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Repercussion of Goods and Services Tax System: Empirical Evidence from Small and Medium Retailers

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ABSTRACT

With a share of GDP between 14 and 15%, the retail industry in India is a major pillar of the economy. India is projected to become one of the fourth-biggest retail marketplaces in the world by 2032, with a retail market of over US$2 trillion. Taxes are mandatory charges imposed by the Indian government to cover a public cost and help the nation's economy grow. To prevent cascading effects and tax fraud, the current tax structure was replaced with the GST, which went into effect on July 1, 2017. A number of other systemic adjustments were also made. Therefore, using a random sample approach, research focuses on the effects of the goods and services tax on 82 retailers in Salem. It concludes that by banning illicit transactions and removing the cascading effect of taxes, the GST decreases material costs while simultaneously promoting the expansion of the retail sector.

Keywords: *Goods and Services Tax; Cascade effect; Tax evasion; Retail market.*

1.0 Introduction

A tax is a mandatory, governmental levy that is levied without any anticipation of direct benefit. To put it another way, a tax is a requirement that the public make a payment or contribution to the government for which there is no immediate benefit to the payers. If someone is required to pay taxes, they have a personal commitment to do so. The entire population should pay taxes in accordance with their financial capacity, and those in similar financial situations should be treated equally and without distinction.

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Taxes are therefore an unavoidable expense. More specifically, it is an unreturned payment made to a federal, state, or municipal government by a person, the corporation, or both. You may pay your taxes in cash or in kind. But nowadays, cash is used to pay for it. To achieve the objectives of any welfare state, the government must participate in economic activities, and via its fiscal operations, it is possible to promote economic expansion and job possibilities. The government must take an active role in economic activity as a result of this acknowledgement. Stability and full employment are priorities for the governments of advanced and developing nations. Governments in developing and emerging nations strive to quicken economic progress. Any economy's trajectory may be determined and tracked to a great extent by the public sector. The goal in each of these situations is to enhance the agricultural, industrial, and service sectors in order to achieve full employment and economic growth. The connection between the government and society is now being shaped, and taxation is a key factor in this process.

In order to address the difficulty, the tax authorities continued to use conventional tax rules that primarily dealt with the actual transportation of goods and services. Governments all around the globe have fine-tuned legislation to broaden the reach of national tax regulations in order to put a tax on invisible commerce. These countries can make sure that the correct arm's length concept is followed thanks to the assistance and recommendations of the OECD. India, which has a quasi-federal style of governance, is the fourth-largest economy in the world in terms of purchasing power and the 12th-largest economy overall at market exchange rates. India's constitution is the world's longest and most detailed sovereign state document. India's three-tier federal structure is composed of the union, or central government, the states, and the local administrations. Each of these entities has the power to charge taxes. Tillinghast (1996)

1.1 History of taxation in India

This tax was originally imposed in India by Sir James Wilson in 1860 to make up for the losses the government suffered as a result of the Military Mutiny of 1857. Later, it underwent a great deal of minor adjustments here and there. Finally, separate income tax legislation was enacted in 1886. With periodic changes, this legislation was still in effect as of 1918, when a new income tax was enacted, and it was once again repealed in 1922 by a new law. This Act was still in effect with a number of modifications for the assessment year 1961–1962. Numerous changes have been made to the Income Tax Act of 1922, greatly increasing its complexity. In an attempt to facilitate it and prevent tax fraud, the Government of India submitted it to the Law Commission in 1956. The Direct Tax Administration Enquiry Committee, which was created by the Indian government and met with the Ministry of Law to develop its report, was the predecessor of the Law

Commission, which presented its findings in September 1958. The Income Tax Act of 1961 was subsequently passed.

April 1st, 1962, saw the implementation of the Income Tax Act of 1961. The whole country of India, including Jammu and Kashmir as well as Sikkim, is covered. Since 1962, the Income Tax Act has undergone many substantial amendments as part of the Union Budget. This also encompasses the Finance Bill. After receiving the blessing of the Indian President and both houses of Parliament, it becomes the Finance Act. Additional modifications have also been made by a number of Amendment Acts, including the Taxation Laws Amendment Act of 1984, the Direct Taxes Amendment Act of 1987, the Direct Tax Law (Amendment) Acts of 1988 and 1989, and the Direct Tax Law (Second Amendment) Acts of 1992 and 1993, which are largely based on the recommendations of the Chelliah Committee Report. The Income Tax Act, 1961, which came into force on April 1st, 1962, has undergone some serious amendments. It has thus become quite challenging for both the administering organizations and the taxpayers. Jaison (2011)

1.2 Goods and Services Tax

Every value addition in India is subject to the comprehensive, multi-stage Goods and Services Tax Law, which is dependent on destination. Numerous former indirect tax regulations in India have been superseded by the GST Law. GST is the only indirect tax applied to the whole nation.

