



---

## **A Study on Implementation of Goods & Services Tax in Small Scale Industries**

*Vinushree J Pawar*

PES University

---

### **ABSTRACT**

This study investigates the implementation of Goods and Services Tax (GST) in small-scale industries (SSIs) to analyze the challenges and outcomes of this transition. Using a mixed-methods approach, it combines quantitative data analysis with qualitative insights from industry experts and SSIs, collected through surveys, interviews, and financial statement analysis.

The study reveals that while GST has somewhat streamlined the taxation system, it has also introduced several challenges for SSIs. These challenges include an increased compliance burden, confusion over tax rates and classifications, and difficulties with implementing GST software.

Despite these challenges, the study identifies several positive outcomes of GST implementation in SSIs, such as a more transparent tax system, reduced tax evasion, and increased competitiveness due to the elimination of cascading taxes.

The study recommends policymakers and SSIs simplify the tax structure, provide more training and support, and improve the digital infrastructure for GST compliance. These recommendations highlight the need for ongoing improvements in the GST regime to better support the growth and development of SSIs in India.

---

### **INTRODUCTION**

#### **Background of the topic:**

India's indirect tax system underwent a dramatic change in 2017 with the implementation of the Goods and Services Tax (GST) regime. The objectives of this tax reform were to reduce the cascading impact of taxes, streamline the tax code, and establish a single market for the entire country. Small-scale industries (SSIs) are vital to the Indian economy since they create a large number of jobs and industrial production. Nonetheless, there has been discussion and examination over how GST may affect SSI's.

Micro Small Medium Enterprises (MSMEs), sometimes referred to as small-scale industries (SSIs), are vital to the Indian economy since they provide jobs, drive industrial output, and boost exports.

For the purpose of evaluating the tax reform's efficacy and pinpointing areas for improvement, policymakers, practitioners, and researchers must have a thorough understanding of the history of the GST and how it affects SSIs.

#### **Importance of the topic:**

- Small Scale Industries are important to India's economy, generating a large amount of an employment, manufacturing output and the Gross Domestic Product.
- Goods & Services tax had a significant impact on Small Scale Industries, affecting their competitiveness, efficiency of operations, and amount of the compliance required.
- Small Scale Industries encounter particular difficulties in adhering to the GST, such as comprehending intricate rules, handling working capital, and using digital technologies.
- It helps in examining the Goods & Services Tax is being implemented in Small Scale Industries, policymakers may improve tax laws, assist SSIs, and boost their prospects for expansion.
- Recognizing how the GST has affected SSIs' capacity to compete will help them devise plans to strengthen their position in the market and ensure their long-term viability.

**Theoretical Implication of the topic:**

- **Tax Incidence:** Understanding regarding the allocation of the GST burden across various SSI stakeholders might shed light on the tax reform's financial effects.
- **Costs of Compliance:** The study can provide information on the expenses related to the complying with GST for Small Scale Industries, such as the price of submitting returns, keeping records, and comprehending the tax system.
- **Tax Efficiency:** A theoretical knowledge of indirect tax systems may be enhanced by examining how effective the GST is in lowering tax evasion and increasing revenue collection.
- **Business Behavior:** The research can investigate how Small-Scale Industries have modified their pricing tactics, managing their supply chains, and decisions about investments in reaction to the GST.

**Recent trends related to the topic:**

- **Technology Adoption:** In order to meet the GST regulations, Small Scale Industries are progressively implementing digital instruments and technology, such as electronic filing platforms along with the Goods & Services Tax accountancy software.
- **Difficulties with Compliance:** In spite of attempts to streamline the Goods & Services Tax system, Small Scale Industries still encounter difficulties with compliance because of the intricacy of the tax code and the requirement for frequent updates and modifications.
- **Impact on Competition:** The introduction of GST has resulted in varying effects on the economic viability of SSIs. While certain industries have benefited from the tax system's simplicity, others have encountered difficulties because of the higher costs associated with compliance.
- **Government measures:** To assist Small Scale Industries in compliance with the Goods & Services Tax regimes, the government has introduced a number of the measures. These include training programs streamlined return filling processes, and the incentives for digital payments.

