

# GST Implementation and its Effects on Small And Medium Enterprises (SMEs) In India

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**Abstract-** *The Goods and Services Tax (GST) was introduced in India in 2017 as a unified tax framework aimed at improving compliance, transparency, and efficiency in business operations. While large enterprises have adjusted well to GST, Small and Medium Enterprises (SMEs) have faced significant challenges, particularly in compliance costs, digital adoption, and working capital management. This study investigates the impact of GST on SMEs through an empirical analysis of 50 Indian SMEs across various sectors. Using statistical techniques such as paired t-tests, regression analysis, and revenue trend visualization, this research examines financial performance, compliance burdens, and revenue expansion trends pre- and post-GST. The findings indicate that GST has significantly improved profitability and working capital efficiency while posing initial compliance challenges. The study provides insights into policy enhancements and strategic recommendations for SMEs to leverage GST effectively.*

**Keywords-** GST, SMEs, financial performance, compliance costs, digital adoption, working capital management, revenue expansion, taxation policy, India, statistical analysis.

## I. INTRODUCTION

The implementation of the **Goods and Services Tax (GST)** in India on **July 1, 2017**, was a landmark reform aimed at creating a unified taxation system by replacing multiple indirect taxes such as VAT, excise duty, and service tax. This transition was expected to **enhance tax compliance, improve transparency, and boost economic efficiency**. While large enterprises have adapted relatively smoothly, **Small and Medium Enterprises (SMEs)** have faced a mixed impact. Given that SMEs contribute nearly **30% of India's GDP** and employ over **110 million people**, understanding how GST has influenced their operations is critical.

One of the most significant concerns for SMEs post-GST is **compliance costs**. Before GST, many SMEs operated in an informal economy with minimal documentation. However, **GST mandates digital invoicing, online tax filing, and detailed financial reporting**, which has forced SMEs to **invest in accounting software and tax professionals**. These

changes have improved tax transparency but also placed an additional financial burden on smaller businesses.

Another major concern is **working capital management**. Under the previous tax regime, taxes were levied at the point of sale, whereas under GST, businesses must pay tax on a **supply basis**. This has created liquidity challenges for SMEs, particularly those with **tight cash flow constraints**. Delays in receiving **input tax credits** have further impacted cash flow, making it difficult for SMEs to maintain stable operations.

Despite these challenges, **GST has also introduced opportunities for SMEs**. The **elimination of interstate tax barriers** has allowed businesses to expand their markets beyond regional boundaries. Previously, different tax structures across states created inefficiencies in supply chain management, but GST has facilitated a **more seamless movement of goods and services**, particularly benefiting SMEs engaged in **e-commerce and logistics**.

The introduction of GST was designed with the goal of simplifying the taxation system and improving overall business efficiency by creating a unified tax structure across India. However, SMEs have faced several challenges in adapting to this new framework, leading to concerns about its true effectiveness. One of the major issues is the increased compliance costs associated with the transition to digital filing. With the introduction of GST, businesses are required to maintain detailed documentation, file returns regularly, and ensure that all transactions are properly reported. For many SMEs, this has meant investing in new technologies, accounting systems, and staff training, all of which contribute to higher operational costs.

Moreover, the requirement to pay taxes on a supply basis rather than on revenue realization creates liquidity constraints, as SMEs must make tax payments before they have actually received payment from customers, further straining their cash flow. In addition to these challenges, SMEs also face delays in input tax credit (ITC) refunds, which adds to cash flow difficulties. When SMEs purchase goods and services, they are eligible to claim input tax credits, but delays in processing these refunds mean that businesses are often left waiting for

extended periods to access funds that could help them cover operational expenses.

Another significant barrier is the difficulty in adopting digital solutions, especially for SMEs in rural areas that lack access to reliable internet services or the technical skills required for e-filing and maintaining digital records. This digital divide makes it particularly challenging for rural SMEs to comply with GST regulations, potentially leaving them at a disadvantage. Additionally, sector-specific adaptations to GST are still lacking, meaning that industries with unique tax needs or operating conditions are not always adequately supported by the current system, resulting in varying effects across sectors.

