

# **A STUDY ON HOW MICRO, SMALL AND MEDIUM ENTERPRISES IS AFFECTED BY GOODS AND SERVICES TAX.**

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## **ABSTRACT:-**

The goal of the Goods and Services Tax (GST), which went into effect in India on July 1, 2017, was to simplify the tax structure by combining several indirect taxes into one cohesive tax system. The effect of GST on Micro, Small, and Medium-Sized Enterprises (MSMEs) is evaluated in this study. By relieving MSMEs of the hassle of managing several federal and state taxes, the GST system improved their operational efficiency and made tax compliance simpler. Administrative difficulties were decreased via the GSTN interface, which made tax registration and return filing easier.

A number of benefits of GST for MSMEs are highlighted by the report, such as the removal of the tax cascade effect, an increase in the threshold exemption for tax registration, better supply chain efficiency, and increased competitiveness. In addition, there have been notable advantages from the formalization of enterprises and the use of technology for tax compliance. But the report also lists difficulties like higher costs associated with GST compliance, more burdensome compliance requirements, problems with cash flow, and difficulties with interstate transactions.

This research offers valuable insights into the ways in which MSMEs perceive the impact of GST on their operations, finances, and growth prospects. It employs both qualitative and quantitative methodologies, such as surveys and literature studies. The results imply that, despite the benefits that the Goods and Services Tax (GST) has brought about, MSMEs still face a number of obstacles that require government assistance in the form of streamlined compliance processes and educational materials.

All things considered, MSMEs have experienced a mixed response to the implementation of GST, with both noteworthy advantages and difficulties. Maximizing the benefits of this tax reform will need ongoing efforts to improve small business understanding and ease GST compliance.

## **INTRODUCTION:-**

An important turning point in the history of India's tax system was the implementation of the Goods and Services Tax (GST) on July 1, 2017. Introduced by means of the 'One Hundred and First Amendment' to the Indian Constitution, the Goods and Services Tax (GST) merged multiple indirect taxes into a solitary, cohesive tax framework. By replacing the intricate network of federal, state, and local taxes—including excise, customs, service, VAT, purchase, and luxury taxes—with a single, nationally applicable tax, this reform sought to streamline the tax system.

Micro, Small, and Medium Enterprises (MSMEs), which account for 40% of exports and provide close to 12 million employment in India, have been disproportionately affected by the GST. Prior to the GST, small and medium-sized enterprises had to deal with a variety of taxes and compliance regulations, which frequently led to increased administrative expenses and a heavy compliance burden. These businesses now enjoy a simplified tax structure that offers simpler compliance, less paperwork, and lower overall tax loads thanks to the introduction of GST.

These advantages have been made possible in large part by the GST Network (GSTN) portal. Its digital platform makes it easier for businesses to register, file returns, and pay taxes more quickly. SMEs no longer have to handle as much administrative work, freeing them up to concentrate more on their core competencies and expansion.

The switch to GST has not, however, been without difficulties. SMEs have encountered challenges in comprehending the novel tax framework, adherence prerequisites, and technical prerequisites. Many small firms, particularly those operating in rural or less technologically advanced locations, have faced substantial challenges due to the requirement for digital literacy and infrastructure to execute online tax filings.

In spite of these obstacles, the SME sector has benefited greatly from GST. By eliminating checkpoints and border fees, it has streamlined interstate trade and cut down on transportation-related delays and expenses. Input tax credits have also helped to mitigate the problem of tax cascading, which was previously causing SMEs' tax costs to increase. Small enterprises with a turnover of up to ₹1.5 crore can also benefit from the composition scheme under GST, which lowers their tax liability and lessens their financial burden.

This study examines how the Goods and Services Tax (GST) has affected MSMEs, emphasizing the advantages, difficulties, and overall effectiveness of the tax reform in improving the conditions for small businesses to operate in. This study intends to provide insights into how GST has changed the landscape for MSMEs in India, identifying areas for policy reforms and support mechanisms to further facilitate their growth and compliance. It will do this through a thorough assessment of the literature, data analysis, and stakeholder feedback.

