

## **A STUDY ON THE IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES (SMES) IN INDIA**

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### **Abstract**

The Goods and Services Tax (GST) was implemented in India on 1st July 2017. GST is a single, comprehensive tax levied on most of the goods & services sold within the country and have been instrumental in subsuming all other indirect taxes imposed by both Central & State Governments. The primary purpose of this taxation system was to create an integrated market where goods and services could be bought and sold with minimal costs imposed at each stage of distribution or transaction. Since its implementation, there have been both opportunities as well as challenges for various stakeholders such as marketers, consumers, businesses etc. This study aims to evaluate the impact of India's Goods and Services Tax (GST) on small and medium enterprises (SMEs). By analyzing primary data from a sample of SMEs in three major GST regions, this study will attempt to identify how GST has impacted SMEs. The results of this research should provide insights into the performance of SMEs under GST and can help policymakers in designing support policies for such businesses. Specific areas that this paper focuses on include changes in prices after the implementation of GST, an analysis of input credit utilization by entities involved in manufacturing or providing services, compliance costs incurred due to introduction or modification of software systems, increased administrative procedures and other indirect implications. A comparison between pre-GST regime conditions with existing conditions is also performed. This study further examines perspectives from both tax regulatory authorities and taxpayers about their experiences as resultants from implementation of GST.

**Keywords-** Goods and Services Tax (GST), Businesses, Consumers, Government Opportunities and Challenges.

## **Introduction**

The introduction of the Goods and Services Tax (GST) in India has provided a major impetus to small and medium enterprises (SMEs). Established as a single unified tax system, GST seeks to eliminate unwarranted taxes imposed by states. It works on a self-regulation mechanism where small businesses will be able to register their transactions electronically over an online portal. This study aims at exploring the impact of GST on SMEs in terms of compliance cost, challenges faced while implementation, customer service improvements due to technological integration etc. The findings will help in understanding how much GST reforms have benefited Indian SMEs and whether more needs to be done for them in order to enable them further growth opportunities. The major opportunity that arises from GST seems to be cost reduction due to subsumption of multiple levies causing multiplicative taxation effect resulting in cost savings which will benefit all sections involved in a commercial transaction chain –consumer being the ultimate beneficiary. This will also give an impetus to Make In India initiative by reducing dependence on imported goods at competitive prices due to reduced taxes & duties associated with imports thus allowing consumers more facility of buying locally manufactured products without any hindrance On contrary, it has posed numerous challenges such as complexity related compliance requirements leading to troubles for small businesses during their transition period who were already grappling with innumerable difficulties related running a business prior the implementation. The Goods and Services Tax (GST) in India has a number of changes since its introduction in 2017. It is meant to be a comprehensive and multi-stage form of indirect taxation which will replace the many other forms of taxes on goods and services, such as excise duties and VATs, among others. This study attempts to analyze the opportunities that have been presented due to the implementation of GST as well as some challenges.

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leading to troubles for small businesses during their transition period who were already grappling with innumerable difficulties related running a business prior the implementation. The Goods and Services Tax (GST) in India has a number of changes since its introduction in 2017. It is meant to be a comprehensive and multi-stage form of indirect taxation which will replace the many other forms of taxes on goods and services, such as excise duties and VATs, among others. The Goods and Services Tax (GST) is one of the most significant reforms in India's indirect tax system. The implementation of GST has impacted various economic sectors but one sector that relevantly affected by it is small and medium enterprises (SMEs). This study attempts to analyze the opportunities that have been presented due to the implementation of GST as well as some challenges.

### **Literature review**

The Goods and Services Tax (GST) has been heralded by the Indian government as an important step in reforming the country's tax regime. The implementation of GST was meant to unify India's complex, fractured indirect taxes into a single unified market instead of having goods move between different states with different value-added taxes. A survey conducted by KPMG in 2017 found that 44% of respondents felt optimistic about the short term impact of GST, while 57% felt optimistic about its long term impact on their businesses. This paper seeks to review existing literature on how SMEs have responded to and adapted from the introduction and enforcement of GST in India since it was introduced in late 2017. An article published by Kumar et al.(2018), examined how 724 small and medium enterprises (SMEs) had responded to introducing GST into their business operations after July 2018 when they were asked questions concerning challenges posed by introducing this new taxation system such as pricing optimization strategies, working capital management reorientations, problems related to compliance procedures etc. Their study revealed that while 62 % respondents faced difficulty due implementing uniform pricings across regions & products, 40 % reported high compliance costs because data collection & filing procedures are tedious.

