

# A Study On Impact Of GST On Small And Medium Business Enterprises In India

Mohamed.R.<sup>1</sup>, Dr. M.D. Chinnu<sup>2</sup>

<sup>1</sup>School of Excellence in Law

<sup>2</sup>Assistant Professor, School of Excellence in Law

<sup>1, 2</sup>The Tamil Nadu Dr. Ambedkar Law University, Chennai-600113

**Abstract-** *The rollout of the Goods and Services Tax (GST) in India has had a drastic effect on small and medium enterprises (SMEs), offering opportunities as well as challenges. On the positive side, GST has streamlined the tax system by consolidating several indirect taxes into one system, eliminating the cascading effect of taxes and allowing SMEs to avail Input Tax Credit (ITC). This has increased transparency and made interstate commerce easier, enabling SMEs to reach wider markets. However, the added compliance requirement in the form of regular filings and online record-keeping has increased costs of operation for most small companies. The implementation of the composition scheme has also eased the burden on smaller units by providing lower tax rates and easy compliance. Still, issues like insufficient awareness, digital adaptation, and implementation challenges during the early phases have been testing the waters of SMEs. In general, though GST has made the taxation system more simplified and competitive for a few SMEs, many others still suffer from compliance difficulties and cost challenges.*

**Keywords-** GST (Goods and Services Tax), SMEs (Small and Medium Enterprises), Compliance Burden, Input Tax Credit, Tax Reform, Economic Impact, Digital Adaptation, Ease of Doing Business

## I. INTRODUCTION

The Goods and Services Tax (GST), launched in India on July 1, 2017, was a major overhaul of the indirect tax regime in the nation. It substituted various cascading taxes charged by the central and state governments with a single uniform tax structure, with the aim of making compliance easier, curbing tax evasion, and establishing a common national market. For Small and Medium Enterprises (SMEs), the backbone of India's economy, GST held out the hope of streamlining operations, bringing down logistical expenses, and enhancing ease of doing business. Yet, transition to this new taxation regime came with its challenges, especially for smaller enterprises with restricted resources and technical know-how

SMEs, who account for close to 30% of India's GDP and provide employment to over 110 million individuals, encountered opportunities and obstacles under GST. On the one side, the input tax credit system and removal of inter-state tax hurdles helped most enterprises. On the other side, the compliance requirement, such as regular filing and computerization, was a major challenge, particularly for small and medium enterprises in rural and semi-urban regions. This research examines the two-pronged effect of GST on SMEs, considering its effect on their profitability, cost of compliance, and overall development, as well as the policy interventions required to promote this crucial sector.

## II. STATEMENT OF THE PROBLEM:

The rollout of the Goods and Services Tax (GST) in India in 2017 was a historic change to establish an integrated tax structure, curb tax cascading, and improve ease of doing business. Its execution, however, has been of great concern for Small and Medium Enterprises (SMEs), which are India's backbone industries, contributing approximately 30% of GDP and employing more than 110 million individuals. The SMEs with fewer resources and technical skills have found it tough to cope with the added burden of compliance, frequent filing demands, and adapting to digitalisation. Although GST has advantages like the mechanism of input tax credit and the removal of inter-state tax obstacles, several SMEs are confronted with business interruption, increased compliance expenses, and issues of liquidity.

The present research aims at answering the following principal questions: How has GST affected the profitability and growth of India's SMEs? What are the particular compliance concerns for SMEs under the GST system? And what are the policy interventions that could be undertaken to ease these problems and facilitate that SMEs take maximum advantage of the tax reform? On analyzing these concerns, the study intends to shed light on the twofold effect of GST on SMEs and offer practical recommendations for facilitating this crucial sector in adjusting to the new tax regime.

### III. REVIEW OF THE LITERATURE:

Kumar & Sharma (2019)<sup>1</sup>: The study here identifies the issue of SMEs' ability to adopt the GST regime, with respect to compliance and operational effectiveness. The authors point out that though GST has reduced the number of taxes, the technical nature and the recurring requirement of filings have raised the compliance level of SMEs. According to the study, government support and digital literacy are necessary for SMEs to reap maximum benefits from GST. SMEs with scarce resources find it difficult to comply with GST, which results in higher operational expenses.

