

CENTRE FOR NEW ECONOMICS STUDIES (CNES)

Short-Term Impact of GST on Small & Medium Businesses across India:

Reflections from Case of Local Markets in Uttarakhand and Kerala.

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1. Introduction

Heralded as one of the biggest indirect tax reforms in India after Independence, the implementation of Goods and Service Tax (GST) on 1st July, 2017 promised to replace the complex multiple indirect tax structure of India.¹

The idea of GST was conceived by the taskforce on the implementation of the Fiscal Responsibility and Budget Management Act, 2003 (Kelkar Committee) to address the complex system of indirect tax rates that prevailed under the indirect tax regime. According to the Kelkar committee, nationwide dual GST was seen as a solution to achieve '*a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation*'.² Considered as a destination-based consumption tax levied at multiple stages of production and distribution of goods and services, the (indirect) tax seeks to introduce a uniform rate of taxation for all goods and services that are bought and sold across India and therefore, substitute the complex and questionable tax structure with one that is poised to simplify tax structures, while making India an attractive destination for investment and business.

While GST has been perceived as a potential 'game-changer' in its attempt to ensure a common market in India by dismantling inter-state tariff barriers and bringing in compliance and advocacy; its implementation in the short-term³, however, has also impacted small and medium enterprises (SMEs) by increasing the operational costs and impacting profitability.⁴ GST, for instance, requires the purchase invoices to be reconciled with the supplier of the goods. These invoices have to be uploaded by the entity by the 10th of every month and will need to be reconciled by the 15th of every month.⁵ This makes the compliance stringent, especially for SMEs who are typically not used to managing complex tax compliances. SMEs, in particular, have to hire or consult with GST experts to bring about a technology makeover resulting in additional expenses.

Since the implementation of GST, few empirical studies have come out, trying to analyze the impact of the tax (and its cascading effects) on small and medium scale enterprises across states. This study aims to bring together a detailed and ethnographic account of GST and its effects in the states of Kerala and Uttarakhand by capturing oral interviews of (small scale) manufacturers and traders/merchants. The researchers in this study have conducted a field survey of 40 business (wo)men from Rudrapur (Uttarakhand) and Malappuram (Kerala) to assess:

- a) Problems faced and cost of moving from previous tax system to GST
- b) Effect on compliance cost
- c) The degree of Transition from *informal* to *formal* sector

This study, therefore, attempts to comprehensively build a case for contextualizing the short-term impact of GST on SMEs and their operation.

1.1 Methodology

The study followed a mixed method approach involving more focus on qualitative research techniques. There was an extensive reliance on questionnaire-based interviews and oral inter-personal accounts. For obtaining the primary information through a participation-observation framework, the targeted market spaces were visited in Rudrapur and Malapuram. This gave a better understanding of the physical spaces to be identified for the study and helped in bringing together a detailed and ethnographic account. This framework has its root in traditional ethnographic research that serves as a check against participants' subjective reporting of what they believe and do.⁶

Inter-personal ease in getting interviews in known geographical spaces (given the budget constraints) motivated researchers to conduct the interviews in cities of Malappuram and Rudrapur. The remoteness of these cities from the respective state (and Union) capitals also helped us in getting a more nuanced perspective on the impact of the GST on the supply chains across North and South India.

Figure 1: Malappuram on [Google Maps](#)



Figure 2: Rudrapur on [Google Maps](#)



Table 1: Description of the surveyed locations

Rudrapur (Uttarakhand)	Malappuram (Kerala)
<p>Rudrapur is an Urban Agglomeration in Udhm Singh Nagar district of Uttarakhand, India. Located in the fertile Terai region, the city is home to over 150 thousand people.</p> <p>Over the past two decades, it has witnessed rapid economic growth and development due to the establishment of an industrial corridor, State Industrial Development Corporation of Uttarakhand (SIDCUL).⁷</p>	<p>Malappuram is also an Urban Agglomeration situated in Kerala, India.⁸ Located in the southern-most state of the country, the city has a total population of over 1.5 million people. It also serves as the administrative headquarters of Malappuram district and boasts of a strong trader community in which hotels and bakery businesses are rampant, followed by textile and medical sectors.⁹</p>

The cities of Rudrapur and Malapuram were chosen because of the following reasons:

1. The cities host large communities of traders.
2. Both the cities are urban agglomerations.
3. Being the respective hometowns of the surveyors, the cities allowed familiar access to the spatial distribution of small and medium scale businesses.

Based on the questionnaire (See Appendix 1) prepared for merchant interviews, we collected 40 samples of oral accounts providing detailed insights into each of these targeted market spaces. Based on the participant-observation and interaction, a broader conceptualization of *GST and its impact on SMEs* is developed. The questionnaire was formulated with respect to the scope and objectives of the study, which enabled us to acquire the relevant information for the purpose of our study.

Table 2: Sectors surveyed for the study

City	Rudrapur	Malappuram
Manufacturing Sector	8	8
Service Sector	12	12
Tax Practitioner	3	1
Total	23	21

Table 3: Businesses surveyed for the study

Service Sector	Number of Interviews	Manufacturing Sector	Number of Interviews
Restaurant	3	Chemical Factory	3
Ration wholesaler	2	Floor Mill	2
Ration retail seller	2	Seed Plant	2
Medical wholesaler	3	Pole Manufacturer	1

Furniture retail	4	Jewellery Maker	1
Power-back up retail	1	Plywood	1
Crockery and Home Appliances	2	Carton Box	1
Jewellery	3	Pipe	1
Mobile and Computer Hardware	2	Packed Food	1
Footwear Retailer	1	Total	13
Marble Retailer	1		
Recycled Plastic wholesaler	1		
Architecture	1		
Electrician and Plumber	1		
Total	27		