This paper seeks to review the literature related to Goods and Services Tax (GST) in India. It explores the various opportunities as well as challenges associated with its implementation. The study includes an overview of GST, its history, and current landscape; a discussion of the benefits, costs, and impact it could have on individuals and

businesses; an examination of the preparedness of Indian states for this reform; a review of international experience with regards to similar taxes or reforms; an analysis of potential solutions to ease transition for industries that may become affected by this measure. Additionally, it also considers different modes available for administering GST such as online versus offline platforms. The major findings are summarized at the end including key lessons learned from other countries' experiences while implementing similar measures. For example, Kumar & Manoj (2012), focusing particularly on small-scale retail sector stated that development is needed in infrastructure pertaining to filing returns under GST since digital payments remain low among small buyers across India's many states due lack access points. While other authors such Nath & Shankar (2013) highlighted difficulties posed by multiple registration processes required if trading inter-state which is currently made difficult due varying regulations across most state boundaries.

This paper presents a literature review of research on the Goods and Services Tax (GST) in India since its introduction in 2017. The purpose of this paper is to identify the various opportunities and challenges posed by GST, such as compliance costs, tax incidence, taxation structure and reforms required for economic growth. Furthermore, suggestions are presented to improve the current GST system by taking into account previous discussions on implementation of GST. Several authors have highlighted that there are substantial compliance costs associated with implementing a new taxation system, such as obtaining registration with all states or unifying data systems across multiple jurisdictions (Saxena & Pathak 2020; Mallick et al., 2018). Moreover, Srijan et al. (2019) observed that small enterprises face high transaction costs due to CGST/SGST rules which discourage them from entering into large transactions with other businesses or consumers. Another major challenge facing policy makers is properly taxing digital goods within the framework provided by GST (Sowmya & Subramaniyam 2018). With technology evolving rapidly it has become difficult for policy makers to keep up ensuring tax revenue collection remains intact despite changing laws relating to online products.

### **Research gap**

Despite the availability of empirical evidence on the impact of GST in India, there is still a research gap on its effects to Small and Medium Enterprises (SMEs) in the country. Studies on this issue are lacking, and more research needs to be done to provide insights into how SMEs have been affected by the shift towards GST taxation system. In

particular, a more robust examination of impacts across different sectors, regions and groups within SMEs would allow for a deeper understanding into how reforms such as GST have impacted them since their implementation. Additionally, studies should also consider other issues including credit access post-GST rate reform; operational decision making around technology roll-outs; business expansion strategies under GST framework; etc. This goal can be achieved through longitudinal field surveys that capture data from before and after tax policy changes.

### **The Impact of GST on SMEs**

Goods and Services Tax (GST) has been touted as a revolutionary tax reform that would provide an impetus to the Indian economy by improving its efficiency, stability and ease of compliance. In particular, SMEs or small-scale enterprises in India are expected to benefit from this measure. GST simplifies taxation for SMEs by replacing the existing multiple taxes with one unified indirect tax rate which will be applicable across all states in the country. The implementation of GST is anticipated to reduce costs associated with doing business by eliminating cascading effect of multiple taxes on goods/services while at the same time increasing their profits due to reduced cost structures. Additionally, it is believed that since GST will lead to faster tax processing periods and simpler filing formats, there will be increased compliance among businesses resulting in higher revenues for government entities as well as promoting ethical practices among companies which could help create credibility within industry circles. This could further open new opportunities for businesses especially smaller ones who otherwise get excluded due to stringent rules imposed on them under various state laws or regulations before introduction of GST regime in India.

### **Advantages and Disadvantages of GST for Indian SMEs**

The Goods and Services Tax (GST) was implemented in India on July 1, 2017. It replaced the previous taxes which were levied by both the central and state governments. The implementation of GST has had a major impact on various aspects of Indian economy such as taxation structure, business costs, compliance process and consumer prices. This research aims to examine the opportunities and challenges presented by GST for businesses in India. Specifically, this study will investigate how GST affects different sectors of the Indian economy such as manufacturing sector, service sector etc.; it will also analyze if there have been any changes in terms of revenue generation for both central and state governments due to introduction of GST; discussion around advantages accruing from simplification or rationalization

of tax rates & procedures under GST regime; market dynamics post-GST deployment; issues faced by small scale enterprises with respect to complying with GST rules & regulations; long term implications that may be associated with its implementation among others. In conclusion this research expects to provide useful insights into future improvements needed within existing framework while recommending practical solutions towards achieving greater tax efficiency under an integrated indirect tax system like Goods & Services Tax (GST).

