

## How GST is going to Help SMEs

Written by Vaibhav A

Tuesday, 11 August 2015 23:46 -

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As part of its financial reforms, the NDA government including the finance minister Mr. Arun Jaitley have put their weight behind the long awaited Goods and Services Tax (Bill).

Financial experts, industry bigwigs and SMEs have all been unanimous in their support for a GST regime replacing the existing taxation system. Considering the growing scale and organization of business operations, a taxation reform like the GST will facilitate better trade and business. Here is a look at how GST will impact the small and medium enterprises of the country if and when the bill is finally implemented.

### **Replacement of Indirect Taxation:**

The current taxation system in India is not very user friendly as there are a number of direct and indirect taxes to be accounted for. Small and medium enterprises need to keep track of various indirect taxes like octroi, central sales tax, tax on transportation of goods and services, state wise VAT, state entry tax, stamp duty charges and many others. With the introduction of the GST there will be an end to all such indirect taxes. Tax payments for SMEs will become extremely simple with one central GST making the whole tax filling process easy and transparent. As revealed by the finance mister himself while pitching for GST in his budget speech, "GST will put in place state-of-art tax system replacing the current VAT system allowing companies to grow evenly while helping the government to plug leakages".

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### **Effective Solution to Multiple Pricing Pan India:**

The existing tax system including the VAT system makes competition unfair as SMEs and business establishments are forced to maintain different prices for the same product in various states depending on the different VAT rates. With GST acting as a common tax system across the entire country will help in creation of one common market for all goods and services in India.

As an example today if an SME imports raw materials from a different state it is liable to pay a central sales tax. Shipping out the finished product back to various states again requires payment of CST making it unfair for the SME which has no option but to increase pricing of the product. With the implementation of GST such tax discrepancies would be removed allowing for a more business friendly tax structure across India.

### **Simplified Taxation Process:**

With a likelihood of an e-payment system being introduced for GST, SMEs will be able to save a considerable amount of time while filing their tax returns. The abolition of the VAT tax regime with multiple direct and indirect taxes will make filing of returns easy and simple for SMEs. This is likely to create a more business friendly atmosphere in the country allowing companies and SMEs to file their tax returns easily. The reach of SMEs to their potential customers across India is limited, due to the Central Sales Tax (CST) on sales between states. With GST in place SMEs would be in a position to increase their sales and henceforth increase the quantum of tax payments annually leading to a larger tax corpus from the SME sector as a whole.

### **No Multiple Tax on Same Product:**

Under GST, both Central and State taxes will be levied on the manufacturing cost at the point of sale. This would mean there is no multiple tax on one product irrespective of any inter state movements of raw materials or finished goods. Effectively GST would mean, tax is liable on any product only once thereby relieving the SMEs from keeping hoards of taxation paperwork making business simple and cost effective.