## **Important Theories and Ideas:-**

### 1. Theory of Tax Compliance

This theory looks at how taxpayers behave and what influences their adherence to the tax code. It draws attention to the delicate balance that exists between enforcement and facilitation, wherein enforcement takes the form of audits and penalties and facilitation consists of streamlining tax procedures and offering assistance to taxpayers.

Concerning GST: The goal of the GST's simplification of the tax structure is to improve MSMEs' compliance by making it simpler to file returns and less complicated to deal with many taxes.

### 2. Theory of Economic Efficiency

This theory addresses the best way to distribute resources in order to increase economic growth and productivity. It implies that administrative duties and compliance expenses can be decreased with a more straightforward tax structure, increasing economic efficiency.

Significance to GST: By reducing MSMEs' total tax burden and operating expenses, the GST seeks to simplify tax administration and lessen the cascading effect of taxes.

### 3. Benefit-Cost Analysis

This idea entails weighing a policy's advantages above disadvantages in order to assess its total impact. It aids in determining if the long-term benefits of introducing a new tax system, such as the GST, outweigh the drawbacks.

Concerning GST: Evaluating the effects of GST on MSMEs entails weighing the advantages (like lowered tax obligations and streamlined procedures) and disadvantages (like heightened compliance obligations and upfront adjustment expenses).

### 4. Theory of Institutions

This theory focuses on the ways that institutional structures—such as rules and conventions—affect the performance and behavior of organizations. It asserts that firms must change in order to comply with new legislation, which can be difficult, particularly for smaller businesses.

Relevance to GST: MSMEs must modify their accounting procedures, technology usage, and general management procedures in order to comply with the new GST requirements.

### 5. Theory of Growth

The elements that lead to economic development and growth are examined under this theory. It consists of things like capital expenditures, technical developments, and laws that encourage the expansion of businesses.

Relevance to GST: It is anticipated that the unified tax system under GST will improve the business climate and foster business expansion, which could result in greater investments and business possibilities for MSMEs.

## **Conceptual Model:-**

The study's conceptual model is represented visually as follows:

Separate variables:

Implementing GST: This includes things like tax rates, procedural modifications, and compliance requirements.

Managing Factors:

Firm Size: The effects on small, medium, and micro companies may differ.

Industry Sector: Because each has its own set of operating variables, different industries may experience differing degrees of influence.

Variables under Dependency:

Tax Compliance: Observance of GST payment and filing obligations.

Economic efficiency is the result of lower costs and more operational effectiveness.

Operational Costs: Variations in the price of administration, technology, and compliance.

Business Growth: Metrics including income, market expansion, and investment levels that indicate growth.

### Hypotheses:-

H1: The GST's implementation has greatly improved MSMEs' tax compliance.

H2: By easing the administrative and compliance constraints, GST has increased MSMEs' economic efficiency.

H3: For MSMEs, the advantages of a more straightforward tax structure exceed the costs associated with complying with GST.

H4: MSMEs' operational efficiency has increased as a result of their successful adaptation to the institutional changes brought about by the GST.

H5: Because the GST has created a more stable and predictable tax environment, it has had a favorable influence on the expansion and development of MSMEs.

By tying important ideas and theories to the study's objectives, research questions, and hypotheses, this theoretical framework will direct the investigation. It will offer a methodical way to examine how the GST has affected MSMEs and assist in deriving significant inferences from the study's findings.

### Literature Review:-

#### 1. An overview of MSMEs and GST

By combining several indirect taxes into one, the Goods and Services Tax (GST) was implemented in India with the goal of streamlining the country's tax structure. It was expected that this reform would have varying effects on different sectors, with MSMEs being impacted more than others because of their important position in the economy.

2. Knowledge and Views Regarding GST

Research by Kaur (2018) and Chouhan et al. (2017), for example, show that small business owners had low to moderate levels of GST awareness. This ignorance resulted in unfavorable opinions and difficulties implementing the new tax structure. The GST's technology integration requirements and complexity were found to be major obstacles.

3. Effect on How Businesses Operate

Banik and Das (2017) claim that while the GST simplified the tax structure and added compliance challenges, it also replaced a number of other levies. Due to the need to acquire qualified staff, businesses had to raise operating expenses. Notwithstanding these early difficulties, Kumar (2017) pointed out that GST is anticipated to lessen small vendors' total tax burden and increase market competition.