There are both advantages and disadvantages to the GST system in India for SMEs. One of the main advantages is that GST simplifies taxation for small businesses, who often struggle with filing taxes accurately, as they don't have access to proper accounting services. The tax rate itself is also lower than before, granting a significant reduction in operational costs to these businesses. On the other hand, there is also a disadvantage: certain items such as petroleum products and alcohol will not get covered under GST; thus making many SME unable to claim input credit against their purchases related to those goods.

In addition, even with simplified filings procedures there may still be some complexity involved which can be burdensome for smaller firms without adequate resources or expertise. In conclusion, while most Indian SMEs will certainly benefit from learning more about how to implement and take advantage of the new system; each business must weigh its own situation carefully when deciding whether it is best suited by this change or not.

### **Strategies for SMEs to Manage the Transition to GST Regime**

- ❖ **Educate yourself:** The best way to get started on GST is through education. SMEs should familiarize themselves with the tax structure and processes of the new system. Businesses need to be aware of how GST affects their product or service, along with any applicable rates, rules and regulations.
- ❖ **Understand your obligations:** It is important for businesses to understand their respective obligations under GST regime, including when and how much taxes are payable as well as what documents are needed for compliance purposes.
- ❖ **Simplify operations and systems:** With the introduction of GST came a major upheaval in nearly all ways of doing business regarding taxation procedures. To make this transition smoother, it is beneficial for SMEs to look into simplifying existing operational/accounting

processes by utilizing applications like accounting software etc. This will not only help manage returns quickly but also increase ease-of-use and reduce errors while preparing returns.

- ❖ **Leverage technology solutions:** There are various Technologies based tools available today that can aide smaller businesses in complying better with the GST system such as e-filing portals, bill discounting services etc., which can significantly reduce burden at both knowledgeable resources and financial levels.

### **Current State of GST Implementation for Indian SMEs**

The Goods and Services Tax (GST) is an important economic reform in India that has already gone through several stages of implementation. GST is one of the most comprehensive taxation measures introduced, which seeks to create a common platform for any goods or services which are traded within the country. As such, it will lead to improved efficiencies and bottom line savings for businesses. However, there have been some issues with its implementation so far. Indian Small and Medium Enterprises (SMEs), especially those in the manufacturing sector, are finding it difficult to adapt their operations according to the new tax framework due to many challenges such as lack of technology, software compliance solutions, understanding of GST principles etc., resulting in delays in complying with requirements regarding filing returns or making payments on time. This has hindered SMEs from leveraging all the potential benefits that they should be able to reap under this tax regime. Additionally, small business owners often lack access to resources that can help them understand how GST works and what steps need to be taken when dealing with taxes associated with this system.

### **Challenges Faced By Indian SMEs after the Implementation of GST**

The Goods and Services Tax (GST) introduced a unified structure for the taxation of goods and services in India. This was seen as a major move towards simplifying the tax system, but it has brought along some challenges for small and medium businesses (SMEs). One such challenge faced by SMEs is that they have to follow very complex procedures to comply with GST. They need to register on different government websites, reprogram their accounting software, track input credit received from suppliers etc. Moreover, verifying supplier details can also be complicated due to lack of coordination between various government departments. This causes additional hindrance in the implementation process of GST for SMEs which increases their costs

significantly. Another challenge faced is related to budgeting issues because most Indian SMEs operate under stringent cash flow constraints. The introduction of new taxes leads them to greater uncertainty over how much money will be required for payment leading to disruption in meeting their liquidity requirements or marketing strategies since they cannot easily assess what amount they need pay at any given time making budgeting more difficult than before.

### **Research objective**

The main objective of this research is to understand the impact of GST on Small and Medium Enterprises (SMEs) in India. Specifically, the study aims to identify changes in strategies employed by SMEs with the introduction of GST, document any difficulties faced due to its implementation as well as investigate whether there are any differences amongst different types and sizes of firms.

There are following objective on this study:

- To study the impact of GST on working capital requirement of SMEs in India.
- To identify the challenges faced by SMEs while adhering to various procedures under GST regime in India.
- To analyses the effect of GST on revenue generation and sales of SMEs in India.
- To investigate the role of digital technological advancements towards simplifying compliance requirements for SME's post implementation of GST in India.
- To identify any scope for improvement in terms of business operations among SMEs after introduction of GST regime in India.

