



## IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES

**Dr.P.Banupriya**

*Assistant Professor,*

*Department of Commerce,*

*Mannar Thirumalai Naicker College,*

*Madurai, Tamil Nadu, India.*

### Abstract

The Goods and Services Tax (GST) is one of the most significant tax reforms introduced in India with the objective of creating a unified indirect tax structure. Small and Medium Enterprises (SMEs) constitute a major part of the Indian economy and contribute substantially to employment generation, industrial output, and exports. The implementation of GST has brought both opportunities and challenges for SMEs. While the tax system has simplified multiple indirect taxes and enhanced transparency, compliance requirements and technological adaptation have posed difficulties for small businesses. This paper examines the impact of GST on SMEs, focusing on operational efficiency, taxation structure, compliance burden, cost implications, competitiveness, and overall business performance. The study also discusses the benefits and challenges experienced by SMEs and suggests measures to improve the effectiveness of GST implementation.

**Keywords:** Goods and Services Tax (GST), Small and Medium Enterprises, Tax Reforms,

Compliance, Economic Growth, Input Tax Credit.

### I.Introduction

Small and Medium Enterprises represent the backbone of the Indian economy. These enterprises contribute significantly to industrial production, exports, employment generation, and regional development. The introduction of Goods and Services Tax (GST) on July 1, 2017, marked a transformational shift in India's indirect taxation system.

Before GST, businesses had to deal with multiple taxes such as Value Added Tax (VAT), Service Tax, Excise Duty, Entry Tax, and Central Sales Tax. The existence of numerous taxes increased complexity and led to cascading effects. GST replaced these taxes with a single unified tax system.

The primary objectives of GST include:

- The primary objectives of GST include:
- Elimination of cascading taxation.
- Creation of a unified national market.
- Simplification of tax administration.
- Promotion of transparency and efficiency.

- Enhancement of economic growth.

Although GST offers several benefits, SMEs faced numerous challenges during its implementation due to limited resources, inadequate technological infrastructure, and lack of tax expertise.

## II. Overview of Goods and Services Tax

GST is a destination-based indirect tax imposed on the supply of goods and services. It follows the principle that tax revenue belongs to the state where consumption occurs.

### A. Components of GST

- Central GST (CGST)
- State GST (SGST)
- Integrated GST (IGST)
- Union Territory GST (UTGST).

**Table I: Components of GST**

Component	Description
CGST	Collected by Central Government
SGST	Collected by State Government
IGST	Applicable to interstate transactions
UTGST	Applicable to Union Territories

### B. Objectives of GST

GST aims to:

- Reduce tax complexity.
- Eliminate multiple taxation.
- Increase transparency.
- Encourage economic growth.

- Improve ease of doing business.

## III. Small and Medium Enterprises in India

SMEs are recognized as engines of economic growth. They provide employment opportunities and support balanced regional development.

### Classification of Enterprises

**Table II : Classification of MSMEs**

Category	Investment Limit	Annual Turnover
Micro Enterprise	Up to ₹1 Crore	Up to ₹5 Crore
Small Enterprise	Up to ₹10 Crore	Up to ₹50 Crore
Medium Enterprise	Up to ₹50 Crore	Up to ₹250 Crore

### Contribution of SMEs

- SMEs contribute:
- Nearly 30% of GDP.
- Around 45% of exports.
- Employment to over 110 million people.

## IV. Literature Review

Several researchers have examined the implications of GST on SMEs.

**Table III: Review of Previous Studies**

Author	Year	Major Findings
Garg	2018	GST improved transparency
Kumar	2019	SMEs faced compliance burden
Sharma	2020	Input tax credit benefited businesses
Singh	2021	Digitalization increased efficiency

Patel	2022	Long-term gains outweighed short-term difficulties
-------	------	--

Previous studies reveal that GST has both positive and negative impacts on SMEs.

### V. Research Objectives

The major objectives of this study are:

- To analyze the effect of GST on SMEs.
- To identify challenges faced by small businesses.
- To evaluate the benefits of GST.
- To examine the impact on profitability and competitiveness.
- To suggest measures for improving GST compliance.

### VI. Research Methodology

The study is descriptive and analytical in nature.

#### Data Sources:

##### Primary Data

- Surveys
- Questionnaires
- Interviews

##### Secondary Data

- Government reports
- RBI publications
- GST Council reports
- Research journals
- Books and articles.