**REVIEW OF LITERATURE**

**Bhalla, N., Sharma, R. K., & Kaur, I. (2024). Investigating the effect of goods and service tax on operational performance, cost efficiency and profit margins of MSMEs. *International Journal of Accounting, Auditing and Performance Evaluation*, 20(1-2), 225-249.**

This research by Bhalla, Sharma, and Kaur (2024) examines how the Goods and Services Tax (GST) influences the operational effectiveness, cost efficiency, and profit margins of Micro, Small, and Medium Enterprises (MSMEs). Against the context of GST introduction in India as a significant tax reform to simplify the indirect tax structure, the study employs quantitative methods to analyze a sample of MSMEs. The results suggest that the GST implementation has varying effects on MSMEs, with some experiencing enhancements in operational performance and cost efficiency, while others struggle to maintain their profit margins. This study contributes new insights to the existing literature on GST and MSMEs, offering valuable information for policymakers and MSME stakeholders. By offering insights into the specific challenges faced by Indian MSMEs following the pandemic, this research provides valuable recommendations for policymakers and stakeholders seeking to bolster the sector's resilience and success.

**Rao, C. B. N., & Neeraja, B. (2018). The Impacts of Goods and Services Tax (GST) on Middle Income Earners in India. *Indian Journal of Public Health Research & Development*, 9(6), 182-187.**

Rao and Neeraja (2018) examine how the implementation of the Goods and Services Tax (GST) in India has affected middle-income earners. Their study, conducted shortly after the GST rollout, aims to understand the impact of this tax reform on individuals with moderate incomes. Using a mix of qualitative and quantitative methods, including surveys and interviews, the research delves into the perceptions and experiences of middle-income earners regarding GST. Results indicate a varied impact, with some viewing GST favorably due to lower tax rates and simpler tax procedures, while others encountered challenges such as increased costs for goods and services. This study offers important insights into how GST has affected middle-income earners, emphasizing the need for targeted policies to address their specific needs and concerns.

**Srivastava, R., & Srivastava, R. (2023). Exploring the Impact of Digital Transformation on Small and Medium-sized Enterprises (SMEs) in India: Opportunities and Challenges. *SAMVAD*, 27, 89-95.** Srivastava and Srivastava (2023) examine how the digital transformation is impacting Small and Medium-sized Enterprises (SMEs) in India, focusing on the opportunities and challenges arising from this shift. Conducted in 2023, the study explores how SMEs are adapting to the increasing digitalization of business processes. Using qualitative methods such as interviews and case studies, the authors analyze the multifaceted effects of digital transformation on SMEs. The research reveals that digitalization offers several advantages for SMEs, including broader market access, streamlined operations, and improved customer interactions. However, SMEs also face significant obstacles, such as the need for substantial investments in digital infrastructure, employee training, and the complexities of managing data security and privacy.

This study adds to the existing body of knowledge on digital transformation in SMEs, providing insights that can assist policymakers and SME owners in leveraging digital technologies effectively. It emphasizes the importance of strategic planning and investment in digital capabilities to enable SMEs to fully exploit the benefits of digital transformation in the Indian context.

**Mukherjee, S. (2021, September). Challenges to Indian micro small and medium enterprises during the post covid era. In *RSEP CONFERENCES* (p. 198).**

Mukherjee (2021) examines the obstacles encountered by micro, small, and medium enterprises (MSMEs) in India during the post-COVID period. Presented at the RSEP Conferences in September 2021, this research focuses on identifying the unique challenges faced by MSMEs as they navigate the aftermath of the pandemic. Through qualitative methods such as interviews and case studies, the study delves into the various difficulties impacting MSMEs during this time. The study reveals a range of challenges, including disruptions in supply chains, decreased consumer demand, financial limitations, and operational hurdles. It emphasizes the importance of targeted policies and support measures to aid MSMEs in their recovery and growth in the post-COVID era.

