

## Tax Compliance of SME's with Impact of "MAKE IN INDIA"

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### ABSTRACT

This paper talks about how the concept of "MAKE IN INDIA" helped the small and medium scale enterprises in performance and tax compliance and benefits obtained in the area of income tax and indirect tax. We have compared and analyzed the sales or revenue data between pre and post "MAKE IN INDIA" we have taken the sample size of four small and medium scale companies and taken their financial statements and analyzed the total tax paid to government with respect to their total sales and growth. As India is manufacturing hub it will boost and shall continue to boost the manufacturing market throughout the country. As Make in India focuses on manufacturing in India and selling all over the world market and increasing profitability to Indian manufactures, also bring monetary resources into countries economy. We have also considered indirect taxes in India i.e. GST (goods and services tax) which has a major impact on almost all small and medium enterprises for analyses.

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### 1. Introduction

The Hon'ble Indian Prime Minister Narendra Modi introduced "Make in India" campaign with an objective to turn our country into a global manufacturing unit on 25<sup>th</sup> September 2014. This campaign is designed to help investment, increase innovation as a national program, to enhance skill development and to increase efficiency level in manufacturing infrastructure. The main motive of this is campaign is to promote selling products manufactured in the home country and ensuring its availability throughout the world.

The impact created out of this campaign is the tax incentives offered to investors which benefits the manufacturing sector in the future. Few of the incentives that are in relation to Income Tax Act, 1961 are at the scope of 80-IA, expenses on scientific research section 35AD, additional depreciation 32(b), depreciation on leasing transactions etc.

There was a reduction in presumptive tax by 2% for the entities with turnover up to ₹2 crores which will reduce the financial and tax burden on the entities. There is a 5% of reduction in the corporate tax rates from 30% to 25% for domestic small and medium enterprises. The above reduction benefits nearly 96% of the companies. The time frame for carry forwarding the minimum alternate tax was raised to 15 years from 10 years by helping small and medium business enterprises to reduce tax liability in the future.

Getting listed on the small and medium stock exchange enables the companies to access capital and equity finance easier it also enables the companies to obtain the tax benefits such as 0% long term capital tax and 15% short term capital gain tax.

By application of unified GST law, it enabled ease of business where most of the other previous indirect tax laws such as sales tax, service tax, value added tax got subsumed in the current GST law.

Input credit system has been improved drastically in the current GST law, while compared to previous laws. We can see improvement in all SME'S by increasing the scope of input credits to include services.

The purpose of this research is to study the tax benefits that includes direct and indirect taxes received by assesses during pre and post make in India campaign. And the performance and growth of the entities.

### 2. Review of literature

#### a) (TANDON & RAO, 2017)

In this research paper the authors show the analysis they have made on basis of experiment. The experiment was carried out to understand the tax compliance behavior of the people in India. There were 133 responses which were recorded. The participant's responses towards changes in tax rate, penalty rate etc. was observed, analyzed and studied.

It was also understood from the experiment that a single factor among the various policies cannot alone provide for understanding the changes in behavior of tax payers. The authors in the paper also provide suggestions like the government should not only reduce the rate of taxes but also increase penalty rate, to ensure tax compliance. This research paper also talks about key instrument like audit probability, and this being is the only policy instrument which generates responses on a consistent basis over a period of time.

#### b) (SHETTAR, 2017)

In this paper the author succinctly covers the aspects of make in India campaigns along with the number of initiatives the companies have taken, the various opportunities which are available and how the Indian manufacturing companies are funded by foreign investments. When there is an increased investment by the global and local players, the company will acknowledge the hike in its economic growth.

The paper also states that though 'make in India' has come at the right time, its enforcement still remains a challenge to be accomplished. The four pillars of make in India, as per the author are being discussed in the paper along with the major challenges which are being faced by make in India campaigns. This paper talks about the initiatives derived from make in India campaign such as sectors covered, initiatives taken by companies, growth cycles, opportunities, threats, and foreign investment in Indian manufacturing.