1.2.1 Origin of GST in the world and India

In 1954, France became the first nation to enact the GST in an effort to combat tax fraud. It has handled the GST successfully. Since then, the GST has been introduced in more than 140 nations, including Brazil, Canada, Germany, Italy, the United Kingdom, South Korea, Japan, Canada, and Australia, among others. While Russia introduced GST in 1991, China did it in 1994.

In the year 2000, GST ideas were introduced, and a committee was formed to create a GST model for the nation. A task group on budget management established by the Indian government in 2003 advocated the introduction of a comprehensive tax on all products and services in order to replace the present value-added tax system at the state and federal levels. The Union Finance Minister made strong mention of the transition to GST in his financial budget for 2006–2007. Initially, it was intended to introduce GST on April 1st, 2010. The state's finance minister's committee developed the design for the state VAT and requested that the road plan and framework for the GST be brought forward. Similarly, it was attempted several times but was repeatedly postponed for a variety of reasons. The GST bill was finally approved by the Lok Sabha and Rajya Sabha in 2017. Parliament subsequently approved the Goods and Service Tax Act on March 29, 2017. The Act goes into effect on July 1st, 2017. India has chosen to adopt the Canadian GST framework.

1.3 Retail industry in India

One of India's most active and significant sectors for foreign exchange reserves is the retail sector. As per IBEF data, from US$ 1824 billion in 2010 to over US$ 3600 billion in 2020, total consumer expenditure is projected to rise. It shows that more than 10% of the GDP and around 8% of employment are affected. In terms of retail sales, India's retail industry ranks seventh worldwide. The retail sector in India is predicted to grow to $1,407 billion in value by 2026 and more than $1.8 trillion by 2030, according to Kearney Research. The nation's internet market is anticipated to increase to US$350 billion by 2030 as a result of a growing online buying culture.

Additionally, a 31 percent annual growth rate in internet sales is predicted. Between April 2000 and June 2022, retail commerce in India received $4.11 billion in foreign direct investment (FDI), according to the Department of Industrial Policies and Promotion (DIPP). Due to consumers' growing requirements, several businesses have made investments in consumer electronics and household appliances. Investments in the Indian retail industry increased to Rs 1300 crore (US$ 180.18 million) in 2018. According to the 2019 Indian Retail Industry Report, Walmart Investment Cooperative U.A. has invested 2.75 billion rupees (US$37.68 million) in Wal-Mart India Pvt. Ltd. India's retail industry has become the world's e-commerce market with the highest rate of growth as a result of significant investment and a sharp rise in internet users. Due to the entry of a worldwide brand, the luxury market has increased. As a result, the spending power of the younger population, particularly Indian "youth" and those from higher socioeconomic classes, is growing annually.

There is a dearth of knowledge among merchants due to the uncertainty around the effects of the GST Amendment. Even experts in the Indian financial system have trouble understanding the fundamentals of GST. Fear of price increases is the key factor preventing India or customers from supporting or opposing the installation of GST. The majority of individuals thought that the GST would increase inflation. Still, many business people in the retail sector and the general public are not aware of GST because many of the products are not included in it. After the implementation of GST, businessmen face a lot of difficulties in paying their GST bills, claiming the input tax credit, filling out returns in various forms, etc. They think that the GST is not clear in their tax structure. Some retailers in various sectors feel that the rate of the tax is high compared with the existing tax system, especially in textiles, electronic goods, the automobile sector, and also in service tax, where many of the sectors, like hotels and entertainment (theatre, theme parks, etc.), suffer higher rates than the existing tax. Therefore, the researcher has taken this area to know the effect of GST in the retail sector.

2.0 Review of Literature

Pandey & Jesmon (2022) study GST compliance issues faced by MSMEs in the State of Karnataka. They examined data from 35 MSMEs. The study discovered a number of early-stage issues that are impeding GST compliance's development. Interventions in policy are required to enhance compliance processes and foster overall growth in India's MSME sector. Rao *et al.*, (2022) study aims to investigate the survival rate and business performance of small and medium-sized enterprises (SMEs) in a competitive environment, particularly in developing countries. The findings suggest that SMEs management and managers need to strengthen formal strategic planning and practices to improve their performance. Additionally, appropriate business growth plans should be considered as a management tool to extend market share and growth.

