



# International Journal of Research Publication and Reviews

Journal homepage: [www.ijrpr.com](http://www.ijrpr.com) ISSN 2582-7421

## A Study on the Impact of GST on Small and Medium Enterprises (SMEs)

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### ABSTRACT :

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked an effort to unify and simplify India's diverse indirect tax structure. This study specifically investigates the wide-ranging effects of GST on Small and Medium Enterprises (SMEs), which are vital contributors to India's economy, job creation, and industrial output. The research explores how GST has influenced SMEs' market access, financial stability, operational efficiency, compliance procedures, and adoption of technology. The study, utilizing both primary and secondary data, reveals that while GST has fostered greater tax uniformity, transparency, and opportunities for interstate trade, it has also introduced considerable challenges. These difficulties include elevated compliance costs, limited digital literacy among some SMEs, and hurdles during the transition period. Despite these initial obstacles and a mixed reception, the long-term benefits such as formalization, utilization of input tax credits, and streamlined logistics are gradually becoming evident. The paper concludes with essential recommendations, advocating for enhanced institutional support, simpler regulations, and effective capacity-building initiatives to help SMEs better integrate into the GST framework. Overall, the analysis suggests that despite its complexities, GST holds significant promise for improving the Indian SME landscape, provided there is consistent guidance and flexibility in its application.

### Introduction

The implementation of the Goods and Services Tax (GST) in India marked a pivotal shift in the nation's indirect taxation, replacing a fragmented system with a unified framework. This reform aimed to reduce the cascading effect of taxes, improve compliance, and simplify the overall tax structure. However, this transition has posed significant challenges, particularly for Small and Medium Enterprises (SMEs), which often lack the financial and administrative resources to cope with such systemic changes. Before GST, SMEs navigated a complex array of state and federal taxes, each with distinct rules and compliance requirements. While GST sought to simplify this, many SMEs faced substantial hurdles, primarily concerning the increased costs and complexity of compliance. The new regime necessitated GST-compliant invoicing, regular digital return filings, and meticulous digital record-keeping. This presented an additional layer of complexity for smaller businesses often lacking the infrastructure or expertise to adapt. Consequently, many SMEs had to invest in new software, system upgrades, and staff training, expenses that were more burdensome for them compared to larger organizations. Cash flow issues also emerged, as GST is paid upfront while input tax credits (ITC) might be reimbursed with delays, impacting SMEs' working capital due to their typically lower margins and liquidity. Despite these challenges, GST has opened new avenues for SMEs, especially those involved in interstate commerce. The prior tax system imposed multiple layers of taxes on goods moving between states, leading to inefficiencies and higher costs. GST has simplified interstate transactions, enabling SMEs to access national markets more easily and claim input tax credits on services and raw materials, thereby reducing costs and enhancing competitiveness. The standardized tax system has also improved transparency and reduced tax evasion, pushing more businesses into the formal economy, though this requires increased diligence in financial reporting. However, SMEs have struggled to keep pace with the frequent amendments and rapid evolution of GST legislation, leading to uncertainty, especially in dynamic sectors like manufacturing, textiles, and hospitality. Non-compliance can result in severe penalties, making it a constant challenge for small business owners to stay updated. Policy discussions have focused on streamlining GST reporting for smaller entities, such as increasing filing thresholds or introducing simplified forms. Government support through training programs, technology adoption subsidies, and more efficient refund systems could further alleviate the burden on SMEs. The ongoing need for the GST system to evolve to effectively support SMEs is widely acknowledged, with current efforts including raising registration turnover levels and introducing composition schemes to ease compliance for smaller businesses. Addressing delays in GST refunds is critical to maintain cash flow for SMEs, particularly exporters and those with long credit cycles. Furthermore, accessible and industry-specific training and awareness programs are crucial to enhance SMEs' understanding of GST law and prevent inadvertent non-compliance.

