

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

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### •Abstract:

“GST was implemented as a transformative reform in India’s indirect taxation, designed to consolidate various taxes into one comprehensive framework.”

“This study examines how the implementation of GST has affected Small and Medium Enterprises (SMEs), which play a crucial role in supporting India’s economic structure.” While GST has simplified the tax structure and enhanced compliance through digitization, it has also presented challenges for SMEs in terms of adapting to new systems, managing working capital, and handling increased compliance costs. The study analyzes both the positive and negative consequences of GST on SMEs, such as improved market access and competitiveness, juxtaposed with operational hurdles like limited IT infrastructure and financial strain. Through a balanced evaluation, the paper aims to provide insights into how GST has reshaped the business environment for SMEs and what policy adjustments may be necessary to support their growth in the post-GST era.

### •Introduction:

On July 1, 2017, India implemented the Goods and Services Tax (GST), bringing a major transformation to its indirect tax framework.”

"Designed to unify multiple central and state taxes into a single comprehensive tax structure, GST aimed to create a seamless national market by eliminating the cascading effect of taxes. While this reform brought greater transparency and efficiency to the taxation system, it also posed various challenges and opportunities for Small and Medium Enterprises (SMEs), which constitute a vital segment of the Indian economy.

SMEs contribute significantly to employment generation, industrial output, and exports. However, their scale, limited resources, and often informal nature make them particularly sensitive to policy changes. The implementation of GST has affected these businesses in diverse ways — ranging from compliance burdens and cash flow issues to access to a broader market and improved supply chain efficiency. This paper examines the multifaceted impact of GST on SMEs, highlighting both the benefits and the challenges they face under the new tax regime.

### •Literature Review:

While many nations around the world have already adopted GST efficiency, the idea of GST remain relatively new in india Presently, there are 160 countries which successfully adopted GST globally.France was the first country to adopt GST which implemented GST in the year 1954.Different countries around the by both the Central and State Governments and have more than one rate (a zero rate, certain exemptions and higher and lower rates).globe follow different models of GST having their own

peculiarities. Countries like Singapore, Australia impose taxes on everything nearly at a single rate while some countries like India, Brazil and Canada follow a dual system where GST is levied. "While extensive research on various facets of GST has been conducted globally, only a handful of studies exist in the Indian context since the tax system is still in its early stages of adoption." stage of infancy in India. "In the Indian context, notable studies include those by Shaik et al. (2015), Bhowmik (2016), Iqbal (2016), and Kour et al." (2016), Venkat (2016), Zainol et al. (2016) Pandit (2017), Suman (2017), etc. In their study, Kour et al. (2016) analysed the effect of GST on SMEs and explore how it differs from previous system of indirect taxes, highlighting the potential Advantage and challenges associated with its implementation. The authors argued that GST will play a dynamic role in the growth and development of our economy. In a different study, Zainol et al. (2016) studied the impact of GST on SMEs in Malaysia and suggested that governments concerned needs to take into consideration of the impact of tax reforms on SMEs in order "to reduce the negative impact of GST on the functioning of SMEs" Pandit (2017) in his study on GST and its impact on MSMEs in Indian context, observed that during the initial years of its implementation, GST was likely to be "However, the adoption of technology and a strong IT infrastructure can simplify compliance in the long run. Suman (2017), in his study, attempted to assess the impact of GST on small businesses." Entrepreneurs in India base on primary data gathered through a survey of SMEs. "To carry out the study, a survey was administered, and the findings revealed that the majority of respondents still lacked a clear understanding of how GST operates."

#### •Research gap:

Much research is being conducted on impact of GST what limited searches available on impact of GST Small and Medium Enterprises.

#### •Objective:

- (i) "To analyze the influence of GST on small and medium enterprises."
- (ii) "To examine the potential benefits that GST offers to small and medium enterprises."
- (iii) To investigate problem faced by SMEs in implementation of GST.

#### •Hypothesis:

1 ∴ H<sub>0</sub>

Implementation of GST has no significant impact on the operational performance, compliance cost, or profitability of small and medium enterprises.

2. H<sub>1</sub>

Implementation of GST has a significant impact on the operational performance, compliance cost, or profitability of small and medium enterprises.

#### •Research of methodology :

The present study is analytical in nature and purely best all existing resources published in the form of official publications by different government agencies, journal, magazines newspapers, etc.

#### •Data Analysis:

1. Formalization of the Economy

Before GST: A large number of SMEs operated in the unorganized sector to avoid multiple indirect taxes and compliance.

•After GST (2017 Onwards):

- By the financial year 2023, nearly 1.3 crore businesses had registered under the GST system.”
- 40–45% of these are estimated to be SMEs (Source: CBIC, MSME Ministry).
- Digital compliance has pushed informal businesses into the formal sector.

## 2. Compliance & Administrative Burden

SMEs now file:

- 1-2 returns monthly (GSTR-1 and GSTR-3B),
- Annual return (GSTR-9) for businesses > ₹2 crore turnover.