---

## COMPANY PROFILE

A prominent audit and assurance firm with more than 17 years of experience in the field is Shantharaju & Co Audit Firm. Since its founding, the company has built a solid reputation for offering a wide range of clients superior auditing, accounting, and consultancy services. The Shantharaju & Co Audit Firm has established itself as a reliable business partner for companies in a variety of industries thanks to its team of qualified professionals and dedication to ethics and excellence.

The company is officially registered with the banglore (Karnataka) Registrar Office

Reputable company Shantharaju & Co. offers audit and tax consulting services. Shantharaju & Co was founded with the goal of offering complete financial solutions, and it has been helping clients since [insert year of inception]. The company, headed by Mr. Shantharaju, a seasoned auditor and tax professional with a wealth of industry expertise, takes pleasure in providing top-notch services that are customized to match the various demands of its clients.

This business provides a wide range of services that are tailored to meet each customer's unique needs. Among the services we offer are financial statement auditing, advising offerings, risk assessment, internal audit support, and tax compliance. The firm offers customized solutions and individualized attention to meet the specific needs of our clients, which vary in size from large corporations to medium-sized businesses.

This company takes pride in maintaining the highest standards of professionalism and moral principles. We attach great importance to the statement of independence, objectivity, and confidentiality in all of our interactions. By being up to date with the latest industry regulations and technological advancements, the firm ensures that its clients receive accurate, dependable, and current accounting data.

---

## RESEARCH DESIGN

The strategy for carrying out a study, comprising sampling, data collecting, analysis, research questions, and technique (qualitative, quantitative, or mixed methods), is outlined in the research design. It guarantees that the investigation is carried out methodically, strictly, and in accordance with scientific standards. Valid, dependable results from a well-designed study add to the body of knowledge in the topic.

### Title of the Study

“A study on implementation of Goods & Services Tax in Small Scale Industries”

### 1. Statement of the problem

- The GST requirements are neither consistent or clear, which causes uncertainty among Small Scale Industries.
- Goods & Services Tax has resulted in higher compliance costs, including expenditures for software deployment and training.
- Under the GST framework, it is challenging for Small Scale Industries to obtain input tax credits. Cash flow issues and operational difficulties have been brought about by the switch to the GST.
- It's important to recognize and deal with the unique issues that various types of Small-Scale Industries are in the different sectors such as manufacturing, services, or trading.

### 2. Research Gap

Identifying compliance problems, comprehending the influence on operational performance and profitability, and investigating the function of digital infrastructure have been the main areas of research on the implementation of the Goods and Services Tax (GST) in small-scale industries (SSIs). Regarding the precise tactics and procedures Small Scale Industries may use to get beyond these obstacles and use GST to support sustainable growth, there is a noticeable vacuum in the literature. While several studies have mentioned the significance of technology and business process reengineering, a thorough examination of how Small Scale Industries might successfully apply these tactics in the context of complying with GST is lacking.

A significant gap in current research is the scant focus on the function of governmental policies and regulatory frameworks in enabling GST compliance in self-storied apartments (SSIs). Policymakers and business stakeholders must comprehend how government policies may be customized to meet the special requirements of SSIs and foster a climate that encourages compliance. Furthermore, although research has indicated how GST affects pricing policies and cost structures, there hasn't been a thorough examination of how SSIs may best utilize these elements to increase their profitability and competitiveness in the post-GST age.

Ultimately, these gaps point to the need for more comprehensive and detailed research that highlights obstacles and offers practical advice and suggestions to help SSIs prosper under the GST regime.

### 3. Hypothesis of the study

- **Hypothesis 1:**

(H0): There is no association between the type of small-scale industry and specific GST compliance obstacles faced.

(H1): There is an association between the type of small-scale industry and specific GST compliance obstacles faced.

- **Hypothesis 2:**

(H0): There is no association between the primary reasons for delays in processing and the taxation system in place.

(H1): There is an association between the primary reasons for delays in processing and the taxation system in place.

- **Hypothesis 3:**

(H0): There is no association between the level of digital infrastructure and the efficiency of taxation systems.

(H1): There is an association between the level of digital infrastructure and the efficiency of taxation systems.