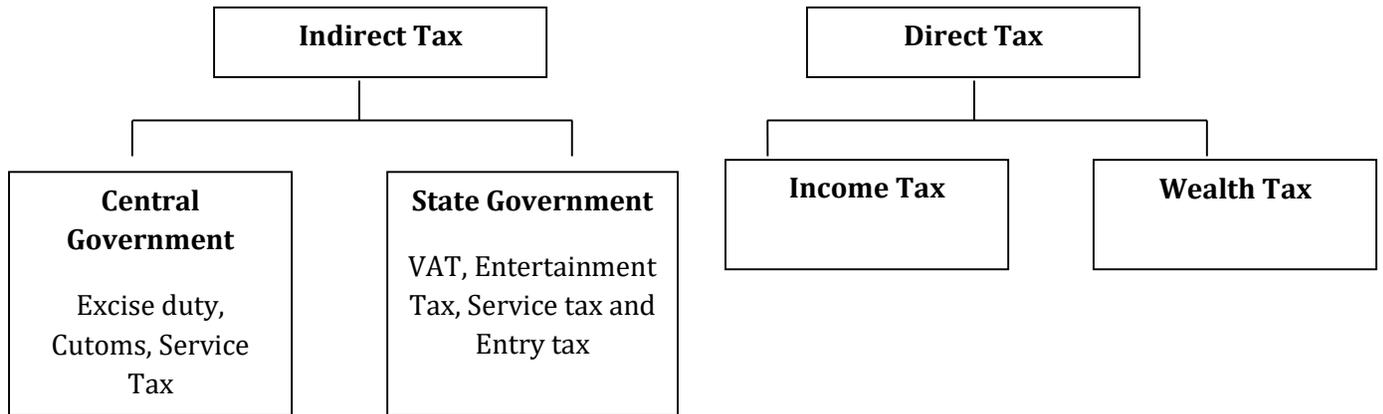
The use of such an ethno-personal methodology helps in understanding the physical, social, cultural, and economic context of the participants by understanding the relationship among people, contexts, ideas, norms behaviors, and the activities they do. Since the findings of the study are largely derived from interviews and conversations with vendors, this technique, also involves its own challenges and limitation which are further explained in the paper.¹⁰ The section to follow will provide background to Indian tax regime pre and post GST implementation. The detailed analysis of these markets is explained in section 3 of the report. Section 4, documents the limitation and is followed by a conclusion.

2. Taxation in India

The Indian economy has followed a progressive tax system by charging more to the higher income brackets compared to the lower ones.¹¹ However, the government income share from direct taxes is as low as 6% of the GDP.¹² The majority of tax collected is in the form of indirect taxes,¹³ which is considered as regressive in nature due to its equal monetary burden on the rich and the poor. The tax is levied on the expense incurred by the individual irrespective of their income.

Previous to GST regime, India followed a dual system of taxing goods and service which is quite different from dual GST

Figure 3: Pre-GST Tax Structure¹⁴



Central Government levied

- a) Income tax on income of an individual
- b) Custom duties on exports and imports of goods
- c) Service tax on various services and
- d) Central excise on manufacturing of dutiable goods

On the other hand, state government levied

- a) Value Added Tax (VAT) was a multi-stage tax levied at each step of production of goods and services which involves sale/purchase. The person earning an annual turnover of more than Rs.5 lacs by supplying goods and services was liable to register for VAT payment and levied both on local as well as imported goods.
- b) Besides, Stamp duties and Land revenue were also generated by states on transfers of immovable properties.
- c) In addition, to these taxes, state excise on liquor and certain agricultural goods were imposed.

Further, there were some local indirect taxes levied like Local Body Taxes (LBT) or Octroi that were charged. As a result, the pre-GST regime suffered various challenges as it had made the system of taxation very complex. Few of the challenges cited by various literature include:

- a. **Tax Dropping:** The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. Sectors that are exempted were not allowed to claim credit for the CENVAT or the Service Tax paid on the inputs. Under GST the entire concept of CST has been eliminated with the introduction of IGST.
- b. **Compliance Issues:** Previous to GST, there existed separate laws for a separate levy. For instance, Central tax Act 1944, respective state VAT laws etc. With GST regime, the laws were subsumed. This made compliance with tax complicated.

Table 4: Taxes subsumed and not subsumed in GST¹⁵

Subsumed in GST	Not Subsumed in GST
Service Tax	Electricity Duty
VAT/ Sales Tax	Basic Custom Duty
Central Tax	Toll Tax
Entertainment Tax	Alcohol for Human Consumption
Tax on Lottery	Property Tax
Luxury Tax	
Purchase Tax	
Entry Tax	

- c. Previous to GST, separate rates for Excise and service Tax @14% existed. With GST in place, all the tax rates have been subsumed under one Central GST (CGST) rate and a uniform rate of State GST (SGST) across all states.
- d. Fourthly, the previous regime levied taxes at two stages; production and consumption, i.e., when product moves out of the factory and also at the retail outlet which made the system non-transparent. With the new regime, GST gets levied only at the final destination of consumption and not at various points. This brings more transparency and corruption-free tax administration.
- e. States under the previous regime were unable to levy taxes on services: they had no powers to collect tax on incomes or the fastest growing constituents of consumer expenditures. The States have to rely almost exclusively on compliance improvements or rate increments for any flexibility in their own-source revenues.

- f. Besides lack of uniformity in provisions and rates and interpretational issues (whether an activity is sale or work contract, sale or service) made the system very complex.

The multiplicity of taxes and tax base being fragmented between Centre and States have resulted in a complex system of interconnected legislations leading to substantial distortions, cascading of taxes and adversely affecting growth in Gross Domestic Production (GDP) had led to the advent of new tax regime in form of GST.¹⁶

