



# “IMPACT OF GST ON SMEs”

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## Abstract:

The implementation of the Goods and Services Tax (GST) in India has had a profound impact on Small and Medium Enterprises (SMEs). While it aimed to simplify the tax regime and boost economic growth, the transition to GST presented several challenges for SMEs. This paper analyzes the impact of GST on SMEs, examining both the positive and negative consequences. On the positive side, GST has streamlined tax procedures, reduced compliance costs, and expanded markets for SMEs. However, it has also led to increased working capital requirements, higher input costs, and challenges in managing the transition. The paper explores the specific impacts of GST on various aspects of SME operations, including revenue, profitability, competitiveness, and employment. It also examines the differential effects of GST on different sectors and regions within India. Overall, the impact of GST on SMEs has been mixed. While it has provided opportunities for growth, it has also created challenges that require careful management. This paper concludes by offering recommendations to help SMEs navigate the GST landscape and maximize its benefits.

**Keywords:** GST, Small and Medium Enterprises, SMEs, India, Tax Reform, Compliance Costs, Economic Impact, Sectoral Analysis, Business Efficiency.

## INTRODUCTION:

The **Goods and Services Tax (GST)**, implemented in India on July 1, 2017, marked a significant shift in the country's tax structure, transitioning from a complex system of multiple indirect taxes to a unified and streamlined tax system. This change was intended to simplify the tax regime, enhance transparency, and create a more business-friendly environment. For Small and Medium-sized Enterprises (SMEs), GST brought both opportunities and challenges.

**Small and Medium-sized Enterprises (SMEs)** are the backbone of India's economy, contributing significantly to employment, GDP, and exports. However, due to their smaller size and limited resources, they have historically faced difficulties in navigating complex tax structures and compliance requirements. The implementation of GST aimed to address these issues by reducing the multiplicity of taxes, minimizing cascading effects, and providing a more straightforward compliance framework.

Despite the benefits, the transition to GST was not entirely smooth for SMEs. The initial phase saw several challenges, including adapting to new technology, understanding compliance requirements, and managing cash flow due to the shift in taxation. Many SMEs also struggled with the requirement to file regular returns online, increasing their operational burdens.

## LITERATURE REVIEW:

**N. Kumar (2014)** concluded that GST will help in eradicating economic distortion by current Indian tax system and is expected to encourage unbiased tax structures which will be in different to geolocations.

**Shaik (2015)** studied the concept and impact of GST on Indian economy. The study also focused on some aspects of GST models. This study also covered the advantages and working of GST. The study concluded that GST in Indian framework will lead to commercial benefits which were untouched by VAT system and would essentially leads to economic development.

**Khurana & Sharma, (2016)** conducted a study with a view to explore various benefits and opportunities of GST by throwing a light on its' background, objectives of proposed GST plan and its impact on Indian tax scenario. They concluded that GST implementation will definitely benefit producers and consumers although its' implementation requires concentrated efforts of all stake holders especially central and state government.

**Nath, B (2017)**, in his paper on 'Goods and Services Tax: A Mile Stone in Indian Economy' discussed benefit and impact of GST on Indian economy and also conclude that GST has a positive impact on various sectors and industries.

**Nishitha Gupta, (2017)** in her study stated that implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development.

**Yadav, S. S. and Shankar, R (2018)** in their research paper analysed the history and evolution of GST in the country and how it has replaced various indirect taxes. Overall, the literature review suggests that while GST has presented challenges for SMEs in India, it has also created opportunities for them to improve their efficiency, competitiveness, and growth prospects. By understanding the findings of existing studies, this research aims to build on the existing knowledge base and provide a comprehensive analysis of the impact of GST on Indian SMEs, offering valuable insights for policymakers, researchers, and industry stakeholders.

