

# Analysis of Impact of GST from the Perception of Paperboard Box and Bags Manufacturers in Thanjavur City

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## Abstract

"A simplified tax structure and unified market will improve operational efficiencies, especially of MSMEs with a wider reach" from the words of Moorthy, the GST made unique implications on the small and cottage industries, positively and negatively. Small-scale, cottage, and village industries have played a significant and indisputable part in the growth of the nation since independence. With the implementation of the Goods and Services Tax, the Indian economy is becoming more and more formalized, trapping most small and cottage businesses in the indirect tax system. Despite having professional qualifications and practical experience in their respective fields, the entrepreneurs in these areas are primarily ignorant. They were successful in their endeavor to rely on technically skilled individuals for tax payment, return filing, and related procedures because of this understanding. In this purview the researcher interested in knowing the impact of GST on paperboard box, bags manufacturing, as Tamil Nadu is in the verge of ban of plastic carry bags and other items in commercial places. So the researcher aimed to study the impact of GST on manufacturing of paper board boxes and bags in Thanjavur City from all the manufacturers which counts to 26 in total and the data collected by interview schedule. The paper highlights the positive and negative impact of GST on small and cottage industries. The study revealed a divided perception of GST among respondents: 38% considered it beneficial to their business, while an equal percentage of manufacturers perceived it as unfavourable. The researcher analysed the impact of GST from the perception of paper bag and box manufacturers concentrated within Thanjavur City limits.

**Keywords:** GST, Small and cottage industries, Rural economic development

## Introduction

MSMEs were one of the successful Gandhian concepts that contributed to the growth and development of India's economy. Their contributions range from leading exports to developing economies. They have a significant role in creating jobs in areas that are semi-urban and rural. It bridges the gap in the socioeconomic that exists in the economy. The Indian government has consistently emphasized the promotion of MSMEs through the introduction of additional schemes and promotional measures in each of its five-year plans. The importance of MSME sector can be seen by the fact that it accounts for 95% of industrial units, 40% of value addition in manufacturing sector and 30% of export (*Annual Report 2017-18*). In addition to agriculture, MSMEs support entrepreneurship and create a significant number of job possibilities at relatively modest costs of capital, which helps the nation's social and economic growth. As on 2018, about 80 million opportunities are being generated by 36 million MSMEs contributing to about 8 percent of the Gross Domestic Product and 33 percent of total manufacturing output in India. MSMEs serve as the foundation for major industries, which in turn aid in offering a variety of goods and services to satisfy the needs of both domestic and foreign consumers. MSMEs support more equal distributions of wealth and balanced community growth in the age of inclusion-centric economies.

## Definition of MSMEs

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

Manufacturing Sector	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprise Category	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

**Source:** Ministry of MSMEs

## Role of MSMEs in Indian Economy

Through business innovations, Micro, Small, and Medium-Sized Enterprises (MSMEs) have been making a significant contribution to the growth of entrepreneurial endeavours. In order to satisfy the needs of both domestic and foreign markets, MSMEs are expanding their reach throughout the economy and producing a wide range of goods and services. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA)<sup>1</sup> and Gross Domestic Product (GDP)<sup>2</sup>, at current prices for the last five years is as below:

1 Gross Value Added (GVA): It may be noted that estimates of GVA had been prepared at factor cost in the earlier series (base year 2004-05), while these are being prepared at basic prices in the new series (2011-12). GVA estimated by production approach: (GVA = Output – Material Inputs) and GVA estimated by income approach: (GVA = Compensation of Employees + Operating Surplus + CFC)

2 Gross Domestic Product (GDP): GDP is derived by adding taxes on products, net of subsidies on products, to GVA at basic prices.

## Contribution of MSMEs in India's Economy at Current Price<sup>3</sup>

(Figures in Rs. Crores adjusted for FISIM at current prices)						
Year	MSME GVA	Growth (%)	Total GVA	Share of MSME in GVA (%)	Total GDP	Share of MSME in GDP (in %)
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	29.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

**Source:** Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation

3 FISIM: In the previous base, the FISIM component of the output of financial intermediaries was based on the difference between total property receipts (dividend+ interest+ net profit on sale of investments) and total interest payments by the banking sector. In the present base, the FISIM has been computed only on loans and deposits, using the Reference Rate (RR) approach, as recommended in the SNA 2008. In short, it is  $(LR-RR) \times \text{average stock of loans} + (RR-DR) \times \text{average stock of deposits}$ . The RR = harmonic mean of lending rate and deposit rate for the banking sector. Moreover, FISIM, under the present method, does not include interest receipts on investments and debt securities, interest paid on borrowings and debt securities and net profit on sale of investments (POSI). These components have been considered as property income, which come directly under the gross savings of the financial corporations. Exclusion of receipts like POSI from the FISIM computation has also reduced the GVA of the banking sector

## Role of MSMEs in Employment

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015- 16, MSME sector has been creating 11.10 crore jobs (360.41 lakh in Manufacturing, 387.18 lakh in Trade and 362.22 lakh in Other Services and 0.07 lakh in Non-captive Electricity Generation and Transmission) in the rural and the urban areas across the country.