2.1 GST at a Glance

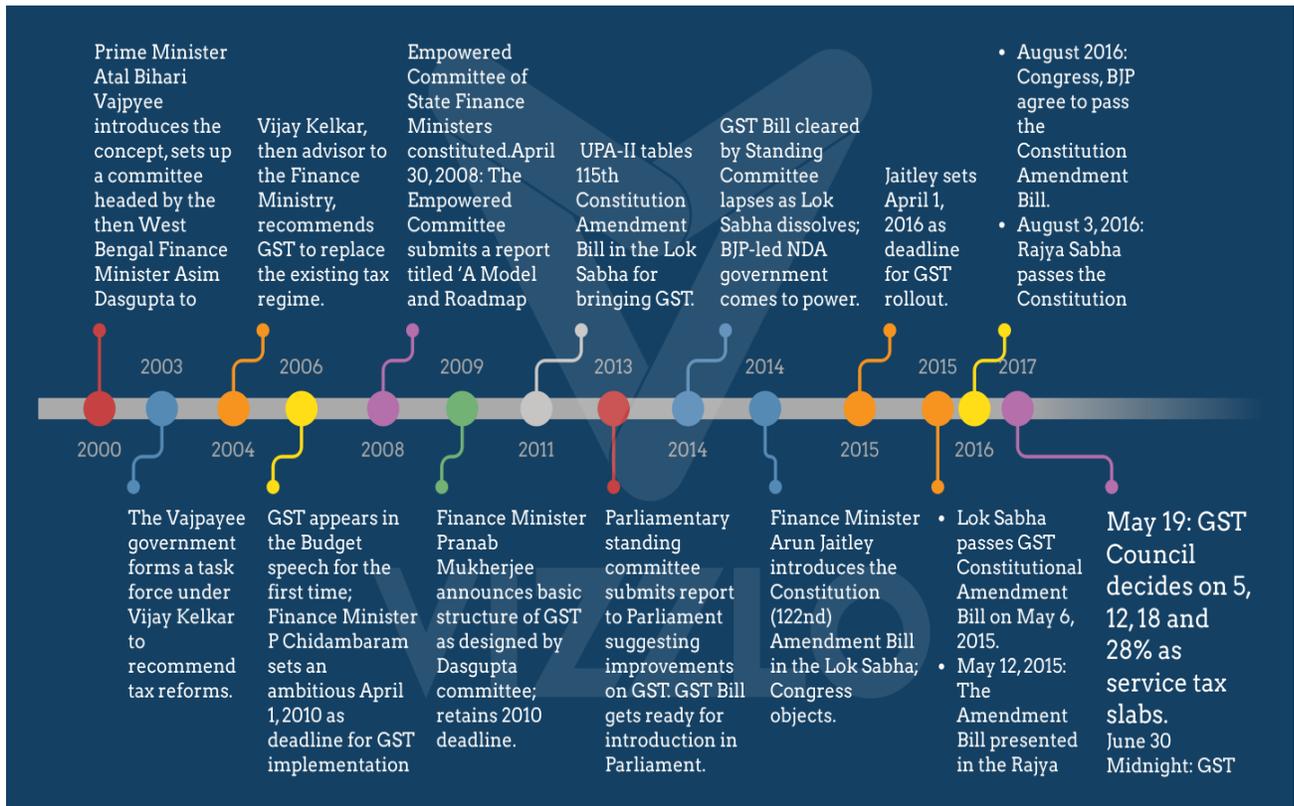
GST is defined as a destination – based consumption tax levied at multiple stages of production and distribution of goods and services.¹⁷ The regime considers goods and services alike and within the supply chain, are taxed at a flat single rate till the customers can access them. This tax reform thus gives equal footing to large and small and medium enterprises and taxes the stock transfers uniformly. ¹⁸

The concept of GST was visualized for the first time in 1999-2000. In 2004 -05, the Kelkar Committee recommended rolling out GST as suggested by the 12th Finance Commission. Following the same recommendations, Finance Minister P Chidambaram in February 2006 proposed a GST rollout, by 1 April 2010. However, the resignation of Asim Dasgupta as the head of the GST committee halted the reform.¹⁹

On 8 August 2016, the Constitutional Amendment Bill for GST was passed by the Parliament, followed by ratification of the bill by more than 15 states and its enactment in early September.²⁰ The Goods and Services Tax was finally launched at midnight on 1 July 2017. The launch was marked by a historic midnight (30 June – 1 July) session of both the houses of the Parliament convened at the Central Parliamentary Hall.²¹

With the implementation of the GST, all registered persons have to file monthly return by 20th of the succeeding month.²²

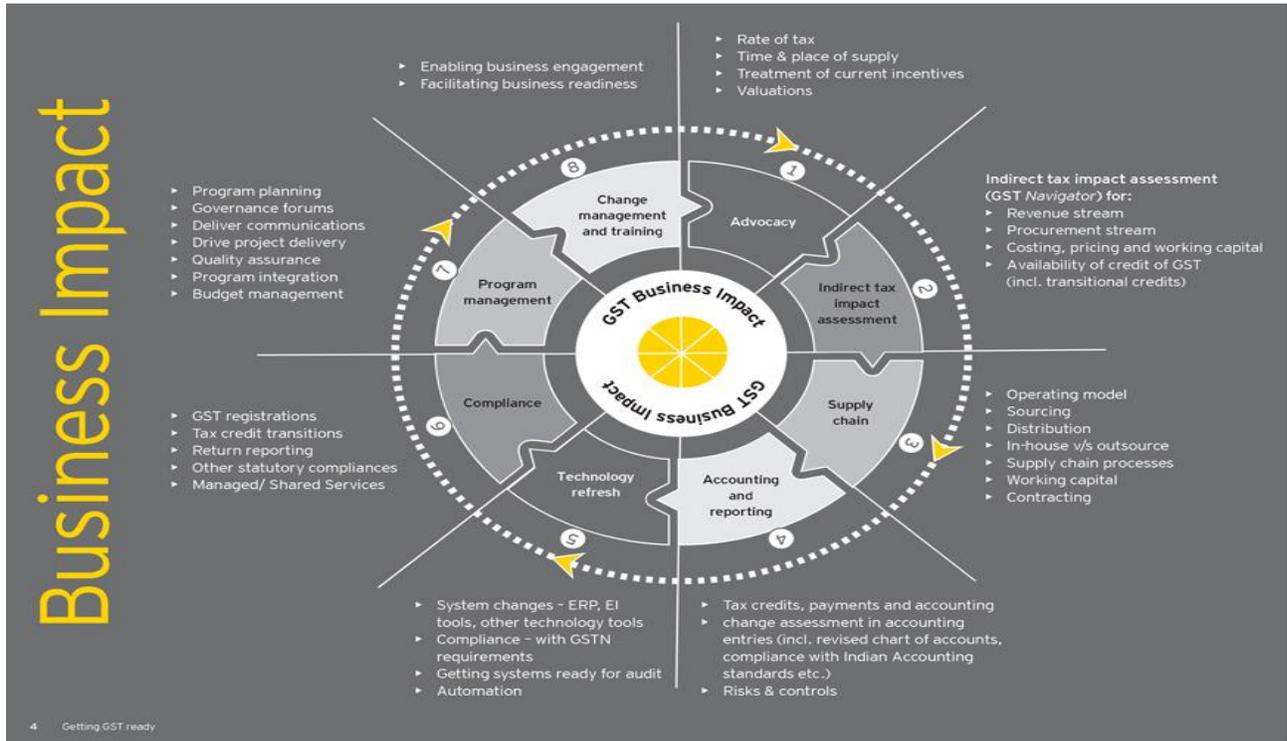
Figure 4: Timeline of GST ²⁴



GST rollout in India is dual based; both centre and various state government levy GST separately with central government levying CGST and state government levying SGST. However, the basis for classifying, measuring and charging the taxes are same for both the government. Another salient feature of Indian GST is that it will eliminate the cascading effect of various state and central taxes by subsuming various state (VAT, entertainment tax, entry tax, luxury tax etc.) and central taxes (central excise duty, service tax, additional customs duty etc.) within the ambit of GST.²³