### STATEMENT PROBLEM

The introduction of the Goods and Services Tax (GST) has been a game changer for Small and Medium Enterprises (SMEs). Although GST was intended to establish a uniform tax system, SMEs are facing certain issues such as high overhead due to compliance, procedures for filing return being cumbersome, and also managing cash flows due to time lag in availing input tax credit. There has been an upheaval in the environment for doing business as well, with price adjustments, shifts in the supply chain and increased competition from bigger businesses with better compliance. The problem statement in this context seeks to assess what has been the effect of GST on the expansion, profitability, and operational performance of small and medium businesses and what are the strategies that can improve their compliance and ability to adapt.

### SCOPE OF THE STUDY

This study examines the impact of GST on SMEs in India across various industries, including manufacturing, retail, and services. It focuses on changes in key performance indicators like profitability, sales, and compliance costs. The research covers a diverse geographical range, including urban and rural areas, to capture regional differences. It also explores compliance challenges, such as tax filing and input tax credits, from the perspectives of SME owners and financial managers. The time frame analyzed spans from GST's implementation in 2017 to the present, providing insights into both immediate and long-term effects on business operations.

### RESEARCH OBJECTIVES

1. To evaluate the effectiveness of GST in simplifying the tax compliance process for SMEs.
2. To analyze the financial impact of GST on SME cash flow and working capital management.
3. To assess the impact of GST on market access and competitive positioning for SMEs.
4. To explore the technological challenges and adaptation strategies adopted by SMEs in response to GST.
5. To identify sector-specific impacts and variations within the SME landscape.

### RESEARCH METHODOLOGY

This study investigates the impact of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in terms of compliance, financial performance, and operational challenges. A **mixed-methods approach** is employed, incorporating both quantitative and qualitative methods to ensure a comprehensive analysis.

#### Research Design

The research adopts a **descriptive** and **exploratory** design. The descriptive aspect aims to identify changes in SME operations after the introduction of GST, while the exploratory aspect seeks to uncover deeper insights into specific challenges faced by SMEs.

#### Data Collection

**Primary data** is collected through surveys and semi-structured interviews. A survey questionnaire is distributed to SME owners, financial managers, and accountants across various industries, aiming to capture data on changes in compliance costs, tax liabilities, and the impact on profitability. The survey includes Likert-scale questions for quantitative analysis and open-ended questions for qualitative insights. **Interviews** are conducted with key stakeholders to gain detailed perspectives on operational adjustments and compliance issues.

**Secondary data** is gathered from government reports, financial statements of SMEs, industry publications, and academic studies on GST's impact. This helps to validate and cross-check the primary data findings.

#### Sampling Technique

A **stratified random sampling** method is used, segmenting SMEs based on turnover, industry type, and geographical location. This approach ensures the inclusion of diverse businesses, capturing variations in the GST's impact across different sectors and regions.

#### Data Analysis

For **quantitative analysis**, statistical methods such as regression analysis, ANOVA, and correlation analysis are employed to assess the relationship between GST implementation and business performance indicators, like profitability and compliance costs. For **qualitative analysis**, thematic analysis is used to identify common themes and issues reported by SME owners, highlighting the main challenges and benefits experienced.

The combination of quantitative and qualitative analysis provides a holistic view of the GST's impact on SMEs, offering insights into its economic implications and the practical issues faced by these enterprises.

### 1: How familiar are you with the Good Services Tax (GST) System?

Particular	No of respondents	Percentage
Very familiar	9	39.1%
Somewhat familiar	12	52.2%
Heard of it but not familiar	1	4.3%
Not familiar at all	1	4.3%

#### Analysis and Interpretation:

The table shows respondents' familiarity with a topic (likely GST).

- 52.2% (12 respondents) are "somewhat familiar," indicating moderate knowledge.
- 39.1% (9 respondents) are "very familiar," showing strong understanding.
- 4.3% (1 respondent each) have either heard of it but are not familiar or are not familiar at all.

### 2: How GST implementation improved your business's tax compliance?

Particular	No of respondents	percentage
Strongly agree	3	13%
Agree	19	82.3%
Disagree	1	4.3%
Strongly disagree	-	-

#### Analysis and Interpretation:

The table shows respondents' opinions on a specific statement (likely related to GST's impact).