Sury (2022) aims to explore how MSMEs play a crucial role in employment and economic development, making it essential for the government to simplify business and comply with GST laws. This paper discusses provisions like composition levy schemes, soft tax rate policies, simplified compliance procedures, and sector-specific concessions and reliefs related to GST.

Chaithra *et al.*, (2022) the study examines whether a nationwide tax on goods and services called the Goods and Services Tax (GST) presents substantial prospects for numerous economic sectors. It is anticipated to usher in a new age of indirect tax reform in India by offering a unified market for MSMEs, enhancing goods transfer flexibility, and lowering overall company expenses. Although a decrease in inflation may result from lower GST rates, short-term economic growth may not dramatically increase. Research conducted in the Peenya Industrial District of the city of Bengaluru found a significant relationship between GST impacts on MSMEs.

Viswanatha & Gurudath (2021) observe that the Department of Micro, Small, and Medium-sized enterprises aims to promote the growth and development of the MSME sector, including Khadi, Village, and Coir Industries. Collaboration with ministries, state governments, and stakeholders is crucial for supporting existing businesses, introducing cutting-edge technologies, and encouraging new businesses. MSMEs contribute significantly to the Indian economy by encouraging entrepreneurship, creating employment opportunities, and complementing large industries. The study's findings align with existing opinions, with recommendations expected to impact financial aspects and improve entrepreneurial talent.

Kumaraswamy's (2020) study examines the fact that 2017 GST reform enacted by the Indian government presented serious difficulties for small and medium-sized businesses (SMEs). Utilizing three models—the average collection time, average payables period, average inventory conversion period and a dummy variable—the study examines working capital restrictions on SMEs. As a result, there is a decline in production capacity, a delay in payments and collections, a reduction in profit margins, and an increase in credit requirements. The study will aid financial institutions and policymakers in taking measures to revitalize SMEs in this difficult climate.

Sambrani & Jayadatta (2019) examine the effects of digitalization on India's small and medium-sized businesses and finds a notable growth rate. By providing alternative financing possibilities, digitalization enhances SME performance and lowers financial barriers. Access to alternative financing is expanded, which boosts production, profitability, and operating efficiency. The study finds that, overall, India's small and medium-sized businesses have been significantly impacted by digitization.

Singh *et al.*, (2019) explore the difficulties faced by micro, small, and medium-sized enterprises (MSMEs) in Thimphu, Bhutan, concentrating on legal, regulatory, human resource, financial, managerial, and technology issues. A quantitative and descriptive technique was used to gather the data, and the study concluded that accessing finance was the most significant factor hindering MSMEs' growth.

Gautami (2018) identify the variables influencing MSME firm operators' knowledge of India's Goods and Services Tax (GST) implementation. According to the results, over 72% of respondents were aware of GST mechanisms and issues. The notion of the Goods and Services Tax and its effects on the Indian economy are discussed in Bala's (2018) study. The study found that the GST has a major macroeconomic influence on growth, prices, the current account, and the budget balance. Suman (2017)'s study examines the fact that India is a global production plant, with SMEs accounting for 90% of its industrial facilities. The "Make in India" campaign aims to promote the launch of GST. A survey found that many people still struggle with GST's workings and customers. Young people believe that with time, problems will be resolved and GST will be profitable for everyone.

The literature reviews revealed that little work has been done on the impact of GST on micro, small and medium enterprises. However, it has been noted that no empirical research has been done in this area. So, there is need to investigate the effect of Goods and Service tax towards small and medium retailers in the post-GST era.

2.1 Objective

To examine the impact of GST on small and medium retailers in Salem district, Tamil Nadu.

3.0 Research Methodology

Due to this GST, businesses get either a positive or negative impact in many ways. Some of the service sectors faced hikes in prices, which caused neither profit nor wealth maximization. Generally, retail marketers and the general public do not have a clear idea about the GST. In order to know retailers' impacts, the researcher has purposefully chosen this area. The study is purely empirical in nature and deals with the impact of GST on retailers in Salem City during the period. Data for research is gathered from both primary and secondary sources. The primary data is collected from various retailers in Salem City through an interview schedule. The secondary data is collected from various journals, newspapers, magazines, and websites that provide valuable information related to the topic. In order to verify the objectives, the researcher has chosen Salem district to find out the impact of GST on retailers. The total population, consisting of electronic and jewellery shop retailers, is 249. So, to decide the sample size, the researchers used probability sampling techniques, i.e., simple random sampling, to select the sample size among the total population. 100 questionnaires were distributed to the respondents who were doing retail business in Salem. Out of the 100, only 82 were filled out fully by respondents, and the remaining 18 questionnaires are unfilled. Therefore, the researcher has taken the filled-out questionnaire as a sample size. The sample size of respondents for the study is 82.

