

## GST from SMEs' Perspective

Written by Vandana Goel

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In the budget speech Hon. Finance Minister said on Goods and Services Tax (GST), "we have been focusing on generating a wide consensus on its design. In November, 2009 the Empowered Committee of the State Finance Ministers placed the first discussion paper on GST in the public domain. The Thirteenth Finance Commission has also made a number of significant recommendations relating to GST, which will contribute to the ongoing discussions. We are actively engaged with the Empowered Committee to finalise the structure of GST as well as the modalities of its expeditious implementation. It will be my earnest endeavor to introduce GST along in April, 2011".

It is a high time to discuss and look at GST from SMEs prospective, SMEs that contribute 8 per cent of the India's GDP, 45 per cent of the manufactured output and 40 per cent of our exports.

GST, can be a fruitful effort to bring most of the existing indirect taxes such as, at the Centre including excise and service tax and at the states including VAT and other taxes (in total 14 taxes), under one umbrella to make the compliance simpler. It would be an effort to simplified tax structure that would be beneficial for SMEs and all tax payers. GST will reduce the complicated paper work resulting fewer hassles with the tax payment, which assures saving in cost.

GST, a uniform tax system, across the states will eliminate the cascading effects of multiple layers of taxation system. But there can be some few exceptions here and there. Exempted commodities under GST cannot be claimed on the GST paid for purchasing the raw material in this respect or GST paid on services used for providing such goods and services. But GST levied on zero rated and export goods would be refunded.

Still there are few commodities kept out of the preview of GST and these will continue to attract

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CST, would mean more taxation for companies dealing with such products. Considering that there are many SMEs that deal with such commodities, continuation of CST will hurt them the most. Products that do not fall under GST include alcohol, crude oil, aviation turbine fuel and high-speed diesel etc. Companies engaged in inter-state sales of these goods will continue to attract CST. SMEs are of the hope that by introduction of GST will abolish the CST in total, aiming relief and reduction in taxes so that they will be able to get bigger slice of profit with lesser complication in tax payments, will be get hit by these exceptions.

GST is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and also improve tax collections. It would end the long standing distortions of differential treatments of manufacturing and service sector.

There would be two system one id for Inter State sale that will be Call Central GST(CGST) and second is State GST(SGST),Central Taxes would, to begin with, subsumed under GST are:

- (i) Central Excise Duty
- (ii) Additional Excise Duties
- (iii) The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- (iv) Service Tax
- (v) Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- (vi) Special Additional Duty of Customs - 4% (SAD)
- (vii) Surcharges, and
- (viii) Cesses.

### **State taxes and levies would be, to begin with, subsumed under GST:**

- (i) VAT / Sales tax
- (ii) Entertainment tax (unless it is levied by the local bodies).
- (iii) Luxury tax
- (iv) Taxes on lottery, betting and gambling.
- (v) State Cesses and Surcharges in so far as they relate to supply of goods and services.
- (vi) Entry tax

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Introduction of GST will ensure that classification disputes are obviated that would be a big relief to SMEs, which are otherwise at the receiving end. An expansion of the list of levies to be subsumed in GST, particularly the octroi and entry taxes — a cause of enormous problems for SMEs, would have positive fallout on SMEs. Conceptually SMEs interest lie, by and large, at a more transparent and an efficient GST regime.

As the first step towards introducing GST is to progressively converge the service tax rate and the CENVAT rate and at the central level, beginning has been made by converging widely varying tax rates and extending input tax credit to convert excise duties into a CENVAT.

GST regime would be in the best interest of SMEs because it is rational, transparent and non-discretionary. So long the tax regime is based on solid conceptual ground; minor adjustments could be made to let it roll out by taking the states on board.

### **Conclusion**

The delay in the introduction of the GST regime has come as a disappointment for SMEs. Let us hope that there will not be much of a hassle with the tax procedure once the GST regime comes into effect.

Introduction of any tax or law is important, besides its implication and awareness about the cost and benefits thereof is more important. Taxpayers should have the full knowledge and awareness like what benefit will they be going to get with compliance. The new system should be made self explanatory. This I believe is the actual challenge for all the bodies working for GST.

**Vandana Goel, FCA, M Com is a Management and Corporate Tax Consultant and can be reached at [bindugoel@gmail.com](mailto:bindugoel@gmail.com)**