

Lok Sabha Elections 2024: Need for GST reforms to cater MSMEs

The Goods and Services Tax (GST) regime, a pivotal reform in the nation's taxation structure, has evolved over the last seven years. Nonetheless, there still lies some room for tailored adjustments in the GST legislation to accommodate the distinctive circumstances encountered by the industry, specifically the Micro, Small, and Medium Enterprises (MSMEs). Here, it may be pertinent to note that this sector contributes around 30% to the country's GDP, with exports taking up around 46% of the share¹.

A few propositions outlining the legal reforms aimed at refining the tax administration, which in turn would enhance the ease of doing business, are outlined below:

1. The GST registration process should be streamlined to minimize the gestation period. While the UDYAM portal is integrated with the GST portal to extract turnover details, a reverse integration of the GST portal with the MSME portal would offer a seamless registration experience. Additionally, introducing a new taxpayer status such as "Regular – MSME" would delineate MSME-specific compliance obligations alongside enhancing the identification for their customers as well as authorities for better compliance.
2. Given that MSMEs often operate on smaller scales compared to larger enterprises, increasing the turnover limits for registration, composition scheme, and Quarterly Return Filing with Monthly Payment (QRMP) scheme would alleviate the compliance burden for MSMEs, thereby allowing them to focus on business growth.
3. In addition, GST provisions should be aligned with the Micro, Small, and Medium Enterprises Development (MSMED) Act to ensure timely payments to MSMEs, which would aid in providing them with financial stability. This would entail an amendment to the GST provisions to incorporate a credit period of 45 days as opposed to the present timeline of 180 days.
4. Another critical aspect for MSMEs is maintaining adequate cash flow, and GST refund plays a crucial role. An amendment in the law to reduce the time limit for processing refunds from 60 days to align with the general practices of expeditious Income Tax refunds would be beneficial.

1. <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1985020>

Further, for the industry as well as the MSME sector:

- Facilitating the refund of Input Tax Credit (ITC) on capital goods while claiming a refund of unutilized ITC balance against exports and under an inverted duty structure would provide much-needed relief to the industry and the MSMEs, encouraging investment in capital assets.
 - Additionally, expanding the scope of refunds to include supplies with payment of taxes for Export Oriented Units (EOUs) would stimulate MSMEs engaged in exports, thereby significantly contributing to the growth of the export sector at large.
5. While the aforesaid changes should help the MSMEs, the government should also look at mitigating the mushrooming GST litigation. Considering the present trend of high month-on-month GST revenue collections through streamlined compliances, the GST Council could consider announcing a one-time amnesty scheme (like waiving off penalty and interest) to conclude the ongoing disputes. This endeavor would significantly uplift the MSME sector, allowing them to prioritize growth over legal conflicts, thereby nurturing a favorable atmosphere for business expansion.

It was a welcome move to devise a SOP for the Directorate General of GST Intelligence (DGGI) and Central Tax authorities with specific instructions regarding their conduct during tax investigations, summons, and searches. Similarly, prescribing stringent timelines/guidelines for the closure of assessments and audits within the GST law, considering the prolonged proceedings, is also required to be undertaken and the need of the hour.

6. This should be coupled with some much-needed clarifications on vexatious issues like GST classification of automobile components, the tax treatment of ESOPs granted by foreign counterparts, the registration process for businesses operating from co-working spaces, the scope of RCM liability on residential dwellings, etc.

Conclusion

These proposed amendments to the GST framework are indispensable to support the growth and sustainability of MSMEs in India. By addressing their specific needs and challenges, the government can foster a conducive environment for MSMEs to thrive, ultimately contributing to the nation's economic development. It would be imperative for the newly elected government (post the general elections) to prioritize these amendments to ensure the vibrancy and resilience of the MSME sector.

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