### VII. Positive Impact of GST on SMEs

#### A. Simplified Tax Structure

GST replaced numerous indirect taxes with a unified system.

Benefits include:

- Reduced paperwork.
- Simplified administration.
- Greater transparency.

#### B. Elimination of Cascading Effect

Under the previous system, taxes were imposed on taxes. GST removed this issue through Input Tax Credit.

#### C. Input Tax Credit Facility

Input Tax Credit (ITC) enables businesses to claim tax paid on purchases.

Advantages include:

- Reduced cost of production.
- Better cash flow.
- Increased profitability.

#### D. Enhanced Competitiveness

Uniform taxation improved:

- Market access.
- Price competitiveness.
- Supply chain efficiency.

#### E. Digital Transformation

GST introduced electronic systems such as:

- E filing.
- E-way bill.
- Online registration.

Digitalization improved transparency and efficiency.

### VIII. Negative Impact of GST on SMEs

#### A. Compliance Burden

SMEs faced challenges in:

- Filing returns.
- Maintaining records.
- Understanding regulations.

## 2. Dynamic Source Routing (DSR)

DSR uses source routing, where the complete path is included within packet headers. Reactive protocols reduce routing overhead but may introduce route discovery delays.

## C. Hybrid Routing Protocols

Hybrid protocols combine proactive and reactive approaches.

**Table IV: Compliance Challenges**

Issue	Impact
Frequent Return Filing	Increased workload
Complex Rules	Difficulty in understanding
Internet Dependency	Technological barriers
Software Costs	Higher expenses

## B. Increase in Operating Costs

**Additional costs included**

- Accounting software.
- Training employees.
- Hiring tax consultants.

## C. Cash Flow Problems

**Delayed input tax credit often affected:**

- Working capital.
- Liquidity.
- Business operations.

## D. Technological Challenges

**Many SMEs lacked:**

- Digital literacy.
- Computer systems.
- Internet infrastructure.

## IX. Impact on Manufacturing Sector SMEs

**Manufacturing enterprises experienced:**

- Improved supply chain management.
- Better inventory control.
- Reduction in logistics costs.

**Table V: Impact on Manufacturing SMEs**

Parameter	Before GST	After GST
Logistics Efficiency	Moderate	High
Tax Complexity	High	Low
Inventory Cost	High	Lower
Transparency	Low	High

## X. Impact on Service Sector SMEs

**Service sector businesses experienced:**

- Increased compliance requirements.
- Better interstate business opportunities.
- Uniform taxation.

## XI. Impact on Trading SMEs

**Trading enterprises benefited through:**

- Reduced tax barriers.
- Easier interstate movement.
- Improved market accessibility.

## XII. Conclusion

Goods and Services Tax represents one of the most important economic reforms in



India. The implementation of GST has significantly transformed the business environment for Small and Medium Enterprises. Although SMEs initially encountered several challenges such as increased compliance burden, technological adaptation issues, and cash flow constraints, the long-term advantages have been substantial. GST has simplified taxation, improved transparency, enhanced supply chain efficiency, and promoted digitalization.

The success of GST for SMEs depends largely on continuous policy reforms, simplified procedures, technological support, and awareness programs. With appropriate government interventions and increased digital readiness, SMEs can fully leverage the benefits of GST and contribute more effectively to economic growth and national development.

## References

1. Government of India, Goods and Services Tax Act, Ministry of Finance, New Delhi, 2017.
2. GST Council, Annual Report on GST Implementation, Government of India, 2024.
3. Reserve Bank of India, Handbook of Statistics on Indian Economy, RBI Publications, 2024.
4. K. Kumar, "Impact of GST on Small Businesses in India," International Journal of Management Studies, vol. 7, no. 3, pp. 55-63, 2019.
5. R. Sharma, "GST and MSME Growth in India," Journal of Business Research, vol. 8, no. 2, pp. 41-48, 2020.
6. A. Singh, "Digital Transformation of SMEs under GST," International Journal of Commerce and Economics, vol. 9, no. 1, pp. 72-80, 2021.
7. P. Patel, "Economic Effects of GST on Indian Enterprises," Asian Journal of Economics and Finance, vol. 11, no. 4, pp. 95-108, 2022.
8. Ministry of MSME, Annual Report 2024-25, Government of India.
9. World Bank, Ease of Doing Business Report, 2023.
10. NITI Aayog, Economic Survey of India, Government of India, 2024.