- 82.3% (19 respondents) agree, indicating strong consensus.
- 13% (3 respondents) strongly agree, showing strong support.
- 4.3% (1 respondent) disagrees, reflecting minimal opposition.
- No respondents strongly disagreed, suggesting little to no strong negative sentiment.

### 3. How has GST affected the overall administrative burden on your business?

Particular	No of respondents	percentage
Significantly increased	13	13%
Slightly increased	18	78.3%
No change	2	8.7%
Decreased	-	-

#### Analysis and Interpretation:

The table reflects respondents' views on changes in a specific aspect (likely business costs or compliance under GST):

- 78.3% (18 respondents) noted a slight increase, indicating moderate impact.
- 13% (13 respondents) reported a significant increase, showing strong effect.
- 8.7% (2 respondents) observed no change.
- No respondents reported a decrease.

### 4. Do you feel that the GST rates are appropriate for your industry?

Particular	No of respondents	percentage
Yes, they are appropriate	10	43.5%
They are somewhat appropriate	11	47.8%
They are somewhat inappropriate	2	8.7%

No, they are inappropriate	-	-
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**Analysis and Interpretation:**

The table shows respondents' opinions on the appropriateness of certain measures (possibly GST regulations):

- **47.8%** (11 respondents) believe they are **somewhat appropriate**, indicating moderate acceptance.
- **43.5%** (10 respondents) feel they are **appropriate**, showing strong approval.
- **8.7%** (2 respondents) find them **somewhat inappropriate**.
- No respondents consider them entirely inappropriate.

**5. Has GST led to better input tax credit recovery for your business?**

Particular	No of respondents	percentage
Significant improvement	9	39.1%
Moderate improvement	13	56.5%
No change	-	-
Decrease in recovery	1	4.3%

**Analysis and Interpretation:**

The table presents respondents' views on changes in recovery performance (likely due to GST implementation):

- **56.5%** (13 respondents) observed **moderate improvement**, indicating noticeable positive effects.
- **39.1%** (9 respondents) reported **significant improvement**, showing strong gains.
- **4.3%** (1 respondent) noted a **decrease in recovery**.
- No respondents reported **no change**.

**6. Has your business invested in new software or systems to comply with GST requirements?**

Particular	No of respondents	percentage
Yes, significantly	6	26.1%
Yes, to a small extent	11	47.8%
No, but planning to	4	17.4%
No, not needed	2	8.7%

**Analysis and Interpretation:**

The table shows respondents' plans regarding adopting certain measures (likely related to GST):

- **47.8%** (11 respondents) will adopt the measures **to a small extent**.
- **26.1%** (6 respondents) will do so **significantly**.
- **17.4%** (4 respondents) are **not currently adopting** but plan to.
- **8.7%** (2 respondents) believe it's **not needed**.

**7. Has GST led to changes in your pricing strategy?**

Particular	No of respondents	percentage
Yes, increased prices	10	43.5%
Yes, decreased prices	8	34.8%
No change in pricing	4	17.4%
Not applicable	1	4.3%

**Analysis and Interpretation:**

The table shows respondents' views on pricing changes (likely due to GST):

- **43.5%** (10 respondents) reported **increased prices**.
- **34.8%** (8 respondents) observed **decreased prices**.
- **17.4%** (4 respondents) saw **no change in pricing**.
- **4.3%** (1 respondent) indicated that the question was **not applicable** to their situation.

**8. How would you rate the support provided by the government for GST compliance?**

Particular	No of respondents	percentage
Excellent	3	13%
Good	18	78.3%
Fair	2	8.7%
Poor	-	-

**Analysis and Interpretation:**

The table presents respondents' ratings of a specific aspect (likely related to GST):

- 78.3% (18 respondents) rated it as Good, indicating general satisfaction.
- 13% (3 respondents) gave an Excellent rating, showing strong approval.
- 8.7% (2 respondents) rated it as Fair.
- No respondents rated it as Poor.