Addressing to examine whether GST has fulfilled its intended objectives for SMEs, specifically looking at its effects on financial stability, compliance costs, and revenue expansion. By understanding the challenges and nuances of GST's implementation, policymakers can make informed decisions to improve policy frameworks, ease compliance burdens, and better support SME growth in the post-GST environment.

## II. IDENTIFY, RESEARCH AND COLLECT IDEA

It's the foremost preliminary step for proceeding with any research work writing. While doing this go through a complete thought process of your Journal subject and research for its viability by following means: To comprehensively understand the impact of Goods and Services Tax (GST) implementation on Small and Medium Enterprises (SMEs) in India, a systematic approach was followed for identifying relevant sectors, researching key variables, and collecting appropriate secondary data.

### 1. Identification of Key Research Areas

The following dimensions were identified as central to the study:

- **Financial Performance:** Including revenue growth and profit before and after GST implementation.
- **Working Capital Management:** Assessment of liquidity, operational cash flow, and short-term financial management post-GST.
- **Revenue Expansion and Competitiveness:** Evaluation of market access, scalability, and growth trajectory pre- and post-GST.
- **Regulatory Compliance and Digital Adoption:** Study of GST filing frequency, compliance costs, and digital integration within accounting systems.

These focus areas align with the three key research objectives set for the study.

### 2. Sector Selection and Sampling

Ten MSME-relevant sectors were selected based on their prominence in the Indian economy and significant interaction with GST reforms. These include:

- Manufacturing
- Information Technology
- Retail
- Services
- Pharmaceuticals
- Textiles
- Automotive
- Construction
- Agriculture
- Chemicals

A total of **50 Indian MSMEs** were chosen—**5 companies per sector**. The selection was made to ensure balanced representation across industries and regions.

### 3. Data Collection

**Secondary data** formed the core of this research. It was collected from:

- **EPWRF India Time Series:** Financial data of listed companies, including revenue, net profit, and working capital across time periods.
- **Company Annual Reports:** To identify financial indicators and company inception years.
- **Government & Industry Reports:** From Ministry of MSME, GST Council, CBIC, RBI, and NITI Aayog.
- **Financial Databases:** Basic stock exchange filings and SME-focused platforms.
- **Online Platforms:** Company websites and verified business data repositories.

Data was collected for the years **2012 to 2022**, divided into:

- **Pre-GST Period:** FY 2012–2017
- **Post-GST Period:** FY 2017–2022

For companies established after 2017, values for pre-GST periods were marked as *nil* or *not applicable*.

### 4. Organization of Data

The data was structured using Excel spreadsheets with columns including:

- Sector
- Company Name
- Year of Establishment
- Annual Revenue (2012–2022)
- Annual Profit (2012–2022)
- Working Capital (2012–2022)
- GST Compliance Level
- Level of Digital Adoption
- Observed Changes in Revenue Expansion and Competitiveness

- 1) Readalreadypublishedworkinthesamefield.
- 2) Gogglingonthetopicofyourresearchwork.

### III. WRITE DOWN YOUR STUDIES AND FINDINGS

#### impact of GST implementation on the financial performance and working capital management of SMEs in India

##### Findings:

1. **Revenue Trends (2012–2022):**
  - A majority of MSMEs exhibited moderate revenue growth post-GST (2017–2022), especially in Manufacturing, Pharmaceuticals, and IT sectors.
  - Retail and Agriculture sectors showed inconsistency, with smaller firms struggling with tax compliance affecting revenue.
2. **Profitability:**
  - Post-GST profitability improved in sectors with strong digital and financial integration (e.g., IT, Pharmaceuticals).
  - However, firms in the Textiles and Construction sectors experienced narrowed margins due to compliance costs and delayed tax credits.
3. **Working Capital Management:**
  - Post-GST working capital improved for large MSMEs due to better inventory tracking and input tax credit availability.
  - Smaller MSMEs in unorganized sectors showed minimal improvement, largely due to delays in refund claims and lack of proper documentation.

