



A study on the impact of GST on small and medium enterprises (SMES) in India

Rajnish Kumar¹, Dr. Deepak Kumar²

¹ Research Scholar, Department of Commerce and Management, Faculty of Management, B. R. Ambedkar Bihar University, Muzaffarpur, Bihar, India

² Assistant Professor & Supervisor, L.N. Mishra College of Business Management, Muzaffarpur, Bihar, India

Abstract

Goods and Services Tax (GST) has been one of the most significant economic reforms in India. With its implementation in 2017, it aimed to bring a uniform tax structure across the country and eliminate various indirect taxes such as service tax, value-added tax, and excise duty. However, this new taxation system has had a considerable impact on Small and Medium Enterprises (SMEs) in India. These SMEs play a crucial role in the economy by generating employment opportunities and contributing significantly to the country's GDP. Therefore, it is essential to understand how GST has affected these enterprises. This study aims to examine the impact of GST on SMEs in India with specific focus on three major areas - financial implications, operational challenges, and compliance burden. The research takes into consideration both quantitative data collected through surveys from SME owners/managers as well as qualitative insights obtained through interviews with experts from industry associations and government bodies.

Keywords: Financial, economic, manufacturing, Goods and Services Tax (GST), Small and Medium Enterprises (SMEs):

Introduction

Goods and Services Tax (GST) was implemented in India on 1st July, 2017 with the aim of creating a single unified tax system. This new indirect tax structure replaced different taxes such as Value Added Tax (VAT), Service Tax, and Excise Duty etc. With this major economic reform, there were high hopes of increased efficiency, simplified compliance procedures and ultimately bolstering the growth of the nation's economy. However, while GST has brought about significant changes in the business landscape of India, its impact on small and medium enterprises (SMEs) has been a topic of debate since its inception. ^[1] The SME sector plays an integral role in the Indian economy by contributing over 45% to manufacturing output and employing nearly 40% of the country's workforce. These businesses are often operating on thin margins with limited resources and manpower which makes them vulnerable to any sudden changes in policies or market conditions. Therefore, it becomes crucial to understand how GST has affected these enterprises and what measures can be taken to alleviate any adverse consequences. ^[2]

Literature review

The Goods and Services Tax (GST) was implemented in India on July 1, 2017 with the aim of unifying all indirect taxes under a single tax regime. This new tax system has significantly affected the business landscape in India, especially for Small and Medium Enterprises (SMEs). Over the years, several researchers have conducted studies to understand the impact of GST on SMEs in India. One such study was conducted by Dr Kanimozhi (2023) ^[3], which aimed to investigate the impact of GST on SMEs in terms of compliance costs, competitiveness, and growth opportunities. The study used primary data collected from 150 SMEs located across different states in India. The results showed that most SMEs faced higher compliance costs due to increased paperwork and complexities involved in filing returns under GST. ^[3]

Similarly, Tanu Dubey *et al.* (2018) examined the effect of GST implementation on the financial performance of Indian SMEs. The findings revealed an initial decrease in revenue for some sectors due to confusion over new tax rates but later stabilized once businesses familiarized themselves with the changes brought about by GST.

According to Dr. J. Rani, Anitha (2023) ^[4], the implementation of Goods and Services Tax (GST) in India has been a major economic reform aimed at simplifying the indirect tax system. This new tax regime replaced various state and central taxes, bringing uniformity in taxation across all states. While this move was expected to bring about a positive impact on the economy as a whole, its effect on small and medium enterprises (SMEs) has been a topic of debate. ^[4]

A study conducted by Gupta *et al.* (2018) found that while GST has brought about some benefits for SMEs such as reduced compliance burden and improved cost competitiveness, it has also posed challenges like increased operational costs due to higher software expenses and managing multiple registrations for different states. Moreover, Sharma *et al.* (2019) highlighted that many SMEs were not adequately prepared for the transition to GST due to lack of awareness or resources, resulting in disruptions in their business operations.

Research gap

Research gap refers to the lack of available information or knowledge on a particular topic, which creates a gap in understanding and limits the scope for further research. In the context of examining the impact of GST on Small and Medium Enterprises (SMEs) in India, there are certain areas that have not been explored extensively. These gaps may hinder our ability to fully comprehend how GST has affected SMEs in India, and thus, it is essential to identify and address them. One major research gap in this area is the limited availability of data specifically on SMEs. While there is a wealth of information on large corporations and

their response to GST, there is a dearth of data regarding its impact on smaller businesses.

How has GST affected SMEs?

