee (2019) Two Years of GST: Looking Back to Think Ahead, Economic Times, New Delhi Jul 30, 2019

Table 1 shows a month-wise GST collection in India. In 2019-20, the total collection in the first five months has been Rs 514295 crore, a monthly average of Rs 102859 crore. The average gross GST collection in 2018-19 was Rs 98,114 crore per month, which was higher than the previous year's average of Rs 89,885 crore. The total collection shows of Rs 11, 77,369 in 2018-19, as compared to Rs 7, 40,650 from July 2017 to March 2018.

The GST collection fell below Rs 1-lakh-crore in June 2019. The total revenue collection under the indirect tax regime for June month to Rs 99,939 crore. The indirect tax revenue for March 2019 was Rs 1, 06,577 crore, Rs 1, 13,865 crore in April 2019, and Rs 100,289 crore in May 2019. The trend had raised hoped that Rs 1 lakh crore in GST collections might become the norm soon. The GST revenue in June 2019 was 4.52 percent higher than Rs 95,610 crore recorded in the year-ago period during June 2018. Moreover, the GST revenue in June 2019 amounts 1.86 percent higher than the monthly average of GST revenue in 2018-19 at Rs 98,114 crore.

GST collection during festival months (September to November) shows mixed bag experience between 2018-19 and 2017-18. To achieve the growth rate experienced from October 2018 to March 2019, the average monthly GST collection has to reach Rs 1,15,959 crore. So far average monthly GST collection from the first two months of 2019-20 is Rs 100,114 crore. Therefore there is a shortfall of Rs 15, 845 crores in monthly GST collection. Alternatively, to achieve 14 percent growth rate in monthly GST collection

in 2019-20 concerning actual GST collection in 2018-19, average monthly GST collection has to reach Rs 1,12,839 crore. However, average tax collection during first two months (April-May) of 2019-20 falls short of Rs 12,725 crore. Therefore reviving economic growth as well as strengthening GST administration may help to increase GST collection in the coming months of 2019-20.

#### **4. GST IN TAMIL NADU**

In Tamil Nadu, GST has collection Rs. 34589 crore from April 2018 to January 2019. The state has received Rs. 24907 crore for July 2017 to March 2018. Among different states, Maharashtra is the highest state of GST collection of Rs. 70792 crore followed by Uttar Pradesh, Karnataka and Tamil Nadu. These states have been better off in terms of growth and GST revenue of Rs 36,330 crore during 2018-19. State has been experiencing around 8 percent to 10 percent growth in GST revenue (Sivakumar, *The New Indian Express*, and 3rd April 2019).

In Tamil Nadu, consumption of commodities in the 18-28 percent GST bracket is high. High-end cars, two-wheelers and white goods are earned more revenue to the state economy. The total of Rs 7,214 crore is pending under GST. The Centre is yet to make the IGST settlement of Rs 5,454 crore in 2017-18 and short payments on GST compensation of Rs 455 crore for 2017-18, and Rs 1,305 crore from April to September 2018. It is adversely affecting state finances. Centre would uphold the principles of equity and efficiency and give a fair deal in financial devolution to Tamil Nadu by the 15th Finance Commission. Tamil Nadu is not receiving compensation every month like other states, which do not have the IGST problem and 40 percent of out of Rs 5,909 crore, the total amount pending for last year (*Business Standard*, January 3, 2019).

##### **4.1. Impact of GST on Micro, Small and Medium Enterprises in Tamil Nadu**

According to the Reserve Bank of India (RBI) study has noted that the MSMEs have been adversely hit by the Goods and Services Tax and Demonetization. These sector has witnessed recent shocks like demonetization and introduction of goods and services tax. As a result, to increase in compliance costs and other operating costs for MSMEs as most of them were brought into the tax net. They face operational problems due to the size and nature of the business, and relatively more susceptible to various shocks to the economy (*Business Standard*, 2018). The impact of GST to manufacturers, the reduction of GST exemption to 20 lakh from 1.5

crores. Nearly Tens of thousands of unorganized small scale units will be under taxation. Additionally, a lower tax burden under GST will reduce the cost of raw materials (Jayalakshmi and G.Venkateswarlu, 2018).

#### **4.2. The Catastrophic Impact of Higher GST Rates**

In Tamil Nadu, small, medium scale units want the government to consider lowering the GST rates as higher rates and delayed payments by the big companies and a lot of pressure on the small entrepreneurs. Light engineering MSMEs rated by CRISIL saw 15 percent compound annual growth rate between 2014 and 2016 and demonetisation causing just a problem. Post-implementation of GST, they have to pay 18 percent GST on purchase of raw products compared to 17.5 percent before (12 percent for Central Government and 5 percent to Tamil Nadu Government). On the sale of finished products, 28 percent GST has to be paid now against 17.5 percent before its implementation. Delayed Payment by big companies is another problem putting financial pressure on the credit hit this sector.