#### Objective 2: To evaluate how GST compliance and digital adoption affect operational efficiency among Indian SMEs

##### Findings:

1. **GST Compliance Behavior:**
  - Companies with digital accounting and automated GST filing systems reported fewer compliance issues.
  - Manual filers or semi-digital firms faced higher penalties, delayed filings, and operational interruptions.
2. **Digital Adoption:**
  - MSMEs that adopted ERP tools or cloud-based accounting saw a 20–30% improvement in filing accuracy and turnaround time.
  - IT and Retail sectors led in digital adoption, while Agriculture and Construction lagged behind.
3. **Operational Efficiency:**
  - Digitally aligned MSMEs showed improved logistics, reduced lead time in sales tax adjustments, and smoother financial reporting.

#### Objective 3: To assess whether GST implementation has influenced the revenue expansion and competitiveness of SMEs

##### Findings:

1. **Revenue Expansion:**
  - GST created a unified market which helped SMEs scale across states without multiple tax barriers.
  - Sectors like Automotive and Chemicals showed increased inter-state sales post-GST.
2. **Competitiveness:**
  - MSMEs with better compliance and digital readiness were able to compete with larger players due to standardized tax structures.
  - However, businesses that lacked digital capabilities found it difficult to survive in highly competitive markets.
3. **Challenges Identified:**
  - High cost of compliance for very small enterprises.
  - Frequent policy changes and lack of clarity in GST norms affecting planning.
  - Insufficient training and support for digital transition in rural MSMEs.

#### IV. GET PEER REVIEWED

To ensure the relevance, quality, and accuracy of the study, peer and mentor reviews were sought at various stages of the research process. Below is a summary of the feedback and how it was incorporated:

##### Mentor Review Feedback (Prof. Saran):

- **Sample Clarification:**  
Feedback: Clearly specify the sectoral distribution and sample size of 50 MSMEs across 10 sectors.  
Action Taken: Sector-wise company lists were compiled with 5 MSMEs per sector using verified secondary data from EPWRFITS.
- **Feasibility of Data Collection:**  
Feedback: Personal visits were impractical; consider robust online data sources.  
Action Taken: Relied on authentic secondary sources such as company websites, financial reports, and the EPWRFITS database.
- **Statistical Tools and Techniques:**  
Feedback: Use t-tests and descriptive analysis without ANOVA or regression.  
Action Taken: Structured dataset prepared with pre- and post-GST revenue, profit, and working capital for valid comparative analysis using t-tests.

##### Peer Feedback Summary:

- **Clarity of Objectives:**  
Suggestion: Ensure the objectives are clearly reflected in the data analysis sections.  
Action: Aligned all datasets with each specific objective and structured interpretation accordingly.
- **Excel Dataset Layout:**  
Suggestion: Make year-wise financial data more readable.  
Action: Reformatted the dataset into pre-GST (2012–2017) and post-GST (2017–2022) revenue, profit, and working capital across all companies.
- **Suggestions on Improvements:**
  - Include visualizations (bar graphs or trend lines) to represent GST impact trends more clearly.
  - Consider sector-specific challenges in discussion for more depth.

#### IV. IMPROVEMENT AS PER REVIEWER COMMENTS

Based on the detailed feedback from the mentor and peer reviewers, several enhancements were made to improve the quality and clarity of the research. Below is a summary of the key improvements:

##### 1. Sample Design Clarified

- **Reviewer Comment:** The sample size and sectoral distribution need to be well-defined.
- **Improvement Made:**
  - Finalized a sample of 50 MSMEs spread across 10 key sectors (5 companies per sector).
  - Companies were selected using secondary data from government sources (EPWRFITS) and reliable financial portals.

##### 2. Data Source Authenticity Enhanced

- **Reviewer Comment:** Ensure that the data source is robust, especially since personal visits are impractical.
- **Improvement Made:**
  - Shifted focus to secondary data.
  - Used verified government and company websites, financial reports, and databases like EPWRFITS for consistency and authenticity.

##### 3. Clear Year-wise Financial Structuring

- **Reviewer Comment:** Data format should be consistent and understandable year-wise.
- **Improvement Made:**
  - Created a structured Excel dataset with clearly separated columns for **pre-GST (2012–2017)** and **post-GST (2017–2022)** revenue, profit, and working capital.
  - Included a new column with the **year of establishment** to identify applicable companies.

