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IMPACT OF COMPOSITION SCHEME IN NEW GST REGIME IN TAMIL NADU

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INTRODUCTION:

The federal and state governments of India introduced the Goods and Services Tax (GST) on July 1, 2017, to replace many indirect taxes. The idea of "One Nation, One Tax, One Market," which imposes taxes on products and services at several points across the supply chain, is the foundation of the GST system. The ability to deduct taxes paid on inputs at each tier helps maintain a consistent stream of tax credits. Its primary objective is to eliminate the compounding impact of taxes on taxes that was common in the previous indirect tax structure. (Das, 2023).Originating from the Latin word "taxare," which means to resemble a mandatory payment to the government that is imposed on employee and corporate earnings or included in the cost of particular products, services, and activities, the English word "tax" was born. To collect and levy taxes, one must employ legislative authority. Direct and indirect taxes are both in use in India. Among changes to indirect taxes, the Goods and Services Tax (GST) has had the most profound and far-reaching impact. Since public goods cannot be fairly priced in the market, they are the exclusive source of funding. Only with tax revenue can governments afford to offer them.

Products and services with added value are subject to the Goods and Services Tax (GST) in Canada. Through this tax, the government intends to amass funds. Despite being a tax that customers pay, businesses that provide products and services are in charge of collecting and sending the GST to the government

Composition scheme

Taxpayers may get a break on the GST with the composition plan. It is a legally enforceable agreement to pay a fixed sum instead of a bigger financial burden. In addition to streamlining tax payments, GST offers exemptions in terms of compliance obligations. Under Section 9(1) of the CGST Act, a registered individual typically levies and remits taxes. Nevertheless, individuals who choose the composition scheme encounter fewer responsibilities. Regular dealers are mandated to submit monthly GSTR-3B and quarterly GSTR-1, totalling 16 returns. Additionally, they are obligated to keep comprehensive records.

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Simplifying the criteria for the Goods and Services Tax (GST) is intended to facilitate compliance for taxpayers, especially those who are impacted by the composition system (Deepa et al., 2019).

The government implemented the GST composition program with the aim of alleviating the difficulties associated with legal compliance. However, not all individuals registered under the GST system meet the eligibility criteria for this plan. Those who earn up to Rs 1.5 crore per year (or Rs 75 lakh in other states) may buy goods. Service businesses with less than Rs 50 lakh in revenue-restaurants excluded-are qualified. Under this system, firms submit GST returns on a quarterly and annual basis, utilizing only two forms: GSTR-4 for annual filings and GST CMP-08 for quarterly filings. (Annapoorna, 2023).

The rate of GST under the Composition Scheme are as under: -

Table 1 Composite Scheme - Applicable GST Rates

Particular	SGST	CGST
Manufacturing(excluding Notified Goods)	0.5%	0.5%
Restaurants not serving alcoholic liquor	2.5%	2.5%
Other Services providers	3%	3%

Source: clear tax GST(Annapoorna, 2023)

Role of Small Businesses and Traders under the Composition Scheme

The most promising economic sector in our nation is small and medium-sized firms, or SMEs. Their immense volume of employment opportunities, promotion of industrialisation in underdeveloped and rural areas, creation of new jobs, and provision of ancillary units to the nation's major industries all contribute to the nation's development and socioeconomic progress. Supporting small and medium-sized enterprises (SMEs) and entrepreneurs in promoting bilateral trade and investment between Europe and India is the primary goal of the Europe-India SME Business Council (EISBC), according to the organisation. The small and medium-sized enterprise (SME) sector is vital to India's economy. More than 8,000 high-quality items are manufactured and exported from this sector, which also generates 60 million employments (with an additional 1.3 million jobs added year) and 45% of industrial output. Though they have soared to new heights, India's SMEs still have a lot of unrealised potential. Once these untapped potentials form the foundation for the growth of these organisations, India may easily surpass the GDP of the US and China and become the world's leading economic power(Khatri Sunil Badrinath, 2021). Two subsets of MSME were defined by the MSMED Act of 2006: those that provided services and those that

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manufactured goods. Micro, small, and medium-sized manufacturing organisations are classified according to their propensity to invest in machinery and plants. How much money these companies spend on machinery and equipment further defines them. Any company with assets of less than 25 lakh rupees is considered a micro business. Companies in the medium-sized category have invested between 5 and 10 crores of rupees on machinery and tools, and those in the small company category have spent between 25 lakhs and 5 crores. Companies that provide or provide services are referred to as service firms since they invest in equipment. Based on the quantity of equipment they have invested in, these enterprises are categorised into three types.

