



GST AND ITS IMPACT ON SMALL AND MEDIUM ENTERPRISES IN INDIA

Mrs. Laxmi Mangalaram
Research Scholar

ABSTRACT

Goods and Services Tax (GST) is a comprehensive indirect tax introduced in India on 1 July 2017 to replace multiple central and state-level indirect taxes with a unified tax framework. Its implementation has significantly influenced the functioning of Small and Medium Enterprises (SMEs) by simplifying the tax structure, promoting greater formalisation, and creating a common national market. GST has reduced the cascading effect of taxes and, through input tax credit, can improve cost efficiency for businesses. At the same time, SMEs have faced challenges such as compliance requirements, online registration and return filing, working-capital pressures, and the need to adapt to digital accounting and invoicing systems.



Government measures such as composition schemes and threshold exemptions have attempted to reduce the compliance burden on smaller businesses. This paper examines the major features of GST and evaluates its impact on SMEs in India, focusing on taxation, compliance, operating costs, working capital, digitalisation, and business formalisation. The study highlights that while GST has created a more integrated and transparent tax environment, its effects on individual SMEs vary according to business size, sector, turnover, and technological preparedness.

KEYWORDS: *Goods and Services Tax (GST), Small and Medium Enterprises (SMEs), Indian Taxation System, Indirect Tax, Tax Compliance, Input Tax Credit, GST Registration, Digitalisation.*

INTRODUCTION

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 marked a major reform in the country's indirect taxation system. GST replaced several central and state-level indirect taxes, including excise duty, service tax, and value-added tax (VAT), with a largely unified tax framework. The primary objectives of GST were to reduce the cascading effect of taxes, promote a common national market, improve transparency, and simplify tax administration. Small and Medium Enterprises (SMEs) constitute an important part of the Indian economy and contribute significantly to employment generation, production, entrepreneurship, and regional economic development. However, these enterprises often operate with limited financial resources, smaller administrative teams, and comparatively less access to specialised tax and accounting expertise. Consequently, changes in the tax system can have a substantial impact on their day-to-day operations and financial performance.

GST has affected SMEs in several ways. On the positive side, the availability of Input Tax Credit (ITC) can help reduce the tax burden on eligible business transactions and minimise the cascading of taxes. The unified tax structure has also facilitated inter-state trade and encouraged businesses to adopt formal accounting and digital transaction practices. GST registration and compliance requirements have contributed to greater formalisation of business activities, potentially improving access to institutional finance and wider markets. At the same time, GST has created challenges for some SMEs. Regular return filing, maintenance of digital records, invoicing requirements, and compliance with changing tax rules can increase administrative costs and require technological skills. Smaller businesses may also experience working-capital pressures when tax payments and input-tax-credit claims do not align with their cash-flow cycles. The impact therefore differs across enterprises depending on their size, industry, turnover, location, and level of digital preparedness.

This study examines the impact of GST on Small and Medium Enterprises in India, with particular emphasis on its effects on tax compliance, operating costs, working capital, digitalisation, inter-state business, and formalisation. Understanding these effects is important for assessing how GST has influenced the business environment for SMEs and identifying areas where tax administration and compliance processes can be made more accessible to smaller enterprises.

AIMS AND OBJECTIVES

Aim

The main aim of this study is to examine the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India and to understand how GST has affected their taxation, compliance, costs, working capital, digitalisation, and overall business operations.

Objectives

The specific objectives of the study are:

1. To understand the concept and structure of GST and its role in India's indirect taxation system.
2. To examine the impact of GST on SMEs with regard to business operations, costs, and profitability.
3. To analyse the effect of GST on tax compliance and the administrative burden faced by SMEs.
4. To study the role of Input Tax Credit (ITC) in reducing the cascading effect of taxation for eligible SMEs.
5. To examine the impact of GST on working capital and cash flows of small and medium enterprises.
6. To assess the influence of GST on digitalisation, including online registration, accounting, invoicing, and return filing.
7. To study whether GST has encouraged the formalisation of SMEs and improved their integration into the organised economy.

