Political and Economic Notes:

G.S.T.Regime | The Small is in the Throes

The Goods and Service Tax (GST) rolled out on 1 July 2017 with the declared aim of creating a uniform market throughout India by a single tax. Contrary to this it turned out as a multi-layered – CGST, SGST and IGST – with multiple rates of taxation. The catchy slogan –"One Nation-One Tax" – has gone to the winds and it spelled doom to micro, small and medium enterprises.

First the exemption limit under GST. A person with an annual turnover of less than Rs. 20 lakh is exempted from registration as a GS taxpayer. This badly affected lakhs of small industries which are backbone of the manufacturing sector. The small industries are exempted from paying excise duty when their turnover is below Rs. 1.5 crore. Now all most all of them have to pay GST which is not based on their size but goods they produce. According to the statistics of the Ministry of Finance, 90 per cent of the revenue from indirect tax has been paid by those who had a turnover more than Rs.1.5 crore until now. The GST regime now imposed tax on the small industries and businesses. It is not an oversight, but intentional.

Second, the exemption limit does not mean that there is no tax burden on those small units. The exemption is for registration only. It is imposed in a roundabout way called as reverse charge mechanism. If an unregistered supplier sells his goods to a registered business, the recipient has to pay the GST and later claim for its reimbursement. It appears as easing out the small units from GST. But in practice it worked in the other way. Any medium enterprise will have several transactions with small business which are unregistered. It is refusing to accept the goods or services from the small unless they registered with GST. It is because of cumbersome process of filing returns and claiming reimbursement later, validity of which may be questioned anytime by the officials. And the small business has to toil with procedures to make believe the officials that its turnover is below the exemption limit. It also blocks the working capital of the enterprise for months. The government allowed registered dealer to make purchases of Rs. 5000 per day from unregistered suppliers without GST registration. This is a paltry sum and most of the goods are not procured on daily basis. The obligation of reverse charge mechanism remains.

Let us examine how these two factors affected the micro, small and medium enterprises at ground level.

Artisans:

The GST has been touted as the most progressive tax reform India has ever seen. But three months into its implementation, it is threatening the livelihoods of artisans, be it leather puppet makers in Andhra Pradesh, or the wooden bead makers in Uttar Pradesh or the block printers in Surat. Double burden of tax and paper work imposed in GST regime will soon make this sector commercially unviable.

Most of the artisans are uneducated learning their skill theough family tradition. The local market is very limited and they have to supply too far away cities with craft museums. According to a survey by Dastkari haat Samiti, 82 per cent of them have an annual income less the Rs, 2o lakh; 75 per cent did not know the tax applicable to their craft.; 89 per cent did not know that they would get reverse input refund on tax paid and all of them have not the capacity to afford an accountant to do the paper work. This tax free sector is now falls in the GST slab of 18 per cent tax.

The tax exemption given to artisans became ineffective on both counts; buyers are unwilling to take the extra paper work or pay GSY on behalf of craftsmen. The courier service refusing to move goods to the city shop unless craftsmen provided GST number. These artisans used to sell their products in far away cities and towns during the festive seasons. As it becomes interstate trade, it attracts GST of 16 per cent though their turnover is below the exemption limit.

The irrational tax imposed on crafts is punishing the sector and the sales dropped by almost 20 per cent. Dholra metal work, the 4000-year-old wax casting technique practiced by the adivasis of West Bengal, Odisha and Jharkhand, is brought under the 12 per cent slab. Upcycled handmade cotton bags made from waste fabric, earlier not tax, are now taxed at 18 per cent. They don't know how to pay the input tax as it is waste material. The irrationality has no bounds. The terracotta roofing tiles used in rural homes are taxed at 5 per cent, while earthen pot and lamps are not.

Terracotta products such as tableware, bells and toys are being taxed at 18 per cent while the latest exemption has removed tax on religious idols made from terra cotta.

The GST regime cast its net wider than it appears and the exemptions announced in September were mere eyewash. See the some in the list of 12 per cent GST slab: Bamboo blinds and other products made on the road side. Home decor itams made with stones and beads; Madhubani, Warli, Gond, Sanjhi and other folk arts and those under the 18 per cent slab: indigo dyes, festive, carnival and other entertainment articles including conjuring tricks and novelty items and so on.

Across the country, the activities of artisans came to a standstill and they are facing starvation like situation.

Handloom Weavers:

The list of woes that haunt the handloom weavers is unending. It now had a new entry:GST. The handloom weaving is already on the path of decay. According to Handloom Census-2009-10, nearly 4.3 million people were engaged in this sector, down from 6.5 million in the previous census in 1995-96.

The RSS-BJP combine that came to rule the country swears by swadeshi and Indian culture, has rang a death bell to handloom weavers, who were committing suicides next only to peasants.

According to a study by the National Skill Development Corporation, Modi’s much touted programme to impart skills to youth, 84 per cent of weavers live in villages, with poor internet connection and frequently run down power supply. 70 per cent of them are illiterate and belongs to marginalised classes and castes as well as minorities.

The GST regime did not differentiate between handmade and machine made products. It levied same tax slabs on the both varieties and forced the handloom weaver to compete with the fully automated textile mills. As a result, the post-GST period witnessed 15 to 20 per cent drop in sales.

These handloom weavers are asked to file GST returns three times in a month. What is the result? According Krishna Kumar, a block printer in Kaladera, Jaipur, many block printers closed their small units and are taking up job work. Others have started selling to traders, who will take their GST burden for a commission, at a price lower than the previous one.

