



## IMPACT OF GST ON ANCILLARY INDUSTRIES IN NCR REGION OF INDIA

Vikram Singh<sup>1</sup>, Dr. T. K. Jain<sup>2</sup>

### Abstract:

Over the last couple of years, the advent and augmentation of ancillary Industry market in NCR region of India has changed the way people buy and sell goods and services. Though the sector is still in the infancy stage, considering the endless possibilities in the Indian markets, huge hopes are pinned on the sector of Ancillary industry in NCR region is expected to perform better year on year. Taking into consideration the immense potential of the sector, one would expect tax laws to be conducive to the growth of this Ancillary industry sector. Unfortunately for the Ancillary Industry sector, the current indirect tax laws in India are an impediment to operations, thwarting the growth of the sector. On July 1, 2017, the business landscape in India underwent a profound transformation in its indirect taxation system, marked by the consolidation of numerous Central and State taxes into a unified framework known as the Goods and Services Tax (GST) law. This GST framework has left an indelible mark on businesses spanning various industries. Nevertheless, its impact on small and medium-sized enterprises (SMEs) has been notably more pronounced compared to their larger counterparts. It is therefore imperative to examine how these SMEs, with their limited scale and narrower profit margins, have coped with this substantial overhaul in taxation and infrastructure. In this context, it becomes crucial to address several critical questions. These inquiries revolve around understanding how the introduction of GST has affected Ancillary industries. The research holds great significance as it endeavors to examine various challenges confronting Ancillary industries in the state of NCR region of India, including issues related to implementation costs and compliance or non-compliance expenses. Furthermore, it aims to formulate recommendations and present them to the government and tax authorities in NCR region of India. These recommendations are intended to advocate for the concerns of NCR region of India's Ancillary industries during the various GST Council meetings convened periodically. It is crucial to underscore and bring to the Council's attention the escalating costs associated with GST compared to the potential benefits it may offer to Ancillary industries in NCR region of India. The study's findings must be considered in light of several significant economic events that have transpired in the past five years. The performance of ancillary industries units has been negatively affected by a sequence of events, including the demonetization in 2016, the introduction of the GST law in 2017, and the uncertainty brought about by the ongoing pandemic, leading to lockdowns in 2020 and 2021. According to some estimates, it is plausible that approximately 20% to 40% of Ancillary industries in NCR region of India could face permanent closure.

---

<sup>1</sup>\*Research Scholar Department of Management Suresh Gyan Vihar University Jaipur

<sup>2</sup>Dean & Professor Department of ISBM Suresh Gyan Vihar University Jaipur

\*Corresponding Author: Vikram Singh

Email: vikram12399@gmail.com

DOI: 10.53555/ecb/2022.11.10.70

## 1. INTRODUCTION

India underwent a significant indirect tax reform with the implementation of the Goods and Services Tax (GST) Act, effective from July 1, 2017, across the nation. This revolutionary act replaced multiple taxes like VAT and excise duty, previously imposed by both the Central and State Governments. Regarded by economists and scholars as a noble step, GST aimed to enhance transparency in businesses and facilitate the integration of the national market. It was designed to ease business operations, enhance financial resources, control fiscal deficits, and consequently boost economic growth (Jayalakshmi & Venkateswarlu, 2018).

S&P Global Ratings credit analyst YeeFarn Phua, in a report titled "Public Finance System Overview: Indian States," emphasized that the GST bill's passage in 2017 was a significant tax structure overhaul. It broadened the tax base, enhancing state government revenues. GST acted as a boon to various sectors, including industry, trade, agriculture, and common consumers, while also benefiting the central and state governments. This transformation paved the way for India's economic growth (Leemput and Wiencek, 2017).

GST promised evident benefits for industries, trade, and agriculture, providing relief through seamless access to input tax credit and the inclusion of multiple taxes under GST, including the phasing-out of CST (Jaiprakash, 2014). The introduction of GST, a consumption-based tax, aimed to resolve complex tax issues faced by ancillary companies in the NCR region. It was anticipated to end interstate tax conflicts, recurrent sales tax demands, investigations, and goods stoppages at check posts.

However, despite the promise of streamlined taxation, the NCR region's ancillary industry, although showing remarkable growth, still faced challenges. The current research delves into the "*Impact of GST on the Ancillary Industry in the NCR Region of India*," aiming to understand how GST has affected this sector and whether it has mitigated or exacerbated the challenges faced under the previous indirect tax laws.