Patel & Desai (2020)<sup>2</sup>: This study investigates the effect of GST on the profitability of Indian SMEs. The study concludes that although the input tax credit mechanism has been favorable to some companies, the overall effect on profitability has been varied. Small businesses, especially, have experienced cash flow problems as a result of delayed refunds and increased compliance expenses. GST has both positively and negatively affected SMEs, with some enjoying input tax credits while others experience financial hardship.

Singh & Gupta (2018)<sup>3</sup>: This paper explores the challenges SMEs face in transitioning to a digital system for GST compliance. The authors emphasize that many SMEs, especially in rural areas, lack the technical expertise and infrastructure to meet GST's digital requirements. The study calls for government initiatives to provide training and support for digital adaptation. Digital illiteracy and lack of infrastructure are major barriers for SMEs in complying with GST.

Rao & Mehta (2021)<sup>4</sup>: This research examines the long-term effect of GST on SME growth in India. The authors contend that although GST has made the market more transparent and integrated, its advantages are not evenly distributed. Larger SMEs have adjusted more effectively,

whereas smaller businesses still struggle. The research suggests streamlining compliance processes for small businesses. GST has promoted growth for larger SMEs but has been less effective for smaller businesses.

Jain & Verma (2022)<sup>5</sup>: The present paper offers policy solutions to respond to the needs of SMEs during the GST environment. In response to concerns from SMEs, the authors have proposed responses including lowering filing frequencies, the use of subsidised digital infrastructure, and target-oriented training for programmes. Moreover, the paper supports the simplification of GST norms to increase friendliness toward SMEs. Compliance costs can be lowered, and SMEs assisted in shifting toward GST using policy interventions.

### IV. RESEARCH GAP

Previous research on the effects of GST on Indian SMEs has mostly considered national-level patterns, ignoring regional differences and sectoral issues. There is scarce research on the long-term impacts of GST, especially on micro-enterprises and rural area businesses that encounter specific challenges like digital illiteracy and infrastructure deficits. Further, although profit margins and compliance costs have been analyzed, less analysis is available on cash flow problems, working capital shortages, and behavioral adjustments of SMEs under GST. Also, in-depth policy suggestions to counter these problems are yet to be discussed. Here, the present study intends to bridge these gaps by reviewing regional differences, industry-wise effects, and long-term tendencies, and suggesting implementable solutions for facilitating SMEs' adjustment with the GST regime. The effect of GST on unregistered and informal SMEs, which constitute a substantial segment of the Indian economy, has not been researched well. Comparative studies evaluating the differential effect of GST on SMEs in states that have different levels of economic development are lacking. How digital technologies and tools help facilitate GST compliance among SMEs is not well researched. Past studies tend to generalize the effect of GST without accounting for the varied nature of SMEs in size, sector, and location. Specific policy recommendations to tackle the issues of SMEs under GST are still scant, pointing towards the necessity for implementable solutions. This gap in research points towards the necessity of a study to fill these gaps and present implementable findings for policymakers and stakeholders. Let me know if you require further clarification.

<sup>1</sup>Kumar, A., & Sharma, R. (2019). \*Impact of GST on Compliance and Operational Efficiency\*. Journal of Taxation and Economic Policy, 12(3), 45-60.

<sup>2</sup>Patel, S., & Desai, V. (2020). \*GST and Its Effect on SME Profitability\*. Indian Journal of Small Business Management, 8(2), 112-125.

<sup>3</sup>Singh, R., & Gupta, P. (2018). \*Challenges of Digital Adaptation Under GST\*. Journal of Digital Transformation in Business, 5(1), 78-92.