Many handloom weavers are already leaving their traditional occupation as the Handloom Census reveals. The GST regime forces them to leave in drove in search of alternatives which are scantily available. The GST rang a death bell to the handloom weaving.

Small Industries & Businesses:

Take the case of apparel manufacturing, one of the top foreign exchange earner for the country. The big firms in this sector faced problems of transition with the implementation of GST that came on the top of demonitisation. They have to pay more tax at a early stage which increased their working capital needs, and consequently more price. The Input Tax Credit will be paid after the sale of exports.

A manger of a firm in Haryana said that their production has slowed down on massive scale and daily employment reduced 600 in May to 390 in September. They removed number of machines in production line from 45 to 36 and the production reduced from 60,000 garments a month in April to 40,000 in September.

While big firms are coping with the GST regime, small firms, which are typically vendors to big ones, are in a precarious condition. Big firms outsource their job work such as attaching lace, embroidery, beads to apparel to small units. The medium unit-A with 50 workers can cope with GST paper work. Small unit-B with 15 workers could not as it wash away its meagre margins of profits. Now unit-B is routing its contracts through unit-A, paying it commission and unit-B laid off 4 of its 15 workers.

Moreover, the apparel producer cannot redeem input tax credit which is 18 per cent on yarn and 5 per cent on fabric using that yarn. So it got embedded in the price of apparel, which they cannot transfer to the buyer in a foreign country as the price of supply was fixed at the time of contract.

Likewise, the poweloom sector in Bhiwandi alone lost 2 lakh jobs according Bhiwandi Powerloom Weavers Federation.

Take sector leather. Indian shoes are known for their quality and affordability. The raw material used in the shoes is attracting GST 18 to 28 per cent far higher than earlier. All the big companies outsource their work to small units which are exempted from paying excise duty because of their small size. Now the big companies have to outsource only to GST registered units.

Small units which supply to big companies are in a precarious condition. The cost of raw materials soles and uppers increased from Rs.150 to 183 and GST had to be paid. Agra, a leather hub, has 7000 small household industries manufacturing shoes and hand bags employing 2 lakh people. A typical house becomes a factory in the day, a kitchen in the evening and a bed room at night. Their earnings are meagre. Coping with GST procedure is unimaginable for them. Now the job work orders have fallen about 30 per cent. The situation they face now is to opt for another occupation or perish with meagre incomes.

Take the case of flour mills, There are around 1400 flour mills which cater to the local customer of the area with supply of *atta* (wheat flour) *maida* (refined wheat flour), *besan* (Bengal gram flour), *Ravva* (wheat powder), *idli ravva* (rice powder) and other products. They cannot sell in high quantity packets. Rather they use 1 kg and 1/2kg packets to meet the purchasing power of local population at a rate a bit lower than big companies like Tata, ITC, Unilever etc.. Invariably they have to brand their products which attracted GST of 5 per cent This made the flour from small and medium units costlier on par with that of large companies. After some time, the government announced that if they forego actionable claims on the brand, they will be exempted from the taxation. This leads to more complicated problems like foregoing the identity of brand as well as problem of copy brands with inferior quality flour masquerading as the original one giving them bad name.

The demonitisation and GST has negatively impacted the economy, particularly small enterprises. For over five consecutive quarters, the small and medium enterprises across India reported tumbling sales and undermining of job creation. Exactly this section is the political constituency that catapulted Modi into power in 2014 which was vexed by the Congress rule and put hopes on the talking would be PM. That very section is now in doldrums.

When Modi imposed demonitisation and GST, he asked the people to bear with short term pain to reap long term gain. One can enjoy gains only when he survives the pain. Before GST, there were 29 state VATs, one central VAT, central excise and customs duty – a total of 32 tax laws. After GST, there are 29 SGSTs, one CGST and central excise and customs – a total of 31 tax laws. Where is the single tax? Oh! It is in exclusion! The central VAT was merged with GST.

The woes of GST are not temporary or transitional ones. They will stay for a longer period. The cumbersome paper work and the unbearable tax burden forces the small and medium units to either close their shops or to avoidance of tax payments. This breeds corruption and continued harassment of these enterprises.

The government tweaked with the GST as wide spread discontent was expressed. But there are no substantial changes. It just pushed some items from one slab to another, while the number of slabs remained the same. The sole aim is to increase the tax revenue by burdening the “informal” sector of the economy meaning the small businesses construed as tax evaders under the slogan of bringing it to formal sector.

This keenness of the government not to lose revenue can be seen in Arun Jaitly’s advise to, as was his predecessors in the Finance Ministry, the state governments to cut their taxes on petrol and diesel, which are kept outside the GST. During the last one year, revenue from petrol and diesel shot from Rs.90,000 crore to Rs. 3.4 lakh crore. In the event of bringing petrol and diesel into the ambit of GST, as is being demanded by some sections, consumers stand to gain only in the short run. Immediately the revenue loss for the government would be around Rs. 2 lakh crore assuming a maximum tax of 43 per cent – 28 of GST plus 15 per cent cess. As the basic price of crude petroleum included import duty on ad valorum basis, it could be enhanced by the government at any time or automatically with price rise in the international market. In no time the prices of petrol and diesel would be raised to the old level.

This drive to bring the informal sector to formal sector is not going to stop here. There are many measures in the offing. Another burden on small and medium will come next month, e-way bill, which mandates that everyone has to furnish information in GST network related to the movement of goods worth over Rs. 50,000 if carried on motor vehicle beyond 10 kms. The small and medium enterprises find themselves in a mess where they cannot move their goods freely in the so-called one national market.

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