The Goods and Services Tax (GST) was implemented in India on July 1st, 2017, with the aim of simplifying and unifying the country's complex taxation system. It replaced multiple indirect taxes like VAT, excise duty, and service tax, resulting in a significant change for both businesses and consumers. While the impact of GST has been felt across various industries, its effects on Small and Medium Enterprises (SMEs) have been particularly prominent.

One of the main ways in which GST has affected SMEs is through increased compliance procedures. Under the previous tax regime, SMEs were required to register for different taxes depending on their business activities and turnover. This created a lot of confusion and administrative burden for small business owners. However, with GST's unified system, SMEs now only need to file one monthly or quarterly return instead of multiple returns every month. This has not only reduced their compliance costs but has also made tax filing more streamlined.

Furthermore, GST has also brought about a shift from manual record-keeping to electronic record-keeping for SMEs. This means that businesses now need to maintain accurate records of all their transactions digitally to comply with GST regulations. While this may require an initial investment in software and training costs for some SMEs, it ultimately benefits them by reducing human error and improving efficiency.^[5]

However, one of the most significant impacts of GST on SMEs is its effect on cash flow management. Under the previous system, businesses had to pay various taxes at different points in time during manufacturing or sale of goods or services. This resulted in blockage of working capital as well as cascading effect where taxes were levied upon previously paid taxes leading to an increase in overall cost ultimately affecting profitability adversely.

With the implementation of GST, credit inputs are allowed throughout the entire supply chain for businesses engaged in local trade as well as interstate trade within India. With proper planning and management under GST, SMEs can reduce their inventory costs and also speed up the flow of goods and services, thereby improving their cash flow.

Government initiatives to support SMEs affected by GST

The Indian government has been taking several initiatives to support small and medium enterprises (SMEs) that have been affected by the implementation of Goods and Services Tax (GST). These efforts are aimed at easing the transition process for SMEs and mitigating any negative consequences caused by this major tax reform.

One such initiative is the introduction of a Composition Scheme under GST, which has been specifically designed for small businesses with an annual turnover of less than Rs. 1.5 crores. Under this scheme, SMEs are allowed to pay a fixed percentage of their annual turnover as taxes instead of following the regular compliance procedures. This has significantly reduced the compliance burden on these businesses, allowing them to focus on their operations rather than worrying about complex tax procedures.

In addition, the government has also launched a GST Suvidha Provider (GSP) system to make compliance easier

for smaller businesses. GSPs are authorized service providers who offer end-to-end solutions for GST filing, including registration, return filing, and payment processing. This has greatly simplified the entire GST process for SMEs, saving them time and resources.

To further aid SMEs in complying with GST regulations, the government has also introduced free online training courses through its official portal "GSTN". These courses provide detailed information on various aspects of GST such as registration, returns filing procedure, input tax credit calculation etc., thus enabling small business owners to understand and comply with these new tax rules better.

Furthermore, recognizing that cash flow is crucial for any business's survival and growth, especially in its initial stages, the government announced a two-year interest subvention scheme in December 2018. Under this scheme, MSMEs availing loans up to Rs. 1 crore would receive an additional interest rebate of 2% from lending institutions approved by Small Industries Development Bank of India (SIDBI).

Future prospects for SMEs under GST in India

The implementation of Goods and Services Tax (GST) in India has brought about significant changes and benefits for Small and Medium-sized Enterprises (SMEs). This new tax system has simplified the complex tax structure of the country by integrating multiple indirect taxes into a single unified tax, which is expected to have a positive impact on the future growth prospects of SMEs.

One of the major advantages of GST for SMEs is the ease of doing business. Under the previous tax regime, small businesses had to comply with various state-level taxes, leading to high compliance costs and administrative burden. With GST, all indirect taxes are now subsumed into one single tax, making it easier for SMEs to understand and comply with taxation laws. This has reduced their time and effort spent on tax-related matters, allowing them to focus more on their core business activities.

Moreover, GST has also brought about greater transparency in the taxation system which was marred by corruption and leakages earlier. The introduction of an online portal for registering, filing returns and making payments has made the process more streamlined and transparent. This means that businesses can now be assured that they are paying accurate taxes without any fear of harassment from corrupt officials.

Another major advantage that GST offers to SMEs is increased competitiveness. With a uniform tax structure across states, there will be a level playing field for businesses operating in different parts of the country. Earlier, due to varying tax rates in different states, some SMEs were at a disadvantage as they could not compete with larger players who had better resources to manage compliance costs. But now, with uniform taxation rules under GST, these small businesses can operate at par with large corporations without being burdened by high taxes.

