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An Analysis of GST and its Impact on MSMEs in India with Canada as a Control

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ABSTRACT

This research paper delved deeply into the benefits and challenges that micro, small, and medium enterprises faced with the implementation of GST in their respective countries. The research paper took a special interest in India and Canada as comparative territories. Furthermore, we discussed the history of GST and its impact on MSMEs in their respective countries and ultimately commented on whether GST was a boon or a bane in each of these countries.

Keywords: *GST, MSMEs, Tax, India, Canada, Value-Added Tax, Business, Dual GST System.*

The Goods and Services Tax (GST) is a comprehensive indirect tax reform developed to unify the national market. It is a blanket of Indirect Tax that subsumes several state and federal taxes, such as Value Added Tax (VAT) and Excise Duty, different State Taxes, Central Surcharges, Luxury Tax, Entertainment Tax, and many more. This array of taxes has led to double taxation, raising the total tax burden on consumers. GST will merge the majority of all indirect taxes under an umbrella, helping create a stable market. It applies to the supply of both goods and services, is destination-based, and promotes a uniform tax rate across states. The primary goal of GST is to consolidate the fragmented tax system across the country into one cohesive tax framework, simplifying the tax structure, making compliance easier for businesses, and improving revenue collection for the government.

GST aims to streamline the tax process, eliminate the cascading effects of taxes, and create a unified market, bringing economic growth to a country. GST/ VAT was first introduced and implemented by France in 1954, and since then, approximately 160 countries have adopted the tax system in one form or the other, due to its potential for a fair and transparent revenue generation. Supported by digitized tax filing and real-time monitoring. (Pathan 2)

It also encourages the integration of the informal sector by bringing MSMEs into the tax framework. As a destination-based tax, GST ensures that revenues are raised in the Location where the good or service is consumed as opposed to where the good or service was produced. Additionally, it facilitates ease of doing business by removing inter-regional tax barriers and permitting free flow of input tax credit along the supply chain which decreases cascading taxes and operational inefficiencies and increases competitiveness in the domestic and international marketplace. (Singh 1)

Micro, small, and medium enterprises known as MSMEs refer to companies whose classification is determined with references to the number of workers, annual turnover,, and asset value. The most universal definition of an MSME based on the number of employees is the way it is done globally, with the common variations being 10 employees or less in microenterprises, 50 or less in small enterprises,, and 250 or less in medium enterprises. These threshold levels are lower in low- and middle-economic countries as compared to high-income countries. (Gonzales et al.)
Officially, there currently exist about 162.8 million MSMEs at the global level with more than 508 million workers. The world over, MSMEs comprise approximately 95 percent of businesses, supply around 60 percent of world employment and supply some 50 percent of world GDP. The top density (epitomized by the number of MSMEs per 1,000 individuals) remains in high-income economies; the speediest rise in MSMEs can be observed in low- and middle-income countries and in Europe and Central Asia. In spite of their large influence in terms of employment and prevalence, MSMEs, especially in developing markets, hold unutilized potential to increase their contribution as regards the total economic value-added. This potential is limited by the phenomenon of the global MSME finance gap estimated at US $5.7 trillion which persists despite efforts that have been made to address it. (Gonzales et al.)