## 2. ANCILLARY INDUSTRY IN RESEARCH STUDY AREA- NCR REGION

The *National Capital Region (NCR)* is a hub of economic activities for the whole of North India. The economic structure of NCR is undergoing rapid transformation due to changes in economic policy, privatization of Public Sector Undertaking (PSUs), downsizing of the government, and elimination of subsidies and tax incentives for industries. A number of existing and proposed

developments, such as extension of the Delhi Metro throughout central NCR, expressways connecting Delhi NCR to other parts of the region, the Delhi-Mumbai Industrial Corridor and Dedicated Freight Corridor, development of Special Economic Zones (SEZs) etc. are expected to have significant impact on the economy of NCR.

Trends indicate that the tertiary sector, particularly value-added services, is fast emerging as an important source of employment in the NCR. In order to respond to these physical and economic transformations, there is a need to analyze and assess the changing economic base of NCR as well as future directions of growth, along with fiscal policies, legislation, etc. and most importantly the impact of GST Law on economic development in the region.

The industrial activities in the NCR have undergone significant structural changes over a span of three decades or more. 'Scale Factor' one of the primary mutually inclusive components of the economic structure of the NCR, implies that the developments which the economic elements exhibits within the sector, could be easily characterized in terms of the development of the large and medium units, small-scale industries (SSIs), and in tiny unorganized units.

The organized industrial sector that consists of large and medium units and SSI in the NCR has developed both horizontally (number of units) and vertically (growth of different industries). Haryana sub-region has recorded a significant change in manufacturing units producing engineering goods consisting of metal products and parts, and machine tools and electric machinery; show the highest share of a percentage distribution. In Rajasthan Subregion, textile products; metal products and parts, and transport equipments as well as nonmetallic mineral products, chemicals, and basic metal products constitute the major sectors. Electric machinery, metal products and parts, chemical products and parts, textile products are the primary sector in NCR-region.

**Few major industries of Ancillary segment whose case study will be selectively analyzed in context of current research are depicted below:**  
**List of Major Ancillary Industries of NCR Region**

- KEI Industries Limited
- JD Industries Limited
- RB Industries
- Jaquar Company Pvt. Ltd.
- Raj Industries
- J D Group of Industries
- Gracure Pharmaceuticals Ltd.

- Aeronet Industries Pvt. Ltd.
- Agrawal metal works Pvt. Ltd.
- Medicomen Biotech Limited
- Rajasthan Antibiotics ltd.
- The Hi-Tech years ltd.
- Guru Metals Bhiwadi Plant

In response to the concerns raised, the Ministry of Ancillary Industries issued a notification on March 5, 2021. According to this notification, "For any proprietorship enterprise not registered under any Act or rules of the Central Government or the State Government, the proprietor may use his or her PAN for registration of the enterprise on the Udyam Registration portal, and for all other types of enterprises, PAN shall be mandatory now. The proprietor may use his or her PAN for registering the enterprise."

Consequently, entrepreneurs and proprietors exempted from filing GST returns can now register their companies as ancillary industries on the Udyam Registration portal using their PAN card. This facilitation is expected to simplify the registration process for numerous micro-enterprises, including skilled craftsmen, artisans, and other businesses in the informal and unorganized sectors.

While GST aims to expand the taxpayer base and increase government revenue, the immediate effects indicate a growing burden of compliance and associated costs for ancillary industries. Despite the government's proactive approach in addressing concerns from the ancillary industries, challenges related to compliance and costs are currently on the rise.

### 3. LITERATURE REVIEW

In 2017, Saurabh Suman conducted a study on GST implementation among SMEs, focusing on the associated problems. The study concluded that these issues would gradually be resolved, indicating a favorable long-term outcome for all business owners.

In 2018, Shalini Shukla & Ram Singh empirically assessed business efficiency a year after GST implementation. Their research revealed that among the financial parameters analyzed (total assets, profit, and market capitalization for FY2017 and FY2018), only total assets significantly differed from the pre-GST period (FY2017). Demographic variables such as company size and experience were found to influence post-GST performance significantly, offering new insights into the GST's impact on company finances.

Dr. V. R. Nedunchezian and others (2018) conducted a survey among small and micro

business traders, exploring the overall impact of GST on their businesses. Responses appeared balanced, neither overly negative nor excessively positive. The report suggested that swift and efficient resolution of initial challenges by the government could lead to seamless GST implementation.

