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# A study on the perceptions of the MSME owners of selective districts of West Bengal on goods and service tax

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### Abstract

It has been several years since the GST was rolled out by the Government of India. The impact of Goods and Services Tax on Micro, Small, and Medium Scale Sector has been tremendous. However, the Goods and Service Tax looked like a storm and has settled down for the MSMEs. This sector has witnessed and recovered from demonetization in 2016 and GST implementation in 2017. Recently MSME sector has faced a lot of issues due to the Covid-19 pandemic crisis and the repercussions of the lockdown. Therefore, the present study intends to find out the perception of MSME Entrepreneurs towards GST by using a random sampling technique in which 289 MSME entrepreneurs were selected in the Kolkata and Howrah Districts of West Bengal State. The data required for this study is collected through primary sources. The purpose of this study is to analyze the satisfaction level of Micro, Small, and Medium Scale Entrepreneurs towards Goods and Services Tax and to study the perception of MSME Entrepreneurs towards GST. It was concluded that the MSME owners have satisfaction about GST but they are facing a lot of issues about filing and compliance issues.

**Keywords:** GST, MSMEs, perception, satisfaction

### Introduction

In the present scenario Micro, Small, and Medium Enterprises face several challenges. One of the changes in the Indirect Tax regime was the implementation of the Goods and Services Tax. The changes in Goods and Services Tax regime laws and rules bring another challenge to the Micro, Small, and Medium Scale sectors. For Micro, Small, and Medium Enterprises, the business proprietors and producers are required to pay different taxes as per the laws and so, fulfilling all the tax-related documentation has them running to different departments. Without GST, these entrepreneurs faced harassment from the various departments they had to report to file their taxes. Taxation plays an important role in the economic development of the country. The changes in the tax regime impact MSME sector growth positively and negatively.

The MSMEs contribute significantly to the economic and social development of the Nation. The exceptional growth of MSMEs has been a strict feature in the economic development of the country since independence. It has contributed to the overall growth of the GDP as well as in terms of employment generation and export in the global economy. According to National Statistical Office, the share of the MSME sector in the country's total GDP during 2018-19 has been 30.3%. According to the Directorate General of Commercial Intelligence and Statistics (DGGIS), in India, the share of MSME-related products in total exports during 2018-19 has reached 48%. (Registration of MSMEs in India (Udyog Aadhaar Memorandum), (2019) <sup>[6]</sup>. Micro, small, and medium enterprises contribute significantly to the economic and social development of the country by way of fostering innovation, entrepreneurship, and inclusive growth.

Under the provision of the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small, and Medium Enterprises (MSME) are classified as Table No 1.

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**Table 1:** Definition of MSMEs

Types of Enterprises	Turnover	Investment (Plant and Machinery or equipment)
Micro Enterprises	Up to 5 Crore Rupees	Up to 1 Crore Rupees
Small Enterprises	5 Crore to 50 Crore Rupees	1 Crore to 10 Crore Rupees
Medium Enterprises	50 Crore to 250 Crore Rupees.	10 Crore to 50 Crore Rupees

(PIB-Ministry of MSME Gears up to Implement the New Norms of Classification of MSMEs, 2020) <sup>[5]</sup>

In this study, we comprehensively assessed the perception of the MSME owners about Goods and Services Tax using the questionnaire method. To find out the perception and satisfaction level of MSME Entrepreneurs towards GST by using a random sampling technique in which 289 MSME entrepreneurs were selected in Kolkata and Howrah district.

### Objectives of the Study

- To study the perception of MSME Entrepreneurs' towards Goods and Services Tax.
- To analyze the satisfaction level of Micro, Small, and Medium Scale Entrepreneurs towards Goods and Services Tax.

### Research Methodology

This study is based on primary data. Primary data has been collected through interviews and questionnaires circulated to selected respondents of Micro, Small, and Medium Scale Industry on GST in the Udupi District of Karnataka State. To collect the responses from the primary survey, the questionnaire has been sent to 289 traders, industries, and professionals who deal with daily compliance under GST using.

### Review of Literature

(Mittal & Raman, 2021) <sup>[3]</sup> The study is conducted to assess the perception, acceptance, and impact of GST on small firms and businesses. The researcher used a structured questionnaire to collect the data from MSME owners and analyzed it with the help of inferential and descriptive statistics. The findings of the study show a positive outlook of MSMEs towards GST and it indicates that the perception regarding the GST laws among the MSMEs is associated with the category of the enterprise.