4.0 Results and Discussion

In order to achieve the objective, Simple percentage analysis and the Friedman test have been made and presented in the following tables.

The demographic variables of the respondents are determined using a simple percentage analysis. From Table 1, it is found that among the total respondents of 82 samples, 74 percent are male and 26 percent are female. 41 percent and 34 percent of respondents are between the ages of 21-30 and 31-40 years, respectively. With respect to education, 32 percent belong to the category of undergraduate, while 39 percent of respondents come under the category of income below Rs. 30,000.

Further, an attempt has been made to know the impact of the goods and services tax regarding variables. "GST simplifies the tax structure; reduces material cost; simplifies the registration process; taxes on gift and promotional items; improves logistics (e-way bill); removes the cascading effect; helps increase the growth of the retail market; clears tax.

Table 1: Demographic Variables of the Respondents

Demographic Variables		Frequency	%
Gender	Male	61	74
	Female	21	26
Age	21to 30 years	34	41
	31 to 40 years	28	34
	41 to 50 years	17	21
	Above 50 years	03	04
Education	Upto SSLC	16	20
	Higher secondary Education	21	26
	Under graduation	26	32
	Post-Graduation	19	23
Income	Below Rs.30000	32	39
	Rs. 30000 to Rs. 60000	26	32
	Rs. 60000 to Rs. 90000	15	18
	Above Rs. 90000	09	11

Source: Primary data

The GST software guide helps to simplify the filling process, increase the growth of the retail market, increase supply chain efficiency, provide seamless input tax credit, make huge savings in input tax credit, remove the cascading effect of taxes, provide transparency in the taxation system, and increase employment opportunities." The Friedman's test analysis was done to determine the factors that are most impacting the impact of the goods and services tax, and the findings are shown in Table 2.

It could be noted from Table 1 that, among the 15 factors, "Increase in employment opportunities" was ranked first. It is followed by "Tax on gift and promotional items,", "GST reduces material costs, "and "GST helps to increase the growth of the retail market," which are ranked second and third, respectively. The table shows that the factors involved in impacting GST are not statistically significant at the 5% level (0.561). Therefore, it was concluded that opinion towards the impact of GST is moderate. It is found that the respondents feel positively towards all 15 variables. Therefore, it is concluded that the GST reduces the material cost because it eliminates the value-added tax system in the previous tax structure, creates employment opportunities, especially for software developers, by developing the GST Network portal, and helps retailers save money through the input tax credit system. Moreover, it helps to increase the growth of the retail market by preventing illegal transactions.

Table 2: Opinion towards Impact of Goods and Services Tax-Friedman Test

	Mean	SD	Mean Rank	Result
GST simplifies the tax structure	2.90	1.22	07.26	0.561
GST reduces material cost	3.23	1.21	**08.63**	
GST simplifies the registration process	2.66	1.17	06.45	
Tax on gift and promotional items	3.22	1.18	**08.65**	
Improved logistics (e-way bill	3.13	1.20	08.09	
GST removes the cascading effect	2.89	1.20	07.12	
GST helps to increase the growth of retail market	3.26	1.18	**08.63**	
Clear tax GST software guide helps to simplify the filling process	2.99	1.22	07.46	
Increase growth of the retail market	3.12	1.08	08.02	
Increased supply chain efficiency	2.98	1.15	07.55	
Seamless input tax credit	2.91	1.18	07.24	
Huge saving in input tax credit	3.12	1.20	08.13	
Removal cascading effect of taxes	3.12	1.12	08.09	
Transparency in taxation system	3.23	1.29	08.52	
Increase in employment opportunities	3.73	1.16	**10.13**	

Source: Primary data significant at 5% level

5.0 Conclusion

The tax system is crucial to the economy because it preserves income equality. The production and consumption of goods and services are clearly growing, and the complexity of organization and compliance costs are rising as a result of the existing tax system's several levies. Therefore, a straightforward, streamlined tax system is necessary. Thus, it can be inferred that the mean rank indicates the opinion on the effect of GST. It is found that the highest mean rank reveals that GST reduces material costs and helps to increase the growth of the retail market as well as employment opportunities. It shows that retail sectors get benefits in various aspects, particularly material costs, which are reduced by claiming input tax credit, which helps the retail sector to grow more. Moreover, many respondents felt that employment opportunities would increase after the implementation of GST and also the registration process should be simplified to do business smoothly throughout India.

End Notes

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