

**IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES (SMEs)**

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**Abstract:**

*The Goods and Services Tax (GST), introduced in India on 1 July 2017, is one of the country's biggest indirect tax reforms aimed at creating a single, unified market. It replaced multiple taxes with one system to simplify taxation and improve transparency. Small and Medium Enterprises (SMEs), which play a major role in employment, GDP, and exports, have experienced significant changes under GST. The reform has affected their compliance processes, cost structure, working capital management, supply chains, and use of technology. This study, based on secondary data from government and industry sources, finds that while GST has simplified the tax system and created opportunities for business expansion, SMEs also face challenges such as higher compliance requirements, technical difficulties, and working capital issues. Overall, GST offers growth potential, but further improvements are needed to fully support SMEs.*

**Keywords:** *GST, SMEs, Compliance, Input Tax Credit, Indirect Tax Reform, Working Capital*

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**Introduction:**

Small and Medium Enterprises (SMEs) form a very important part of India's industrial and service sectors. They are not just small businesses; they are a strong pillar of the Indian economy. SMEs contribute around 30% to the country's GDP and nearly 45% to manufacturing output. They also provide employment to more than 110 million people, supporting millions of families across urban and rural areas. Beyond numbers, SMEs encourage regional development, promote innovation, and help in achieving inclusive economic growth.

The introduction of the Goods and Services Tax (GST) was a major step toward simplifying India's complex indirect tax system. Before GST, businesses had to deal with multiple taxes such as VAT, excise duty, service tax, and entry taxes. This often created confusion and increased costs. GST replaced these various taxes with a single, unified system designed to reduce tax-on-tax (cascading effect), increase transparency, and create a

common national market.

For SMEs, GST brought both opportunities and challenges. On the positive side, it offered benefits like input tax credit, smoother movement of goods across states, and access to a wider national market. At the same time, many SMEs faced difficulties such as increased compliance requirements, the need for digital return filing, frequent changes in rules, and pressure on working capital.

This research paper aims to understand the actual impact of GST on SMEs in India, especially in areas like tax compliance, ease of doing business, operational costs, and opportunities for business growth and expansion.

**Review of Literature:**

Research on GST implementation shows that small and medium enterprises faced significant adjustment difficulties in the initial phase, particularly in return filing and documentation processes. Many firms experienced technical issues and confusion regarding

new procedures. However, over time, GST improved tax transparency and reduced hidden taxation. The study emphasizes that training and awareness programs are essential to help SMEs adapt effectively to the new system. (Gupta & Sharma, 2018)

Research on the logistics and supply chain impact of GST highlights that the removal of multiple state-level taxes reduced interstate barriers. As a result, SMEs experienced faster movement of goods and fewer transportation delays. The unified tax structure contributed to smoother distribution systems and improved operational efficiency. Although there were short-term disruptions, the long-term benefits were found to outweigh the initial challenges. (Narayan & Kaur, 2019)

Cost-oriented studies indicate that GST increased short-term operational costs for SMEs due to investments in software, compliance services, and changes in accounting practices. Smaller enterprises were more affected compared to medium-sized firms. Nevertheless, the adoption of digital tax systems eventually improved financial tracking and reporting accuracy, encouraging more formal and systematic bookkeeping practices. (Kumar, 2020)

Analytical research on market competitiveness suggests that GST created a more balanced environment between small and large firms by standardizing tax rates. SMEs benefited from better price transparency and increased customer trust. The uniform tax structure reduced unfair advantages previously enjoyed by unorganized sectors, supporting gradual market formalization. (Mehta & Jain, 2021)

Behavioural compliance studies reveal that GST encouraged SMEs to adopt digital systems and online reporting methods. Although the transition was challenging at first, technology adoption improved financial discipline and audit preparedness. Over time, enterprises developed stronger tax compliance habits, and GST emerged as a catalyst for modernization in

small business operations. (Verma, 2022)

#### **Research Gap:**

Most of the existing studies discuss either the technical aspects of GST or the general problems faced by small and medium enterprises. Very few studies look at how GST has affected SMEs in a combined way covering their operations, financial position, and compliance responsibilities together. There is also limited comparison between what GST was expected to achieve and what SMEs have experienced after its implementation.

Therefore, this research attempts to fill this gap by offering a comprehensive evaluation of how GST has truly impacted SMEs, considering both its intended benefits and the real challenges faced by businesses in the post-GST environment.