In 2018, Dr. Ankita and colleagues examined the challenges faced by Ancillary industries post-GST implementation, studying business owners' strategies in managing their companies one year after GST adoption.

In their 2018 article, Vidit Mohan and Salman Ali provided a multi-dimensional analysis of the disparities between the anticipated and actual effects of the current GST regime on Ancillary industries and related tax compliance. The article elucidated the complexities associated with GST implementation.

### 4. NEED OF THE STUDY

The implementation of the Goods and Services Tax (GST) law on July 1, 2017, marked a pivotal moment in India's taxation system, ushering in a unified approach to indirect taxes. While this move was anticipated to have a lasting positive impact on the economy, it also led to immediate challenges in the realm of trade.

A report from a panel of experts examining the economic and industrial resurgence of India's National Capital Region (NCR) post-COVID-19 has highlighted a critical concern. The report emphasizes the need for the State government to focus its efforts on Micro, Small, and Medium Enterprises (MSMEs) operating as ancillary industries. Studies indicate that a substantial percentage, ranging from 20% to 40%, of these ancillary industries in the State might face permanent closure.

This current study aims to delve into the specific hurdles faced by GST-registered ancillary industries in the NCR region of India. The challenges under scrutiny include compliance costs, the complexities of filing returns, the intricacies of claiming Input Tax Credit (ITC) and electronic refunds, as well as grappling with working capital constraints. These issues gain heightened significance in the wake of the additional challenges posed by the ongoing COVID-19 pandemic.

### 5. OBJECTIVES OF STUDY

1. To study and highlight the challenges and advantages that has accrued to ancillary industries sector of NCR region of India on account of GST.

- To suggest measures to make GST more ancillary industries friendly and conducive to government's agenda of "ease of doing business."

## 6. RESEARCH METHODOLOGY

This study specifically targets ancillary industrial units operating within the NCR region of India. A total of 150 ancillary industrial units in this region were meticulously chosen for the research. The study gathered GST-related information from these units through qualified Chartered Accountants (CAs), Company Secretaries (CSs), and Cost and Management Accountants (CMAs) actively engaged in handling GST-related matters for these units.

To ensure a comprehensive analysis, a well-structured questionnaire was designed, translating the study's objectives into clear and straightforward questions. The questionnaire employed a five-point Likert scale with predetermined response options for most questions. Additionally, several open-ended questions were included to allow for detailed responses.

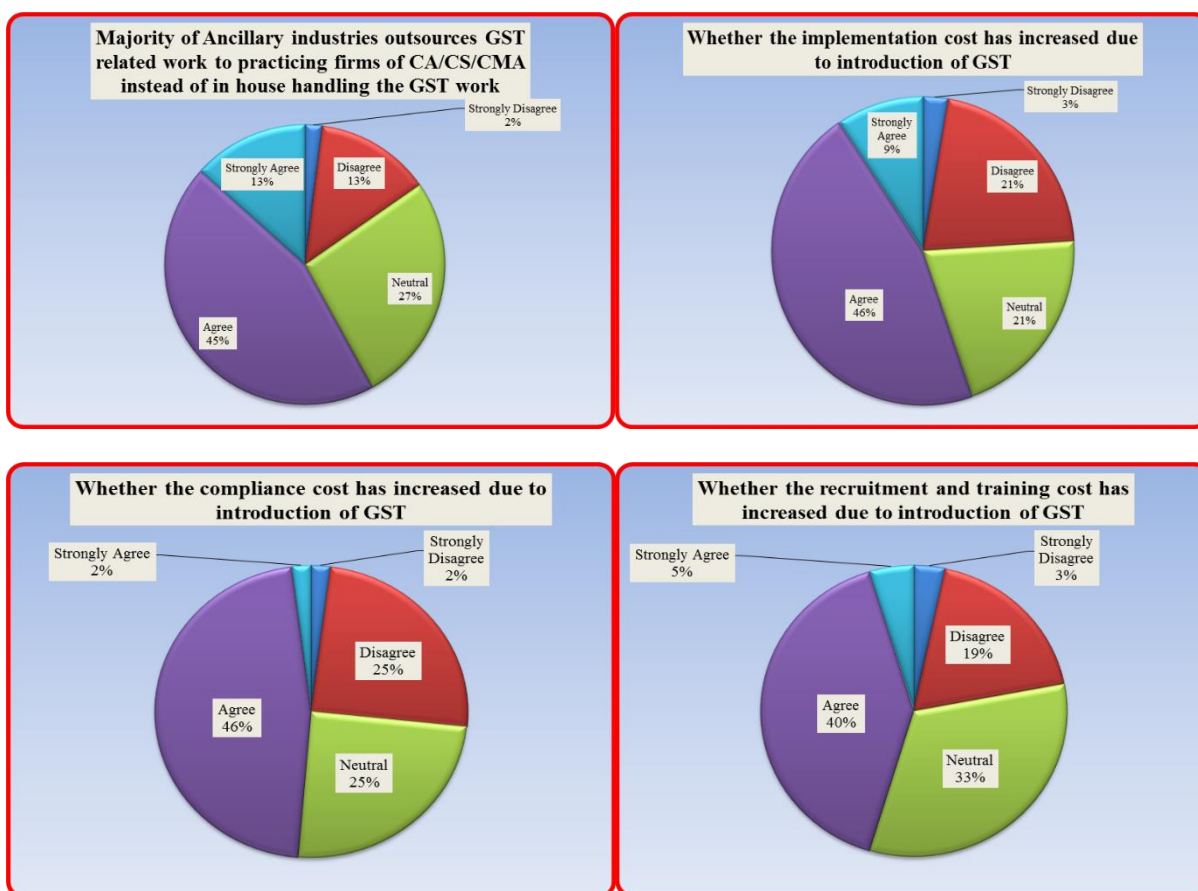
The primary data collection utilized a stratified sampling approach, where 50 micro, 50 small, and 50 medium enterprises were purposefully selected