Levied on the sale of goods and services, it is hailed as “One nation one tax” system to unite indirect taxes under one umbrella and facilitate Indian businesses to be globally competitive.²⁴

Figure 5: Business Impact of GST



Source: Ernst and Young

Since its implementation,

- GST has increased the number of unique indirect taxpayers by more than 50%.²⁵
- There are 3.4 million new indirect tax registrants. The level of tax filers by November 2017 was 31% greater.²⁶
- The Finance Minister stated that 7.2 million of the 8 million indirect tax assesses under the earlier tax system have migrated to GST, while 1.3 million new taxpayers have also signed up under the new system, indicating the tax base is set to widen significantly by the end of the year.²⁷

The GST was structured for efficient tax collection, reduction in corruption, and easy inter-state movement of goods, among others.²⁸ However, it got divided into five slabs for collection of tax—0%, 5%, 12%, 18% and 28%. Petroleum products and alcoholic drinks are taxed separately by the individual state governments. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold.²⁹ In addition, a cess of 22% or other rates on top of 28% GST applies on a few items like aerated drinks, luxury cars, and tobacco products.³⁰

Table 5: Rates Classification for Goods and Services

Exempt	5%	12%	18%	28%	28% + Cess
Food grains	Worn clothing	Condensed milk	Escalators	Pan masala	Small cars
Cereals	Fly ash	Printing ink	Fork lifts, lifting and handling equipment	Cigars	(1% / 3% cess)
Milk	Fishing net and fishing hooks	Specified parts of sewing machine	Electrical apparatus for radio and television		
Jaggery	Sulphur recovered in refining of crude	Furniture wholly made of bamboo or cane	broadcasting		Luxury cars (15% cess)
Common Salt		Diabetic food	Chocolates		
			Rubber tubes and miscellaneous articles of rubber		
			Slabs of marbles and granite		
			Detergents		

Table 6: Rate classification for services³¹

Exempt	5%	12%-18%	28%
Education	Goods transport	Works contract	Betting
Healthcare	Rail tickets (other than sleeper class)	Business Class air travel	Gambling
Residential accommodation	Economy class air tickets	Telecom services	Hotel/ Lodges with tariff above INR 7500
Hotel/ Lodges with tariff below INR 1000	Cab aggregators	Financial services	
	Selling space for advertisements in print media	Hotel/ Lodges with tariff between INR 1000 and 7500	

Source: Ernst and Young

Only rates of select goods and services have been mentioned here

- GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewelry, coins – 3%³²
- GST rate on rough diamonds – 0.25%

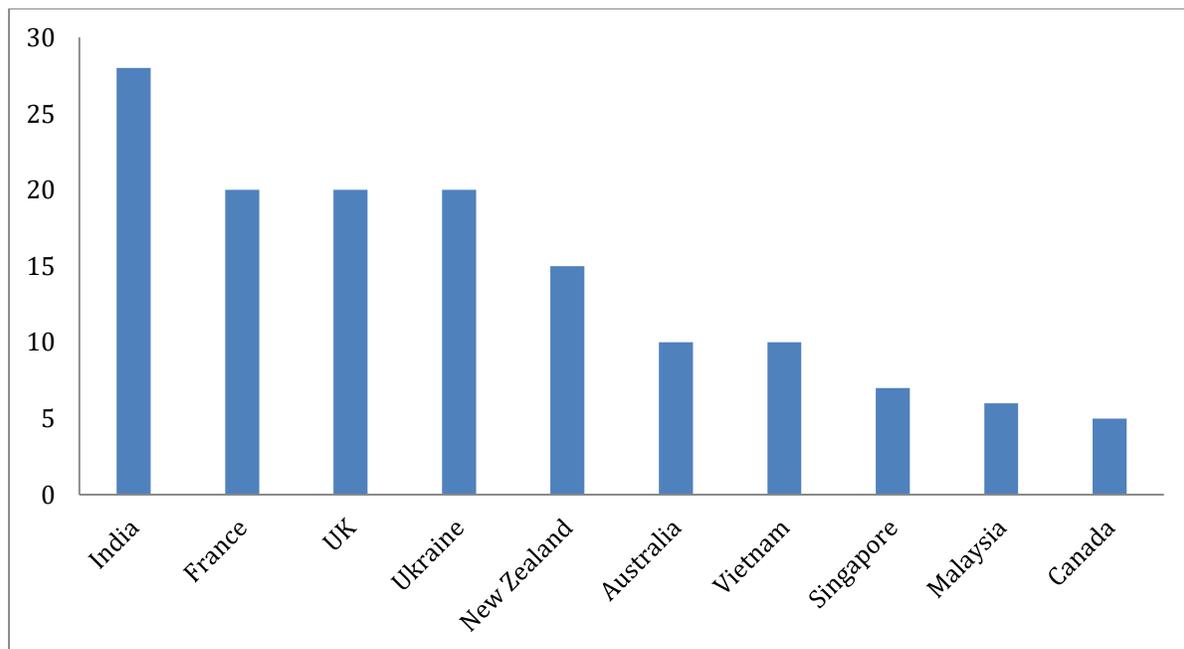
However, the rates and the products that were envisaged under the GST has witnessed continuous modification which has affected the businesses and compliance costs.

After 25th GST council meeting GST rates on 29 goods and 53 services were revised.³³ Annexure 2 provides the modified list of goods and service that has been revised.