**c) (ANEJA, 2016)**

The author in the paper mentions that the make in India campaign which is coined by Narendra Modi, the prime minister of our country is not only to make the economy self-sustaining but also to provide the country a global recognition. The paper provides the information that the concept of make in India seeks to increase the GDP and tax revenue. There is also a discussion which is laid down on policies which have been framed to ensure an effective execution of the campaign.

Further, the paper also states that the various advantages that the concept which will drive into the country and the areas which are going to get positively impacted by the campaign in conversation.

**d) (SHARMA, 2017)**

The author in this paper mentions about the liberalisation of the Indian economy, mentioning that the country's domestic producer at that time were facing competition from foreign market and the author considers that the indirect structure and the various number of taxes at that time in the economy went on to become one of the major reasons for the high prices. The author then states that the concept of GST system brings forward the aspect of one tax for one nation. The paper also introduces the basics of GST and mentions that ensuring the implementation of GST in the country was arduous task. The paper at the later stage also discusses about the pros and cons of GST and positive aspects of GST to SME'S. it also states that GST would bring improvement and benefits to MSME's and would also lead to the positive changes in the area of employment, economic development etc. The paper also provides various suggestions to MSMEs keeping in mind the system of GST.

**3. Research Design**

**1. Statement of problem**

The concept of Make in India had a very conflicting impact on the country. This study is conducted to understand the pre and post impact on small and medium scale enterprise.

**2. Objectives**

- To analyse the impact of 'Make in India' concept on the Indian entities.
- To understand whether the tax and other compliance procedures affect the ease of doing business in the Indian territory.
- To analyse whether the tax benefit offered by the government are advantageous for the Indian Entities.

**3. Limitation of study**

All the factors affecting the performance and tax compliance of the small and medium scale companies are not considered in this study.

**4. Analysis**

According to MSME Act, 2006

Enterprises engaged in the production or manufacturing process, preservation or processing of goods as mentioned below:

1. Investment in plant and machinery should not exceed ₹25 lakhs - **Micro enterprise.**
2. Investment in plant and machinery should be more than ₹25 lakhs AND should not exceed ₹5 crores - **Small enterprise.**
3. Investment in plant and machinery should be more than ₹5 crores AND should not exceed ₹10 crores - **Medium enterprise.**

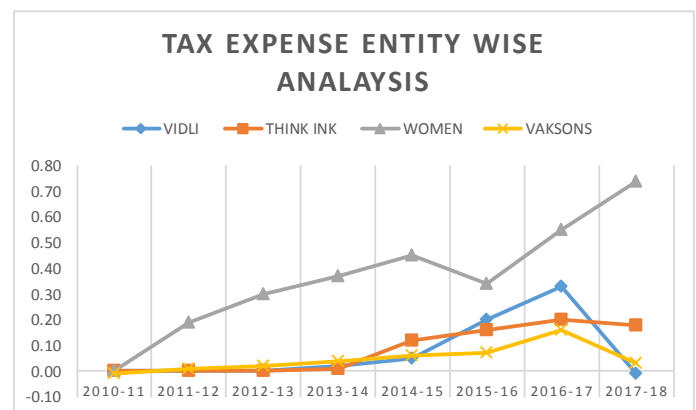
Enterprises engaged in rendering or providing of services and whose investment in equipment.

1. Investment in equipment does not exceed ₹10 lakhs - **Micro enterprise.**
2. Investment in equipment should be more than ₹10 lakhs AND should not exceed ₹2 crores - **Small enterprise.**
3. Investment in equipment is more than ₹2 crores AND should not exceed ₹5 crores - **Medium enterprise.**

For the analysis of this paper, we have selected four Small and medium scale companies which are listed on Bombay stock exchange which satisfy the definition of MSME of MSME Act, 2006, (as mentioned above).

