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Research Article

A Study on the Impact of Goods and Service Tax (Gst) On Msme's in India

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Abstract

The Goods and Services tax (GST), implemented in India on July 1, 2017, is one of the most significant tax reforms aimed at unifying the country under a single indirect tax system. GST was intended to simplify the tax structure and enhance transparency. However, after the implementation of GST in India, both opportunities and challenges were brought for the MSME sectors. This research highlights the positive effect of GST, such as a decrease in cascading effect, improved input tax credit system, simplicity of tax compliance and broader market access. At the same time, it also examines the difficulties faced by small businesses, including technical issues with the GST portal, increased compliance costs, lack of digital literacy and negative impact on business cash flow.

This study presents a balanced view of how GST has significantly influenced MSME's and concludes with recommendations for strategists to make the tax system more inclusive and supportive for small enterprises.

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1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the Indian economy, contributing significantly to employment generation, manufacturing output and exports. According to the Ministry of MSME, this sector accounts for nearly 30% of India's GDP and employs over 110 million people. Despite its importance, the MSME sector often faces structural challenges such as limited access to finance, lack of formalisation, and regulatory burdens.

The implementation of the Goods and Services Tax (GST) on July 1, 2017, marked a major turning point in India's taxation system. It aimed to unify multiple indirect taxes under a single umbrella, promoting simplicity and transparency in doing business and creating a common national market. While GST promised simplification and transparency, its actual impact on MSMEs has been mixed. GST opened doors to new markets and improved tax compliance. Especially for micro and small enterprises, the transition posed difficulties like technological adaptation, increased paperwork, and cash flow issues.

This study explores the multi-dimensional impact of GST on MSMEs in India, evaluating both the positive and negative impacts on MSMEs in India. By understanding these dynamics, the research aims to offer insights that can guide future policy reforms, ensuring that the GST regime becomes more MSME-friendly and inclusive.

2. RESEARCH OBJECTIVES

- To study the impact of Goods and Services Tax on MSMEs in India
- To study the impact of Goods and Services Tax on business operations.
- To study the impact of Goods and Services Tax on business profitability.
- To study the positive and negative impacts of Goods and Services Tax implementation on MSMEs.

3. NEED OF THE STUDY

- This study helps us to know the impact of the Goods and Services Tax on MSMEs.
- To find out the performance of the businesses after the implementation of the Goods and Services Tax.
- To find out the positive and negative impacts on the MSMEs after the implementation of Goods and Services Tax.
- This study helps to policymakers to design policies for businesses more efficiently and effectively for the growth of businesses.

4. LIMITATIONS OF THE STUDY

- The study relies solely on secondary data, so data sources like government reports or published articles may have their own biases or limitations.
- Informal and unregistered MSMEs may be underrepresented in the findings.

Despite these limitations, efforts have been made to minimise their impact on the study.

5. SCOPE OF THE STUDY

The scope of this study is to analyse the impact of the Goods and Services Tax (GST) on Micro, Small and Medium Enterprises (MSMEs) in India. Which are necessary for the country's economic growth. This research focuses on how Goods and Services Tax (GST) has influenced MSMEs in terms of tax compliance, cash flow, market access and digital adaptation. The study also aims to assess the benefits and challenges brought by Goods and Services Tax (GST), compare pre and post Goods and Services Tax (GST) business environments, and provide policy suggestions to make regularly growth for businesses in future.

6. HYPOTHESIS

- I H₀:** GST has no significant impact on MSMEs in India. **H₁:** GST has a significant impact on MSMEs in India.
- II H₀:** GST has no significant effect on business operations. **H₁:** GST has a significant effect on business operations.
- III H₀:** GST implementation has no significant impact on business profitability. **H₁:** GST implementation has a significant impact on business profitability.
- IV H₀:** GST implementation has no significant positive or negative effects on MSMEs. **H₁:** GST implementation has significant positive and/or negative effects on MSMEs.

7. LITERATURE REVIEW

Impact of GST on MSMEs in India

Chaurasia, Yadav, and Singh (2019) found that GST had a mixed impact on MSMEs, with initial compliance challenges but eventual benefits such as formalisation and better market access. Bhandari and Joshi (2020) also highlighted that MSMEs faced difficulties in adapting to GST compliance, especially regarding digital invoicing and return filing.

The NITI Aayog report (2025) supports this view by emphasising that GST registration helped MSMEs integrate into the formal economy, improving access to credit and government schemes, although smaller firms faced difficulties with compliance.

Impact of GST on Business Operations

Rao and Patel (2018) noted an increased administrative workload but recognised that the unified tax system streamlined interstate trade and improved supply chain logistics.

Sharma (2021) discusses how GST compelled MSMEs to digitise their operations, alter invoicing and accounting systems, and meet stricter compliance standards, which significantly impacted operational workflows.

Kumar (2020) highlighted that despite initial operational disruptions, GST led to greater efficiency in supply chains by removing interstate barriers.

Impact of GST on Business Profitability

Verma and Gupta (2020) highlight that GST initially reduced profitability for many MSMEs due to increased compliance costs and delays in input tax credit refunds. However, over time,

businesses adapted to the system and saw improvements in profit margins.

Bansal and Mehta (2019) reported that while service-based MSMEs experienced pressure on profit margins due to higher GST rates, manufacturing MSMEs benefited from the elimination of cascading taxes.