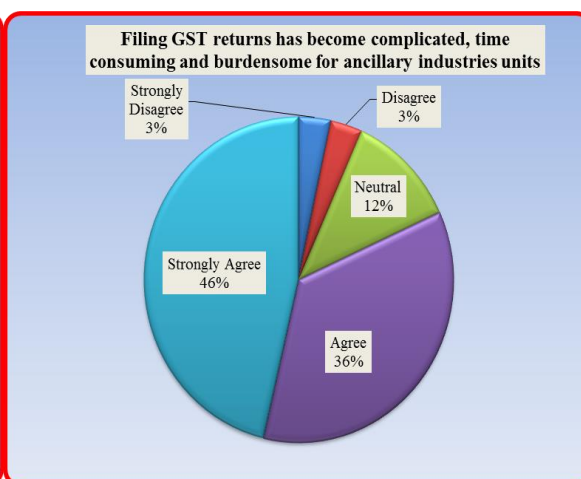
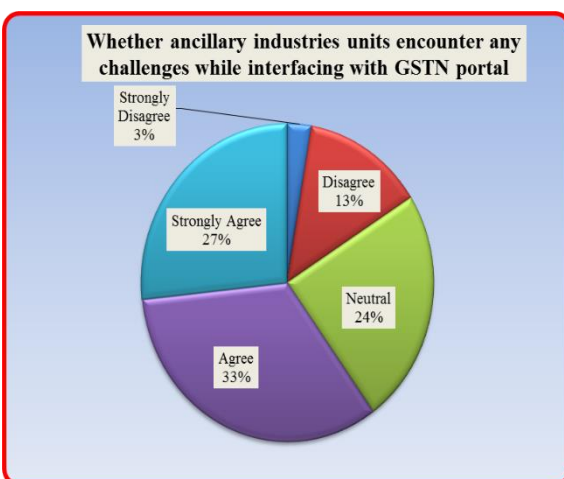
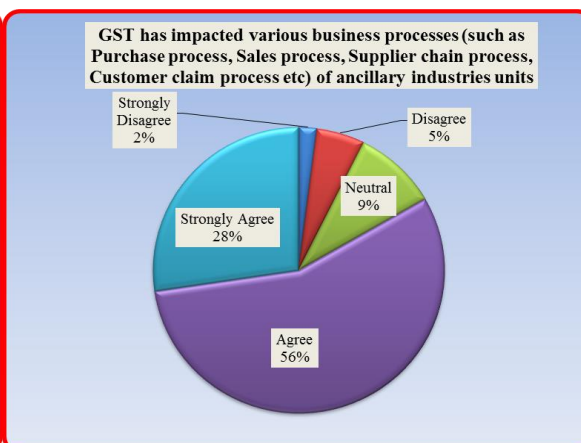
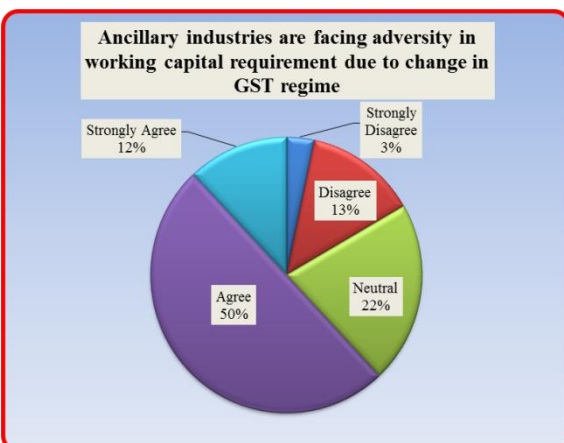
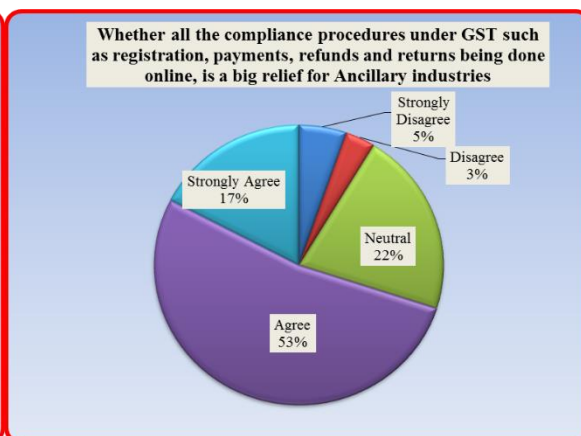
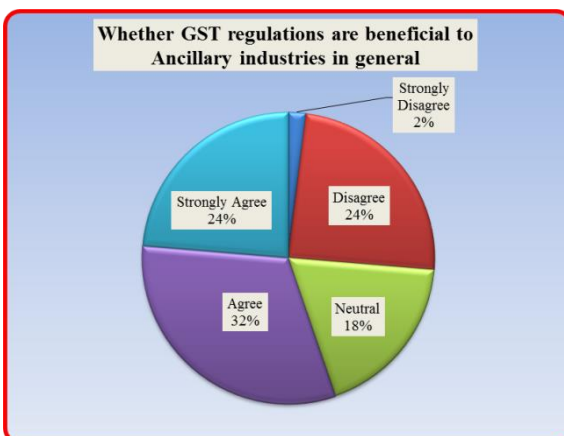
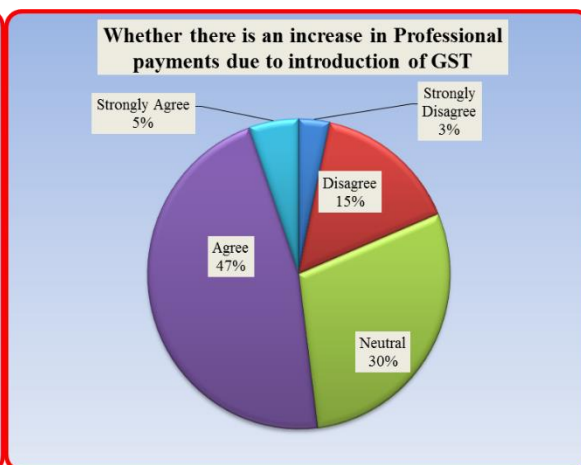
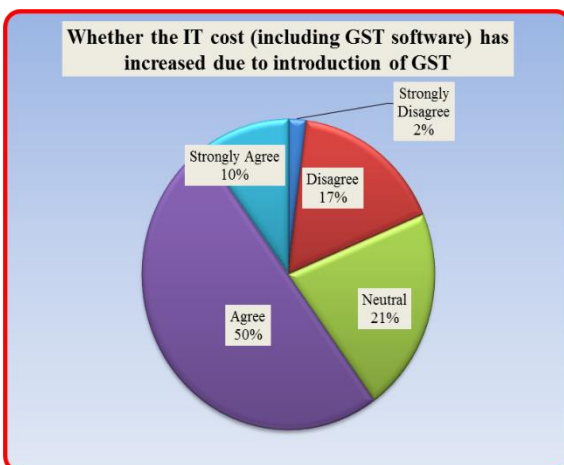
from the total sample of 150 ancillary industrial units. The research employed quantitative methods and survey techniques based on the questionnaire to fulfill the study's objectives and address the research problem effectively.

