

A Study on Pre and Post Impact of Goods and Services Tax in Small Scale Sector

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Abstract

The introduction of the Goods and Services Tax (GST) in India has brought significant changes to the country's tax structure and overall economic landscape. This research paper examines the pre- and post-GST era, highlighting both the intended benefits and the challenges associated with its implementation. Key findings suggest that while GST has streamlined the taxation system, reduced trade barriers, and enhanced efficiency in the long run, its initial rollout led to disruptions and sector-specific difficulties—particularly in the manufacturing and service sectors.

Keywords: GST, VAT, Service sector, Excise Duty, Manufacturing Sector

Introduction

Before GST was introduced, India's tax system was highly complicated. Different types of indirect taxes—such as VAT, excise duty, and service tax—were charged separately by the central, state, and local governments. Each tax had its own rules and rates, which made compliance difficult for businesses. The absence of a common system also meant that input tax credit could not be carried across different taxes or state borders, leading to inefficiency and higher costs.

The introduction of GST replaced most of these indirect taxes with a single, unified system. Under GST, tax is applied at every stage of the supply chain, but businesses can claim full credit for the taxes they already paid on inputs. This helped remove the “tax on tax” problem and ensured that taxes were not hidden in the final selling price, thereby improving overall economic efficiency.

The Small Scale sector was one of the areas most affected by GST. The reform was seen as a landmark step toward simplifying taxation and improving transparency. Initially, however, many businesses struggled with compliance due to frequent changes in rules, digital filing requirements, and procedural complexities. This slowed down the expected benefits of simplification.

Objectives of the Study

This study is undertaken with the following objectives:

1. To develop a clear understanding of the concept of Goods and Services Tax (GST).
2. To analyze the prevailing indirect tax structure in India prior to GST and examine the features of the GST model.
3. To evaluate how the GST mechanism helps in reducing the tax burden by eliminating multiple taxation and the cascading effect.
4. To assess the impact of GST on the manufacturing and service sectors.

Research Methodology

This study is primarily based on secondary data collected from a wide range of sources, including journals, magazines, articles, media reports, government publications, and authentic websites. Considering the objectives of the research, a **descriptive research design** has been adopted.

A descriptive design is particularly suitable for this study, as it aims to provide a clear and comprehensive picture of the prevailing tax structure, the implementation of GST, and its impact on different sectors. This approach enables the analysis of existing information, opinions, and outcomes without manipulating variables, thereby ensuring accuracy and reliability in understanding the effects of GST.

Pre-GST Implementation

Before GST came into effect, India followed a **complicated and disjointed system of indirect taxation**. Both the central and state governments levied separate taxes, which often overlapped. Some of the major ones included:

- **Excise Duty** on the manufacture of goods, collected by the central government.
- **Service Tax** on services, also levied by the centre.
- **Value Added Tax (VAT)** on the sale of goods, determined individually by each state, leading to different rules and rates across the country.

Because every state followed its own framework, businesses operating in multiple regions faced **compliance hurdles and administrative difficulties**.

The lack of coordination in this system resulted in a **tax-on-tax effect**, where goods and services were taxed at several points in the supply chain without allowing full credit for earlier taxes

paid. This cascading effect not only increased **logistical inefficiencies** but also pushed up the **final price of products**, affecting both businesses and consumers adversely.

Post-GST Implementation

The launch of the Goods and Services Tax (GST) on **1 July 2017** brought a landmark shift in India's indirect taxation system. By merging major central and state taxes such as VAT, Excise Duty, Service Tax, and certain customs duties, GST introduced a **single, nationwide tax structure**.

One of its biggest advantages is the **input tax credit system**, which ensures that taxes paid on inputs can be set off against output tax liability. This removed the cascading tax burden, reduced compliance complexity, and enhanced efficiency in the supply chain. As a result, GST improved the ease of doing business and made Indian goods and services more competitive in both domestic and global markets.

In addition, GST introduced **technology-driven compliance** through online registration, e-filing and digital tax payments. These measures streamlined administration, expanded the tax base, minimized human intervention, and improved transparency—helping to reduce corruption.

Pre and Post Impact of GST on the Small Scale Sector

The implementation of GST has had a significant impact on India's Small Scale sector, both positive and negative. The following points highlight the changes observed:

Positive Impacts

1. Simplification of Tax Structure

Before GST, manufacturers were liable to pay excise duty, which involved complicated methods of calculation such as *ad valorem* duty and specified duty. Under GST, these complexities have been removed, as it subsumed multiple indirect taxes such as Octroi and CST, thereby reducing the overall tax burden on manufacturers.

2. Elimination of Multiple Warehouses

In the earlier tax system, states imposed different taxes, compelling manufacturers to set up warehouses in multiple states to minimize tax liabilities. Under GST, a uniform tax structure allows manufacturers to operate efficiently without the need for multiple warehouses, leading to reduced logistics costs and improved efficiency.

3. Reduction in Cost of Production

Previously, manufacturers bore additional expenses of around 24–26% due to the cascading effect of VAT and excise duty. With GST eliminating the cascading effect through the input tax credit mechanism, the cost of production has decreased significantly.

4. Ease of Business Operations

Under the pre-GST regime, manufacturers required separate registrations to operate multiple factories. Post-GST, a single GST identification number is sufficient, simplifying regulatory compliance and enabling easier expansion of operations.