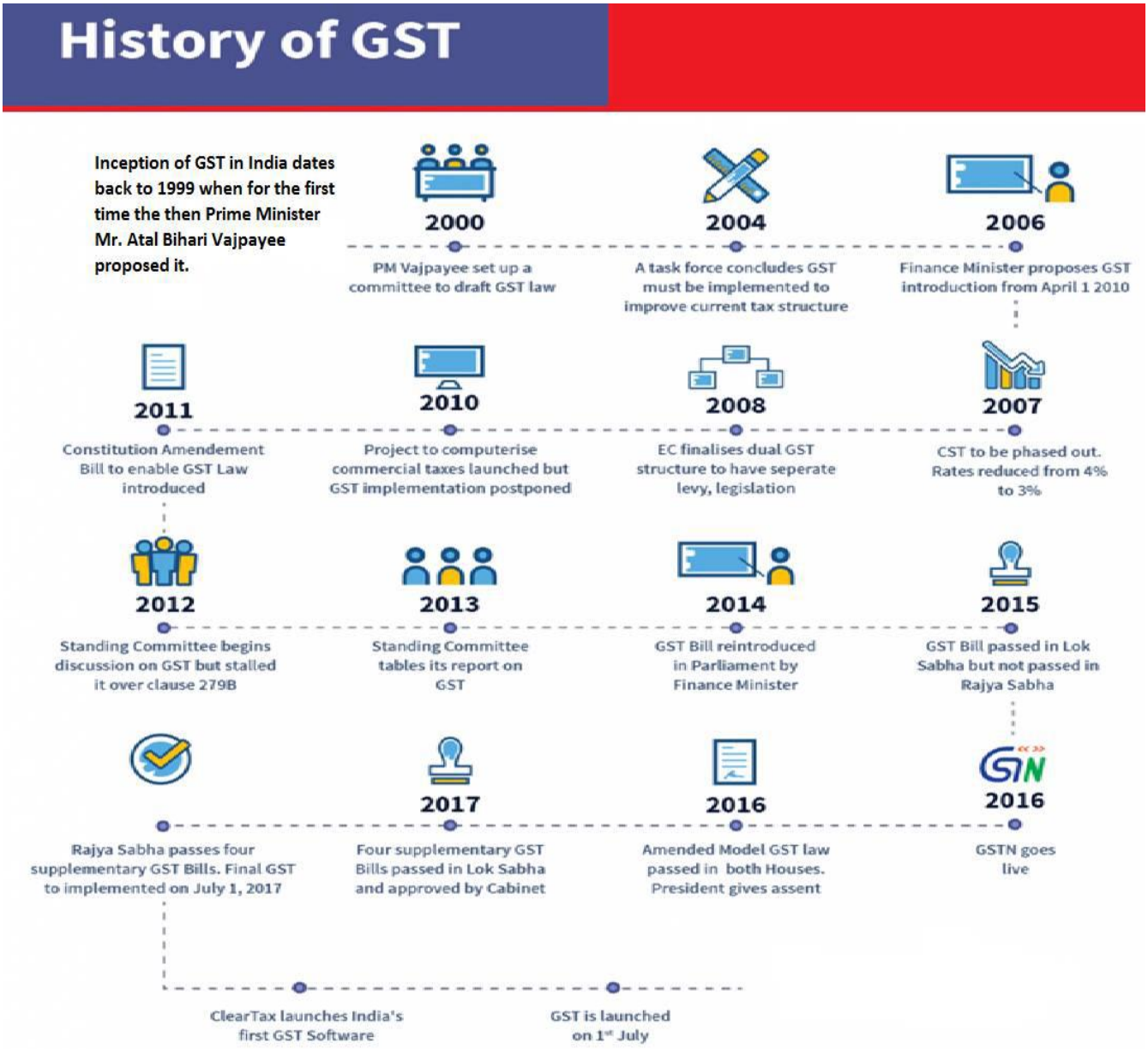


Fig 1(Pathan 3)

Indian GST history started in the year 1999 when Atal Bihari Vajpayee, who was then the Prime Minister of Ind,i,a suggested the Minimum Tax Initiative. In the year 2000, a committee was established to prepare the l,aw and in the year 2004, a task force suggested its interpretation in order to make the tax system better. By 2006 Finance Minister had introduced the idea to have GST introduced by April 2010. In the meantime, the introduction of a phased withdrawal of the Central Sales Tax 2007 and finalisation of a dual GST structure in 2008 occurred.

Computerization of commercial tax was initiated in the year 2010, but the implementation of GST was not achieved. In 2011, a Constitution Amendment Bill had been introduced, but talks had come to a standstill in 2012. The Standing Committee had given its report in 2013, and the bill was put forth again in 2014. It was passed bythe the Lok Sabha in 2015,, but it has nobeen t passed by the Rajya Sabha.