Positive and Negative Impacts of GST on MSMEs

Das and Mohanty (2020) point out that GST brought both positive and negative effects for MSMEs. On the positive side, it increased transparency and formalisation, but on the negative side, it raised the regulatory burden and compliance costs, especially for smaller firms.

Reddy (2021) emphasised the advantages of a unified tax regime in reducing logistics costs and boosting competitiveness, but also noted the ongoing challenges posed by frequent GST rule changes.

The NITI Aayog report (2025) further notes that while GST has created new growth opportunities for MSMEs, the digital compliance requirement remains a hurdle for many.

8. DISCUSSION

Hypothesis 1: Impact of GST on MSMEs in India

H₀ (Null Hypothesis): GST has no significant impact on MSMEs in India.

H₁ (Alternative Hypothesis): GST has a significant impact on MSMEs in India.

Evidence:

A survey by the National Institute of Public Finance and Policy (NIPFP) revealed that 53% of MSMEs reported a turnover reduction of 10–30%, and 36% experienced a decline exceeding 30% post-GST implementation. Micro-enterprises were more adversely affected than small and medium enterprises.

Conclusion

Given the substantial proportion of MSMEs experiencing turnover reductions and operational challenges, we reject H₀ and accept H₁, indicating that GST has a significant impact on MSMEs in India.

Hypothesis 2: Impact of GST on Business Operations

H₀: GST has no significant impact on business operations. **H₁:** GST has a significant impact on business operations.

Evidence

A study published in the International Journal of Research Publication and Reviews highlighted that MSMEs faced operational hurdles post-GST, including compliance challenges and financial pressures, affecting their overall sustainability.

The Clear Tax analysis indicates that while GST aimed to streamline operations, businesses encountered initial disruptions, especially in adapting to new compliance requirements and digital platforms.

Conclusion

The evidence suggests that GST significantly altered business operations, necessitating changes in compliance and processes. Therefore, we reject H₀ and accept H₁.

Hypothesis 3: Impact of GST on Business Profitability

H₀: GST has no significant impact on business profitability. **H₁:** GST has a significant impact on business profitability.

Evidence

A study in the Asian Journal of Economics, Business and Accounting assessed the impact of GST on the profitability of service sector entities, finding that profitability was affected post-GST, with variations across sectors like education, hospitality, and logistics.

Research by Verma and Gupta (2020) indicated that MSMEs experienced an initial decline in profitability due to increased compliance costs and delayed input tax credit refunds, though some recovery was noted over time.

Conclusion

Given the documented effects on profitability across various sectors, we reject H₀ and accept H₁, affirming that GST has a significant impact on business profitability.

Hypothesis 4: Positive and Negative Impacts of GST on MSMEs

H₀: GST has no significant positive or negative impacts on MSMEs.

H₁: GST has significant positive and negative impacts on MSMEs.

Evidence

According to a report by IIFL, GST simplified taxation and offered benefits like reduced logistics costs and better compliance for MSMEs.

Conversely, the same report notes that MSMEs faced challenges such as increased compliance requirements, cash flow issues due to delayed refunds, and difficulties adapting to digital systems.

Conclusion

The dual nature of GST's impact, offering both benefits and challenges, leads us to reject H₀ and accept H₁, acknowledging that GST has significant positive and negative impacts on MSMEs.

9. CONCLUSION

The introduction of the Goods and Services Tax (GST) in India marked a historic transformation in the country's tax structure, aiming to unify the indirect taxation system and foster a more transparent and efficient business environment. This research was conducted to evaluate the impact of GST on MSMEs across four core dimensions: the overall MSME sector, business operations, profitability, and the mixed (positive and negative) outcomes of its implementation.

The findings indicate that GST has had a significant impact on MSMEs in India, particularly in the initial years. Many small enterprises experienced disruptions due to the complexity of

compliance, technical challenges in adapting to digital systems, and confusion surrounding tax classifications. These issues were especially severe for micro and unregistered enterprises, which lacked the infrastructure and resources to navigate the new system smoothly.

From an operational standpoint, GST reshaped business processes by enforcing digital invoicing, return filing, and real-time tax reconciliation. While this brought greater transparency and formalisation, it also created compliance burdens that increased operating costs and reliance on external consultants. Businesses had to realign their supply chains, accounting practices, and pricing strategies to remain compliant.

In terms of profitability, the results were mixed. Initially, profit margins were squeezed due to increased costs, delayed input tax credit refunds, and inventory mismanagement. However, over time, some MSMEs began to benefit from improved logistics, reduced cascading taxes, and broader access to national markets, which helped partially recover profitability and support business scalability.

Lastly, the study confirmed that GST's impact is both positive and negative. On the positive side, GST simplified interstate trade, improved transparency, and encouraged formalisation. On the negative side, many MSMEs struggled with the speed of refund processing, lack of GST literacy, and challenges in technological adoption.

Based on secondary data analysis and statistical evidence, this research rejects all four null hypotheses and confirms that GST has a significant and measurable influence on the MSME sector in India across operations, profitability, and structural business practices. To maximise the benefits and minimise the challenges, targeted government interventions, streamlined processes, improved refund mechanisms, and digital training for small businesses remain essential.

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