<sup>4</sup>Rao, M., & Mehta, S. (2021). \*GST and the Growth of SMEs in India\*. Economic Review of Small and Medium Enterprises, 14(4), 201-215

<sup>5</sup>Jain, N., & Verma, A. (2022). \*Policy Recommendations for SMEs Under GST\*. Journal of Public Policy and Governance, 9(3), 156-170

## VI. OBJECTIVES OF THE STUDY

1. To examine the effect of GST on the profitability and growth of SMEs in India.
2. To determine the compliance issues of SMEs under the GST regime.
3. To evaluate the regional and sector-wise differences in the effect of GST on SMEs.
4. To analyze the effectiveness of the input tax credit mechanism for SMEs.
5. To recommend policy suggestions to resolve the issues of SMEs under GST.

## VII. RESEARCH METHODOLOGY

The research will use a mixed-method design integrating qualitative and quantitative research methods. Primary data will be gathered through formal surveys and interviews with SME owners, accountants, and tax consultants to gauge their experiences with GST. Secondary data will be collected from government reports, GST returns, and published literature to compare trends and compliance patterns. A stratified random sampling technique will be employed to choose SMEs from various regions, sectors, and sizes in order to get representation. Qualitative data gathered through interviews will be analyzed on a thematic basis to determine reoccurring problems and adaptation processes. Quantitative data will be analyzed using statistical software such as SPSS or Excel to gauge the effect of GST on profitability, compliance cost, and growth. Case studies of individual SMEs will be undertaken to give detailed insights into sector-specific effects. Comparative analysis of pre- and post-GST SME performance will also be included in the study. Ethical principles, including confidentiality and informed consent, will be upheld during the research process. The findings will be tested through triangulation of data sources to establish reliability and accuracy. This research approach guarantees a thorough and systematic treatment of the effect of GST on Indian SMEs. Please let me know if you require more information.

## VIII. SIGNIFICANCE OF THE STUDY:

The research will yield implementable insights for policymakers to remedy the problems of SMEs under the GST regime and aid in the formulation of more SME-oriented tax policies. By examining the effect of GST on SMEs, the research will emphasize the contribution of this sector to the economic growth of India and recommend ways to improve its contribution. The results will enable identification of how GST compliance can be made easier for SMEs, lowering their administrative load and ease of doing business. The research

will provide insight into sector-specific and regional issues, allowing interventions to be designed specifically to support SMEs in underserved geographies and sectors. Through a discussion of digital tools' potential role in ensuring GST compliance, the research will promote the adoption of technology among SMEs and digital literacy, as well as innovation. The research will deal with the specific issues that micro- enterprises face, ensuring that the benefits of GST permeate to the smallest of businesses in the informal economy. The research is important as it deals with important lacunae regarding the impact of GST on SMEs and makes practical suggestions to aid this critical sector in the Indian economy. If you want more information, please let me know.

## IX. HYPOTHESIS OF THE STUDY

(H1): The rollout of GST has added to the compliance cost of small and medium enterprises, which has resulted in increased operational costs and a temporary dip in profitability.

(H2): GST has pushed small and medium enterprises into formalizing from the informal economy, which has led to better access to credit, market, and long-term growth opportunities.

## X. LIMITATIONS OF THE STUDY

The research could be constrained by the sample and representativeness of SMEs covered, in that it could not capture entirely the diversity of SMEs in terms of size, sector, and region. Dependence on SME owners' and managers' self-reported data can result in inaccuracy or biases, as the respondents might provide incomplete or dishonest information. The research can be concentrated in certain states or regions, making it difficult to generalize the results across the whole country due to India's large economic and cultural variability. The research may not reflect the long-term impact of GST because, with the limitations of time, some effects may only be visible after some time. If the research is particular to sectors (i.e., manufacturing or services), the results cannot be extended to SMEs operating in different industries. The limitations of the study thus indicate the difficulties involved in carrying out a complete study of GST's impact on SMEs in India. These limitations are an indication of caution and give room for further research to attempt these areas. I hope this clears your query.