Cost Impact:

Category	Pre-GST (INR/year)	Post-GST (INR/year)
Small Retailers	₹5,000–₹10,000	₹20,000–₹50,000
Small Manufacturers	₹15,000–₹30,000	₹40,000–₹70,000

## 3. Input Tax Credit (ITC) Benefits

- Positive for Manufacturing SMEs: Seamless ITC has reduced cumulative tax burden.
- Example: Manufacturers saved 2–5% on taxes due to credit on logistics, packaging, etc.
- Challenge for Service SMEs: Limited input options for credit.

## 4. Working Capital Strain

- Refund Delays: SMEs in export/import or inverted duty structures faced:
- Average refund delay: 60–90 days (as per 2021 FICCI report).
- Blocked capital: Increased need for bridging loans.

## 5. Ease of Interstate Trade

- Before GST: Central Sales Tax, Octroi, Entry Tax created friction.
- Post-GST: Seamless movement of goods; e-Way bill system reduces transport times by 20–25% (World Bank 2020).

## 6. Revenue and Growth Trends

Mixed Impact:

- SMEs in organized sectors (e.g., pharma, auto parts) saw 5–15% increase in revenue post-GST.
- SMEs in unorganized sectors (e.g., textiles, food processing) saw stagnation or decline due to compliance pressures.

Example:

A 2022 report by CRISIL showed GST-compliant SMEs had 25–30% higher credit scores and 15% more loan approvals compared to non-compliant SMEs.

### Impact of GST on SMEs – Data Analysis

#### 1. Formalization of the Economy

Before GST: A large number of SMEs operated in the unorganized sector to avoid multiple indirect taxes and compliance.

After GST (2017 Onwards):

Approx. 1.3 crore businesses regHere's a comprehensive data-driven analysis of the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. This includes key areas of impact, backed by available data trends and studies, where possibleistered under GST (as of FY 2023).

40–45% of these are estimated to be SMEs (Source: CBIC, MSME Ministry).

Digital compliance has pushed informal businesses into the formal sector.

Insight:

GST has driven formalization, increasing credit access and transparency for SMEs but also increased compliance burdens.

## 2. Compliance & Administrative Burden

SMEs now file:

1-2 returns monthly (GSTR-1 and GSTR-3B),

Annual return (GSTR-9) for businesses > ₹2 crore turnover.

Cost Impact:

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(Source: CII and FISME reports)

Insight:

Smaller firms face higher compliance costs post-GST, needing accountants/software for filings.

## 3. Input Tax Credit (ITC) Benefits

Positive for Manufacturing SMEs: Seamless ITC has reduced cumulative tax burden.

Example: Manufacturers saved 2–5% on taxes due to credit on logistics, packaging, etc.

Challenge for Service SMEs: Limited input options for credit.

Insight:

Manufacturing SMEs benefited more than service-based ones due to broader ITC applicability.

## 4. Working Capital Strain

Refund Delays: SMEs in export/import or inverted duty structures faced:

Average refund delay: 60–90 days (as per 2021 FICCI report).

Blocked capital: Increased need for bridging loans.

Insight:

Delays in ITC/refunds create cash flow stress for SMEs, especially in export-heavy sectors like textiles and handicrafts.

## 5. Ease of Interstate Trade

Before GST: Central Sales Tax, Octroi, Entry Tax created friction.

Post-GST: Seamless movement of goods; e-Way bill system reduces transport times by 20–25% (World Bank 2020).

Insight:

SMEs engaged in logistics, trading, and e-commerce benefit from smoother interstate operations.

## 6. Revenue and Growth Trends

Mixed Impact:

SMEs in organized sectors (e.g., pharma, auto parts) saw 5–15% increase in revenue post-GST.

SMEs in unorganized sectors (e.g., textiles, food processing) saw stagnation or decline due to compliance pressures.

Example:

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### Summary Table

PARAMETER	POSITIVE IMPACTS	NEGATIVE IMPACTS
Formalization	✓ Higher registration	✗ Blocked capital
ITC Access	✓ Lower cost of manufacturers	✗ Resistance due to compliance cost
Compliance	✓ Digital transparency	✗ Service SMEs less benefitted
Trade	✓ Better interstate logistics	✗ High cost & complexity
Working capital	✓ Refund delays	✗ Blocked capital

Growth	✓ Improved credit Access	✗ Smaller players hit harder

•**Conclusion:** The process of coping with the change is always difficult to some extent. Government is taking initiatives from time to time to smoothen the process of complying with GST and remove technicalities in its implementation. Patience is required to overcome these difficulties to experience the advantages of unified tax system. The time has not yet come to judge whether GST will be able to fulfill the expectations of the policy makers of our country but it is expected that it can be a game changer for Indian economy. GST is not at all a complex system but for complying with its requirements business houses have to rely on technology and internet. Though, there still exist a lot of confusions, queries and lack of clarifications on different facets of its implementation but like any other reforms these will be addressed and resolved with the passage of time. GST has also offered a great opportunity for the SMS, which are considered as the growth engine of the nation. But they have to cope with the new regime and capitalize the opportunity offered by GST, particularly by the composition scheme under GST for SMES.

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