### Estimated Employment in MSME Sector (Broad Activity Category Wise)

Broad Activity Category	Employment (in lakh)			Share %
	Rural	Urban	Total	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	497.78	612.10	1109.89	100

\* Non-captive electricity generation and transmission

Source: Ministry of MSMEs

The aforementioned information makes it abundantly evident how important MSMEs are to the employment and national economy, which in turn is crucial to rural development. The employment prospects created by MSMEs' rural manufacturing sector are vividly depicted in the above table, which is why the researcher chose to concentrate on this area.

## Need for the Study

The need for the study can be clearly understood from the following data provided by Ministry of MSMEs's annual report 2017-2018, which is "The Micro sector with 630.52 lakh estimated enterprises accounts for more than 99% of total estimated number of MSMEs. Small sector with 3.31 lakh and Medium sector with 0.05 lakh estimated MSMEs accounts for 0.52% and 0.01% of total estimated MSMEs, respectively. Out of 633.88 estimated numbers of MSMEs, 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas". This data intuited the researcher to focus on the manufacturers of paper board boxes and bags which have been widen the scope of business because of Tamil Nadu Government's order to ban plastic carry bags and covers and usage of plastic items of any form in commercial places.

## Review of Related Literature

(Jacob) in her research paper stated the positive and negative impacts of GST on MSMEs, the positive were easier to start business, facilitates expansion of business, lesser tax burden, online compliance procedures. According to her, the negative impacts were selective tax levying, compliance cost, technological dependency, monthly financial preparedness.

(Verma et al.) highlighted the overall idea behind the GST implementation which was to simplify the existing complex taxation system. They attempted to understand the effects of GST on micro, small & medium enterprises (MSME). Both positive & negative impacts have been found and noted. The paper has tried to make an attempt to discuss the problem faced back then & still how the businesses are managing after the effect of the GST.

(Nedunchezian et al.) conducted a survey with small and micro business traders for response on the overall impact of GST on their business and identified significant factors that are impacting the actual outcome. They observed neither positive nor negative but a balanced perception among them. They suggested measures to address some of the teething issues which may lead to sustainable economic development in the country.

(Mughudhan et al.), focused on the effect of the implementation of GST on the SMEs and highlighted the problems associated with GST. They try to understand the working of GST from their respondents' point of view. They concluded that most of the youngsters believe that with time all the problems will automatically solved and fair face of GST will always profitable to everyone.

(Geeta et al.) brought out issues and challenges experienced by MSME entrepreneurs like, applying of GST, registration for taxation, high compliance burden etc. They identified both positive and negative impact on entrepreneurs located in Sivaganga district.

## Scope of the Study

The scope of the study is restricted to manufacturers of paper board boxes and bags in Thanjavur city alone. They are suppliers of boxes and bags to local textile shops, sweet stalls, general

goods stores, stationery stores who are operating in small level.

## Objectives

The researcher is interested to know and framed the objective as below:

1. To study the impact of GST on manufacturing of paper board boxes and bags in Thanjavur City.

## Research Methodology

The researcher identified 26 manufacturers in Thanjavur city and the data has been collected from all, by means of interview schedule. And the secondary data was collected from websites and online journals and newspapers.

## 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. The regime considers goods and services alike and within the supply chain, is 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. The concept of GST was visualised 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 Das Gupta as the head of the GST committee halted the reform (India Today Web Desk). 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 (Dutta). 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. With the implementation of the GST, all registered persons have to file monthly return by 20th of the succeeding month. The Salient Features of GST are as under:

1. GST would be applicable on "supply" of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services
2. GST would be based on the principle of destination based consumption taxation as against the present principle of origin based taxation.
3. It would be a dual GST with the Centre and the States simultaneously levying it on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States [including Union territories with legislature] would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).
4. An Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services. This would be collected by the Centre so that the credit chain is not disrupted.
5. Import of goods would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.
6. Import of services would be treated as inter-State supplies and would be subject to IGST. CGST, SGST /UTGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States under the aegis of the GSTC.
7. GST would apply to all goods and services except Alcohol for human consumption. GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.
8. Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.
9. A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of Rs. 20 lakh (Rs. 10 lakh for special category States as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to specified category of manufacturers and service providers) having an annual turnover of up to Rs. 50 lakh.

## Analysis and Discussions

The researcher's target respondents were manufacturers of paper board boxes and bags concentrated in Thanjavur city. On the verge of ban of plastic carry bags and other forms of plastic items by Tamil Nadu Government, these manufacturers got enormous opportunities for business development. On this backdrop the researcher analysed the impact of GST from these manufacturers point of view. Data has been collected from all the respondents i.e 26.