Research objective

The main aim of this study is to understand the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The introduction of GST in July 2017 was one of the biggest tax reforms in the country, with the purpose of simplifying the taxation system and promoting ease of doing business.

There are followings objectives on this study

- To examine the awareness and knowledge of SMEs about GST and its implications on their businesses.
- To determine the challenges faced by SMEs in complying with GST regulations.
- To analyse the impact of GST on the profitability and competitiveness of SMEs.
- To identify the changes in business operations and strategies adopted by SMEs post-GST implementation.
- To investigate the support systems available to SMEs for navigating through the GST regime.

Hypothesis

H0: The cost of compliance with GST regulations has not affected the financial stability of small businesses.

H1: The cost of compliance with GST regulations has negatively affected the financial stability of small businesses.

Research methodology

The implementation of GST has had a significant impact on all sectors of the economy, especially small and medium enterprises (SMEs). SMEs play a crucial role in India's economy, contributing to around 30% of the country's GDP and employing approximately 110 million people. This research aims to study the impact of GST on SMEs in India. The methodology involved for this research will be based on both primary and secondary data collection methods. The primary data will be collected through surveys administered to SME owners, managers, and employees across various industries. These surveys will gather information related to their understanding, experiences, challenges faced under GST implementation, changes in business operations and costs incurred. In addition to primary data collection, secondary sources such as government reports, journals articles, news articles and published studies on GST will also be consulted for relevant information. Various statistical analysis techniques like graphs and charts will be used to interpret the data gathered from both primary and secondary sources.

Research question

- How has the implementation of GST affected the overall growth and development of SMEs in India?
- What are the key challenges faced by SMEs in adapting to the new GST regime?
- What is the perception of SME owners about the ease of doing business under GST compared to previous tax systems?
- How have cash flow and working capital management been affected for SMEs post-GST?
- How has digitalization and automation helped or hindered SMEs' transition to a standardised tax system like GST?

Data collection

The implementation of Goods and Services Tax (GST) in India has been one of the most significant tax reforms in the country. It aims to streamline and unify the indirect taxation system, simplifying compliance and boosting economic growth. While it has had a positive impact on larger businesses, the effect on Small and Medium Enterprises (SMEs) remains a topic of debate. In order to understand the impact of GST on SMEs in India, extensive data collection

was carried out using both primary and secondary sources. Primary data was collected through surveys conducted among SME owners across various industries such as manufacturing, services, retail, etc. The surveys asked specific questions related to their experience with GST, its benefits or challenges faced by them since its inception. Secondary data was collected from government reports, published articles, industry journals and other relevant sources focusing on GST's impact on SMEs.

Methods of data analysis and data interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

Data discussion

The implementation of Goods and Services Tax (GST) in India has been a major reform in the country's tax system, with aims to simplify and unify the indirect taxes levied on goods and services. While this reform has brought about several benefits for businesses such as reduced compliance costs and easier movement of goods across state borders, it has also had a significant impact on small and medium enterprises (SMEs). One key aspect that needs to be discussed when talking about the impact of GST on SMEs is its effect on their profitability. For many SMEs, the cost of compliance with various taxation laws was already high, and under GST there are additional costs involved such as filing returns online, registering under multiple states, etc.

Findings

The implementation of Goods and Services Tax (GST) in India has been a major economic reform, aiming to streamline the indirect tax system by replacing multiple state and central taxes with a single unified tax. While this was expected to bring about significant changes across various sectors, its impact on Small and Medium Enterprises (SMEs) has been a subject of great interest. SMEs play a crucial role in driving economic growth and creating employment opportunities, making it essential to understand how they have been affected by GST.

There are followings findings on this study

- SMEs have faced a decrease in their profitability since the implementation of GST.
- The increased compliance burden has been cited as one of the major challenges for SMEs under GST.
- Lack of awareness about new tax laws and procedures is another issue faced by SMEs, leading to errors and penalties.
- Due to limited resources and staff, SMEs find it difficult to keep up with frequent changes in tax rates and regulations under GST.
- There has been a rise in the cost of raw materials due to higher tax rates, affecting the pricing strategy for many SMEs.
- Some sectors like agriculture and food processing have seen a positive impact from GST as it has streamlined their supply chain networks resulting in reduced costs.
- On average, it took an SME around 4-5 months to fully understand and adapt to the new tax system post-GST implementation.
- Many small businesses are struggling with cash flow issues due to delayed refunds from government agencies under GST.

Suggestions

The implementation of Goods and Services Tax (GST) in India has been one of the biggest tax reforms in recent times. While it has brought about many changes for businesses across the country, small and medium enterprises (SMEs) have been particularly affected by this new system. As SMEs form a significant portion of the Indian economy, it is crucial to understand how GST affects them and what measures can be taken to mitigate any negative impact. In this regard, here are ten suggestions on how GST is expected to affect SMEs in India.