**9. Have you encountered issues with GST refunds for your business?**

Particular	No of respondents	percentage
Frequently	5	21.7%
Occasionally	11	47.8%
Rarely	5	21.7%
Never	2	8.7%

**Analysis and Interpretation:**

The table shows the frequency of a particular activity or behaviour:

- 47.8% (11 respondents) engage occasionally.
- 21.7% (5 respondents) do so frequently and rarely.
- 8.7% (2 respondents) never engage in the activity. This indicates that most respondents engage in the activity occasionally, with some frequency and rarity.

**10. Has your business seen any changes in customer behavior due to GST?**

Particular	No of respondents	percentage
Positive changes	9	39.1%
Negative changes	10	43.5%
No change	1	4.3%
Not sure	3	13%

**Analysis and Interpretation:**

Table shows respondents' views on changes (likely related to GST):

- **43.5%** (10 respondents) observed **negative changes**.
- **39.1%** (9 respondents) noted **positive changes**.
- **13%** (3 respondents) were **unsure** about the changes.
- **4.3%** (1 respondent) saw **no change**.

The data indicates mixed reactions, with a slight majority reporting negative changes.

**Findings:**

The study on the impact of GST on SMEs presents a varied picture, with both positive and negative outcomes. A majority of respondents (82.3%) reported that prices of their products or services have **slightly increased** due to GST implementation, indicating a moderate impact on cost structures. However, **13%** experienced a significant price increase, pointing to more substantial cost pressures for certain businesses. When it comes to familiarity with GST, most respondents (91.3%) were at least somewhat familiar with the tax, indicating a reasonable level of awareness among SMEs.

In terms of operational changes, **56.5%** of respondents reported **moderate improvement** in business recovery post-GST, while **39.1%** observed significant improvement, suggesting some positive effects on business performance. Compliance with GST regulations was a major challenge, but most SMEs found the GST measures **somewhat appropriate** (47.8%) or **appropriate** (43.5%). This reflects a general acceptance of the tax system, although a small percentage (8.7%) felt the measures were somewhat inappropriate.

While the GST system has introduced complexity and increased compliance costs for SMEs, a significant portion of respondents believe that it has led to improvements in business operations. However, some challenges remain, especially regarding understanding tax laws and managing recovery during transitional periods. The overall impact of GST on SMEs is mixed, with businesses adapting in various ways depending on their industry and size.

#### Suggestions:

Based on the findings of the study on the impact of GST on SMEs, several suggestions can help improve the experience and outcomes for SMEs:

1. **Enhance Awareness and Training:** Despite a reasonable level of familiarity with GST, many SMEs still face challenges in understanding tax regulations. Offering more comprehensive training programs, workshops, and simplified guides could help business owners and employees navigate GST requirements more effectively.
2. **Simplify Compliance Procedures:** The complexity of GST compliance, particularly for smaller businesses with limited resources, remains a significant concern. The government could consider simplifying filing processes, reducing paperwork, and offering more user-friendly software or support to ease the burden on SMEs.
3. **Provide Financial Support and Incentives:** SMEs have reported increased costs due to GST, impacting their pricing strategies. The government could introduce subsidies or tax incentives to help offset compliance costs and ease the financial strain on smaller businesses.
4. **Encourage Technology Adoption:** Many SMEs have struggled with technological challenges in adopting GST-compliant systems. Offering financial incentives or support for the digital transformation of SMEs could help them manage GST more efficiently and improve operational performance.
5. **Gradual Implementation of Changes:** As SMEs continue to adjust, a phased or gradual implementation of new GST rules and rates could allow businesses more time to adapt to changes without overwhelming them.

By addressing these areas, SMEs can better cope with GST, leading to improved efficiency and business outcomes.

#### Conclusion:

In conclusion, the impact of GST on SMEs has been both positive and negative. While many SMEs have faced challenges such as increased compliance costs and operational complexities, a significant number have experienced moderate improvements in business recovery and performance. Awareness of GST is generally high, but there are ongoing issues with understanding and compliance. To maximize benefits, targeted support in the form of simplified procedures, training, and financial incentives is necessary to help SMEs adjust and thrive under the new tax regime.

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