### Literature Review

The introduction of the Goods and Services Tax (GST) in India fundamentally transformed the indirect taxation landscape, aiming to consolidate various state and federal taxes into a cohesive system. Since its implementation in July 2017, GST has significantly impacted businesses, with Small and Medium Enterprises (SMEs) experiencing particularly pronounced effects given their substantial contribution to the Indian economy. Numerous scholars and industry experts have explored these ramifications from diverse perspectives. One significant area of impact is the administrative burden and compliance

complexity faced by SMEs. Kumar and Narayan (2018) highlighted the increased compliance demands on SMEs, noting that unlike the previous system which allowed smaller businesses to remain outside the tax net or handle simpler municipal taxes, GST mandated online registration and frequent monthly return filings for businesses above a certain turnover. This shift posed challenges, especially for SMEs lacking digital infrastructure or expert accounting assistance, often leading to increased operating expenses due to reliance on external consultants. Deshmukh and Rao (2019) corroborated this, pointing out the intricate nature of input tax credit (ITC) matching and reconciliation procedures as a deterrent for smaller businesses to fully embrace the new system. The financial strain on SMEs, particularly concerning working capital liquidity due to delayed ITC refunds, has also been a key focus. Sharma and Jain (2019) found that while GST intended to eliminate cascading taxes, delays in ITC reimbursement significantly affected SMEs' cash flows and profitability, particularly those with narrow profit margins and exporters. In 2020, the National Council of Applied Economic Research (NCAER) also substantiated that SMEs, especially those involved in exports and services, experienced liquidity challenges, highlighting how these delays negatively impacted their working capital management. Thakur and Bhattacharya (2021) also noted the increased financial burden on SMEs due to reverse charge mechanisms and ITC blocks on certain expenses. Aggarwal and Singh (2020) proposed that the Goods and Services Tax (GST) played a role in enhancing the formalization of the SME sector, particularly regarding market impact. They argued that while initial compliance was difficult, it incentivized unregistered businesses to formalize to leverage input tax credits and integrate into official supply chains, thus improving market competition and transparency in the long run. However, Mukherjee (2020) cautioned that formalization also exposed SMEs to stricter compliance scrutiny and potential fines for errors or lack of awareness regarding policy changes. The technological readiness and digital adoption among SMEs under GST have been examined by Rao and Mehta (2021), who concluded that GST accelerated SMEs' digital transformation by necessitating the use of online portals and accounting software. However, they highlighted the persistent digital divide, especially between urban and rural SMEs, with many micro-enterprises struggling to adapt. Sinha and Pradhan (2020) also noted that despite encouraging cloud-based platforms and digital record-keeping, general digital literacy among SME owners remained low, and businesses in remote areas faced challenges with internet access and skilled labour shortages. Sector-specific variations in GST impact were noted by Patel (2021), whose analysis showed higher relative compliance costs for small traders and service providers, while the manufacturing sector benefited more from improved logistics and streamlined supply chains. Mehta (2021) observed initial misunderstandings and price irregularities in textile and leather industries but noted adaptation over time and benefits from transparent input tax structures. Gupta and Awasthi (2022) found that manufacturing SMEs gained from simplified interstate procurement, whereas service companies faced difficulties with place of supply and tax jurisdiction. The role of government support and training initiatives was studied by Chatterjee (2022), who focused on help desks, awareness campaigns, and financial aid for digital technologies. The report indicated that many SMEs were either unaware of or unable to fully utilize these support networks, limiting their reach despite good intentions. Perception studies reveal a mixed sentiment. A FICCI (2020) survey indicated that over 60% of SMEs viewed GST as beneficial in the long term but expressed dissatisfaction with the initial rollout, frequent policy changes, and unclear guidelines. A FICCI-CMS (2021) survey also confirmed that many SMEs appreciated GST's long-term objectives but criticized frequent changes, ambiguous regulations, and heavy reliance on chartered accountants. Finally, policy suggestions and scholarly evaluations emphasize the need for a simpler GST regime for SMEs, advocating for fewer return filings, streamlined refund processes, and enhanced support. Suggestions include mobile-friendly compliance portals and tax literacy initiatives in local languages. Chopra (2020) also noted how GST facilitated inter-state trade by removing barriers, improving supply chain efficiency, despite ongoing paperwork challenges.