4. Impacts Specific to a Sector

Mishra (2018) and Bhuyan and Nayak (2017) looked at how the GST affected different industries. According to their findings, different industries had different degrees of advantages and difficulties, including FMCG, textiles, and medicines. While the provision of input tax credits and the removal of the cascading tax effect were welcome developments, service-oriented MSMEs faced difficulties due to the increased GST rates on services.

5. Administrative and Compliance Difficulties

Numerous studies have highlighted the increasing difficulty of compliance resulting from GST, such as those conducted by Ramalingam (2018) and Ankita Verma and Priyanka Khandelwal (2018). Higher operating costs resulted from small businesses having to pay tax advisors, invest in accounting software, and train staff. In addition, there were constant difficulties because of the intricate rules and regular modifications to the GST laws.

6. Advantages and Possibilities

Numerous benefits of the GST have been noted by Bhuyan and Nayak (2017) and Saradhi and Wali (2018), including enhanced supply chain effectiveness and a greater degree of economic formalization. MSMEs' competitiveness was increased, interstate trade ran more smoothly, and logistical expenses were decreased because to the unified tax structure.

7. Difficulties In the Process of Implementation

Agarwal and Sekhani (2018) talked on the difficulties that businesses had when the GST was first being implemented. These included handling transitional concerns, comprehending new compliance procedures, and adjusting to new billing needs. The long-term advantages of GST, including a more open tax system and possible GDP growth, were recognized despite these difficulties.

8. Policy Suggestions

Numerous policy proposals are made by the literature to assist MSMEs under the GST regime. These consist of broad awareness campaigns run by the government, streamlining compliance

processes, and offering funding to encourage the adoption of new technology. To guarantee a more seamless transition, incremental implementation plans and stakeholder engagements were also suggested.

## **Data Analysis:-**

### 1. Demographic Information of Respondents

- Age Distribution

Age groups: 18-25, 26-35, 36-45, 46-55, 56+

Largest group: 26-35 years old (28.3%)