In addition to primary data, secondary data pertinent to ancillary industrial units was meticulously gathered from diverse sources such as research papers, articles, theses, magazines, and government publications, enhancing the depth and reliability of the research findings.

## 7. DISCUSSION AND ANALYSIS

The outlined objectives were examined through an empirical analysis involving the testing of crucial factors related to these objectives using the chi-square test. The study involved gathering perceptions from GST practitioners, including Chartered Accountants, Company Secretaries, and Cost Accountants, who handle outsourced work for ancillary industries in the NCR region of India. These practitioners provided their feedback on a five-point Likert scale. Subsequently, these responses were recorded in an Excel sheet, facilitating the application of the chi-square test on the dataset.





From the above graphs outlines the responses regarding the impact of GST on the ease of doing business for ancillary industrial units in the NCR region of India. The responses were analyzed using percentages, means, and the chi-square test.

A significant portion of the respondents, 58%, acknowledged that most ancillary industries outsource GST-related work to CA/CS/CMA firms due to a lack of IT skills for handling online GST tasks. Meanwhile, 27% remained neutral, and 15% held a contrary opinion. Additionally, 55% of the respondents agreed that the initial cost of GST implementation in these industries is notably high, while 21% were neutral, and 24% disagreed.

Furthermore, 56% of the participants believed that the government's GST implementation was a positive step, benefiting ancillary industries. On the compliance front, 70% expressed relief that procedures such as registration, payments, refunds, and returns are conducted online. However, 82% found filing GST returns to be complex and time-consuming.

The impact of GST on various business processes was evident, with 84% stating that it affected purchase, sales, supplier chain, and customer claim processes. Working capital challenges due to the new GST regime were reported by 62% of the respondents.

In terms of interfacing with the GSTN portal, 60% faced challenges, and 71% found claiming ITC refunds difficult, often resulting in blocked funds. When asked for recommendations, respondents emphasized avoiding frequent amendments in GST laws to reduce uncertainty. They also suggested introducing a flat GST rate without Input Tax Credit (ITC) for ancillary industries and reducing penalties for non-compliance.

Additionally, some respondents highlighted a GST anomaly arising from the COVID-19 situation. Small businesses compelled to switch to online sales due to traditional market challenges found that GST threshold limits available offline did not apply online, forcing them to register under GST.

## 8. FINDINGS, SUGGESTIONS AND CONCLUSION

Based on the analysis presented earlier, it is evident that various costs, including implementation, compliance, recruitment, training, IT (GST software), and professional fees, have increased for ancillary industries in the NCR region of India. Claiming Input Tax Credit (ITC) refunds has become challenging, leading to blocked funds and adversely affecting the working capital requirements of these industries.

Additionally, the process of filing returns has become more intricate, time-consuming, and

burdensome for the ancillary industries surveyed. These units are facing multiple challenges while interacting with the GSTN portal.

However, despite these challenges, ancillary industries in the NCR region have found it more convenient and advantageous to outsource GST-related work to professionals rather than handling it in-house. The fact that all GST compliance procedures, including registration, payments, refunds, and returns, are conducted online is seen as a significant relief.

Despite the unprecedented challenges faced, ancillary industries in the NCR region prefer outsourcing GST tasks due to the complexities involved. While these challenges are expected to persist for some time, the right business atmosphere and government support can pave the way for overcoming these hurdles. With no other alternative but to adapt, it is anticipated that ancillary industries will discover substantial opportunities within the current GST regime. Over time, these industries are likely to evolve into more robust and competitive entities in the Indian business environment.

Keeping in view the above findings, following suggestions are made to improve the competitiveness of the Ancillary industries in NCR region of India.

1. Considering the ongoing challenges posed by the COVID-19 pandemic, it is anticipated that the government will offer more relief and relaxation to ancillary industries concerning GST-related compliances, including filing returns, tax payments, ITC utilization, and penalties for non-compliance.
2. A recommendation has been made to create a more user-friendly mechanism for Input Tax Credit (ITC) to assist ancillary industries in managing their cash flows and monitoring their working capital requirements effectively.
3. Furthermore, it is suggested that the government should approach the concerns of ancillary industries with empathy, considering their perspective while formulating GST-related laws and subsequent amendments.
4. Ancillary industries are encouraged to embrace GST as a regular aspect of their business operations rather than viewing it as an unnecessary compliance burden.
5. The imminent need for technological upgrades within ancillary industries is emphasized. These industries should swiftly adopt technology to enhance their efficiency in handling online GST processes.
6. Owners of ancillary industries are urged to enhance their understanding of GST. Keeping themselves updated with changes in GST laws

is essential. Increasing awareness about how GST functions is crucial for their businesses.