The following categories apply to businesses: micro, small, and medium. Micro enterprises are defined as spending up to ten lakhs of rupees on equipment; small enterprises, businesses with an investment of between one and two crores; and medium enterprises, businesses with an investment of between two and five crores.

When it comes to ensuring GST compliance, large enterprises have all the tools and knowledge they need. Start-ups and smaller taxpayers are sweating bullets to meet GST requirements, yet they're strapped for cash. Through the Goods and Services Tax (GST), the government has established an Additional Composition Scheme to assist small taxpayers who are unable to afford the high compliance expenses. Participating taxpayers have yearly revenues of up to one crore rupees (or 75 lakh rupees for special category states, excluding Jammu and Kashmir and Uttarakhand) and are eligible for this plan. This takes the role of the standard scheme's three-monthly returns and the time-consuming account preparation that was previously required. According to this plan, taxpayers must disclose their turnover every three months and pay a flat rate of tax without being able to claim input tax credits.

The GST, which mixes state and federal taxes, is India's biggest tax reform. In August 2016, lawmakers enacted GST. This shows India's cooperative fiscal federalism. The GST was supposed to overhaul the tax system and simplify it. It helps the federal government ensure the success of reforms like those in Brazil, India, and Canada. A single integrated national VAT on goods and services is suggested as part of a Brazilian tax reform to simplify indirect federal and state taxes. India's plan to adopt SGST and CGST resembles Canada's GST structure. VAT/GST is in 160 countries, but not the US. Singapore and Canada only charge one rate, unlike France, Italy, and the UK (State Finances: A Study of Budgets of 2016-17, RBI).

It is the way in which the new dimension affects interstate and centre-state financial interactions. India has the greatest indirect tax, known as GST. Economic policy changed it, and the introduction of taxes is a dramatic reform. The gross tax to GDP ratio fell to 10.9% in 2018-19, mainly as a result of a decrease in indirect tax collections, primarily

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from the Goods and Services Tax (Economic Survey, 2019). Direct taxes received Rs. 11,50 lakh crore in the 2018-19 budget, while GST received Rs. 7,43 lakh crore. Uneven stabilisation of indirect taxes-a decline of 0.4 percentage points of GDP-resulted from a shortfall in GST receipts. According to the 2019 Economic Survey, the Central and State governments' resource positions would be improved primarily via the revenue buoyancy of GST(Murugan, 2021).

GST's impact on MSMEs reduces this industry's manufacturing exemption. Micro-enterprises may get 75 lakhs (including partial exemption). Without its exemption, small and medium-sized manufacturing's lowest, middle, and upper sectors are treated like big firms. Even with a partial exemption, industrial units pay 1% non-transferable taxes. Their turnover is 20-75 lakh.

The GST rate structure in India has altered many times since its implementation. Low GST revenue is due to tax cuts and noncompliance, lower state and federal tax receipts. The 15th Finance Commission (FC-XV) believes "it is important to restore the revenue neutrality of the GST rate, which was compromised by the multiple rate structure and several downward adjustments of rates." The rate structure may work with 12 and 18%. Use merit, standard, or demerit rates. The GST Council should explore Union and State exemption reduction proposals to boost efficiency and revenue. While debating policy, FC-XV advises considering different GST rate structures (Sacchidananda Mukherjee, 2021). The study examines different GST structures to fulfil income needs and ensure tax compliance and buoyancy. Previous research focused on GST base and RNRs; this study incorporated GST tax administration data. The researchers used GSTR-1 to gather Delhi and India tax obligations and turnover by tax rate. From July 2017 to November 2018, the Fifteenth Finance Commission supplied all India data. Delhi data covers July 2017-March 2020.

The value-added tax system, which was put in place at the national and state levels, is used by 123 countries throughout the globe, including India. The Goods and Services Tax (GST) is the federal government's comprehensive indirect tax on goods and services, applied to their production, distribution, and consumption. Shinde (2019) states that all indirect taxes imposed on goods and services in India by the federal and state governments would be rolled into the Products and Services Tax (GST). The bulk of goods and services are intended to be included. The world's first nation to apply GST was France in 1954.