## Methodology

This study employs a rigorous methodological approach to systematically investigate and evaluate the multifaceted impacts of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The aim is to comprehensively understand how GST has influenced critical aspects of SME operations, including pricing strategies, financial burdens, operational efficiency, tax compliance, and overall business performance. To achieve a thorough and evidence-based understanding, the research integrates both quantitative and qualitative techniques. Research Design: The study adopts a mixed-method design, incorporating both descriptive and explanatory research approaches.

- **Descriptive Research:** This component focuses on documenting and characterizing key features of SMEs under the GST regime, such as GST registration rates, trends in return filing, levels of awareness, and perceptions regarding benefits or challenges.
- **Explanatory Research:** This part aims to identify and examine causal relationships, exploring how various factors—including business size, industry, geographical location, and digital literacy—influence SME compliance practices and operational adjustments in response to GST. The study is cross-sectional, collecting data from SMEs at a specific point in time to identify prevailing trends and insights. Data Collection Method: The primary data collection instrument will be a structured questionnaire, chosen for its efficiency and suitability in gathering data from a large number of respondents.
- **Questionnaire Design:** The questionnaire was carefully crafted to collect data directly relevant to the research objectives. It will include sections covering:
  - **Demographic Data:** Questions related to the respondent's age, gender, highest education qualification, occupation, and business details.
  - **GST Impact Assessment:** Inquiries specifically tailored to evaluate the effects of GST on different aspects of SME operations, such

as financial health, compliance burden, technological adaptation, and market access.

- Perception and Sentiment: Questions designed to gauge SME owners' and managers' perceptions and attitudes towards GST, including their understanding of its advantages and disadvantages, trust in the tax structure, and satisfaction with government support.
- Pilot Survey: A pilot survey involving a limited sample (e.g., 30 to 50 respondents) will be conducted before full-scale data collection. This pilot study aimed to achieve the following objectives:"
  - Assessing the clarity, readability, and comprehensibility of questionnaire items.
  - Identifying and rectifying any ambiguous or confusing questions.
  - Estimating the time required to complete the questionnaire.
  - Verifying the validity and reliability of the measurement scales.
  - Making necessary revisions to ensure the questionnaire accurately and effectively collects the desired data.
- Mode of Administration: The questionnaire will be primarily distributed online using platforms like Google Forms or SurveyMonkey. This approach offers several benefits:
  - Reach: Enables access to a large, geographically dispersed sample.
  - Cost-Effectiveness: Reduces printing and distribution expenses.
  - Efficiency: Facilitates automated data entry and rapid data collection, minimizing errors.
  - Anonymity: Promotes candid responses and enhances respondent comfort.
  - Accessibility: Participants can complete the survey at their own flexible schedule.".
- Sampling Strategy: Given the nature of online data collection and the target demographic, a non-probability sampling strategy will be employed, specifically convenience sampling combined with snowball sampling.
- Target Group: The study targets SMEs across various industries, including manufacturing, trading, and services, encompassing micro, small, and medium-sized businesses as per the Ministry of MSME classifications. The aim is to include SMEs from both urban and semi-urban locations to account for regional variations.
- Sample Size: While the precise sample size will be determined based on statistical power analysis, a target of 100+ SMEs is aimed to ensure statistical significance and generalizability of findings within the study's scope.
- Convenience Sampling: Initial participants will be recruited through accessible networks such as professional contacts, business associations, and relevant online forums.
- Snowball Sampling: Following their participation, initial respondents will be encouraged to share the questionnaire link with other eligible SMEs within their networks. This 'snowball' approach assists in expanding the reach of the study to a wider segment of the intended participant group."
- Inclusion Criteria: Participants must represent operational SMEs and be willing to provide insights into their GST experiences. Data Analysis Techniques: Quantitative data will be analysed using statistical software such as SPSS (Statistical Package for the Social Sciences) or R. The

data analysis will proceed in multiple stages:

