



## A Study on the Impact of GST on the Profitability of SMES in Tirupur

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### ABSTRACT:

With the introduction of Goods and Services Tax (GST) in India in 2017, the taxation system has undergone massive changes that have influenced Small and Medium Enterprises (SMEs) across various sectors such as textiles, manufacturing, retail, and services in Tirupur. This 113-respondent study through simple random sampling looks at how GST has affected profit, tax compliance, and general business performance in all these sectors. Despite the fact that GST does away with the cascading effects of multiple taxes, with smaller businesses still facing increased compliance costs, digital filing complexities, and cash flow disruptions. The manufacturing and textile sector, in particular, has the added problem of delayed refunds, resulting in many businesses heavily relying on Chartered Accountants for compliance. The study demands simplified GST provision, sector-specific assistance, digital support for greater compliance, and a lowered operational burden for SMEs.

**KEYWORDS:** *GST, Taxation System, SMEs, Profitability, Tax Compliances*

### 1.INTRODUCTION:

The Indian Goods and Services Tax was enforced in July 2017 and is considered one of the most monumental tax reforms India has witnessed in her history. Aimed at ridding an already fragmented and burdensome indirect tax system in India of its imperfections, GST has subsumed within its folds many state and central taxes, such as Value Added Tax, Service tax, Central excise duty, and many more. In earlier days, businesses had to grapple with such varied and cumbersome taxation regimes that changed from state to state, thereby giving rise to a number of administrative problems and compliance burdens. This is particularly advantageous for SMEs operating across states who no longer need to maintain separate registration and filings in each state. The input tax credit under the GST-CGST regime provides that the business can always claim back the credit for taxes paid on inputs, thereby avoiding the double taxation that characterized the previous tax regime.

### 2.REVIEW OF LITERATURE:

A study titled "Effect of Goods and Service Tax System on Business Performance of Micro, Small and Medium Enterprises" (Neba Bhalla, 2023) uses data from 404 registered MSMEs to examine how the Goods and Services Tax (GST) affects the performance of MSMEs in India. It shows that GST has a favourable effect on business performance by lowering working capital bottleneck and increasing operational efficiency, profitability, and ease of doing business. By focusing on these aspects, the research offers valuable insights for policymakers and emerging economies on the relationship between tax reforms and business performance, potentially guiding future tax policies to enhance economic growth and MSME performance.

According to Meryn R George, Tisa Maria Antony "GST and Its Versatility: The Case of Indian Micro, Small and Medium Enterprises" (Antony, 2023) provides an in-depth analysis of the impact of the Goods and Services Tax (GST) on the profitability of small and medium-sized enterprises (SMEs) in the Tirupur district. The study evaluates key profitability metrics and highlights the challenges faced by SMEs in GST compliance, such as complex filing processes, limited awareness, and the financial burden of compliance costs. This research is particularly relevant for policymakers, business owners, and stakeholders looking to improve the effectiveness of GST compliance and support the growth of SMEs in the region.

According to Shalini Aggarwal "Evaluating the Effectiveness of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs): A Case Study Approach" (Aggarwal, 2023) This research provides an insightful analysis of the impact of GST on SMEs in India, comparing its effects on both small and large enterprises. The study underscores how larger firms, like Hero Cycles and Dabur India, are better positioned to leverage GST for efficiency, while smaller firms struggle with resource limitations. The use of theoretical frameworks such as Transaction Cost Economics and the Resource-Based View offers a well-rounded perspective. However, the study could benefit from deeper sectoral analysis and policy suggestions specific to SMEs in different industries.

### 3.OBJECTIVE:

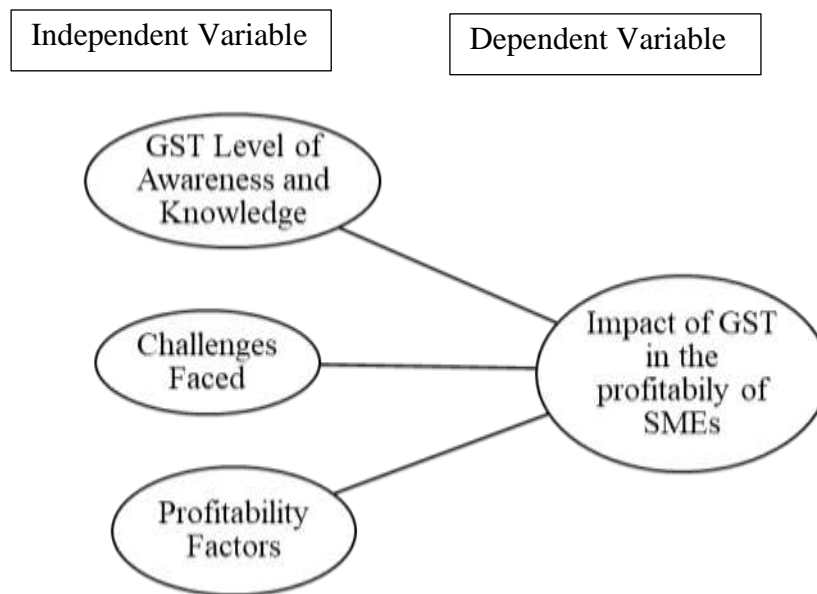
#### 3.1 Primary Objective:

- To evaluate how GST affects key profitability metrics and the financial health indicators of SMEs in Tirupur district.

