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A Study on Exploring the impacts of Tax Reforms on MSME

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to the economic fabric of many nations, driving innovation, employment, and overall economic growth. However, the operational environment of MSMEs is significantly influenced by tax policies and reforms. This study investigates the impacts of recent tax reforms on MSMEs, with an emphasis on understanding their effects on operational efficiency, financial performance, compliance costs, and overall business sustainability.

The research employs a mixed-methods approach, incorporating quantitative data analysis and qualitative insights from surveys and interviews with MSME owners, managers, tax consultants, and policy experts. Key findings reveal that tax reforms have a nuanced impact on MSMEs. On one hand, reforms such as the digitization of tax filing systems have streamlined compliance processes, enhancing operational efficiency. On the other hand, the initial adaptation to new systems presents challenges, particularly for MSMEs with limited technological capabilities.

Financial performance is also affected variably. While reduced tax rates for small businesses can enhance profitability, the removal of certain exemptions and incentives has sometimes increased the tax burden. The complexity and frequent changes in tax regulations have heightened the compliance burden, necessitating increased expenditure on professional services and raising the risk of non-compliance penalties.

Furthermore, the study finds that tax incentives targeted at specific sectors can stimulate investment and growth within MSMEs. However, a lack of clarity and stability in tax policies can impede long-term business planning and investment. Effective tax policy for MSMEs should balance simplification with equity, ensuring that compliance is manageable while fostering growth and competitiveness.

The study concludes with policy recommendations to mitigate the negative impacts and amplify the positive effects of tax reforms on MSMEs. These include simplifying tax procedures, providing targeted incentives, offering training and resources for compliance, and ensuring a stable policy environment. Such measures can help create a supportive and sustainable business ecosystem for MSMEs, enabling them to thrive and contribute robustly to the economy.