The four-selected listed small and medium scale companies are mentioned below;

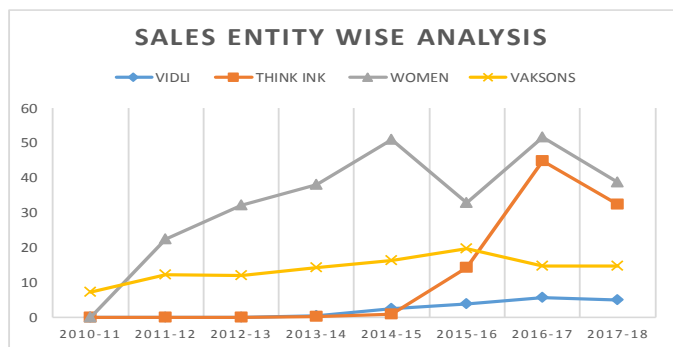
1. VIDLI RESTAURANT.
2. THINK INK STUDIO.
3. WOMEN NEXT LOUNGRIES.
4. VAKSONS AUTOMOBILE



(chart-1)

The above chart indicates the tax expense with respect to different entities. 2010 to 2014 period shows tax expense before the implementation of make in India concept. Whereas 2014 to 2018 period shows the post period analysis of tax expense that has been fluctuating in the affirmative direction increasingly. This shows that the concept of "MAKE IN INDIA"

has increased the income levels that has led to proportional increase in the tax expenses of the respective entities.



(chart-2)

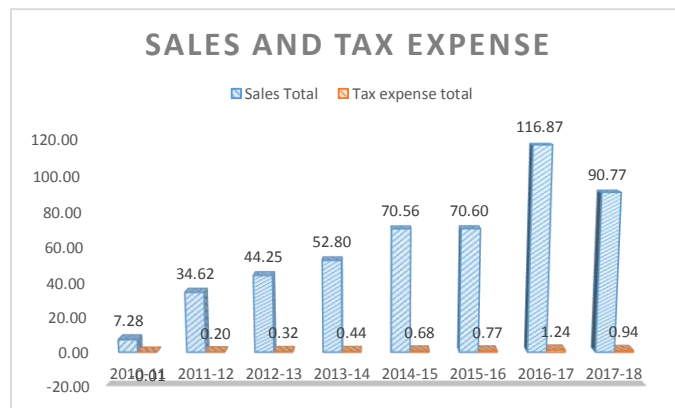
The above chart indicates the tax sales with respect to different entities. 2010 to 2014 period shows the sales before the implementation of make in India concept. Whereas 2014 to 2018 period shows the post period analysis of sales that has been fluctuating in the affirmative direction increasingly. This shows that the concept of “MAKE IN INDIA” has increased the sales level that has led to proportional increase in the income of the respective entities.

If we do the analysis of the think ink studio entity there has been boom in the sales value after the “MAKE IN INDIA” impact. And same with case of VidliRestaurant and other entities.

There can many variables that can impact the sale values of the entities, those can be political environment, internal strength, external opportunities, low cost of production due some variables etc. But for the analysis of this paper all the variables are assumed as constant.

**References**

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(chart-3)

The above chart indicates the proportional relationship between total sales of the four entities and respective total tax during 2010 to 2018. It also indicates the rapid increase in sales whereas the tax expense is not having major increase in value from the impact of “MAKE IN INDIA”

**5. Conclusion**

Manufacturing and service industries have raised as one of the high growing sectors in India. The “Make in India” campaign has to played a major role in placing India on the world map as a manufacturing hub and possess the global recognition in the Indian economic perspective. India is ranked one amongst 10 world’s largest manufacturing countries. India has improved by three places to the sixth position in the consecutive years. The proposal of “Make in India” has definitely boosted and shall continue to boost the manufacturing market throughout the country. This in return will focus on tax expense and sales to set up marginal sales-income in various SME’s. The huge sales in manufacturing firms will bring in more inflow of monetary resources into the country’s economy. “Make in India” mission is one long-term initiative which is in the process of revolutionizing and transforming India into a manufacturing hub. “Make in India” campaign also focuses on manufacturing products having zero defects and effects on the environment. We have got skill, talent, discipline and determination to do something. So, to conclude “MAKE IN INDIA” had an impact on the tax compliance and a performance of the small and medium scale enterprises.