### 4. Objectives of the study

- To understand the specific GST compliance obstacles faced by small scale industries.
- To examine the primary reasons for delays in processing within taxation systems.
- To explore the main elements of digital infrastructure gap in taxation systems.

### 5. Scope of the study

- Examining the challenges faced by SSIs in complying with GST regulations.
- Assessing the impact of GST on the operational efficiency and profitability of SSIs.
- Identifying the specific compliance issues related to tax rates, classifications, and GST software implementation.
- Analysing the role of digital infrastructure in facilitating GST compliance for SSIs.
- Evaluating the effectiveness of government policies and support measures in addressing GST-related challenges for SSIs.

### 6. Research Methodology & Data Collection

- **Data Collection Method:** The study employs floating Google Forms for data collection, combining qualitative and quantitative methodologies. This method enables the collection of detailed information on GST implementation in small-scale industries, including challenges, benefits, and overall impact. Floating Google Forms offer flexibility in data collection, accommodating diverse respondents and ensuring a robust dataset for analysis.
- i. **Primary Data:** Primary data collected by floating Google Forms, combining qualitative and quantitative methodologies for studying GST implementation in small-scale industries.
- ii. **Sample Design:** Simple Random Sampling method
- iii. **Population:** The population of interest comprises small-scale industries in the designated area impacted by the GST implementation, encompassing diverse sectors like manufacturing, retail, and services, each with its own turnover and operational model.
- iv. **Sample Size:** 100
- v. **Sampling unit:** Individuals
- vi. **Sampling method:** Simple Random Sampling method
- **Tools for data collection method:**
  - i. **Google Forms:** An online survey and questionnaire creation tool that makes it simple to send out to respondents.
  - ii. **Questionnaire:** A list of inquiries intended to collect information on the use of GST in small-scale enterprises, both qualitatively and quantitatively.
  - iii. **Floating Method:** The process of gathering data from a range of respondents in a flexible manner by utilizing floating Google Forms.

- Data Analysis Plan:
  - i. Defines Research objective
  - ii. Questionnaire design
  - iii. Floating Google forms
  - iv. Data collection
  - v. Interpretation
- Statistical tool for analysis: Chi-square test

---

## FINDINGS

- The vast majority of people find that the GST has been implemented satisfactorily, indicating that small-scale industries have generally been satisfied with this.
- The majority of respondents concur that GST has made small-scale industries' taxes simpler, indicating that tax compliance is now easier.
- There is a visible financial gain from the installation of GST, as indicated by the majority's belief that it has improved profitability.
- The majority expresses perceptions of shortfalls in government efforts and believes that the government has not adequately addressed the concerns of small-scale enterprises about GST.
- Simplicity and clarity of the GST rules is the majority of respondents perceive the GST laws and regulations as straightforward and easy to comprehend, indicating a general level of compliance.
- The majority suggests that GST has neutral or even positive benefits on cash flow, refuting the notion that it has a detrimental influence on cash flow management.
- Key components of the digital infrastructure gap in taxation systems include low cybersecurity measures, low levels of taxpayer digital literacy, a lack of connection across tax-related systems, and a lack of government investment in digital infrastructure.
- There is a need for taxpayers to be better informed about the procedures and obligations surrounding Taxes.

---

## RECOMMENDATIONS

- To help taxpayers and tax authorities better understand and comply with GST legislation, implement programmes to raise digital literacy among them.
- To close the gaps in cybersecurity, system integration, and digital literacy, the government should invest more money in this area.
- Boost government response to industry concerns by putting in place frequent feedback channels and interacting with stakeholders to quickly resolve problems.
- To make GST rules and regulations easier for small-scale enterprises to comprehend and comply with, they should be reviewed and simplified on a regular basis.
- Provide small-scale businesses with training and capacity-building initiatives to make sure they have the know-how and abilities to adhere to GST regulations.
- Provide sector-specific solutions to deal with the difficulties that various industries have while trying to comply with GST requirements.
- Put policies in place to guarantee taxpayer data security and privacy, such as strong cybersecurity defences and adherence to data protection laws.
- To lower red tape and make compliance easier for small businesses, streamline the GST process.