2.2 Impact of GST on Indian Economy

India is neither the first nor the largest economy in the world to implement a single tax. Previously, developed countries including France, United Kingdom, Canada, Australia, and developing countries like Brazil have implemented a single-tax system.³⁴ However, as seen in the image below, the rate of tax is highest in India.³⁵ Not just high tax rates but the system of multiple slabs has also been widely criticized by the experts.³⁶

Figure 6: GST rates around the world ³⁷



The expectation of GST being introduced is high not only within the country but also within neighboring countries and developed economies of the world. A paper by US Federal Reserve estimated that the goods and services tax (GST) can boost India's GDP growth by up to 4.2% — double the previous estimate — as lower taxes on manufactured goods will bump up output and make products cheaper.³⁸ GST implementation is expected to provide the much-needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services.

In India, GST implementation has received mixed responses from various stakeholders. While some business owners have lauded the Government of India for implementing GST, others are not very convinced. As per industry experts, GST benefits India and its businesses in the following manner:

- a) Ease of starting Business: Under the previous tax regime, a business operation across different state needed VAT registration. The different tax rules of different states complicated the procedure. With GST that enables centralized registration, ease of starting a business and its expansion has become much easier, with an added advantage for SMEs.³⁹
- b) Secondly, GST has reduced the complications caused by overlap between central and state taxes, thereby removing the cascading effect caused under the previous tax regime. Filing and paying taxes has also been simplified by GSTN portal.
- c) Thirdly, GST has improved logistic system and faster delivery of goods and services by the removal of entry tax. According to an estimate by CRISIL, the logistics cost for manufacturers of bulk goods will get reduced significantly—by about 20%. This is expected to boost ecommerce across the nation.⁴⁰
- d) Lastly, GST ensures that there is no ambiguity between goods and services. This has simplified various legal proceedings related to the packaged products. As a result, there will no longer be a distinction between the material and the service component, which will greatly reduce tax evasion.⁴¹

While there is no doubt that GST has been a landmark reform, the multiple tax rates and exemptions announcements has complicated its easy implementation. As reported by HSBC the complexities associated with multiple tax rates and exemptions announcements could deter the input tax credit mechanism and GST would only add 0.4 % to GDP.⁴² Similarly, SMEs has expressed reservations about transitioning to GST and getting used to the new tax regime within a short period of time. Their concerns include increased compliance costs and numerous returns.⁴³

- The new regime requires that the GST return should be filed on a monthly basis which is time-consuming. The time that business owners spend filing these returns could instead be spent on other productive activities, like developing their business and acquiring clients.

- Consistently filing 3 returns a month, periodically reconciling transactions, and uploading invoices regularly has given rise to the need for an accountant with technical expertise. Hiring an accountant and paying them, adds to the burden on small businesses and thereby increases the compliance costs.
- Similarly, the multiple registration systems that takes place online, small business owners who are not used to working online found the transition difficult.

Additionally, the constant change in tax rates on goods and a frequently crashing website has further impacted the businesses, in particular, SMEs. Hence for a deeper understanding of the impact of GST, an ethnographic study was conducted in Rudrapur and Malappuram.

3. Findings from the Survey

3.1 Registering the GST number

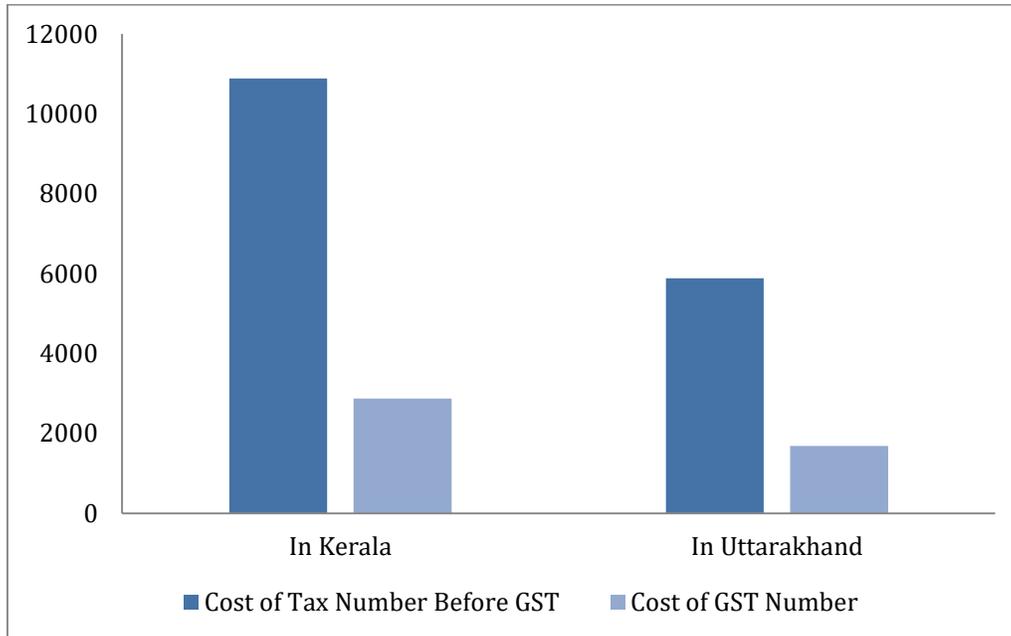
Before GST in India, a typical business had to take at least a Service Tax number and Value Added Tax number. Some businesses had to additionally take Excise number, Customs number, etc. based on the product and the market they dealt in.⁴⁴ All these permissions had government fees ranging from ₹1,000–₹5,000 depending on the tax number applied. Many processes had to be completed physically.⁴⁵

As a usual practice in the country, slow bureaucracy led to businesses hiring tax practitioners or lawyers for the same. These practitioners would charge a sum of government fees and their service fee (which included unofficial payments made to the government officials). This bumped up the cost to ₹5,000–₹10,000.

Learning from the previous practices and in order to minimize the transition cost to GST, the government of India has **waived off the GST number application fees** by moving the process online.⁴⁶ Along with ensuring transparency, the process also helped to cut-off the government officials who used to charge people in an inappropriate way. However, the market for tax practitioners has still prospered. These practitioners helped businesses to obtain GST numbers by charging them from ₹1,500–₹10,000.