5. Simplified Assessment Process

Earlier, multiple taxes meant assessments had to be conducted by various authorities, making the process tedious. With GST, assessment is streamlined under fewer authorities, reducing procedural complexities.

Negative Impacts

6. Higher Requirement of Working Capital

Under GST, the transfer of goods between states or even between branches of the same company is taxable. This increases the working capital requirements for manufacturers.

7. Exclusion of Petroleum Products

Key inputs for industries such as logistics and power—like petroleum products—remain outside the GST framework. As a result, manufacturers cannot claim tax credit on these inputs, increasing costs in these sectors.

8. Reverse Charge Mechanism (RCM)

In the pre-GST regime, the reverse charge mechanism was applicable only to certain services. Under GST, it also applies to goods, shifting the tax burden onto the recipient instead of the supplier. This has increased compliance costs and financial burden for manufacturers.

Pre and Post Impact of GST on the Service Sector

The service sector, being one of the largest contributors to India's GDP, has experienced both positive and negative implications of GST. The following points highlight the major changes:

Positive Impacts

1. Unified Treatment of Goods and Services

Under the pre-GST regime, invoices often included both goods and services, leading to double taxation. Post-GST, both are treated under the category of "supply of services," eliminating the issue of overlapping taxes.

2. Clarity in Classification

Earlier, there was confusion over whether certain activities—such as the sale of online software—should be taxed under VAT (goods) or Service Tax. With GST, clear definitions of goods and services have removed such ambiguity.

3. Wider Scope for Input Tax Credit (ITC)

Previously, service providers such as maintenance and repair firms could only claim input credit on services. Post-GST, they can claim ITC on both goods and services used in the course of business, reducing costs.

4. Elimination of Double Taxation

Earlier, mismatches between tax collection and payment restricted ITC—for example, a service provider paying VAT on inputs while charging Service Tax on outputs. Under GST, a single tax structure allows seamless credit utilization across goods and services.

5. Uniform Registration Thresholds

In the pre-GST era, VAT registration thresholds varied across states (₹5 lakh in some states and ₹10 lakh in others). GST has standardized this with a common threshold across the country, reducing confusion.

6. Simplified Registration for Branches

Earlier, separate VAT registrations were required in each state for service providers. GST requires only one registration per state, making compliance more streamlined for businesses with multiple branches.

Negative Impacts

7. Loss of Centralized Registration

In the pre-GST system, service providers could operate businesses in different states using a single centralized registration and file a centralized return. Under GST, service providers must obtain separate registrations in each state, leading to increased compliance costs and administrative burden.

8. Centralized Accounting Challenges

The absence of centralized registration under GST also prevents firms from using centralized accounting systems, thereby complicating record management for service-based businesses.

9. Tax on Free Services

Under GST provisions, even free services provided by suppliers are considered taxable, which has increased costs for service providers, especially for MSMEs offering complimentary or promotional services.

Pre and Post GST Slab rates

Before implementing GST There are Multiple Overlapping taxes, no standard rate, high burden (25%-30%). But After implementing GST Simplified 4tier slab systems (0%,5%,12%,18%28%) + cess, making tax structure uniform across India.

The following table shows the Pre-GST and Post GST Slab rates in India

Basis of Comparison	Pre GST (Before July 2017)	Post GST (After July 2017)
Types of Taxes	Exercise Duty, VAT, Service Tax, Octroi, Luxury Tax, Entertainment tax(different for every state and product)	On unified Tax: GST (Central and State)
Tax structure	No fixed slabs, rates varied (excise-12.5%, VAT-12-14%, Service Tax15%, Entertainment tax 20-110%)	Standardized slabs: 0%, 5%, 12%, 18% + Cess
Over all burden	25-30% (due to cascading effect : tax on tax)	Reduce effective burden : 5-28% (Input Tax Credit removes Cascading)

0%/ Exempt	Limited items, goods taxed somewhere	Essential goods exempt (milk, fruits, vegetables, salt, bread)
Lower rate	VAT- 4to 5% on some essentials	5% GST on basic goods(sugar, tea, medicines, economy airfare

Findings

- 1) Further simplification of the GST structure, particularly for Small and Medium Enterprises are crucial for maximizing the benefits of the tax reform.
- 2) Strengthening the GSTN and providing better digital infrastructure for businesses, especially for Manufacturer, is essential for smooth compliance.
- 3) Targeted support and training programs for Small and Medium Enterprises are needed to help them navigate the complexities of the GST regime.
- 4) Regular monitoring and evaluation of the GST implementation are necessary to identify areas for improvement and ensure that the tax reform achieves its intended objectives.
- 5) In pre GST slab rates are very complex, high and non-uniform tax structure. In case of Post GST regime Simplified, structured and uniform slab system that reduced the effective tax burden and brought transparency.

Conclusion

In this study it can be concluded that previous indirect taxation system was complicated. Cascading effect was major problem. Implementation of GST is a significant tax reform and now the indirect taxation system is quite simple and systematic. GST removed the problem of cascading effect and input tax credit is also a major benefit of this taxation system. GST slab rates represent major reforms in India's indirect tax system, making it more efficient, business-friendly, and consumer-friendly

In conclusion When compared to Pre GST tax reform Post GST Tax Reform is a significant and positive move by the government which ensures transparency in indirect taxation system.

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