- Gender Distribution

Males: 32

Females: 21

- Type of Business

Retail: 66%

Service-based: 20%

Manufacturing: 9%

Hospitality: 4%

- Education Level

High School or Below: 66%

Some College/Associate Degree: 20.4%

Bachelor's Degree: 7.4%

Master's Degree or Above: 5.6%

- Years in Business

Less than 1 year: 5.66%

1-5 years: 32.08%

6-10 years: 28.30%

11-15 years: 30.19%

16+ years: 3.77%

## 2. Awareness and Perception of GST

- Awareness of GST

Very Aware: 47%

Somewhat Aware: 30.2%

Not Very Aware: 17%

Not Aware at All: 5.8%

- Perceived Impact of GST

Very Beneficial: 20.8%

Somewhat Beneficial: 24.5%

Somewhat Detrimental: 26.4%

Very Detrimental: 28.3%

## 3. Impact on Business and Challenges Faced

- Impact on Pricing of Goods or Services

Increased significantly: 20.8%

Increased slightly: 43.4%

No change: 28.3%

Decreased slightly: 5.7%

Decreased significantly: 1.8%

- Change in Sales Volume

Increased significantly: 20.8%

Increased slightly: 28.3%

No change: 20.8%

Decreased slightly: 24.5%

Decreased significantly: 5.7%

- Increase in Overall Business Costs

Registration fees: 20.8%

Accounting fees: 28.3%

Software costs: 20.8%

Increased tax burden: 30.1%

- Biggest Challenges in Complying with GST

Understanding the regulations: 18.9%



Completing the paperwork: 41.5%

Using the online GST portal: 15.1%

Keeping proper records: 13.2%

Meeting filing deadlines: 11.3%

- Impact on Cash Flow

Significantly improved: 9.4%

Slightly improved: 9.4%

No change: 24.5%

Slightly worsened: 41.5%

Significantly worsened: 15.2%

- Difficulty in Accessing Credit

Yes, to a great extent: 35.8%

Somewhat more difficult: 20.8%

No impact: 22.6%

Somewhat easier: 15.1%

Much easier: 5.7%

- Challenges in Inter-State Transactions

Yes, frequently: 50.9%

Occasionally: 28.3%

Rarely: 15.1%

No, not at all: 5.7%

4. Specific to Startups

- Change in Registration Threshold Affecting Decision to Register

Yes: 84.9%

No: 15.1%

- Utilization of the Composition Scheme

Yes: 75.5%

No: 24.5%

- Government Support in Understanding and Complying with GST

Yes: 83%

No: 17%

### **Correlation Analysis:-**

Relationship Between Change in Price and Sales Volume

Correlation coefficient: 0.678 (moderately strong positive correlation)

Interpretation of Results

Knowledge and Perception: MSMEs are generally aware of GST, yet a sizable fraction still struggle to comprehend its ramifications.

**Business Impact:** While many firms have seen price increases as a result of GST, some have had beneficial effects on sales volume. The whole cost of compliance is still a significant worry, though.

**Difficulties:** Completing paperwork, comprehending rules, and handling cash flow are the main difficulties. For many firms, getting loans has gotten more challenging.

**Entrepreneurs:** The reduction in the registration barrier has encouraged entrepreneurs to register for GST in a good way. The composition method is helpful to most startups, but some still have trouble getting government support for compliance.

This thorough analysis highlights both the advantages and difficulties that firms encounter, giving readers a thorough grasp of how the GST has affected MSMEs. Targeted initiatives to solve certain issues and improve the overall efficacy of GST implementation for MSMEs could be the next course of action.

## **In Conclusion:**

Updated memory

Micro, Small, and Medium-Sized Enterprises (MSMEs) in India have been impacted by the Goods and Services Tax (GST) in a number of ways. The following is an overview and conclusion drawn from the report's findings:

**Benefits:**

**Simplified Tax Structure:** The GST eliminated the need to navigate numerous tax regimes by replacing numerous indirect levies with a single, unified tax.

**Decreased Tax Cascading:** Companies' total tax liability is reduced when they claim input tax credits for taxes paid on inputs.

**Raised Threshold Exemption :** Small firms have benefited from higher thresholds for necessary tax registration, which have relieved them of the immediate stress of tax compliance and allowed them to expand.

**Enhanced Supply Chain Efficiency:** Businesses have been able to reach a wider market thanks to the streamlining of logistics brought about by the removal of interstate trade barriers and the lowering of paperwork.

**Enhanced Competitiveness:** Since state tax rates are uniform, small and medium-sized businesses can now more successfully compete with larger corporations.

**Formalization Encouraged:** The Goods and Services Tax (GST) has pushed firms to transition from the unorganized to the formal economy, resulting in better access to government contracts and other advantages.

**Adoption of Technology:** SMEs are being forced to employ technology in order to improve operational efficiency as a result of the requirement for digital tax compliance.

**Ease of Doing Business:** By eliminating bureaucratic obstacles, online GST compliance has streamlined procedures like registration, return filing, and refunds.

**Opportunities for Growth:** SMEs now have access to a wider customer base thanks to the GST's unified market.

**Improved loan Accessibility:** Companies can obtain input tax credits on capital goods, which facilitates loan access for expansion and growth.

**Enhanced Investor trust:** Investor trust in the Indian market has grown as a result of the standardization and transparency brought about by the GST.

#### Negative Impacts:

**Compliance Burden:** The administrative load on SMEs has increased due to the heightened requirement for accurate record-keeping and timely filing.

**Additional expenditures:** The requirement for new accounting software, the hire of tax experts, and staff training have all resulted in increased expenditures for many SMEs.

**Cash Flow Issues:** Some organizations have had cash flow issues as a result of the reverse charge mechanism and other compliance obligations.

**Restricted IT Infrastructure:** SMEs who lack the necessary technology resources have had difficulty meeting the digital requirements of GST compliance.

**Increasing Compliance Complexity:** SMEs' compliance efforts have been made more difficult by various tax slabs, exclusions, and the consequences of interstate taxes.

**Impact on Competitiveness:** Smaller companies are sometimes at a disadvantage because of the higher relative compliance costs they incur when compared to larger enterprises.

interruptions to Supply Chains: The initial application of GST resulted in supply chain delays and interruptions, which had an impact on business operations.