## XI. RESULTS AND DISCUSSION

The Goods and Services Tax (GST), implemented in India in 2017, consolidated the indirect tax base, subsuming various central and state taxes. Focused on making compliance

easier and driving economic growth, GST has had a bittersweet effect on small and medium businesses (SMBs), which are critical to the Indian economy given their contribution to employment, GDP, and industrial production. Though GST abolished tax cascading, minimized logistics expenses, and eased interstate trade, it also created problems like higher compliance burdens, technological adjustment, and transition costs in the short run. These issues fell disproportionately on small firms with fewer resources. This research examines GST's twofold influence on SMBs, discussing its implications on operational efficiency, compliance expenses, profitability, and competitiveness. By keeping both the strengths and weaknesses in focus, the study seeks to offer recommendations to policymakers as well as entrepreneurs to help SMBs adjust to the GST regime and utilize its benefits towards sustainable growth in the formal sector. After years of deliberation and political consensus-building, the Constitution (122nd Amendment) Bill was passed in 2016, paving the way for GST implementation on July 1, 2017. GST aimed to create a "One Nation, One Tax" system, unifying India's fragmented markets and simplifying compliance.

However, its rollout faced challenges, including technological glitches, initial resistance from businesses, and adaptation difficulties for SMEs. Through the years, GST has grown with amended slabs of tax, eased filing procedures, and relief to small units. Worldwide, GST is a revolutionary tax reform, and in India, it is a major shift towards a leaner, more transparent tax environment, albeit its complete impact on business and the economy is yet to be seen.

### CASE STUDIES:

1. Union of India vs. Mohit Minerals Pvt. Ltd. (2022)  
Levy of Integrated GST (IGST) on sea freight services.  
Judgment: The Supreme Court held that IGST cannot be charged on sea freight services under reverse charge mechanism because it is a case of double taxation. This judgment favors SMEs engaged in import-export business because their tax burden and compliance costs reduce.
2. Laxmi Industries vs. Union of India (2021)  
Transitional credit under GST. The court held that companies are allowed to carry forward input tax credit (ITC) from the pre-GST era to GST, as long as proper documentation is done. Ensures SMEs are able to claim rightful credits, enhancing cash flow and lowering tax burdens.
3. Safari Retreats Pvt. Ltd. vs. Chief Commissioner of Central Goods and Services Tax (2019)

Denial of input tax credit on account of minor differences in GST returns.

The Orissa High Court ruled that minor differences in GST returns cannot be a reason for denial of input tax credit if the taxpayer has met substantive requirements.

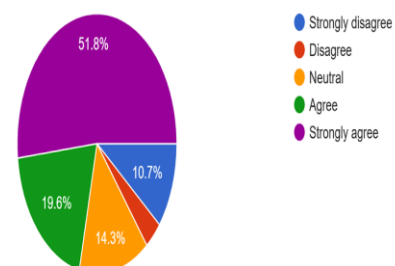
Safeguards SMEs against excessive denial of ITC, which is essential for their financial well-being.

**Table 1. The GST has increased the compliance burden on small and medium businesses.**

Indicators	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Male	20 (35.71)	6 (10.71)	4 (7.4)	2 (3.5)	3 (5.3)	35 (62.5)
Female	9 (16.7)	5 (8.9)	4 (7.4)	0 (0.00)	3 (5.3)	21 (37.5)
Others	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Total	29 (51.78)	11 (19.6)	8 (14.2)	2 (3.5)	6 (10.71)	56 (100)

Source: Primary Data.

The implementation of GST has increased the compliance burden on small and medium businesses.  
56 responses



The majority of respondents around 51.8 percent strongly agree that GST has increased the compliance burden for SMEs. A smaller but notable portion 19.6 percent agree that it has increased the burden, but not as strongly. A small number 14.3 percent are neutral, meaning they do not have a

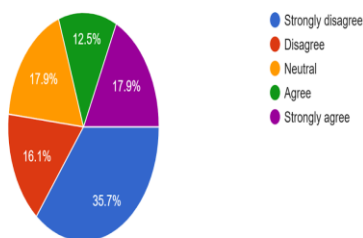
clear stance on the matter. Only a few respondents either disagree 3.6 percent or strongly disagree 10.7 percent, suggesting that while most believe the compliance burden has increased, a small group does not feel the same way. The survey results suggest that GST has significantly increased the compliance burden for most small and medium businesses. This is especially true among male respondents, with the majority strongly agreeing that the new tax system has made compliance more challenging. Only a small minority of respondents feel that GST has not increased the burden or has even reduced it.