Of the 40 total respondents, the average cost of obtaining a GST number was ₹2,320, which is around 3.5 times less than the cost of obtaining VAT and Service Tax number. When looked closely, it can be noted that the average cost to obtain a GST number was lower for well-off businesses as compared to small traders. Many large businesses even made the transition all by themselves without any cost. On comparing between Uttarakhand and Kerala, the average cost of obtaining a GST number was 50% less in Uttarakhand

Figure 7: Cost of getting previously existing tax numbers and GST number



Source: Authors' Calculations

3.2 Tax Returns and Increased Compliance Costs

A businessman from Rudrapur running a furniture shop says:

"I had to file tax only four times a year, now it's twelve damn times! My lawyer has tripled his fees. In addition, I had to hire an accountant as well. My cost has increased to nearly nine times."

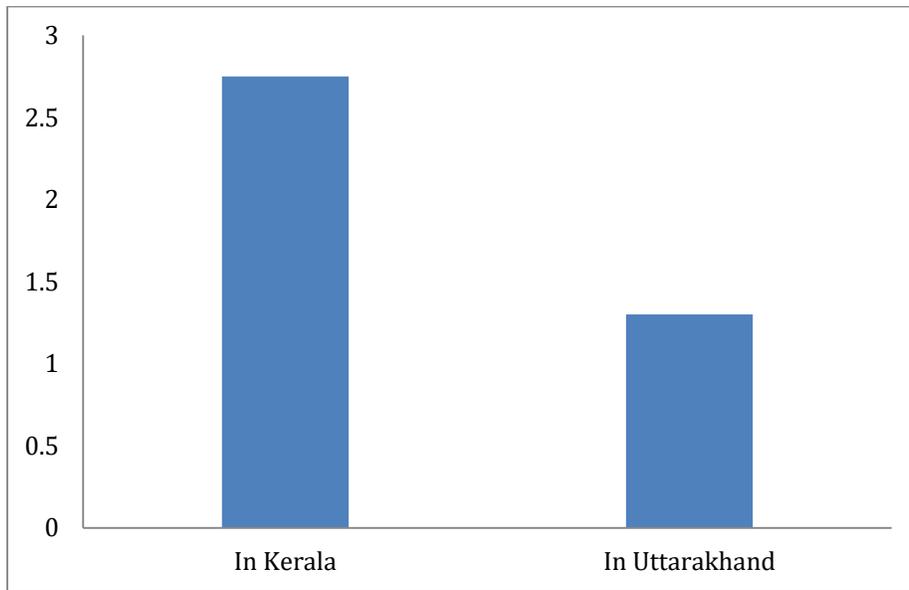
The government brought the GST with a notion to simplify the tax structure and decrease the compliance costs.⁴⁷ However, the implementation of the bill hasn't worked out the way it was supposed to. While having a conversation with multiple business-owners, they disagreed about GST making their tax returns filing simple.

On an average, the compliance cost has increased by 2.025 times. There are various reasons for the same.

- Over 90% of the respondents have always used the help of a professional to file their taxes.
- With the transition to GST, the frequency of tax returns has increased from 4 to 12 times a year.

- The increase in the frequency of tax submission, unclear rules, and a slow website has caused no fewer problems for the tax practitioners.
- Being unable to complete the same number of files in the given time, the practitioners are forced to increase their service fees.

Figure 8: Number of times increase in tax compliance cost



Source: Authors' Calculations

Not just increase in tax practitioners' fees, the infrastructure cost of GST has also come out to be high for the businesses.

Moving majority of the tax submission online has helped the system to be transparent. However, it has largely excluded the small businesses which have no or little capital to set-up expensive systems.

During the interview, a ration seller told:

“Amdani atthani kharcha rupaiya (Income is half-a-rupee, expenses a rupee). Just for complying with this system, I had to buy a computer, a printer and some software called Tally. In addition, I have to keep a part-time accountant. It cost me more than I could make in a year. Whom should I ask for this money?”

3.3 Visits to Tax Practitioners

The cost of GST is not just limited to increased monetary costs. The implementation of tax has also increased the number of times a business owner visits a tax practitioner or vice-versa.

According to the study, a businessman used to visit the tax practitioner only once in two months. However, with the implementation of GST, the number of visits has increased nearly three folds to two visits a month. This increase in visits is above and over the increased compliance costs that the businesses have to pay.

Many surveyors were upset about the same. However, most of them showed an unusual optimism towards the bill. They were of the belief that it is a short-term pain and with GST becoming a common practice, the constant to-and-fro rounds will stop.

3.4 Reasons to Remain with the Informal Sector

In 1971, British anthropologist Keith Hart was the first to coin the term 'informal sector'. According to International Labour Organization, "Workers in the informal economy include both wage workers and own-account workers. Most own-account workers are as insecure and vulnerable as wage workers and move from one situation to the other. Because they lack protection, rights and representation, these workers often remain trapped in poverty."⁴⁸

In India, the NCEUS defines the unorganized sector as "all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers".⁴⁹ According to an estimate, India has a substantial informal economy contributing 20% to GDP. However, most of these firms make profits largely due to non-compliance with regulatory norms and tax evasion.⁵⁰ This leads to a shortfall in the government revenues.

Under GST, it is expected that the informal sector will come under the regulatory framework and paying taxes. The business that don't make adapt to GST will ultimately shutdown ending

A business man stated

“If I don’t sell without bill, my buyer will buy goods from ‘X’ ration store for lower prices. Why should I let go my customer? When everyone else is working without bills, why can’t I?”

