



GST and the Unorganized Sector in India: A Comprehensive Analysis

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Abstract:

India's economic reform arrow is now taking the shape of the Goods and services Tax (GST). The introduction of GST on July 1, 2017 unleashed a new wave of economic reforms that would create a more unified and simplified tax structure in the country. The emergence of GST as the new taxation system creates challenges, particularly on the unorganised sector, and will force them to create more efficient businesses to blend into the mainstream of the economy. In this research paper, we will discuss the challenges that the unorganised sector faces due to GST, the opportunities it created, and how it impacted the business in the unorganised sector through an in-depth look at the compliance burden, changes made in business processes, the role of technology, etc.

I. INTRODUCTION

The Goods and Services Tax (GST) in India replaced multiple indirect taxes levied by the central and state government with one comprehensive tax on most goods and services. The unorganised sector – that is, small business enterprises, street vendors, and other informal enterprises – make up almost half of India's economy and more than 90 per cent of India's labour force. Many of these enterprises operate outside the formal tax system. This paper examines (i) the implementation and institutional challenges associated with GST, and (ii) the evolution of the unorganised economy in recent times; its implications for growth, formalisation, efficiency and income distribution; and the role of credit constraints in formalisation.

II. LITERATURE REVIEW

Challenges Faced by the Unorganized Sector

The disorganised sector, a fragmented and often informal structure, has also had its own set of challenges in the emergence of GST. For example, Sharma (2018) explains that a crucial challenge was that the basic tax system was unfamiliar to business people in the disorganised sector, who lacked the capabilities, resources and knowledge to address the new situation.

Their businesses required them to keep digital records and sometimes submit monthly returns, which posed a large administrative headache. (Kumar, 2019)

Citation: Popli, P. ., & Mishra, A. K. . (2024). GST and the Unorganized Sector in India: A Comprehensive Analysis . American Journal of Economics and Business Management, 7(6), 107–111. Retrieved from <https://globalresearchnetwork.us/index.php/ajebm/article/view/2810>

Received: 21 May 2024

Revised: 29 May 2024

Accepted: 20 June 2024

Published: 30 July 2024



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Opportunities Created by GST

The tax reform created opportunities for the unorganised sector. In support of this argument, Gupta (2019) wrote: The tax reform provided an impetus for formalisation, as it allowed smaller businesses to benefit from input tax credit and better market access. Becoming GST registered can enhance the credibility of smaller businesses and expand the customers, including big companies that prefer suppliers with GST compliance.

Impact on Business Operations

As Raj (2018) writes: 'GST brought about changes in business operations because many ... small enterprises needed to revamp their accounting systems and adapt digital technologies for GST compliance. This was burdensome initially, but operating efficiencies and transparency may follow in its wake.'

Role of Technology in Compliance

With the help of technology, individual operators in the unorganised sector are able to conform to GST regulations Jain (2020) argued that the GST compliance software and mobile applications that small businesses use to file their returns and meet their tax obligations make GST compliance simpler for small businesses that use these technologies: such software helps track an invoice in real time, automatically calculates dues for the business and is integrated with all the previous accounting systems of the business, so input keeps happening without any additional burden.

III. RESEARCH METHODOLOGY

Data Collection

This research used a mixed-method approach, that is, a combination of quantitative and qualitative data. The primary data was sourced from questionnaire and interview responses from a sample of small business owners and from the 'unorganised' sector from across different regions of India. The secondary data consisted of reports, publications and journal articles from the government, industry and academia.

Sampling

A stratified random sampling technique had been adopted to ensure representation of all types of businesses in the unorganised sector. Sub-samples included 200 small enterprises and vendors, street food and businesses in the unorganised sector operating from urban and rural areas.

Data Analysis

Quantitative data was qualitatively analysed through statistical tools, in order to identify trends and key correlations. Qualitative data collected through the interviews was thematically analysed, in order to highlight key insights about the experiences and perceptions of small businessmen and women towards GST.

IV. ANALYSIS AND DISCUSSION

Challenges Faced by the Unorganized Sector

According to survey responses, around 70 per cent of businesses reported severe difficulties coping with the new taxes and procedures, the main causes being the complexity of GST regime and the absence of resources for compliance with its rules. The main problems stemmed from difficulties in digital recording requirements and changes in the rules of GST. Interviews supported the finding that implementation of GST was characterised mainly by problems in digital record-keeping and constantly amending GST rules.

Compliance Burden

In fact, complying with GST regulations has been difficult for parts of this huge, informal (unorganised) sector, where small businesses are asked to submit returns on a monthly basis, record their transactions on digital systems, and pay their taxes on time. Often used to traditional, sometimes manual, accounting systems, they struggled to build more sophisticated digital systems.