The cost of GST can still be borne by the small scale industries. But the GST with delayed payment becomes a serious issue. Increase of 10 percent in taxes means it counted in terms of investment capital and output. Most of these sectors are run in rural areas and give employment to the local and nearby people. Financial crunch is leading in shutting down of industries and unemployment among the people.

MSMEs sector was seriously affected due to the higher GST rates in India, particularly Tamil Nadu. Mr Subbbarayan MP (The CPI Leader) asked whether the Centre was ready to come out with a 'whitepaper' on the status of MSME in the country after the introduction of GST. Since there were more than six lakh industries were shut down (Mint, 2019).

#### **4.3. Five MSMEs sectors under Stress**

Five industries have been red-flagged by the Tamil Nadu Government after the post-GST. The automotive, textiles, leather, electrical and electronics and general engineering sectors are being studied for any GST-related stress to business (Tamil Nadu's MSME Secretary, Dharmendra Pratap Yadav).

#### **4.4. MSME Registrations Dip in 2018**

According to State Government data (2018) that the 49,329 fewer companies register as MSMEs under the Udyog Aadhaar scheme. Several thousand small, medium scale units were being shut down after the implementation of GST. The state has recorded 89,924 new companies as MSMEs on the Udyog Aadhaar scheme during the first two months of 2019.

The Defence Industrial Corridor in Tamil Nadu was announced and benefit MSMEs by allowing for supply of products to large manufacturers of defence equipment. The state government's plan to offer a subsidy scheme for GST-hit MSMEs.

The number of registered MSMEs units came down to 2, 17,981 units during 2017-18 from 2, 67,310 units in 2016-17 and reduced to 49,329 units. The number of persons employed came down to 13, 78,544 in 2017-18 from 18, 97,619 persons in 2016-17. It indicates that the employment has gone down by 5, 19,075 persons. The investment in this sector fell to Rs. 25,373.12 crore in 2017-18 from Rs. 36,221.78 crore in 2016-17 (Policy Note, Government of Tamil Nadu, 2018-19).

According to the Policy Note (2018-19) out of the 10,073 MSME's that signed with the state government at the Global Investors Meet in 2015. The total of 5,358 enterprises has started production, with an investment of <sup>1</sup> 6,182.03 crore. Nearly 50 percent of units is not started even today because of delayed payment by corporates; issues connected to GST; lack of orders; and shunning by banks and others. Besides, the industrial investment climate is also not favourable in the state with several big industrial projects having gone to Andhra Pradesh in recent years.

Delayed payment by big corporates for the goods supplied is a major issue faced by these sectors. The drying up of orders, procedures connected with the GST are some of the major hurdles faced by these units. Another is the real estate prices have gone up to such a level that entrepreneurs will not be able to get a decent return on their investment. One of the major problems is the attitude of bankers. Laden by non-performing assets (NPA), the bankers are avoiding lending to small scale units in the state.

According to Dr Ramadoss (PMK founder) reported that the achievement of ADMK Government is closing down of 49,329 units in the state. And the reduction in the employment numbers is a very serious issue. The sector has not seen such a large scale closure of small scale units during the last 12 years. The absence of major industrial investments and as a result that corruption in the government is one of the reasons for the investors to shun Tamil Nadu. Alternatively, they locate their units to Andhra Pradesh. This state has attracted mega investments to Rs.25,000 crore from industries like Kia Motors, Bharat Forge, Ashok Leyland, Apollo Tyres and others. In 2017, Tamil Nadu got investments worth Rs. 1,574 crore. The absence of new investments and the impact of these units and others as there would not be any fresh orders to cater to (National Herald, 9 June 2018).

## 5. CONCLUSIONS

The GST is the single largest tax reform in India and Tamil Nadu. The impact of new dimensions to Centre and State and inter-state financial relations. Total collections of GST in India has been increased from 740650 crores in 2017-18 to 1177370 crore in 2018-19. During 2019-20, April to August month's collection was Rs 514295 crore. It is indicated that Rs. 1 lakh crore has been achieved in the recent month of the current year.

In Tamil Nadu, thousands of small and medium industries are facing serious issues in recent years. Large size of the people is become jobless 5.20 lakhs people due to the imposition of the GST. The fall in numbers is drastic and was never seen in these sectors in Tamil Nadu. The state government has shot down of fifty thousand MSME units. GST refunds are one problem, delayed payments and a spike in capital requirements have only added to these woes. During the last 12 years, the sector has not seen such a large scale closure of these units.

In Tamil Nadu, five industries like automobile, textiles, leather, electrical and electronics and general engineering have been red-altered given by Government of Tamil Nadu during last year due to GST related stress. The investment in these sectors fell to Rs. 25,373 crore in 2017-18 from Rs. 36,222 crore in 2016-17. About 10073 small scale units singed with Global Investor meet in 2015. Total of 5538 units has started production with an investment of Rs. 6182 crore. Nearly 50 percent of units are not started their business even today.

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