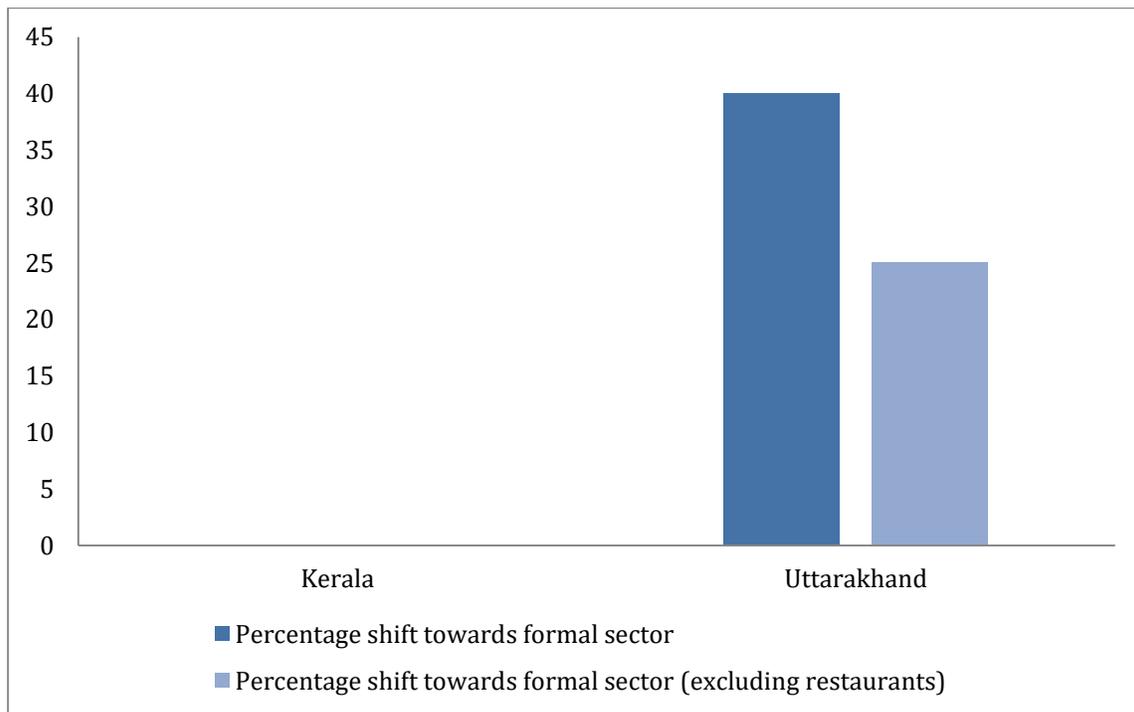
He further adds:

“My seller told me to buy with the bill but with time cheaper options without bills have opened for me in the market. I won’t buy on bill if I can’t sell it on bill. Why should I be the one taking the hit?”

the informal sector.⁵¹ The government cited the shifting of the informal sector to the formal sector as one of the major victories of GST.⁵² However, the same is not true when we studied the situation on the ground. All the businesses that dealt with the ultimate sellers have continued to sell their products in the informal market.

The study revealed no or little shift from informal to the formal sector. Only 8 out of 40 businesses have partially shifted to the formal sector. Further, if we drop the restaurant businesses, only 5 out of 37 businesses show a little shift towards the formalization.

Figure 9: Percentage business shifted towards formal sector



Source: Authors’ Calculations

3.5 Wider Impact on the Economy

The study tried to find out the overall impact of the GST on businesses. In order to do so, the respondents were asked about their monthly turnovers in 2016 and 2017. Later, a comparison between the two was drawn.

The turnover growth in Rudrapur, Uttarakhand was nearly flat while the Malappuram, Kerala showed a negative growth of 25%. The results in Uttarakhand were in line with expectations while the results in Kerala were rather surprising due to steep downfall. However, the slowing economy in both the places cannot be blamed completely on GST.

Malappuram is facing regulatory issues due to slump in oil prices and tax on remittances, whereas Rudrapur businesses have tagged it as a seasonal slowdown due to macroeconomic factors rather than GST.

3.6 Other Observations

While conducting the survey, the surveyors made efforts to note other key observations as well.

- a) Nearly 100% of the respondents complained about the **constant crashing, slow, time-consuming and non-user friendly GST website.**

A businessman from Kerala stated that:

“The constant crashing of GST website is unacceptable. It increases my time spent on unproductive work. The government should take help of multinational companies who have very good websites which doesn’t even crash when there is a huge influx of people visiting it simultaneously.”

Since the launch of GST, the website is constantly crashing or running slow. This is causing businesses to spend more than usual time on the website to file their tax returns. During the peak hours or last day of the tax return, the website crashes frequently.

A businessman from Uttarakhand said: “I was feeding data early in the morning but forgot to bring some of my documents to office. I went back to my home for collecting the left files. On logging back at 11.30 am, I saw that all my data had vanished in the ‘cloud’. No issues, now I will sit again and do this again for another 4 hours.”

- b) The number of returns filed in GST are a lot more than the previous tax system.
- c) Taking input tax credit is much more difficult now.

It was observed that the businesses felt it was difficult to get GST tax credit input. Some businesses in the supply chain do not file or delay their tax returns causing problems for others.

Another businessman from Rudrapur said:

“When there was VAT, I didn’t worry about whether someone is filing their tax or not. Now, it has become my duty to buy product, sell it at profit, collect bill, file tax return for myself, and also ask the selling party to file his tax return. There should be some easy way out to make him responsible for the same.”

- d) The frequent changes in tax rate have made businesses skeptical of maintaining inventory to the fullest capacity. The business owners are worried that the high-tax-rate inventory will bring them a loss. Since the implementation of the GST, there have been multiple changes in the tax slab of a large number of goods.

Table 7: Changes in GST rates ⁵³

GST Council Meeting Number	Date	Major Changes
	1 July 2017	GST implemented
19	17 July 2017	Increase in cess on cigarettes
20	05 August 2017	Rate change on textile job works, tractor parts
21	09 September 2017	Increased cess in automobiles ; decrease in GST rates for 40 products
22	06 October 2017	GST rate cut for 27 items
23	10 November 2017	GST rate change for 200 items
24	16 December 2017	Decision on implementation of e-way bill
25	18 January 2018	Handicraft made tax-free; tax revised on 29 items and 53 services

This has helped the government to lower the price of essential daily goods. However, it has hampered the businesses dealing in these goods. The return of fines imposed before relaxation in rules is also another challenge faced by businessmen.

A ration seller said:

“I had 25 tons of surf (detergent powder). I bought it at 28% GST. Overnight the government reduced the tax to 18%. Now I run in deep losses. I can’t even sell it at my buying price.” He further adds, “They (government) say that they will refund our losses, but who knows? 10 other shop-keepers in the town are also facing losses. I don’t think we will get refund from the government. Let’s see what happens.”