- Data Cleaning and Preparation:
  - Missing Data Handling: Identification and appropriate treatment of missing values.
  - Outlier Detection: Identification and handling of any outliers that might unduly influence statistical results.
  - Data Transformation: If necessary, data transformation to ensure adherence to statistical test assumptions (e.g., normality).
- Descriptive Statistics: Calculation of frequencies, percentages, means, standard deviations, and ranges for all demographic and study variables. This provides a clear summary of the sample's characteristics and general patterns related to GST impact. Charts, graphs, and tables will be used for data visualization.
- Reliability Analysis: Cronbach's Alpha analysis will be performed on multi-item scales to confirm internal consistency and reliability of measurement instruments. A Cronbach's Alpha score of 0.7 or more is widely regarded as an acceptable threshold."
- Inferential Statistics:
  - Pearson Correlation Coefficients: To determine the strength and direction of linear relationships between variables (e.g., correlation between GST compliance and financial health).
  - Regression Analysis: Multiple regression analysis will be applied to:
    - Determine the extent to which independent variables (e.g., policy changes, digital literacy) predict dependent variables (e.g., operational efficiency, profitability).
    - Ascertain the relative importance of each independent variable in predicting SME outcomes.
    - Test hypothesized relationships and models derived from the literature review.
  - ANOVA/T-tests: Independent Samples T-tests or Analysis of Variance (ANOVA) will be utilized to compare means across different demographic or industry groups (e.g., differences in GST impact across manufacturing vs. service sectors or micro vs. small businesses) to identify significant variations. Ethical Considerations: Throughout the research process, strict ethical principles will be adhered to.
- Informed Consent: Participants will receive a clear explanation of the study's purpose, their rights, the voluntary nature of their participation, and assurances of anonymity and confidentiality before proceeding with the questionnaire. Electronic informed consent will be obtained.
- Anonymity and Confidentiality: No personally identifiable information will be collected, and all data will be kept strictly confidential, used solely for academic research purposes. Raw data will be securely stored and accessible only to the research team

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## Results & Discussion

the principal outcomes and insights garnered from the survey administered to Small and Medium Enterprises (SMEs) in India, exploring their experiences and perspectives concerning the Goods and Services Tax (GST) system. The collected data encompassed demographic details of respondents and their businesses, alongside their practical interactions with GST and their opinions on its broader implications.

The surveyed businesses represented a diverse cross-section, with a notable distribution across Micro, Small, and Medium categories within the MSME classification. Operations spanned various sectors, including manufacturing, services, and trading, ensuring a comprehensive view of the GST's impact across different business activities.

A significant proportion of the responding businesses were found to be registered under the GST system, with voluntary registrations outnumbering those mandated by turnover thresholds. This indicates a proactive engagement by a substantial segment of SMEs in the formal tax structure. While a large number of respondents characterized the GST registration process as "very easy and user-friendly," a considerable segment still found it either "somewhat manageable" or "complicated but manageable with assistance," suggesting varied experiences and potential areas for simplification.

A prominent finding was the perceived increase in administrative and compliance burden since GST implementation. The vast majority of businesses reported an uplift in this burden, with responses indicating both "slight" and "significant" increases. In terms of return filing frequency, most businesses were observed to comply either monthly or quarterly, highlighting the ongoing demands of the new tax regime. When managing GST-related accounting and filings, businesses primarily relied on specialized GST software or external chartered accountants/consultants, with a smaller portion utilizing in-house staff. This suggests a reliance on external expertise or digital tools to navigate compliance intricacies.