Large strides were realized in 2016, as the amended GST law sailed through both Houses and was assented to by the President. It was also in the same year that GSTN became active. All the necessary bills were put through in 2017, and GST was implemented on July 1. ClearTax is also the first company which release software on GST in the Indian market.

WHY INDIA AND CANADA - DUAL GST SYSTEM

Canada is the only country in the world where indirect tax is collected like in India - central and provincial level. The Indian GST model is a unique model known as the dual GST system. This allows both central and state governments to make laws related to GST. Even so, the overall tax cannot exceed 40%. Due to this tax limit, there are a few products that are not under GST preview because their existing tax is higher than the GST slab. Similarly,, Canada also follows a dual GST model. However, their tax rates are different at boththe the central and provincial levels. Moreover the central government has no say or control over the tax in provincial level This leads to provinces having the power to impose tax at itheirrate. In contrast, in India,, the rate of state GST (SGST) is the same as the rate of central GST (CGST).

In Canada, there are various indirect tax types and rate structures. Ten provinces in Canada have the same tax rate, according to a recent tax structure assessment. The idea of "one nation, one tax" is the foundation of the Indian GST. (Kumar 6644-6648)

Since both India and Canada follow a dual GST model, comparing them is useful to understand how such a system impacts MSMEs. In Indi,a the harmonization of charges on GST among the states makes it easy to comply with the law,, with MSMEs working in various state,s as the rates are the same. Nonetheless, complex paperwork and technical restrictions are still relevant obstacles. In contrast, provincial decision-making has the potential to bring about rate variations and different rules on compliance and make inter-provincial business complicated, especially forr the small businesses. By comparing both the models, we will be able to establish different approaches to balancing tax simplicity, ease of compliance as well as regional autonomy in a bid to contribute to developing MSMEs in such economies. (Kumar 6644-6648)

INDIA

Impact of GST on MSMEs

The implementation of the GST in Indiabrought significant changes to the taxation system. Especially in the MSMEs sector of India. MSMEs, as we know are widely recognized as a key factor in helping India's economy prosper. It contributes heavily towards employment, exports,, and GDP. While GST aimed at unifying the tax system, it has had both positive and negative impacts on MSMEs.

On the positive side, the implementation of GST has simplified tax compliance by combining multiple central and state taxes under a single framework. The lower rate of tax, simplified processes of starting its business, lesser cost of logistics, and introduction of a unified national market made MSMEs gain a capacity to tap into customers located in different parts of India. Moreover,, the elimination of state-wise tax barriers was extremely beneficial to businesses, which dealt in various geographical areas to a greater exten,,t as it reduced the operation cost and gains efficiency.

Moreover the problems were equally visible. Smaller companies also suffered due to lower tax thresholds, which required many MSMEs that were not registered were being forced to fill complicated taxation procedures and records. The export-oriented MSMEs were hit by the delay in the processing of tax credits which created a rise in their working capital requirements. Moreover,, the low levels of differentiation of tax on luxury and essential items, two levels of administration by both the central and state governments and the high compliance costs weighed down on small businesses which had limited resources.

Even with these setbacks, the MSME sector remains a crucial component of the Indian economy. In order to effectively make use of GST, MSMEs need policy adjustments, supplementary initiatives, and capacity creation activities aimed at allowing them to fit nicely in the new tax regime. With India inclining to a more formalized economy, the question of what will happen to these enterprises in undergoing transition and scaling up in their respective sectors will be answered through the success of GST in the sector or not. (Beemabai and Krishnakumar 1235-1239)

CANADA

Impact of GST on MSMEs

The introduction of the Goods and Services Tax (GST) in Canada in 1991 marked a major shift in indirect taxation, moving from the manufacturer's sales tax (MST) to a visible value-added tax. This had far-reaching effects on Micro, Small, and Medium enterprises (MSMEs), which were and are a backbone of Canada's economy.