REVIEW OF LITERATURE

The introduction of the Goods and Services Tax (GST) in India has generated considerable academic and policy interest, particularly regarding its implications for Small and Medium Enterprises (SMEs). Various studies have examined GST from the perspectives of taxation, compliance, business costs, formalisation, digitalisation, and working capital. The existing literature presents both positive outcomes and challenges for SMEs. Garg (2014) examined the proposed GST framework and highlighted its potential to simplify the indirect tax structure and reduce the cascading effect of taxation. The study suggested that a unified tax system could improve the efficiency of businesses by creating greater uniformity in indirect taxation across states. Nayyar and Singh (2018) analysed the implementation of GST in India and discussed its implications for businesses, particularly smaller enterprises. Their study indicated that GST could

improve transparency and create a more integrated national market, while the transition to a technology-based compliance system posed difficulties for businesses that were less prepared for digital processes.

Poonam (2017) studied GST as a major tax reform and observed that the new system had the potential to simplify taxation and improve tax administration. However, the study also pointed to initial implementation difficulties, including taxpayer awareness, technological adaptation, and compliance requirements. Kumar (2019) examined the effect of GST on small businesses and found that digital compliance requirements had increased the importance of accounting and technological capabilities. While GST encouraged businesses to maintain more systematic records, smaller enterprises could face additional compliance costs when they lacked in-house accounting expertise.

Mishra (2020) focused on GST compliance among small businesses and reported that awareness and technological readiness were important factors influencing the ability of enterprises to adapt to the new tax regime. The study emphasised the need for effective taxpayer education and simplified compliance procedures. Mukherjee (2020) examined the revenue and formalisation aspects of GST and suggested that the reform contributed to bringing more economic activity into the formal tax system. Greater use of digital transactions and tax documentation can improve transparency and create a more structured business environment for enterprises.

RESEARCH METHODOLOGY

The present study adopts a descriptive and analytical research methodology to examine the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The study aims to understand how the implementation of GST has influenced the business activities, taxation, compliance requirements, operating costs, working capital, digitalisation, and formalisation of SMEs. The research is designed to provide a comprehensive understanding of both the benefits and challenges experienced by SMEs under the GST regime. The study is based on both primary and secondary data. Primary data may be collected from SME owners, managers, accountants, and employees through a structured questionnaire and personal interviews. The questionnaire focuses on areas such as awareness of GST, GST registration, return filing, Input Tax Credit, compliance costs, working capital requirements, digital accounting, and the overall impact of GST on business operations. Secondary data is collected from books, research papers, academic journals, government publications, reports, newspapers, websites, and other relevant sources dealing with GST and SMEs in India.

The population of the study consists of Small and Medium Enterprises operating in India. For primary research, respondents may be selected from different types of SMEs, including manufacturing, trading, and service enterprises. The sample is selected according to the availability of respondents and the scope and resources of the study. Efforts are made to include respondents with different levels of experience with GST so that the study reflects.

STATEMENT OF THE PROBLEM

The introduction of Goods and Services Tax (GST) in India brought a significant change to the indirect taxation system and affected the way businesses manage taxation and compliance. Small and Medium Enterprises (SMEs) form an important part of the Indian economy, but many operate with limited financial resources, fewer employees, and limited access to professional accounting and tax services. Therefore, adapting to the GST system has created both opportunities and challenges for these enterprises. Although GST was introduced with the objective of simplifying taxation, reducing the cascading effect of taxes, improving transparency, and creating a common national market, SMEs may face difficulties in understanding GST provisions, maintaining digital records, filing returns, and claiming Input Tax Credit.

The costs associated with accounting systems, professional assistance, and compliance may also place an additional burden on smaller businesses. In some cases, GST-related procedures may affect cash flow and working capital, particularly where there is a difference between the timing of tax payments and receipt of payments from customers.

At the same time, GST has encouraged many businesses to adopt digital accounting practices and maintain more systematic financial records. It has also created greater uniformity in indirect taxation and may support the formalisation and expansion of businesses. However, the extent to which these benefits have reached SMEs can vary depending on their size, sector, location, technological preparedness, and level of awareness. The main problem addressed by this study is therefore to understand how GST has affected the overall functioning of Small and Medium Enterprises in India. The study seeks to examine whether GST has reduced the complexity of taxation for SMEs or created additional compliance and financial challenges. It also attempts to understand the impact of GST on operating costs, working capital, digitalisation, tax compliance, and business formalisation. The study is intended to provide a clearer understanding of the practical difficulties and benefits experienced by SMEs under the GST regime.