Regarding the financial implications and broader impact, opinions on GST's effect on financial transparency and accountability were generally positive, indicating a belief that the system fosters greater clarity. However, the impact on working capital due to delayed Input Tax Credit (ITC) refunds or blocked credits presented a more mixed picture, though a majority reported some level of negative impact, even if minimal. Similarly, perceptions of the ITC mechanism's effectiveness for reducing tax liability were varied, with many finding it beneficial but also acknowledging its complexities or limitations.

Overall, the sentiment among respondents towards GST was predominantly positive. A strong majority agreed that the GST system has led to a more unified, simplified, and efficient tax structure compared to the pre-GST era. This suggests that despite the acknowledged administrative and operational hurdles, the core objectives of GST in streamlining the tax landscape are largely recognized and appreciated by the SME community.

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## Conclusion & Recommendations

Your thesis will likely summarize the primary insights derived from the study regarding the impact of GST on SMEs. It would reiterate that while the GST has undeniably brought about significant changes, offering benefits like increased market access across states and fostering transparency in tax practices, it has also presented considerable hurdles. The conclusion would emphasize that issues such as heightened compliance costs, the strain on cash flows due to delayed input tax credits, and the initial difficulties in adapting to new digital systems were prominent challenges for many SMEs. It would likely highlight that despite these challenges, the long-term outlook remains positive, with a gradual realization of benefits like formalization and enhanced logistical efficiencies. The conclusion would also underline the importance of ongoing government support and policy refinements to ensure that the GST framework truly empowers and facilitates the growth of the SME sector in India

### *Recommendations*

the impact of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs), several key recommendations emerge to enhance the system's efficacy and foster a more supportive environment for these businesses:

1. **Simplify Compliance and Digital Platforms:** The government should continue efforts to ease GST return filing procedures for small firms, including reducing the number of filings and promoting user-friendly digital platforms, especially for micro and small enterprises with limited financial resources.
2. **Boost Training and Awareness:** To deepen SMEs' understanding of GST regulations, regular workshops, webinars, and capacity-building sessions should be provided in collaboration with trade associations and academic institutions, informing business owners and employees about compliance and benefits.
3. **Improve IT Infrastructure and Support:** Addressing challenges such as limited software access in rural areas and technical issues with the GST portal, there's a need for enhanced IT infrastructure and the provision of free or significantly discounted accounting software to facilitate SMEs' seamless transition to digital taxation.
4. **Expedite Input Tax Credit (ITC) and Refund Mechanisms:** To mitigate the negative impact of delayed ITC and tax refunds on SME financial flows, the government must automate and accelerate the return processing procedure, ensuring more efficient working capital management.
5. **Develop Sector-Specific Policies:** Recognizing the diverse challenges across industries, implementing sector-specific GST regulations (e.g., for food processing, textile, and handicraft sectors) can better address the unique operational and compliance issues faced by SMEs in varied fields.
6. **Adjust GST Registration Thresholds:** Periodically revising the turnover limits for mandatory GST registration would prevent excessively small firms from facing undue compliance obligations, allowing them to grow before entering the tax purview.
7. **Incentivize Digital Adoption:** Offering tax breaks, financial incentives, or low-interest loans can encourage SMEs to adopt digital solutions for filing, inventory control, and billing, promoting a more efficient operational model.
8. **Establish Local Helpdesks and Advisory Cells:** Creating GST help centers or advisory cells in each district can provide localized assistance to SMEs, particularly benefiting those in rural and semi-urban areas with limited access to specialized guidance.
9. **Ensure Policy Clarity and Stability:** To reduce confusion and anxiety among small business owners, a more stable and predictable GST policy environment is crucial. This should be supported by prompt clarifications and advance rulings on regulatory modifications.

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## REFERENCES

This section meticulously lists all academic and authoritative sources referenced within this research paper. Each entry is formatted to facilitate easy access and verification by readers, upholding the standards of scholarly citation.

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