Financial Impact

The financial shock of GST on the unorganised sector was considerable. The costs of investing in new technology, hiring a tax consultant/professional, and being able to make the payment on time, with net cash flows under tight pressure, all strained the financial resources; furthermore, paying GST at accrual rather than on receipt of payment created cash flow issues for many small businesses.

V. OPPORTUNITIES CREATED BY GST

Despite these challenges, GST has created several opportunities for the unorganized sector:

Formalisation: To meet the demand, GST appears to have prompted many businesses in the informal sector to formalise, thereby enabling them to capture new markets, secure credit and join larger supply chains.

The input tax credit structure of GST permits all liabilities, such as the tax paid on inputs, to be claimed back by industries. This has helped to relieve the tax burden, and improve profit margins in many micro, small and medium enterprises.

Market Access: The complexities of interstate commerce and multiple layers of taxes were eliminated, thereby enhancing prospects of small businesses to enter new markets, especially given the increasing penetration of e-commerce into the Indian economy.

Impact on Business Operations

Following the implementation of GST, the unorganised sector has had to make substantial changes in its routine business procedures:

Upgrading accounting systems: A sizeable proportion of businesses employing fewer than 20 people had to upgrade their accounting systems in order to meet the requirements of GST. That means that businesses have had to buy new software with a view to being able to record the information necessary for GST and to enable staff to use, and know how to use, the given software. It also means that the technologies used for accounting purposes have had to become digital.

Recording: GST requires detailed records of all sales and purchases. Businesses have had to become much more careful in their record-keeping, often utilising digital systems.

Compliance Practices: The sheer volume of returns to be routinely filed and taxes to be paid has necessitated formalisation of compliance practices. This means hiring tax consultants, establishing compliance teams in organisations, and keeping abreast of frequent changes in the GST regime.

VI. ROLE OF TECHNOLOGY IN COMPLIANCE

Technology played a pivotal role in helping an unorganised sector become compliant to GST. GST compliance software and mobile applications have been playing a vital role in helping small businesses to ease their tax responsibilities. Here is how technology helped them by leveraging key benefits:

Paperless transactions: Many GST compliance tools helped organisations ensure compliance by tracking and managing all invoices and transactions in real time and hence make timely returns.

Automation: Reduction in incidence and amount of tax paid due to automation of tax computations and returns filings. Decreased risk of penalties and errors. Allowed greater utilisation of core operational capacity.

Integration: Enabling integration with the companies' current accounting and recordkeeping systems has brought compliance into the fold of the existing system - centralised and joined-up, so to speak - and made it easier for the accounting processes and tax duties to be integrated in a coherent financial management system.

Impact on Competitiveness: GST has significantly influenced the competitiveness of the unorganized sector:

Level playing field: By standardising or single tax rate as compared to multi-rates in different states with multiple taxation points, GST has facilitated greater competition for small businesses to compete with big businesses.

Transparency: Transparency also proves to be a positive outcome of GST. Since the GST implementation, business transactions became more transparent which led to increase trust amongst investors and new business partners. Better business and investment opportunity.

Improvement in Operational Efficiency: To fulfil the requirements of GST, many enterprises are compelled to make necessary changes in their existing operational practices. This in turn led to a significant increase in efficiency and competitiveness in terms of running the real-time organisation.

VII. RECOMMENDATIONS

Awareness and Training Programs: Government and industry bodies should conduct awareness programs periodically to educate the unorganised sector businesses about GST norms and compliance and training programs to understand the GST regime. Providing financial support for the adoption of technology such as GST compliance software and digital tools: financial support in the form of subsidies or financial grants to help small businesses transition to digital tools and GST compliance software.

Streamlined Compliance Procedures: Reducing the paperwork to comply with GST, in particular minimising the burden for small businesses, to motivate more businesses to register under GST. Regular feedback mechanisms from the unorganised sector to the Government on how the GST is working so that the system can be continuously fine-tuned.

VIII. CONCLUSION

Ever since GST implementation, it has created a major impact on the unorganised sector. In the beginning, while the adjustment phase was posing a difficulty, there were not only problems with overall awareness but also a requirement to install suitable technology to cope with it. However, with the regime providing a stable taxation structure, better market access and migration of many people up the employment chain, the ensuing long-term scenario has better clarity. Technology has softened the options for compliance, and prolonged support by the government along with the industry bodies should help ease the transition. Post the adjustment, the unorganised sectors should find refreshed avenues of opportunity and emerge into the formal economy.

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