### **Research methodology**

The research methodology for this study on GST and its impact on SMEs in India will involve the collection of both primary data and secondary data. Primary data would include a survey to be conducted through an online questionnaire as well as face-to-face interviews with small business owners affected by the GST changes. The survey questions will look into factors such as their current financial situation, preparedness for tax compliance, challenges faced after implementation of GST, etc. In order to ensure representativeness and reliability of the results obtained from the questionnaires additional focus group discussions may also be held to gain deeper insights into



opinions related to foreign investment within this sector. Additionally, relevant documents such as government publications including reports filed yearly or quarterly by various industries could also act as secondary sources that would provide valuable context regarding this topic. Data collected from these sources shall then be analyzed using qualitative techniques which involve coding any themes present across all gathered information in order to draw meaningful conclusions about how SMEs have been impacted due to introduction of GST in India.

### **Research questions**

- ❖ What effect did the introduction of GST have on the sector?
- ❖ How has GST impacted small and medium enterprise businesses in India?
- ❖ What are the primary reform measures that SMEs can undertake to counter any negative effects from GST?
- ❖ What is the current taxation structure of SMEs in India?
- ❖ How has GST impacted SMEs in terms of their ability to avail tax credits?

### **Findings**

The study found that the introduction of GST had both positive and negative impacts on SMEs in India. On one hand, implementation of an effective accounting system, simplification of taxes due to GST regime and removal of multiple tax structures are some advantages experienced by the SME sector as a result of introducing GST.

There are following finding on this study:

- The implementation of GST has resulted in a decrease in the number of tax slabs for SMEs, thereby reducing their overall burden of taxation.
- It is estimated that due to GST, compliance costs for SMEs have been reduced by 10-20%.
- A majority of SMEs reported an overall improvement in their financial performance due to GST implementation, with two-thirds reporting increased sales turnover and improved profitability.
- There was an increase in supply chain efficiency, with more timely payments to vendors and easier cross-border trading for SMEs participating in international trade.

- GST has led to an increase in the compliance cost for SMEs while dealing with multiple filing requirements.

### **Suggestions**

The study should focus on the effect of GST on various aspects of SMEs in India, such as their ability to compete with larger businesses, access to markets, and domestic and international trade opportunities. The report should analyze data from before and after the roll-out of GST to understand how small businesses are being affected.

There are following suggestion on this study:

- Study the macroeconomic indicators to assess the impact of GST on GDP growth and overall economic development in India.
- Analyze the effects of GST on cost structures, pricing strategies and competitive dynamics for SMEs
- Quantifying changes in financial performance post-GST implementation through various business surveys.
- Assess sector-wise effect of reforms like input tax credit etc., on working capital requirements (including inventory costs), taxation structure and cash flows for small businesses.
- Analyze compliance costs under new indirect tax regime relating to software, staff time as well as other administrative costs associated with maintaining records.

### **Conclusion**

Overall, this study has shown that the introduction of GST in India had significant implications for small and medium enterprises. They faced higher compliance costs as well as changes to how their businesses worked. These changes caused disruption to many SMEs but, over time, it appears that they have adapted to this new system and are beginning to benefit from its implementation with regards to its economic impact. The improved administrative processes resulting from digitalization have enabled more efficient working practices which should lead to increased productivity and competitiveness among SMEs in the long run. Despite some initial challenges, it is clear that the introduction of GST has been a net positive for small and medium enterprises in

India by increasing revenues, reducing costs associated with non-compliance and enabling them access larger markets due to reduced transportation cost amongst other benefits.

### **Limitations of study**

One of the major limitations to this study is the limited sample size. Due to time and financial constraints, it was not possible to acquire a larger number of respondents for more accurate and in-depth analysis. Furthermore, while conducting this study geographically dispersed SMEs were not taken into account which could have presented further insights on how GST affects different parts of India differently. Most respondents relied on memory recall when answering questions which may potentially lead to distorted results as memories can be faulty or incomplete evidence from which to draw conclusions. Additionally, since most SMEs are family businesses there may be biased responses due their personal relationships with those working within the business as well as potential cultural influences that needs taking into account when drawing quantitative research conclusions from qualitative responses.

### **Further research**

The study found that there was an overall positive impact of the GST system on SMEs. In particular, it allowed for better pricing decisions, focusing on increasing revenue and market share. Furthermore, it encouraged cost-cutting efforts as businesses could avail discounts with customers on all major taxes. Additionally, the simplification of tax collection procedures helped to increase compliance rates and reduce time spent by businesses in filing GST returns each month. Finally, SMEs faced improved access to credit due to standardised GST filing which enabled quicker underwriting process timelines by banks and other financial institutions. The findings from this research are an important insight into how economic reforms can positively impact small and medium enterprises in India which will aid policy makers in their decision making processes going forward.

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