

Brunt of Taxation on Small & Medium Entrepreneurs in India



Commerce

KEYWORDS : TAXATION, DIRECT AND INDIRECT TAXATION, ENTREPRENEURS, SMALL & MEDIUM ENTREPRENEURS DEVELOPMENT

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ABSTRACT

Taxing small and medium enterprises (SME) is a significant issue in the globalizing economy. SME are also looking for expansion and Unions like USA and European Union EU have real problems for finding the appropriate for of taxing multi state activities on one hand and easing the burden on other. The dimensions are different and the problems are different around the world. This paper is based on experience in taxing SME and some of the new changes on the European market due to expansion of the European Union. The paper will stress on the possibilities for presumptive type of taxation and home state taxation that are the most recent developments in getting these businesses in the tax net. The paper will examine the different types of taxes and the influence on the SME and will enlighten some of the ways to make satisfy both the revenue and the economic agents on the market.

The legislation is a necessary regulator for protection of the business environment and security of the economic agents, for establishment of the necessary social security regulations but at the same time it hampers the business with additional expenditures and administrative obstacles, which place in different positions the SME.

INTRODUCTION

The tax plays important role in the growth of Small and Medium Enterprises (SMEs). Micro- and small enterprises are an important force for economic development and industrialization in poor countries (Helmsing and Kolstee 1993; Mead and Liedholm 1998; Liedholm and Mead 1999; McIntyre and Dal-lago 2003). It is increasingly recognized that these enterprises contribute substantially to job creation, economic growth and poverty alleviation. The 2005 World Development Report suggests that creating “sustainable jobs and opportunities for micro entrepreneurs are the key pathways out of poverty for poor people” (World Bank, 2004:19). High tax rates and tax complicity discourage the growth of SMEs (Oludele and Emilie, 2012).

Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SMEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy (ITD, 2007). Kolstad et al. (2006) indicated that taxes are perceived to be a major problem for both young and old firms. Therefore, taxation has showing a way towards impacting small and medium enterprises. Despite of the contribution that taxation can make towards the Gross Domestic Product (GDP) in general, much attention is also needed to the side effects of tax towards the growth of SMEs. This is because SMEs play a crucial role in driving economic growth in both developing and developed countries. As a group, they not only generate more new jobs than large firms or macro enterprises but also introduce innovative ideas, products, and business methods. It has also been observed that less attention has been given to the side effects of tax towards the growth and development of SMEs despite their contribution in the overall GDP of the country. The situation raises a serious concern about the issue of aligning the tax-planning system to the specific requirements of a particular country’s growth need, as it has to balance both short-term and long-term impact of the policy.

Package for Promotion of Small and Medium Entrepreneurs 2007

1. Legislation: The Micro, Small and Medium Enterprises Development Bill, 2006 has been enacted for the promotion and development of micro, small and medium enterprises. The Government is also expected to enact relevant law on Limited Liability Partnerships.

2. Credit Support: RBI has issued guidelines to the public sector banks to ensure 20% year-on-year growth in credit to the SME sector. The State Industrial Development Bank of India (SIDBI) is expected to upscale its credit operations for micro enterprises and cover 50 lakh additional beneficiaries over five years beginning 2006-07.

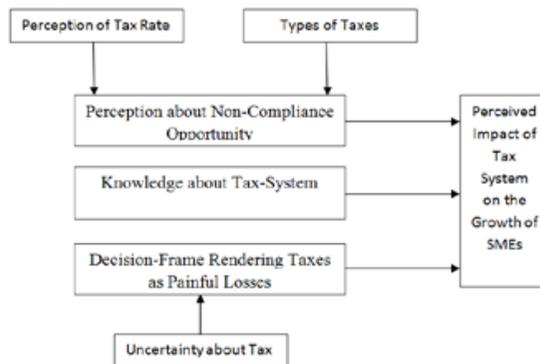
3. Fiscal Support: The Government is expected to examine the feasibility of increase in the General Excise Exemption (GEE) limit and the existing eligibility limit for GEE; also consider extending the time limit for payment of excise duty by micro and small enterprises and extending the GEE benefits to small enterprises on their graduation to medium enterprises for a limited period.

4. Support for Cluster Based Development: Accelerate the holistic development of clusters, including provision of Common Facility Centres, developed sites for new enterprises, upgradation of existing industrial infrastructure and provision of Exhibition Grounds/Halls and also for creation and management of infrastructure-related assets in the public private partnership mode. The ceiling on project cost is expected to be raised to Rs. 10 crore.