(Goel & Mehta, 2020) <sup>[1]</sup> The study focuses on the perception of SMEs towards GST and it has attempted to understand how the owners of the SMEs under study are

psychologically affected by the announcement of the GST. The data was collected from the 132 SMEs. It has adopted a descriptive research design and convenience sampling technique. The study has concluded that most of the SME owners still feel that the pre-GST regime was a better tax system owing to the lack of clarity and complexities in the modern system.

(Mohan & Ali, 2018) <sup>[4]</sup> The objective of the study is to understand the implications of the recent rollout of GST in India on the MSME sector. The researcher surveyed by collecting data from MSME owners. The findings of the study pinpoint many structural deficiencies and operational issues over GST implementation which needs attention at an institutional level.

(Hilal Ahmad, 2017) <sup>[2]</sup> The study will analyze, how this GST will affect the business dynamics of MSMEs. GST is aimed to increase the taxpayer base, majorly SMEs into its scope and will put a burden on compliance and associated costs to them. But in the long run, GST will turn these SMEs more competitive with a level playing field between large enterprises.

### Research Hypotheses

**H0A:** There is no significant relationship between Satisfaction Level and Changes in Flexibility Level after the implementation of GST

**H0B:** There is no significant relationship between Satisfaction Level and Transparency in the GST Network.

**H0C:** There is no significant relationship between the Satisfaction Level and Demographic Profile of the respondents

### Data analysis and interpretation

The reliability analysis shows (Table No: 2) that all items in the scale for measuring the level of impacts of GST on MSMEs are acceptable. The ideal range of alpha is 0.7.

**Table 2:** Scale reliability statistics

	Cronbach's $\alpha$
Changes in factors of MSMEs after GST implementation	0.888
Overall transparency in the GST Network	0.985
Changes in Flexibility level after the implementation of GST	0.963

Source: Computed data

**Table 3:** Demographic Profile

Variables	Frequency	%	Cumulative %	
Industry Category	Manufacturing	110	38.1%	38.1%
	Trading	42	14.5%	52.6%
	Service	137	47.4%	100.0%
Status of the Industry	Partnership	68	23.5%	23.5%
	Proprietorship	189	65.4%	88.9%
	Public Listed Co.	3	1.0%	90.0%
	Private Listed Co.	29	10.0%	100.0%
Enterprise Type	Micro	208	72.0%	72.0%
	Small	69	23.9%	95.8%
	Medium	12	4.2%	100.0%

Annual Gross Turnover	Less than Rs. 1.5 Crore	117	40.5%	40.5%
	Rs. 1.5 Crore - Rs. 5 Crore	91	31.5%	72.0%
	Rs. 5 Crore - Rs. 50 Crore	69	23.9%	95.8%
	Rs. 50 Crore - Rs. 250 Crore	12	4.2%	100.0%

Source: Primary Data

The demographic variables of the study are shown in Table No: 3 among enterprises, 47.4% belong to the Service Sector, while 38.1% of enterprises belong to Manufacturing Sector and 14.5% belong to the Trading Enterprises. Among the status of the industry, 65.4% belong to proprietorship, while 23.5% of enterprises were partnership businesses and 10% were private limited companies. The majority of respondents belong to micro-enterprises, with almost 72% of strength whose turnover is below Rupees 5 Crore.

**Perception of MSME Entrepreneurs’ towards GST**

To identify the respondents’ perception of Goods and Service Tax they were asked to indicate their level of agreement towards various statements on the 3-point scale ranging from increased (3), Stable (2), and Decreased (1). The final result is obtained with the help of Mean.

In addition following criteria are used for the analysis part:

1. A score of 1.66 and below value means Decreased
2. A score between 1.67 to 2.33 means Stable
3. A score between 2.34 to 3.00 means Increased