Difficulties with the Transition: SMEs encountered difficulties with the GST transition, such as having to update software and get used to the new criteria for invoicing.

Impact on Unorganized Sector: Adhering to GST regulations has proven to be difficult for small retailers and other unorganized sector enterprises.

Conclusion:

In conclusion, MSMEs in India have experienced substantial changes as a result of the introduction of the GST. It has decreased tax cascading, streamlined the tax structure, and improved supply chain efficiency, but it has also resulted in higher costs and difficulties associated with compliance. Many small firms have found the GST transition to be difficult, especially those without sufficient IT infrastructure. Nonetheless, the long-term advantages—such as increased competitiveness, economic formalization, and simpler loan availability—indicate that GST may have a favorable effect on India's MSME market.

### **Suggestions:-**

1. Increased outreach and education initiatives to better inform businesses about GST laws and compliance obligations are examples of enhanced government support.
2. Streamlining Compliance: Reducing the administrative load on SMEs by further streamlining GST procedures.
3. Taking Action to Reduce Cash Flow Issues: Putting policies in place to help SMEs with cash flow issues related to the GST.
4. Technological Assistance: Assisting SMEs with technology so they can adjust to the digital needs of GST compliance.
5. By taking these actions, you may optimize the benefits of GST for India's MSME sector and ensure a more seamless transition.

### **Reference:-**

Bhuyan, G., & Nayak, B. (2017). The impact of GST on various industries including telecom, cement, banking, and insurance. The study concluded that GST would benefit the economy by increasing GDP

growth and job creation, emphasizing opportunities for innovation, accountability, and transparency in the tax system.

Kaur, M. (2018). A study assessing public awareness of GST and understanding people's expectations. The findings revealed a lack of awareness among respondents, resulting in negative perceptions due to insufficient information. Many participants struggled to identify the tax slabs used, indicating a lack of understanding of goods and services taxation.

Chouhan, A., Jain, R., & Gupta, P. (2017). Investigated the GST awareness levels of 148 small business owners in Rajasthan, highlighting challenges such as a lack of knowledge about the act and difficulty obtaining relief measures. Customer resistance to GST payment and a perception of increased complexity were identified as significant issues.

Banik, D., & Das, S. (2017). Analyzed the difficulties facing the Indian economy post-GST implementation, contrasting it with the prior tax structure comprising 31 distinct taxes. The analysis emphasized the complexity of the new tax system and the need for hiring qualified staff due to the technology integration with GST filing.

Kumar, R. (2017). Compared the previous indirect tax system to GST, elucidating the concept, rates, and impact on tax filing processes. The study demonstrated how GST alleviates the burden on small vendors and business owners, concluding that GST is simpler than the previous tax system and predicting benefits for manufacturers, boosting market competition.

Mishra, P. (2018). Provided an overview of GST rates and their impact on various industries such as pharmacy, agriculture, textiles, telecommunications, real estate, FMCG, automobiles, banking, and finance. The study concluded that implementing a single tax system would encourage more manufacturers to invest in the sector.

Kumar, A., & Sarkar, S. (2016). Provided a brief analysis of the current and past taxation systems, emphasizing the advantages of GST for consumers, businesses, exporters, and the economy. The study concluded that timely implementation of GST is crucial for economic growth.

Verma, A., & Khandelwal, P. (2018). Despite recognizing the benefits of GST, many businesses faced operational challenges. The authors concluded that the impact of GST on MSME business regulation is mixed, with both positive and negative effects observed.

Ramalingam, N. (2018). The paper, titled "Towards Goods and Service Taxation- Issues and Concerns," addressed the fundamentals of GST, its evolution, challenges, and differences between GST and the VAT system. The study recommended extensive stakeholder discussions to ensure a smooth transition to GST.

Saradhi, V. R., & Wali, O. P. (2018). Investigated the impact of GST on the business supply chain system, revealing that GST's unified tax system enables rapid movement of goods across state borders. However, sourcing decisions may be influenced by perceived risks and opportunities associated with dealing with GST-registered versus unregistered vendors.