Another one from Kerala stated:

“I have paid fine for inconsistencies in filing of tax which was later relaxed. Nobody has any clue about how to get back the fine paid by me.”

Such frequent changes in taxes are forcing businesses to lower their inventory, thus, hampering them from dealing at their fullest capacity.

- e) Business owners seem to be welcoming the move to implement the e-way bill. Many of them believed that this will help stop black marketing.
- f) The implementation of GST has certainly daunted the business. The businesses are paying more for compliance with tax, buying software, hiring accountants, and visiting their practitioners more often. However, there seemed an unusual optimism and confidence about the economic robustness and its recovery.

4. Limitations of the Study

4.1 Methodological Challenges

It was difficult to convince participants to answer questions on sensitive topics like business turnover and work done without bills among others in the interviews. Therefore, the surveyors were required to be flexible and open to deviations from the respondents. Though this technique, undeniably, has its own advantages, it also involves the risk of steering the conversation into a direction of little relevance to the objectives of the research.

A crucial part of the interview involved the researchers disclosing their identities and objectives at an early stage. While this technique drastically reduced the resistance and

helped overcome trust vacuums, it also brought into play a set of challenges in the form of 'reactive effect'.⁵⁴ The trust deficit between the respondents and the researchers remained high despite being from the same town. It became even more difficult to get answers to personal questions.

There were many cases where the business owner did not fully understand the tax process. Most of their work was either left to their office staff or the tax practitioners hired by them. There were a few occasions where the surveyors had to call or meet the firms' tax practitioners to get answers. These practitioners were even more skeptical about the surveyors.

4.2 Logistical Challenges

Sample size stood as another limitation of the study. Owing to the variation in the number of vendors across the markets, an accurate representation of the product market remains questionable. A sampling error may exist where a sample set may not truly represent the population. Finding multiple businesses from the same sector was another issue that the surveyors faced.

The geographical location of the survey is concentrated at two major places, Rudrapur and Malappuram. The surveyors would have ideally wanted the coverage of the survey to be wider and at different locations. However, despite everything, the businesses who agreed to be a part of the survey were helpful and tried to respond with maximum details to the surveyors.

5. Conclusion

The study report provides a detailed insight into the short-term impact of GST implementation in the markets of Rudrapur, Uttarakhand and Malappuram, Kerala with a detailed account of the previous tax structure in India and how the GST was implemented in the first six months (from July, 2018). We found that the transition cost of businesses from the previous tax structure to GST was somewhere around ₹2320 (depending on the nature of the business activity). This amount was 3.5 times less than the cost of obtaining the VAT and service tax numbers in the past. Although the transition cost wasn't too high, 90% of the businesses had to face difficulty with the increased fees of professional tax practitioners who file taxes on their behalf, resulting in a 2.025 times increase in the compliance costs. The implementation did not increase just the tangible cost but also the intangible as the visits of the businesses to the practitioners multiplied three times.

Another major reason cited for implementing GST was 'formalization of the informal sector'. However, as shown in the Analysis section of the study, there was no major shift seen from the informal to the formal sector (in accounting terms). Further, we also observed the degree

of discontent amongst businesses in Rudrapur and Malappuram because of ever-changing tax rates, constant crashing of GST website, complex input tax credit system, and increase in the number of returns filed. From this study alone, it will be difficult to conclude that businesses faced a slowdown due to the implementation of the tax reform. However, it could be concluded that the small and medium businesses are facing an enormous threat from the increase in compliance costs which pushes the gross 'end' prices of products.

Annex 1: Questionnaire

1. Which sector of economy fits your business the best?
 - a. Agriculture
 - b. Manufacturing
 - c. Service
2. What was your monthly turnover before GST?
3. What is your monthly turnover after GST?
4. What was your one-time cost of getting Service Tax number and VAT number (any other tax, if applicable)?
5. What was your first time cost of getting GST number?
6. What was the infrastructure cost of complying with GST (if any)?
7. Do you have any tax input credit left while transacting to GST? If yes, how much in rupee and percentage of your monthly tax?
8. How many times (annually) did you pay tax before GST?
9. How many times (annually) do you have to pay tax after GST?
10. Which month GST did you last file?
11. Is there an increase in professional compliance cost (if yes, by how much)?
12. What were your visits (per month) to your CA and lawyer before GST?
13. What were your visits (per month) to your CA and lawyer after GST?
14. How much of your work has shifted from informal to formal sector due to GST?
Procurement -
Sales -
15. Do you plan to rebut your GST number? If yes, why?
16. Any other comments or problems that you are facing?

Annex 2: The complete list of new GST rates

According to NDTV,

List of goods in which GST reduced from 28 per cent to 18 per cent

1. Buses, for use in public transport, which exclusively run on bio-fuels.
2. Old and used motor vehicles (medium and large cars and SUVs)

List of goods in which GST reduced from 28 per cent to 12 per cent

All types of old and used motors vehicles (other than medium and large cars and SUVs)

List of goods in which GST reduced from 18 per cent to 12 per cent

1. Sugar boiled confectionary
2. Sugar boiled confectionary
3. Fertilizer grade Phosphoric acid
4. Bio-diesel
5. 12 types of bio-pesticides
6. Bamboo wood building joinery
7. Drip irrigation system including laterals, sprinklers
8. Mechanical Sprayer

List of goods in which GST reduced from 18 per cent to 5 per cent

1. Tamarind Kernel Powder
2. Mehendi paste in cones
3. LPG supplied for supply to household domestic consumers by private LPG distributors
4. Scientific and technical instruments, apparatus, equipment, accessories, parts, components, spares, tools, mock ups and modules, raw material and consumables required for launch vehicles and satellites and payloads

List of goods in which GST reduced from 12 per cent to 5 per cent

Articles of straw, of esparto or of other plaiting materials; basketware and wickerwork
Velvet fabric (with no refund of un-utilised input tax credit)

List of goods in which GST reduced from 3 per cent to 0.25 per cent:

Diamonds and precious stones

Here's the list of goods that got expensive:

List of goods in which GST increased from 12 per cent to 18 per cent

Cigarette filter rods

List of goods in which GST increased from nil to 5 per cent

Rice bran (other than de-oiled rice bran)

Apart from this, changes have been recommended in compensation cess on certain goods and Integrated Goods and Service Tax (IGST) rates.

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