#### 3.2 Secondary Objective:

- To identify the challenges faced by SMEs in complying with GST requirements.
- To assess the level of awareness and knowledge among the SMEs regarding GST.
- To examine the handling method for filing GST among SMEs.

### 4.CONCEPTUAL MODEL:



### 5.SCOPE OF THE STUDY:

To give a multidimensional view of GST's effect on the Tirupur district, the study will first be based on the textile and apparel industry, which is the major contributor to the economy of the region. The analysis of this industry will look into the impact of GST on export-oriented enterprises, particularly cost, price, and supply chain management. Subsequently, the survey will analyze the manufacturing sector with particular emphasis on small and medium-sized enterprises to ascertain how GST affects input costs, production cycles, and profit margins. The service sector will also be included in this study, targeting the logistics, transportation, and IT sectors to ascertain the influence of GST on billing processes, taxation procedures, and operational costs. The analysis will be extended to the real estate and construction sector and will scrutinize how GST has affected developers, contractors, and other allied businesses in terms of input tax credits, cost escalations, and completion periods.

### 6.DATA ANALYSIS:

The following table provide the dependent & independent variable analysis

Variable	Categories	Frequency	Percent
Designation	Finance Manager	44	38.9
	Accountant	49	43.4
	Accounts Manager	20	17.7
Form of Organization	Proprietorship	53	46.9

Variable	Categories	Frequency	Percent
	Partnership Firm	59	52.2
	Private/Public Limited Company	1	0.9
Nature of Business	Manufacturing	34	30.1
	Services	31	27.4
	Trading	48	42.5
GST Compliances	Self	24	21.2
	Chartered Accountant	89	78.8
Learned Filing Process	Online Tutorials & Courses	57	50.4
	Govt. Resources & Guidelines	48	42.5
	Books, Forums & Manuals	8	7.1
Documentation Methods	Manually	11	9.7
	Using Accounting Software	69	61.1
	Outsourcing to Professionals	33	29.2

#### ONE – WAY ANOVA

One Way Anova was carried out between challenges faced by the organization and their form of business.

#### HYPOTHESIS:

- **Null Hypothesis (H<sub>0</sub>):** There is no significant difference in the primary challenges faced by SMEs based on their form of organization.
- **Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in the primary challenges faced by SMEs based on their form of organization.

Primary Challenges/Form of Organization	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.145	2	.072	.618	.541
Within Groups	12.868	110	.117		
<b>Total</b>	<b>13.012</b>	<b>112</b>			

One Way Anova was carried between the knowledge level and designation of the employee of the organization.

#### HYPOTHESIS:

- **Null Hypothesis (H<sub>0</sub>):** There is no significant difference in knowledge levels based on the designation of individuals.
- **Alternative Hypothesis (H<sub>1</sub>):** There is a significant difference in knowledge levels based on the designation of individuals.

Knowledge Level/Designation	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.029	2	.014	.116	.891
Within Groups	13.575	110	.123		
<b>Total</b>	<b>13.604</b>	<b>112</b>			

## 7. FINDINGS:

The survey on the impact of GST on SMEs in Tirupur reveals that most respondents are account-tants within partnership firms and a large section of the SME sector is trading. There is a background reliance by SMEs on Chartered Accountants for managing GST compliances, while online tutorials and government sources serve as the principal learning ground for GST filing processes. Digital capabilities, including accounting software are widely embraced to handle documentation: it makes sense that there's a shift to tech. Other problems that have been identified include supplier non-

compliance and an extremely complicated regulatory landscape, wherein tax consultants and online platforms offer critical support in keeping the latest updates on GST.

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## 8. CONCLUSION:

The introduction of the GST in Tirupur has opened new avenues and also brought in a number of impediments for its SMEs. While the tax reform has made many aspects of compliance easier for many, deep-running complications in the rules and a reliance on external advisory services still pose threats. Well-designed sector-specific training, robust compliance assistance on a scale affordable to enterprises, and simplification of GST rules would resolve many of the longstanding compliance grievances of SMEs and strengthen the efficacy and experience of GST compliance. The statistical analysis underlines the degree of homogeneity of experience across the sectors and defines the general trajectory of training and support towards SMEs in the processes concerning GST.

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