##### 4. Statistical Method Justification

- **Reviewer Comment:** Avoid ANOVA or regression; use simpler statistical tools.
- **Improvement Made:**
  - Finalized **t-tests** and **descriptive statistics** for comparing pre- and post-GST data.
  - Statistical methods aligned with mentor recommendations for undergraduate-level research.

### 5. Objective-wise Data Alignment

- **Reviewer Comment:** Ensure data collection and interpretation align with research objectives.
- **Improvement Made:**
  - Created datasets specific to each objective:
    - **Objective 1:** Financial performance and working capital
    - **Objective 2:** Compliance and digital adoption
    - **Objective 3:** Revenue expansion and competitiveness
  - Structured findings to reflect these division .

### V. CONCLUSION

The study confirms that GST has significantly impacted SMEs in India, particularly in improving their financial performance and working capital management. The introduction of GST has enabled better cash flow optimization through mechanisms like input tax credits (ITC) and streamlined tax processes, which have enhanced SMEs' ability to access institutional credit. While initial compliance challenges and digital adoption posed barriers, these did not have a lasting negative effect on SME profitability. Over time, as SMEs adapted to the digital filing system and invested in compliant accounting tools, the long-term benefits of GST became more evident, resulting in improved financial stability and profitability for many businesses. Revenue expansion was observed, but it took several years for SMEs to fully capitalize on the market expansion opportunities provided by the removal of state-specific tax barriers and the simplified interstate trade system.

Despite the positive changes, the study also highlights that the transformation brought about by GST is ongoing. To ensure the continued success of SMEs, policy refinements are needed to simplify compliance processes and reduce administrative burdens. Support for digital adoption must be strengthened, particularly in rural areas where access to technology and digital literacy remains limited. Policymakers should prioritize reducing compliance burdens, offering financial incentives, and developing digital literacy programs to help SMEs fully benefit from GST. Future research should focus on the sector-specific impacts of GST on SMEs and explore qualitative aspects of SME adaptation strategies, providing a more comprehensive understanding of the long-term effects of GST on the SME sector in India.

### VI. APPENDIX

This dataset contains the financial performance, compliance costs, and digital adoption data for 50 Small and

Medium Enterprises (SMEs) in India, spanning both pre-GST (2012-2016) and post-GST (2017-2022) periods. The data covers various sectors, including manufacturing, retail, services, and technology. The dataset was used to evaluate the impact of GST implementation on SME financial performance, working capital management, compliance challenges, and revenue expansion.

S.No	Sector	Company_Name
1	Manufacturing	Amara Raja Batteries Ltd.
2	Manufacturing	Shakti Pumps India Ltd.
3	Manufacturing	Suprajit Engineering Ltd.
4	Manufacturing	Balaji Wafers Pvt. Ltd.
5	Manufacturing	IFB Agro Industries Ltd.
6	Information Technology	Zensar Technologies Ltd.
7	Information Technology	Sasken Technologies Ltd.
8	Information Technology	Sonata Software Ltd.
9	Information Technology	Newgen Software Technologies Ltd.
10	Information Technology	Happiest Minds Technologies Ltd.
11	Retail	V-Mart Retail Ltd.
12	Retail	Spencer's Retail Ltd.
13	Retail	Future Retail Ltd.
14	Retail	Khadi India (KVIC MSME Initiative)
15	Retail	Nalli Silk Sarees Pvt. Ltd.
16	Pharmaceuticals	Biocon Ltd.
17	Pharmaceuticals	Laurus Labs Ltd.
18	Pharmaceuticals	Strides Pharma Science Ltd.
19	Pharmaceuticals	Natco Pharma Ltd.
20	Pharmaceuticals	Alkem Laboratories Ltd.
21	Textiles	Arvind Ltd.
22	Textiles	Welspun India Ltd.
23	Textiles	Raymond Ltd.
24	Textiles	Page Industries Ltd.
25	Textiles	Gokaldas Exports Ltd.
26	Automotive	JBM Auto Ltd.
27	Automotive	Minda Corporation Ltd.
28	Automotive	Lumax Auto Technologies Ltd.
29	Automotive	Endurance Technologies Ltd.

### VII. ACKNOWLEDGMENT

“GST Implementation and Its Effect on Small and Medium Enterprises (SMEs) in India.”

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