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Economic Times , Delhi
Wednesday, 5th September 2018; Page: 18
Width: 16.34 cms; Height: 28.62 cms; a3; ID: 25.2018-09-05.99

Ease GST Costs for Small Businesses

The goods and services tax (GST) rate has been lowered on many products from 28%, but the operating costs for small businesses are still onerous. This must change. SMEs that supply products such as auto parts to large buyers are forced to borrow money at usurious rates to pay GST upfront, at 28%. Payment delays by their customers block the working capital of SMEs and hurt their businesses. So, large companies get the benefit of extended suppliers' credit that SMEs do not. There is no reason why the GST Council cannot institute a system wherein large buyers of inputs can deduct GST at source, when they purchase their inputs from SMEs, even as the supplier and buyer file returns indicating the tax incidence and collection. This will spare small suppliers from having to borrow to pay GST. Large buyers can claim credit for the taxes payable by their suppliers and collected and paid by the buyers themselves.

Small suppliers are obliged to remit tax that they levy on large buyers in the following month itself, whereas large buyers make payments only after three months or more. Unlike large companies, small suppliers do not have easy access to cheap bank credit. An MSME study by the RBI Monetary Policy Department notes that the share of credit extended to MSMEs in overall bank credit fell steadily to around 14% by end-March 2018 from about 17% in 2007, partly due to overlending to large corporates (now stressed) in the second half of 2000s. So, SMEs rely on informal channels, paying high rates of interest.

This can be overcome through a mechanism akin to reverse charge, meant to track small firms outside the GST net. The registration and filing of returns should be made compulsory for all small suppliers. This will create audit trails and curb tax evasion. The case to lower GST on auto-parts too is compelling.