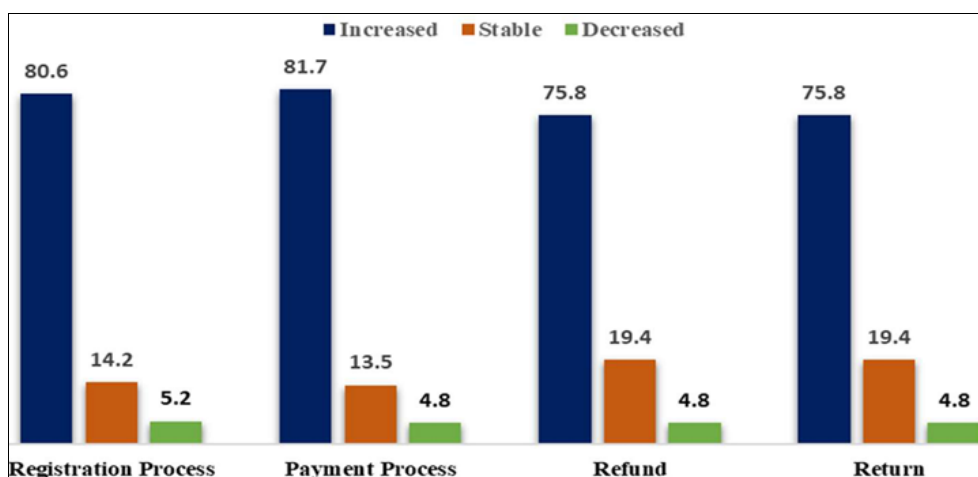
**Table 4:** Mean and Standard Deviation of Changes in Factors of MSMEs after GST Implementation

Factors	Sample Size	Mean	Standard Deviation
Demand of the product	289	2.42	0.596
Supply of the product	289	2.43	0.592
Cost of production	289	2.45	0.552
Capital	289	2.46	0.546
Expansion	289	2.34	0.530
Employment	289	2.34	0.549
Export	289	2.29	0.497
Production	289	2.39	0.555
Sale	289	2.40	0.610
Profit	289	2.36	0.636
Cascading Effect	289	1.28	0.597
Compliance cost	289	1.31	0.622
Technical Glitches	289	1.32	0.637

Source: Primary Data

Table No: 4 depicts the score for various factors of MSMEs. According to the MSME, owners' changes in factors of MSMEs after implementation of GST observed Nine variables viz., Capital, Cost of production, Supply of the product, Demand of the product, Sale, Production, Profit, Expansion, and Employment which have the Mean Score 2.46, 2.45, 2.43, 2.42, 2.40, 2.39, 2.36, 2.34 and 2.34 respectively. It can be inferred that MSMEs owners have perceived that there is an increase in the change of nine

factors of MSMEs after the implementation of GST. Respondents have projected stable opinions with the factor export with a Mean Score of 2.29. The variables namely Technical Glitches, Compliance Cost, and Cascading Effect have Mean Scores of 1.32, 1.31, and 1.28 respectively. So, the changes in these factors decreased after GST implementation. The impact of GST on MSMEs factors shown a positive effect after its implementation.

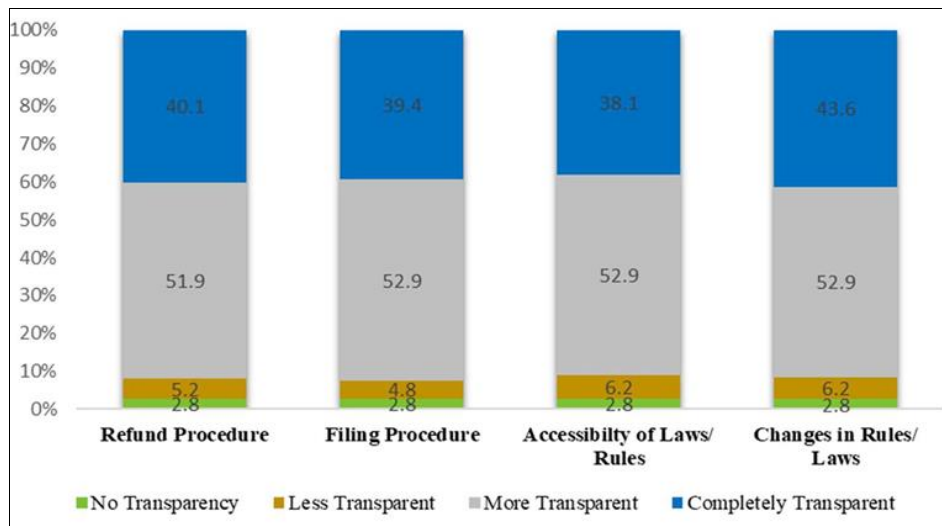


Source: Primary Data

**Fig 1:** Changes in Flexibility Level after Implementation of GST

As per Figure 1, out of 289 respondents, 81.7% agreed that the payment process was flexible in GST. 80.6% agreed that the existing law has increased the level of flexibility in the case registration process. 75.8% agreed that the refund

procedure and return process in GST was flexible. Hence, most entrepreneurs opine that the GST registration process, Payment Process, Refund, and Return procedure was flexible compared to the previous indirect tax regime.