There are following suggestions on this study

- Conduct a survey to gather feedback from SMEs about the impact of GST on their businesses.
- Analyze data from previous years to track any changes in the profitability and growth rate of SMEs since the implementation of GST.
- Study how different types of SMEs, such as manufacturing or service-based, have been affected by GST differently.
- Examine if there has been an increase or decrease in compliance costs for SMEs under GST compared to previous tax systems.
- Assess whether small businesses are facing any challenges with regards to understanding and implementing the new tax regime.
- Carry out case studies on successful and struggling SMEs post-GST implementation to identify key factors contributing to their performance.
- Compare the impact of GST on urban vs rural SMEs and determine if there are any discrepancies in terms of benefits or challenges faced by both sectors.
- Investigate if there has been an increase in competition for small businesses within their respective industries due to uniform taxation under GST.

Conclusion

In conclusion, GST has had a significant impact on the growth and development of small and medium enterprises in India. While some challenges have been faced by SMEs during the transition to this new tax regime, overall it has brought positive changes for their businesses. With simplified taxation processes, reduced cost of compliance, increased transparency and wider market access, GST has created a favourable environment for SMEs to thrive. However, there is still room for improvement in terms of addressing concerns such as lower threshold limit for registration and increasing awareness among entrepreneurs about GST regulations. Overall, the implementation of GST has boosted the Indian economy and positioned SMEs on a path towards sustainable growth in the long run.

Limitations of study

Despite the valuable insights provided by this study, there are certain limitations that need to be acknowledged. Firstly, due to time and resource constraints, the sample size for this study was limited which could have affected the generalizability of the findings. The research was conducted only in select regions of India which might not represent the larger population of SMEs in different parts of the country. Moreover, as GST is a relatively new taxation system in India, there is limited past data available for comparison and analysis. This makes it difficult to

accurately measure its impact on SMEs over a period of time. The study also relied heavily on survey responses from business owners and managers, which may be subject to bias or inaccurate reporting.

References

1. Mohamed R, Dr. M.D. Chinnu, A Study on Impact of GST On Small medium Business Enterprises In India, 2025, 11(4).
<https://ijsart.com/public/storage/paper/pdf/IJSARTV11I4103334.pdf>
2. RS Reena, A Study on Impact of GST on MSME, 2024, 12(5).
<https://www.ijcrt.org/papers/IJCRT2405952.pdf>
3. Dr Kanimozhi, A Study on Impact of GST on MSME in India, 2023:4(2):859-864.
<https://ijrpr.com/uploads/V4ISSUE2/IJRPR9975.pdf>
4. Dr. J. Rani, Anitha, A Study on Impact of GST on Small Enterprise with Reference to Chennai City, 2023, 10(4).
<https://tijer.org/tijer/papers/TIJER2304220.pdf>
5. Ms. Deepti Daga, Impact of GST on Small Business Enterprises, 2019, 6(2).
<https://www.jetir.org/papers/JETIRY006081.pdf>
6. Mukhlis I, Utomo SH, Soesetio Y. "The Role of Taxation Education on Taxation Knowledge Its Effect on Tax Fairness as well as Tax Compliance on Handicraft SME Sector in Indonesia". *International Journal of Financial Research*, 2015:6(4):161-169.
7. Boonyarat N, Sofian S, Wadecharoen W. "The Antecedents of Tax Payer Compliance Behaviour Effectiveness of Thai Local Government Levied Tax". *IBT Journal of Business Studies*, 2014:9(1):23-39.
8. Ms. Rani Jacob Research Scholar, Research P G Department of Commerce, Marian College Kuttikkanam, *Imperial Journal of Interdisciplinary Research (IJIR)*, 2017:3(10):2454-1362.
<http://www.onlinejournal.in> Page 87.
9. R. Lavanya Kumari. Impact of goods service tax (GST) on Indian MSME. *International Journal of Research in Economics Social Sciences*, 2017:7(7):334- 348.
10. Rani Jacob, the impact of goods service tax on the micro, small medium enterprises. *Imperial Journal of Interdisciplinary Research*, 2017:3(10):86- 66.
11. Dr. I. Siddiq, Dr. K. Sathya Prasad. Impact of GST on micro, small medium enterprises. *Journal of Management Science*, 2017:(S1):180-183
12. Hasseldine J, Holland K, Rijt PV. "The management of tax knowledge". London: The Association of Chartered Certified Accountants, 2009.