#### **Objectives of the study:**

1. To understand the overall impact of GST on SMEs, particularly in terms of their business performance and financial outcomes.
2. To examine how GST has affected the compliance burden of SMEs and to assess the ease or difficulty they experience in GST return filing.
3. To analyse the influence of GST on operating costs, cash inflow, and pricing strategies adopted by SMEs.
4. To evaluate the perceptions of SMEs regarding GST transparency, effectiveness of input tax credit (ITC), challenges faced under the system, and their overall level of satisfaction with GST.

#### **Hypothesis:**

H1: GST has a significant impact on the business performance of SMEs.

H2: GST has significantly increased the compliance burden for SMEs.

H3: GST has a significant effect on the financial operations of SMEs, including operating cost and cash inflow.

H4: GST has a significant influence on transparency,

ITC effectiveness, pricing strategy, and overall satisfaction of SMEs.

#### Limitations:

This study has a few limitations that should be kept in mind while interpreting the results. The sample size was relatively small, with only 16 SMEs responding to the survey, so the findings may not reflect the experience of all businesses across different regions and sectors. Since the data was collected through a Google Form, the responses are based on the participants' personal understanding and opinions, which may introduce some bias. The study also focused on specific aspects of GST such as compliance, cost, cash flow, and ITC, and did not examine the entire range of issues related to GST. Moreover, because GST rules continue to change frequently, some observations may evolve over time. Finally, the online nature of the survey meant that only digitally active SMEs could participate, limiting the inclusion of very small or rural enterprises.

#### Research methodology:

#### Data analysis & Interpretation:

Sr.no	Topic	Key Findings
1.	Overall impact of GST	56.3% somewhat positive;18.8% very positive;25% no impact.
2.	Compliance burden	62.5% say compliance increased; 18.8% say reduced.
3.	Ease of GST Filing	62.5% find filing difficult; only 18.8% find it easy.
4.	Operating cost	50% slight increase; 31.3% cost reduced.
5.	Cash inflow	62.5% say cash inflow worsened.
6.	Transparency	43.8% improved; 31.3% reduced; 25% no change.
7.	Input tax credit (ITC) Effectiveness	56.3% say ITC has no effect; 18.8% very effective.
8.	Pricing strategy	56.3% slight price increase; 18.8% reduced.
9.	Challenge under GST	50% rule changes; 25% compliance issues; 12.5% technical issues.
10.	Overall satisfaction	37.5% satisfied; 37.5% neutral; 18.8% very satisfied.

The introduction of GST has brought significant changes to small and medium enterprises. While the system is more organized and transparent, it has increased the responsibility of regular return filing and digital compliance. Many small businesses initially

#### Research Design

The study is descriptive and analytical, examining how GST affects SMEs' operations, costs, compliance, and satisfaction levels.

#### Data Collection:

##### 1. Primary Data

Collected through a Google Form survey, distributed among SMEs.

A total of 16 responses were received.

##### 2. Secondary Data

Government GST Council reports

MSME annual reports

Published articles and journals

Online GST documentation

#### Sample Size:

16 SMEs from trading, service, and manufacturing sectors.

#### Sampling Technique:

**Convenience** sampling, due to voluntary participation through online forms.

struggled with frequent rule changes and technical issues, which also raised their accounting and consultancy expenses.

GST has also affected the cash flow of SMEs. Since tax must be paid at the time of issuing an invoice, even

before receiving payment from customers, many businesses face short-term financial pressure. Delays in input tax credit and refunds further add to this liquidity challenge.

However, GST has also created positive opportunities. It has reduced interstate trade barriers, improved transparency, and allowed SMEs to access wider markets more easily. Although the transition has not been easy, GST has offered long-term benefits by streamlining taxation and encouraging more structured business practices.

#### Conclusion:

The study concludes that GST has created both opportunities and challenges for small and medium enterprises. On one hand, many SMEs feel that GST has improved transparency and made it easier to access wider markets. It has helped bring more clarity to the tax system and reduced some of the earlier complexities of multiple taxes.

On the other hand, a large number of SMEs still struggle with the increased compliance burden. Regular return filing, complex procedures, and frequent changes in rules have made the system difficult to manage. Many businesses also report higher operating costs and pressure on cash flow, especially because of delays and mismatches in claiming Input Tax Credit (ITC). These issues often create liquidity problems and affect day-to-day operations.

Even with these challenges, the overall level of satisfaction among SMEs is moderate, which suggests that businesses are slowly adjusting to the new system. However, for SMEs to fully benefit from GST in the long run, there is a strong need for simpler compliance procedures, more stable regulations, and quicker processing of ITC refunds.

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