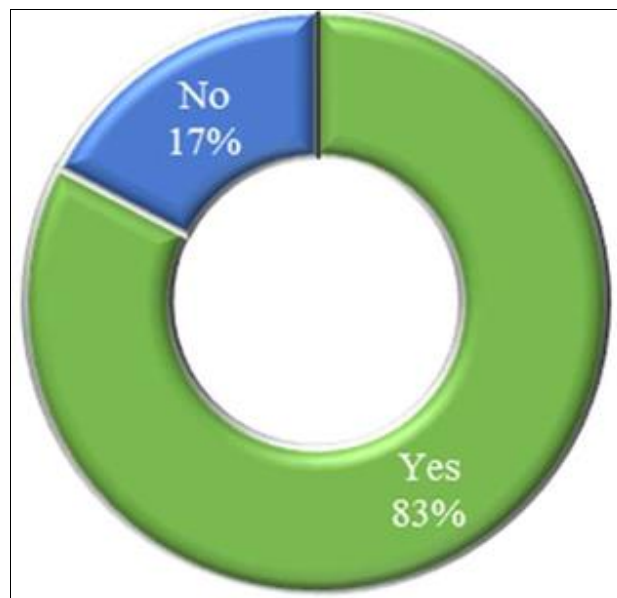


Source: Primary Data

Fig 2: Overall Transparency in the GST Network

As per Figure 2 among 289 respondents, 92% agreed that the existing law was transparent in the case of refund procedure. 92.3% agreed that the filing procedure in GST

was transparent. 91% agreed that accessibility of laws or rules was transparent, and 96.5% agreed that changes in rules/ laws were transparent in GST.



Source: Primary Data

Fig 3: Are you satisfied with the implementation of GST?

Figure 3 shows the results of the MSMEs owners' satisfaction with GST implementation. It can be seen from the results that 83% of respondents are satisfied with the implementation of GST.

**H0A:** there is no significant relationship between Satisfaction Level and Changes in Flexibility Level after the implementation of GST.

Table 5: Correlation coefficient test of satisfaction level and changes in flexibility level after implementation of GST

Satisfaction level / Changes in Flexibility Level after Implementation of GST	Pearson Correlation	Sig. (Two-tailed)
Registration Process	0.203	<0.001
Payment Process	0.238	<0.001
Refund Process	0.204	<0.001
Return Process	0.185	0.002

Source: Primary Data Correlation is significant at the 0.05 level

From Table 5, it was clear that the Registration Process and level of satisfaction ( $r=0.203$ ,  $p=0.001<0.05$ ) were significantly correlated, which means there is a significant relationship between the Registration Process and level of satisfaction. There is a significant positive correlation between the Payment Process and the level of satisfaction ( $r=0.238$ ,  $p=0.001<0.05$ ). The Refund Process and level of satisfaction were significantly correlated ( $r=0.204$ ,  $p=0.001<0.05$ ). Return Process and level of satisfaction were significantly correlated ( $r=0.185$ ,  $p=0.002<0.05$ ). Therefore, it was clear that manufacturers, traders, and service providers were satisfied with GST implementation

in case of changes in flexibility level after the implementation of GST. The changes in the flexibility level of GST on the satisfaction level of manufacturers, traders, and service providers were significantly correlated with the case of the registration process, payment process, refund process, and return process. Therefore null hypothesis was rejected in the case of all states of the changes in flexibility level after GST implementation.

**H0B:** There is no significant relationship between Satisfaction Level and Transparency in the GST Network.

**Table 6:** Correlation coefficient test of satisfaction level and transparency in the GST network

Satisfaction level / Transparency in the GST Network	Pearson Correlation	Sig. (Two-tailed)
<b>Refund Procedure</b>	0.358	<0.001
Filing Procedure	0.359	<0.001
Accessibility of laws/ rules	0.338	<0.001
Changes in rules/ laws	0.353	<0.001