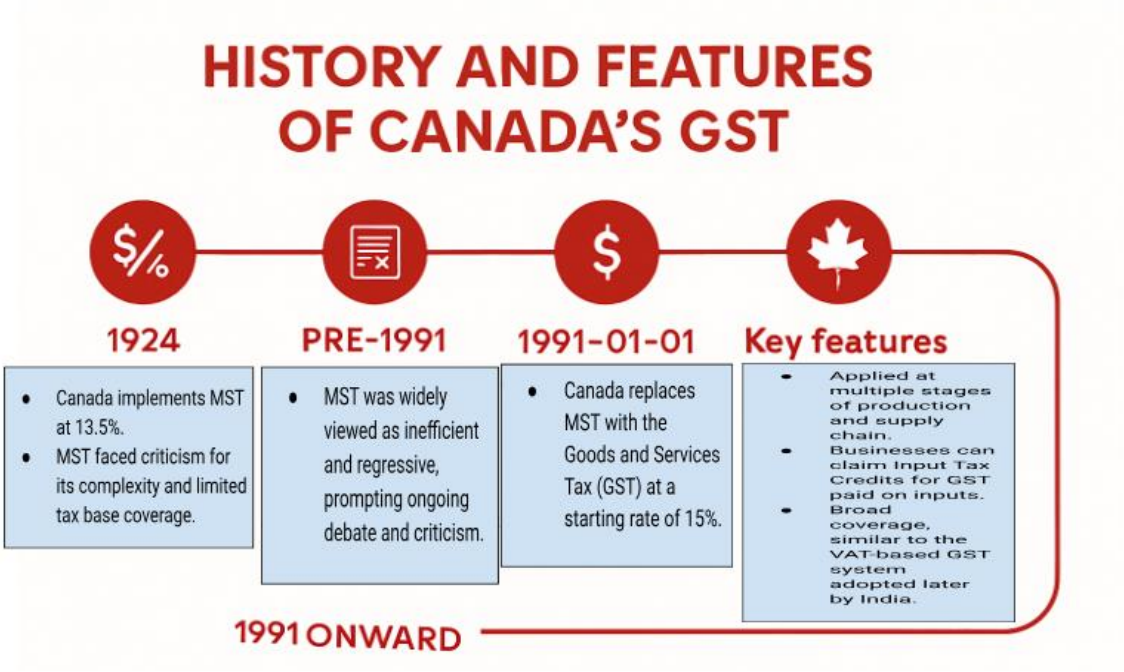
GST superseded the cascading MST, enhancing fairness and its competitiveness, particularly to exporters and the SMEs, which depended more on business inputs. The zero rating by GST of exports and the high number of input related zero ratings assisted with the playing of the rules as businesses got the benefit of back taxes paid on inputs and the passing on of embedded taxes in the cost of production. This tax system was perhaps not perfect but it promoted efficiency and neutrality as compared to the previous regime.

The introduction however,, also came with a high cost of complian,,ce which will be levied especially on SMEs. The smaller firms with less than 100,000 in revenues incurred compliance costs of 17 percent of the tax they skimmed- about 0.3 percent of average revenues. The much larger firms (revenues in excess of $1M) had tax reporting burdens that were significantly l,,ower at only 3% of the taxes remitted, about 0.06% of revenues. This demonstrates a highly retrogressive arrangement of the GST compliance cost in which the administrative burden of GST dominates small companies inexplicably. (International Monetary Fund)

HISTORY OF GST

France was the first country to introduce GST in 1954. Worldwide, almost 150 countries have introduced GST in one form or the other form since now. Most countries have a unified GST system. Brazil and Canada follow a dual system,, vis-à-vis India is going to introduce. In China, GST applies only to goods and the provision of repairs, replacement,, and processing services. GST rates of some countries are given below:- The GST council has set tax rates for goods and services under five brackets of 0%, 5%, 12% and 28% as the bill is just a month away from its implementation. The concept of GST is not new to the world, as nearly 160 countries asofn 2016have opted for this mode for bringing individual tax rates into a single tax. In most countries value added tax (VAT) is taken as a substitute for GST. Presently, countries like Australia, Canada, Singapore, New Zealand, Jersey (UK), Malaysia, Indonesia,, and Pakistan have a GST system while remainingcountries countries follow a VAT system. As days near for GST to be active in India, let'ss have a look at what differentiates the country's GST regimefromh others.