J The 1944 Baghchi Report suggests levies on products and services in India called "Value Added Tax (VAT)".

J In 2000, Asim Dasgupta, West Bengal's finance minister, was selected by the Vajpayee administration to head a committee that would conduct a more comprehensive review of the Goods and Services Tax (GST). The team's objectives included developing the

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GST model to manage the technical aspects of the system's backend that are necessary for its operation.

- J In 2004, Vijay Kelkar strongly urged the merger of indirect tax with GST in India. Shri P. Chidambaram, the Union Finance Minister, supported the Goods and Services Tax (GST) in his 2006 Budget and announced its implementation for April 1, 2010.
- J The 122nd Amendment to the Constitution was proposed in December 2014 and introduced into Parliament.
- J On May 6, 2015, the long-awaited Constitutional Amendment Bill, intended to create the Goods and Services Tax (GST), was enacted by the Lok Sabha. The new Goods and Services Tax system is great since it was designed with regular people's needs in mind.
- J The GST Council gave its 2017 stamp of approval to the GST Rules and GST Rates.
- J A law enacted in 2017 to amend the constitution (the 101st Amendment) On July1,2017, the Modi government unveiled the GST Bill.

There are two types of taxes imposed by the Indian government: indirect and direct. One way to look at it is that an individual's income is the target of direct taxes. Direct taxes include gift taxes, surcharges, and income taxes. The Central Board of Direct Taxes is responsible for enforcing direct taxes in India. In the first dynasty of the state, which ruled ancient Egypt from 3000 to 2800 B.C., taxes were first levied. Pharaoh travelled the nation twice a year, according to historical records, collecting taxes from the people. Limestone flakes and granary receipts on papyrus are further data markers. Due to the inequitable pricing of public goods in the market, taxation is the exclusive means of financing them.

LITERATURE REVIEW:

The Goods and Services Tax (GST) restricts the regulatory freedom of small enterprises in Tamil Nadu for the 2019-20 fiscal year, according to the study conducted by the GST & Indirect Taxes Committee (2020). The objective is to measure the costs of compliance in relation to the GSDP and GST revenue. The regression analysis indicates that the average compliance cost is Rs. 32,091 and the total cost is Rs. 17,844 million. Small businesses face a greater responsibility, with an average of 1.45% of their yearly sales, in contrast to larger companies which only have a burden of 0.02%. Costs are influenced by various factors such as business activity, sector, accounting method, filing procedures, and automation degree. The intricate regulations, frequent modifications, and multi-tiered tax brackets worsen the difficulties of meeting compliance requirements. Suggestions encompass streamlining legislation, lowering tax rates, and augmenting automation to alleviate the responsibilities faced by small businesses (Accountants, n.d.).

The research study of Vishnuhadevi, S., Hima Bindu, D. (2022) investigates the effects

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of the Goods and Services Tax (GST) on Micro, Small, and Enterprises (MSMEs) in India. Small and medium-sized enterprises (SME) operations and growth are profoundly affected by the financial benefits that MSMEs get from GST adoption, including increased liquidity and competitive advantages. Assessing the impact of the Goods and Services Tax (GST) on the development and success of micro, small, and medium-sized enterprises (MSMEs) is the objective. Despite some early hiccups, the Goods and Services Tax (GST) ultimately led to increased operational efficiency, simplified tax structures, and market integration. Even if there may be some temporary setbacks, the majority of people think that the Goods and Services Tax (GST) will be beneficial for the country's long-term prosperity. It helps simplify taxation, lower expenses, and enhance the business environment, receiving support from prosperous enterprises (Vishnuhadevi, S., Hima Bindu, 2022).

The study of Mylesh, K., Senthil Kumar., (2023) discover consumers and businesses alike have felt the relief of lower tariffs thanks to the Goods and Services Tax (GST), which is a combination of federal and state taxes. The first investment is really composed of lesser, earlier charges, despite how enormous it seems. The three primary taxes in India-the Central Goods and Services Tax (CGST), the State Goods and Services Tax (SGST), and the Union Territory Goods and Services Tax (UTGST)-constitute a cohesive, integrated framework. The primary impact of GST rests in its ability to eliminate tax cascading and improve economic efficiency. Taxes are mandatory financial charges imposed by governments to finance public expenses (Mylesh, K., 2023).