**Source:** Primary Data Correlation is significant at the 0.05 level

From Table No: 6, Refund Procedure transparency and level of satisfaction ( $r=0.358$ ,  $p=0.001<0.05$ ) were significantly correlated, which means there is a significant relationship between Refund Procedure transparency and level of satisfaction. There is a significant positive correlation between filing procedure transparency and level of satisfaction ( $r=0.359$ ,  $p=0.001<0.05$ ). The accessibility of laws/ rules transparency and level of satisfaction were significantly correlated ( $r=0.338$ ,  $p=0.001<0.05$ ). Changes in rules & laws transparency and level of satisfaction were significantly correlated ( $r=0.353$ ,  $p=0.001<0.05$ ). Therefore, it was clear that manufacturers, traders, and

service providers were satisfied with GST implementation in the case of transparency in the GST Network. The transparency in the GST Network on the satisfaction level of manufacturers, traders, and service providers was significantly correlated with the case of the refund, filing, accessibility of laws/ rules & changes in rules/ laws. Therefore null hypothesis was rejected in the case of all states of the transparency in the GST Network.

**H0C:** there is no significant relationship between the Satisfaction Level and Demographic Profile of the respondents

**Table 7:** Correlation Coefficient test of satisfaction level and demographic profile of the respondents

Satisfaction level / Demographic Profile of the Respondents	Pearson Correlation	Sig (Two-tailed)
Category	0.007	0.910
Status of the Industry	-0.048	0.417
Size of the Industry	-0.182	0.002
Annual Gross Turnover	-0.175	0.003

**Source:** Primary Data Correlation is significant at the 0.05 level

From Table No: 7, Category and level of satisfaction ( $r=0.007$ ,  $p=0.910>0.05$ ) were not significantly correlated, which means there is no significant relationship between category and level of satisfaction. There is no significant relationship between the status of the industry and the level of satisfaction ( $r=-0.048$ ,  $p=0.417>0.05$ ). The size of the industry and level of satisfaction were significantly correlated ( $r=-0.182$ ,  $p=0.002<0.05$ ). Annual gross turnover and level of satisfaction were significantly correlated ( $r=-0.175$ ,  $p=0.003<0.05$ ).

Therefore, it was clear that there is no significant relationship between the level of satisfaction with the category and the status of the industry. In case of the size of the industry and annual gross turnover has a negative correlation with the satisfaction level of the respondents towards GST.

## Discussion and Conclusion

The introduction of GST is a very important step in the Indirect Tax Regime of our country. But it has a significant impact on the MSME sector. In the present study, out of 289 respondents, 88.2% (255 respondents) took the Input Tax

Credit benefit, and 11.8% (34 respondents) took the benefit of the Composition Scheme. Maximum entrepreneurs opine that the GST registration process, Payment Process, Refund, and Return procedure was flexible compared to the previous indirect tax regime.

It was clear from the study that manufacturers, traders, and service providers were satisfied with GST implementation in case of changes in flexibility level after the implementation of GST. The changes in the flexibility level of GST on the satisfaction level of manufacturers, traders, and service providers were significantly correlated with the case of the registration process, payment process, refund process, and return process.

We have also witnessed a positive correlation between the transparency in the GST Network on the satisfaction level of manufacturers, traders, and service providers was significantly correlated with the case of the refund, filing, accessibility of laws/ rules & changes in rules/ laws. Though there can be few enterprises, specifically the manufacturing industry which are not much affected by the significant impact of MSMEs. As per the opinion of traders, it creates a negative impact on them because they have to handle multi-

product. With the introduction of GST, the manufacturers shall be benefited significantly. The majority of the respondents depend on a tax consultant/ chartered account for filing returns so they have less aware of GST. A lot of changes in the economic condition of the country may also be the reason for the decline in the business of MSMEs such as demonetization, covid-19 pandemic situations, War, inflation, etc. MSMEs faced a lot of challenges during GST implementation.

Through the study, it has been found that manufacturers, traders, and service providers are registered under the MSMED Act, which is beneficial for both the enterprises and the government. But all MSMEs are not coming under the registration of GST because of the threshold limit. Registered MSMEs allow firms to get secure under the umbrella of indirect taxation and hence promote better management and revenue collection for the government. Goods and Services Tax is considered beneficial, but it also creates problems in MSMEs operations. Therefore, Goods and Service Tax requires a few amendments and due considerations to make the reforms more understandable and easily interpretable for MSME's growth. MSMEs are eagerly looking forward to government training and awareness programs, which can help their financial and operational profitability. It was concluded that the MSME owners have satisfaction with GST but they are facing a lot of issues about filing and compliance issues.

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