HISTORY CANADA



GST was first implemented in Canada at a rate of 15% on the 1st of January 1991. This replaced the Manufacturer's sales tax (MST) which was 13.5% and had been in existence since 1924. This was mostly due to the complexity of the MST, leading to it being heavily criticized throughout its history. Canada's GST is a multi-stage VAT imposed on a wide range of goods and services, similar to the Indian GST format. Businesses that purchase goods and services as inputs are eligible for an input tax credit on the GST they pay. Zero-rated or exempt items are not subject to the GST, which is applicable to a wide range of goods and services. Basic groceries, the majority of medical services, medications, and rent for homes are all zero-rated in Canada. Alongside the tax came the GST credit, a refundable income tax credit designed to counteract the regressive effect of the expanded taxing base on low-income Canadians. (Bolton and Dollery 5-6)

WAS GST GOOD OR BAD
RESULTS

Canada implements MST at 13.5%. MST faced criticism for its complexity and limited tax .se coverage.	MST was widely viewed as inefficient and regressive, prompting ongoing debate and	Canada replaces MST with the Goods and Services Tax (GST) at a starting rate	Applied at multiple stages of production and supply chain. Businesses can claim Input Tax Credits for GST paid on inputs. Broad coverage, similar to the VAT-based GST system adopted later by India.

"As described earlier, some of the early official reports envisaged several different ways in which both federal and provincial sales taxes might work together. In the end, however, none of these paths was followed. Desperate to get some province on board, the federal government finally managed to strike a rather curious deal with Québec, a province in which they faced serious political difficulties owing to the rise of the separatist movement. At the same time as the GST was introduced at the federal level, Québec followed the federal lead and simultaneously replaced its RST by a new provincial VAT, the Québec Sales Tax (QST, or TVQ, Taxe de vente du Québec).69 Under the federal-Québec agreement, Québec was to collect not only the QST but also the federal GST and to be compensated by the federal government for the costs it incurred in doing so." (Bird and Gendron 20). The case of Canada demonstrates that,, despite policy decisions, taking into account various factors the ground reality can differ due to non-economic reasons such as political sentiments.

As the case for India demonstrated, a uniform tax code that does not vary year to year is crucial for business growth. This is especially true for Micro, Small, and Medium Enterprises, which do not have the disposable income and resources to come up with new contingencies and plans for every new policy rollout.

CONCLUSION

This research paper looks at the evolution and impact of the Goods and Services Tax (GST) on Micro, Medium & Small Enterprises (MSMEs) across India & Canada. It is a comparative analysis that highlights how both countries, despite both following a dual GST model, differ in implementation, compliance and the structure of the dual GST model, and how it affects their MSMEs.

The study traced the origins of GST to France back in 1954, eventually Canada adopted the same in 1991, and its implementation in India in 2017.

India's GST reform in 2017 unified a fragmented tax structure and made it easier and streamlined the process for interstate trade. The results show that while it expanded and increased market access and lowered logistics costs, MSMEs faced difficulty with compliance, refunds, and capital requirements.

Canada's GST replaced the cascading Manufacturers Saless Tax (MST) and improved fairness, especially for exporters. The results show efficiency gains but also reveal regressive compliance costs, which fall more heavily on smaller firms.

The comparison highlights that both India and Canada use a dual GST structure but differ in execution: India enforces uniform rates across states, while Canada allows provinces to set their own. This suggests that India gains in harmonization and simplicity, whereas Canada reflects greater regional autonomy but more complexity for small businesses.

The analysis shows that GST creates a more unified market and reduces cascading taxation, but its benefits for MSMEs are uneven. Canada highlights risks of compliance burdens, and India demonstrates both the opportunities of unification and the challenges of transition.

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