7. GST Suvidha Centres have been established, and ancillary industries should avail the services offered by these centers. These centers play a vital role, and it is crucial that they adhere to the government's guidelines while assisting GST-registered ancillary industries.
8. Equally important, professionals practicing in GST-related matters must provide accurate and timely information to their ancillary industry clients. They should motivate these businesses to comply with GST laws and help them recognize the role of GST in fostering their business growth.

To comprehensively assess the impact of GST, further studies are essential. It's imperative to conduct independent studies across all sectors and subsectors within the economy to derive universally accepted conclusions.

In essence, the majority of respondents noted that the online interaction with the department streamlined compliance processes under GST, making tasks such as registration, payments, refunds, and returns more consistent and

## REFERENCES

1. Dash, A. (2017). Positive and negative impact of GST on Indian economy. *International Journal of Management and Applied Science*, 3(5), 158-160.
2. Jayalakshmi, M., & Venkateswarlu, G. (2018). Impact of GST on Micro, Small and Medium Enterprises (Ancillary industries). *International Journal of Engineering and Management Research*, 8(2), 91-95.
3. Kawle, P. S., & Aher, L. (2017). GST: An economic overview: Challenges and Impact ahead. *International Research Journal of Engineering and Technology (IRJET)*, 2760-2763.
4. Manoj, S. (2019). Goods and services Tax (GST) in India– An Overview and impact, *Advances in Management*. 12(1), 59-61.
5. Mishra, A., & Gupta, A. (2018). Study of GST in Indian Context. *GST Simplified Tax System: Challenges and Remedies*, 1(1), 163-165.
6. Mohan, V., & Ali, S. (2018). Assessment of the Implications of GST (Goods and Services Tax) Rollout on Indian Ancillary industries. *Theoretical Economics Letters*, 8(15), 3567.
7. Nedunchezian V.R. et. Al. (2018), Analysis of impact of GST with reference to Perspective of Small Business Stakeholders. *International Journal of Pure and Applied Mathematics*, 119(17), 2357-2367
- transparent. Respondents expressed optimism that GST could be transformative, potentially boosting sales and profits. However, cautionary notes were sounded, indicating that GST had posed challenges to their businesses. Some mentioned difficulties in purchasing from registered dealers if the buyer was unregistered.
- This study also revealed that business owners were ill-prepared during GST's introduction in India, struggling to integrate the new tax system into their existing operations. They faced heightened stress due to stringent compliance requirements and rising costs, including initial, recurring, and non-compliance expenses. Consequently, many small-scale businesses opted to outsource GST-related tasks to professionals such as CAs/CS/CMAs. This shift was viewed positively by researchers, as it allowed business owners to concentrate on their core activities.
- Amidst uncertainties and operational hurdles, coupled with the inherent advantages of GST and the government's pro-industry stance, researchers strongly believe that once these challenges are addressed, the ancillary industries sector will emerge as a more robust and competitive entity within the Indian business landscape.
8. Priya, B. M. (2017). GST–A Game Changer. *International Journal of Management Research and Social Science*, 4(1), 10-12.
9. Shukla Shalini & Singh Ram (2018), GST in India: Performance of Companies After One-Year of Roll Out. *Indian journal of finance*, 12(11), 37 – 47.
10. Suman, S. (2017), Study on New GST Era and its Impact on Small Businesses Entrepreneurs. *Journal of Accounting, Finance & Marketing technology*, 1(2), 24-36.
11. Van Leemput, E., & Wiencek, E. A. (2017). The effect of the GST on Indian growth. Board of Governors of the United States Federal Reserve System, *International Finance Discussion Paper Note*.
12. <https://cleartax.in/s/msme-registration-india>
13. <https://msme.gov.in/>
14. <https://economictimes.indiatimes.com/small-biz/sme-sector/NCR region of India-govt-inks-pact-with-game-to-support-ancillary-industries/articleshow/79022329.cms?from=mdr>
15. <https://udyamregistration.gov.in/msme-registration-process/free-government-portal.html>
16. <http://gstcouncil.gov.in/msme>