5. Technologies and Quality Upgradation Support: Four Training cum- Product Development Centres (TPDCs) for agro & food processing industries to be set up. A Technology Mission to be set up to assist MSMEs in technology upgradation, energy conservation and pollution mitigation.

6. Support for Entrepreneurial and Managerial Development: 50,000 entrepreneurs to be trained in information technology, catering, agro and food processing, pharmaceuticals, biotechnology, etc., during the Eleventh Plan; a new scheme to be formulated to provide financial assistance to select management/business schools and technical institutes, to conduct tailor-made courses for new as well as existing micro and small entrepreneurs; a new scheme to be also be formulated to provide financial assistance to five select universities/colleges to run 1200 entrepreneurial clubs.

Conceptual Framework of the Research



The strongest entrepreneurial culture

Indian entrepreneurs were more convinced than those in other G20 countries that the positive image of entrepreneurs in the media has had a high impact on the perception of entrepreneurship over the last five years. Looking ahead, the vast majority of Indian entrepreneurs thought improving communication around entrepreneur success stories would have a high impact on the entrepreneurship culture over the next three years. Despite the lowest level of R&D expenditure in the G20 average, several organizations are making pioneering moves in innovation, of both products and processes, in order to be able to service India's fast-expanding market in a cost-effective manner.

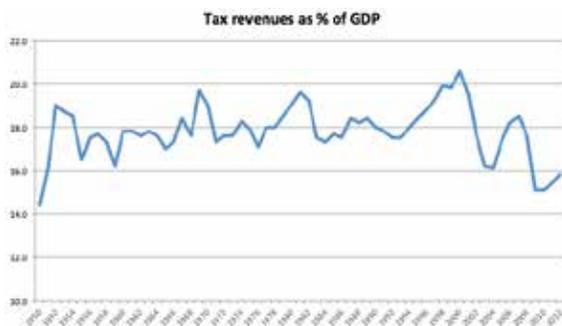
Taxation

Key Initiatives in Taxation

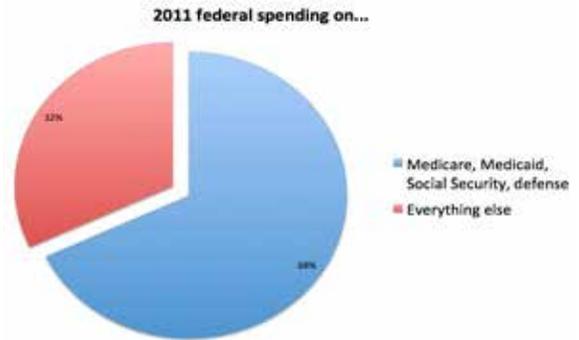
The introduction of Value Added Tax (VAT) in April 2005 was a significant measure. With the VAT system in operation, it has also been recently reported that Indian states have, in principle, agreed to move towards a common classification of all merchandise sold within the country - the 'Harmonized System of Nomenclature' (HSN). Currently, the same product can be taxed at different rates across states leading to problems of cost uncertainty for entrepreneurs.

Implications for Tax-System

It is advised to increase taxpayers' assistance and educational programs. This can include internet services and electronic filing of tax returns where technology and legislation permit. Electronic payment of taxes through the banking system should also be utilized. When taxpayers are educated about various tax matters, they will know their rights and there will be less/ no tax ambiguity and tax evasion.



Your taxes are going towards insurance and defense, not "waste and fraud."



Conclusions

On the basis of the findings from this study as presented, analyzed and interpreted in chapter four the main conclusion is that taxes imposed on small and medium enterprises impact their growth in terms of profits in different ways. From the study it has been found that changes in tax rates lead to the changes in prices of various goods and services. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behaviour. People react to the higher prices by buying less of the product. When sales fall, some manufacturers cut back on production and some workers may lose their jobs.

The growth rate has been accelerated by many factors including; good location of the business premises, strong managerial and administrative strategies, quality products and business design, business commitment (entrepreneurial spirit), laws and regulations within the country etc. At the same time there are factors that retard the growth of the SMEs sector. Some of the major causes of poor/no growth includes laws and regulation (especially tax structure), poor sources of capital, and the use of business' resources for private purposes (both cash and goods) since most of enterprises are the sole source of income for the business owners and their families. Due to these factors the rate of business growth is small and other businesses are either slowing down or closing down.

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