NEED OF THE STUDY

The introduction of Goods and Services Tax (GST) has brought major changes to the taxation system and business environment in India. Small and Medium Enterprises (SMEs) are an important part of the Indian economy and contribute significantly to employment, production, trade, and entrepreneurship. Since SMEs generally operate with limited financial and human resources, changes in taxation can have a considerable effect on their business activities. Therefore, there is a need to study how GST has influenced the functioning and performance of these enterprises. The study is needed to understand whether GST has simplified the tax system for SMEs and reduced the cascading effect of taxes through the Input Tax Credit mechanism. It is also important to examine whether the GST system has affected the operating costs, pricing decisions, profitability, and working-capital requirements of small and medium enterprises. Understanding these effects can provide useful information about the practical consequences of GST for businesses.

Another important reason for conducting this study is the increased requirement for digital compliance under GST. Online registration, electronic invoicing, digital record keeping, and return filing require businesses to have adequate technological knowledge and accounting systems. Smaller enterprises may face difficulties in meeting these requirements because of limited technical skills or the additional cost of professional assistance. Studying these challenges can help identify areas where SMEs require greater support and awareness. The study is also important for understanding the role of GST in encouraging business formalisation. The requirement to maintain proper invoices and tax records can increase transparency and bring more businesses into the formal economy. At the same time, the compliance burden may affect smaller enterprises differently depending on their size, sector, location, and level of digital preparedness.

Therefore, this study is needed to provide a comprehensive understanding of the impact of GST on Small and Medium Enterprises in India. It focuses on both the benefits and difficulties associated with GST and can provide useful insights for SME owners, accountants, policymakers, researchers, and other stakeholders interested in improving the business environment for SMEs.

FURTHER SUGGESTIONS FOR RESEARCH

Further research on the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India can examine the long-term effects of GST on the financial performance, profitability,

productivity, and growth of SMEs. Future studies may compare the experiences of micro, small, and medium enterprises to understand whether the impact of GST differs according to the size and financial capacity of the business. Research can also focus on the sector-wise impact of GST by comparing manufacturing, trading, and service enterprises. Such studies can provide a clearer understanding of how GST affects businesses with different operating structures, supply chains, and compliance requirements. A geographical comparison between SMEs in different states and urban and rural areas could further identify differences in GST awareness, implementation, and compliance.

Another important area for future research is the impact of GST on working capital and cash flow. Studies can examine whether GST-related payment and Input Tax Credit processes create financial pressure for SMEs and how businesses manage these challenges. Future research may also investigate the relationship between GST compliance costs and the profitability of SMEs. The role of digitalisation under GST provides another significant area for research. Future studies can examine how SMEs have adopted digital accounting, e-invoicing, online return filing, and other technology-based systems. Research could also assess whether digitalisation has improved the efficiency and transparency of SME operations.

Further studies may investigate the awareness and knowledge of GST among SME owners and employees and examine whether access to professional tax advice, training, and government support influences compliance. The effectiveness of GST-related support measures and simplified compliance mechanisms for smaller businesses could also be evaluated. Finally, longitudinal studies can be undertaken to compare the situation of SMEs before and after the introduction of GST and to assess how the impact has changed over time. Such research would help provide a deeper understanding of the long-term consequences of GST and identify measures that could make the taxation system more accessible and efficient for SMEs in India.

SCOPE AND LIMITATIONS

Scope of the Study

The scope of this study is to examine the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The study covers the major changes experienced by SMEs after the introduction of GST, particularly in relation to taxation, compliance, operating costs, working capital, digitalisation, and business formalisation. It considers how GST has influenced the day-to-day functioning of enterprises and their ability to manage tax-related responsibilities. The study also covers the benefits of GST, such as the availability of Input Tax Credit, reduction in the cascading effect of taxes, greater transparency, simplified movement of goods across states, and increased use of digital accounting and tax systems. At the same time, it examines challenges such as GST registration, return filing, record maintenance, technological requirements, professional accounting expenses, and compliance-related difficulties. The study may cover SMEs operating in different sectors, including manufacturing, trading, and services. It aims to provide an overall understanding of the experiences of SMEs under the GST regime and may be useful to business owners, accountants, researchers, policymakers, and other stakeholders.

Limitations of the Study

The study has certain limitations. Since SMEs differ considerably in terms of size, industry, location, financial resources, and technological capabilities, the findings may not apply equally to every SME in India. If primary data is collected from a limited number of respondents or a specific geographical area, the results may not fully represent the experiences of SMEs across the country. The accuracy of primary information may also depend on the knowledge, understanding, and willingness of respondents to provide

accurate information about their businesses and GST compliance. Some respondents may have limited knowledge of specific GST provisions or may be reluctant to disclose financial information.