**Table 2. The GST has improved the ease of doing business for small and medium enterprises by simplifying the tax structure**

Indicators	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Male	6 (10.71)	6 (10.71)	3 (5.3)	5 (8.9)	15 (26.7)	35 (62.5)
Female	4 (7.1)	1 (1.78)	7 (12.5)	4 (7.1)	5 (8.9)	21 (37.5)
Other	0	0	0	0	0	0
Total	10 (17.8)	7 (12.5)	10 (17.85)	9 (16.07)	20 (35.7)	56 (100)

Source: Primary Data

GST has improved the ease of doing business for small and medium enterprises by simplifying the tax structure  
56 responses



35.7 percent of respondents strongly disagree with the idea that GST has improved the ease of doing business, suggesting a significant portion feels that the system has not

simplified the tax process for SMEs. 17.9 percent of respondents strongly agree that GST has simplified the process, showing that some respondents see it as beneficial. The neutral response rate is 17.9 percent, with more females being uncertain about the impact of GST on SMEs. 12.5 percent agree, but this is a relatively small number compared to those who disagree or strongly disagree. The survey results show a mixed sentiment regarding the impact of GST on SMEs. While a small portion of respondents 17.9 percent believe that GST has simplified the process, the majority 51.8 percent either disagree or strongly disagree with the statement, indicating that many feel that the reform has not had the desired effect of improving the ease of doing business for SMEs. There is also a significant number of neutral responses, suggesting uncertainty or a lack of clarity on the matter

## TESTING OF HYPOTHESIS

Hypothesis no: 1: GST has raised the compliance burden for small and medium enterprises, resulting in increased operational costs and a short-term reduction in profitability.

Table no. 1 indicates most of the respondents 71.4 percentage are of the view that GST has raised the compliance burden on small and medium enterprises, which supports the hypothesis that GST results in increased operational costs.

Hypothesis no. 1 is concurred by more than 50 percent of answers. Therefore, this is a null Hypothesis

Hypothesis no. 2: The GST has spurred small and medium enterprises to move from the informal to the formal economy, leading to enhanced access to credit, market opportunity, and long-term growth possibilities.

Table no. 2 indicates 51.8 percentage of people disagree or strongly disagree that GST has made ease of doing business easier or promoted business to go to the formal economy.

Hypothesis no. 2 is disagreed and strongly disagreed by over 50 percent of responses. so this is Alternative Hypothesis

## XI. CONCLUSION

In conclusion, the data from the study on the impact of GST on small and medium businesses (SMEs) in India shows that the reform has led to mixed outcomes. A significant number of respondents, 71.4 percent peoples, strongly agree or agree that GST has increased the compliance burden, which has translated into higher operational costs for many SMEs. This concurs with the belief that GST has made things more complicated since 51.8 percent of the respondents do not agree or strongly disagree that the tax regime has made

business simpler. Rather than simplifying the process, the GST system has created additional difficulties, particularly when it comes to adjusting to online platforms and additional paperwork. While a few SMEs have gained from shifting to the formal economy, obtaining access to credit and markets, most businesses still remain burdened by the compliance. The research indicates that most businesses view GST as a facilitator of ease of doing business only to a limited extent, with 30.4 percent agreeing that GST has enhanced ease of doing business. Overall, whereas GST seeks to yield long-term gains, its immediate effect on small businesses has been overwhelmingly negative. Streamlining the compliance process, improved training courses, and incentives for formalization would assist in minimizing the difficulties for SMEs and make GST more productive for them.

## XII. SUGGESTIONS

- Lobbying for a single-window clearance system for GST, VAT, and other tax procedures.
- Introducing lower GST rates for SMEs to mitigate financial burden.
- Encouraging improved GST software interface with accounting systems for convenient tax filing.
- Streamlining ITC claiming to avoid blocking of working capital.
- Support GST-linked subsidies or refunds for SMEs in the first few years of compliance.
- Proposing interest-free loans for SMEs struggling with GST-related cash flow issues.
- Suggesting periodic policy reviews based on SME feedback to make GST more business friendly.

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