Surprisingly all the respondents are male which says that there are no women entrepreneurs in this sector. The organisational pattern of majority of manufacturing units i.e. 88 percent were sole proprietorship and 12 percent operate as partnership firm. 62 percent of the respondents were in the age group of 36 to 45, 23 percent of them falls in the age group of 25 to 35 and only 15 percent of the respondents were in the age of 46 to 55. 65 percent of manufacturer respondents have "no education", 23 percent of them have not completed 10th grade and 12 percent of them have "other qualification". The researcher during the interview with the respondents came to know that some of them have completed ITI, diploma and certificate courses. All the manufacturing units were "continuous" in production process, their products are not seasonal. 58 percent of the manufacturers have 11 to 20 workers, 31 percent have 5 to 10 workers and only 12 percent have more 20 workers employed in their units. Majority of the respondents i.e. 77 percent have an annual turnover less than 10 lakhs and 23 percent of the manufacturers earn a turnover between 10 to 20 lakhs. No one of them have earned turnover more than 20 lakhs. 46 percent of the respondents ween that finance is their major problem followed by labour procurement i.e. 31 percent of the respondents, 15 percent of respondents feel power supply is their major problem and 8 percent of them feel that availability of raw material is their acute problem. There are also marketing, transport, machinery and management problems exist in this sector. 85 percent of the manufacturers purchase raw materials locally, only 15 percent of them buy raw materials from other districts and there is no interstate purchase in this category. All the respondents opined that there is no "raw material subsidy" available for their paper

boards. 85 percent of the manufacturers felt that GST is complicated than VAT whereas 15 percent of them say that there is no differences between GST and VAT. 81 percent of them felt that there is no need to file returns every month for GST taxation whereas 19 percent of them felt that filing returns every month will naturally avoid complications in the new taxation system. 54 percent of the manufacturers opined that VAT is the better form of taxation comparing to GST whereas 46 percent accepts GST without hesitation. The researcher came across with quite interesting fact that, 38 percent of the respondents opined that GST is beneficial to their business whereas the same percentage of manufacturers felt that GST is not beneficial to their business and 24 percent of them held neutral position for this statement.

38 percent of the respondents were highly dissatisfied with the present rate of GST, 27 percent were dissatisfied, 12 percent were neutral, 15 percent were satisfied and only 8 percent were highly satisfied. Interestingly 85 percent of the manufacturers felt that the profit is not same after introduction of GST, but among these, 82 percent of them opined that they could not earn profit as before but 18 percent of them felt that they are earning more than before. 15 percent of the manufacturers say that there is no change in the earning pattern before and after GST rollout. 58 percent of the manufacturers say that consumers' consumption have increased after the introduction of GST, 27 percent say that there is a decreasing trend in the consumption pattern and 15 percent opined that there is no change in the consumers' consumption pattern before and after GST rollout. Majority of the respondents i.e. 46 percent ween that introduction of GST is a great blunder, 31 percent of them felt that the GST has no impact on the small business like them and 23 percent of manufacturers appreciate GST form of taxation. Majority of the respondents i.e. 54 percent felt that the "Current economic conditions" affected their business whereas 46 percent of them felt that there is no impact on their businesses. 66 percent of the respondents opined that because of GST their profit has been eroded, 19 percent felt that there is no increase or decrease of profit because of GST and 15 percent say that there is an up trending in their profits. Finally, majority of the respondent's i.e. 58



percent opined that the introduction of GST had negative impact on their business whereas 42 percent of the respondents felt that GST has not affected their business.

## Conclusion

Over the past fifty years, the Micro, Small, and Medium Enterprises (MSME) sector has become one of the most vital and important sectors of the Indian economy. It must be acknowledged that the implementation of the GST has significantly altered businessmen's mindsets. The researcher observed that there is no clear portrayal of GST form of taxation among the respondents. There is a contradiction in their statements. They say that the consumer consumption have increased after GST whereas in another statement they say that the profit margin have eroded due to GST. This clearly shows that there is no proper awareness among them and the reason may be due to their illiterateness. So the researcher suggests that the manufacturers of paper board boxes and bags can navigate the impact of GST through several strategic measures like the following. First, understanding GST compliance requirements is essential, which can be achieved by attending workshops or hiring a local GST consultant. Digitizing business processes using simple GST-compliant accounting software and adopting digital invoicing can significantly ease compliance. To optimize benefits, such industries should select GST-registered suppliers to claim input tax credit and maintain clear purchase records. Pricing strategies should be adjusted to factor in GST while ensuring transparency with customers. Forming cooperatives or cluster groups can help small manufacturers collectively bargain for raw materials and share professional resources. Additionally, exploring government schemes under MSME registration can provide financial assistance,

exemptions, and skill development opportunities. Enhancing market access through online platforms and participating in local trade networks can further help these businesses grow sustainably under the GST regime.

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