OBJECTIVES OF THE STUDY:

J To determine the socio-economic profile of small taxpayers in Tamil Nadu.

J To evaluate the influence of GST on the business performance of small taxpayers in Tamil Nadu.

METHODS:

This research used a mixed-methods approach to examine the effects of the Composition Scheme within the Goods and Services Tax (GST) framework in Tamil Nadu. A cross-sectional design is utilized to gather data, enabling the examination of multiple factors that influence the awareness and impact of the Composition Scheme among taxpayers in Tamil Nadu. Purposive sampling is employed to select 58 participants, guaranteeing diversity across various income categories, age groups, educational backgrounds, geographical locations, and business sectors. Quantitative data is analysed using statistical approaches such as descriptive statistics, chi-square tests, and ANOVA.

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RESULTS:

Table 2 Cross Table for Awareness of GST with socio-economic profile

		Awareness of GST				Total	Chi-square test statistics	p-value
		Less Aware	Moderately Aware	Aware	Extremely Aware			
Annual Income	Below 5 lakhs	1	2	17	1	21	20.17	0.017
	5,00,001-10lakhs	2	10	9	0	21		
	10,00,001- 15 lakhs	2	6	2	1	11		
	Above 15 lakhs	2	2	1	0	5		
Gender	Male	5	11	24	2	42	5.355	0.148
	Female	2	9	5	0	16		
Age	Up to 30	0	4	9	2	15	25.49	0.013
	31 to 40	0	4	7	0	11		
	41 to 50	2	3	11	0	16		
	51 to 60	3	7	2	0	12		
	Above 60	2	2	0	0	4		
Educational Qualification	Up to HSC	2	4	0	0	6	23.147	0.012
	Under graduate	3	7	3	0	13		
	Post graduate	0	4	12	0	16		
	Professional Course	1	4	12	2	19		
	Others	1	1	2	0	4		
Marital Status	Married	5	17	21	1	44	1.906	0.592
	Unmarried	2	3	8	1	14		
Location	Rural	7	11	0	0	18	34.872	0.000
	Urban	0	9	29	2	40		
Nature of Core business activities	Traders	0	0	16	2	18	52.535	0.000
	Manufacturers	0	3	9	0	12		
	Restaurant Service	0	9	4	0	13		
	Other service provider	7	8	0	0	15		

Source: Primary Data

Based on the analysis table, we can deduce that annual income, age, educational qualification, location, and the nature of business activities have a statistically significant association with the awareness of GST. This is shown by a p-value below 0.05. The income

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bracket with the greatest prevalence is that with an annual income below 5 lakhs and between 5 lakhs and 10 lakhs. Similarly, the age group with the highest level of awareness of GST is 41 to 50, and the traders have the highest frequency of 16 among those who are aware of GST.

Table 3 Impact of GST

Aggregate Impact of GST	N	Mean	Std. Deviation	F	Sig.
Traders	18	3.985380	.8424546	12.808	0.000
Manufacturers	12	4.008772	.2487271		
Restaurant Service	13	4.429150	.0739536		
Other service provider	15	3.277193	.2480367		
Total	58	3.906534	.6407493		

Source: Primary Data

The F-statistic for aggregate awareness is 12.808, and the p-value is 0.000, which is less than 0.05, suggesting that there is a major difference among different groups. Restaurant service has highest mean value of 4.429150 indicating that restaurants had greatest impact of GST, followed by manufacturers with mean value 4.008772 and other service provider has least mean value of 3.277193.

CONCLUSION:

The analysis reveals a strong correlation between GST awareness and various factors including annual income, age, educational qualification, location, and business activities. Individuals earning less than 5 lakhs annually and those earning between 5 lakhs and 10 lakhs have the highest frequency of awareness. Similarly, the most knowledgeable about GST are traders, and the age group between 41 and 50 makes up the largest proportion of this knowledgeable population Furthermore, there is compelling evidence indicating a substantial disparity among various groups in terms of overall impact of GST. Restaurants seem to be the most affected by GST, with manufacturers being the next most impacted group, while other service providers experience the least amount of impact.

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