Another limitation is that GST rules, rates, procedures, and compliance requirements may change over time. Therefore, findings based on information collected during a particular period may not remain completely applicable in the future. The study may also be affected by limitations in the availability of reliable and detailed financial information relating to individual SMEs. Despite these limitations, the study provides a useful framework for understanding the major effects of GST on SMEs in India and identifying the key benefits and challenges associated with the GST system.

FINDINGS

The study on the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India indicates that GST has brought significant changes to the way SMEs manage taxation and business operations. The findings suggest that GST has created a more unified indirect tax system and has reduced the complexity associated with dealing with multiple indirect taxes. However, the extent of the benefits and difficulties varies among SMEs depending on their size, sector, financial resources, and level of technological preparedness. The study finds that GST has improved transparency in business transactions by encouraging SMEs to maintain proper invoices, financial records, and tax-related documentation. The availability of Input Tax Credit has also helped eligible businesses reduce the cascading effect of taxation. For enterprises involved in inter-state trade, the unified tax framework has made tax procedures more consistent compared with the earlier system.

Another important finding is that GST has encouraged greater digitalisation among SMEs. Online registration, return filing, electronic records, and digital invoicing have increased the need for businesses to adopt technology-based accounting systems. While digitalisation can improve record keeping and efficiency, businesses with limited technological knowledge may require additional assistance and professional support. The study also finds that GST compliance remains a challenge for some SMEs. Regular return filing, maintaining accurate records, understanding tax provisions, and meeting procedural requirements can increase the administrative workload. Smaller enterprises that do not have dedicated accounting staff may need to depend on external accountants or tax professionals, resulting in additional compliance expenses.

The impact of GST on working capital and cash flow is another significant finding. Differences in the timing of business receipts, tax payments, and Input Tax Credit claims can create cash-flow pressures for certain enterprises. The effect is particularly relevant for businesses operating with limited working-capital resources. The study further indicates that GST has contributed to the formalisation of business activities. The requirement for proper documentation and reporting encourages enterprises to maintain more systematic financial records and conduct transactions through formal channels. This can improve financial transparency and potentially strengthen the ability of compliant businesses to demonstrate their financial activities to banks and other institutions.

DISCUSSION

The introduction of Goods and Services Tax (GST) has significantly changed the tax environment in which Small and Medium Enterprises (SMEs) operate in India. The findings of the study indicate that GST has created both opportunities and challenges for SMEs. Its impact cannot be considered uniform because enterprises differ in terms of their size, sector, financial capacity, technological knowledge, and level of compliance preparedness. One of the major positive aspects of GST is the creation of a more integrated indirect tax system. The replacement of several indirect taxes with GST has provided greater uniformity in

taxation and reduced the cascading effect of taxes through the Input Tax Credit mechanism. For SMEs that maintain proper records and comply with GST requirements, Input Tax Credit can help reduce the tax cost embedded in business purchases. GST has also made inter-state transactions more systematic by providing a common framework for taxation across India.

GST has also contributed to increased digitalisation of SME operations. The requirements related to online registration, return filing, digital records, and electronic invoicing have encouraged many businesses to adopt accounting and tax-management software. This transition can improve the accuracy of financial records and increase transparency. However, the shift towards technology-based compliance can be difficult for smaller enterprises that have limited technical knowledge or inadequate access to digital resources. Another important issue is the compliance burden associated with GST. SMEs may need to devote additional time and resources to maintaining invoices, reconciling transactions, filing returns, and understanding changes in GST procedures. Businesses without dedicated accounting personnel may need to engage tax professionals, which can increase administrative expenses. Therefore, although GST aims to simplify taxation, compliance can still be demanding for smaller enterprises.

The impact of GST on working capital is also an important area of discussion. SMEs generally operate with comparatively limited financial resources, and delays in receiving payments or obtaining eligible tax credits can influence their cash-flow position. Businesses therefore need effective financial planning to manage their GST obligations along with their regular operating expenses. The study also suggests that GST has encouraged greater formalisation of business activities. Maintaining proper invoices and financial records can improve transparency and encourage businesses to operate within the formal tax system. Greater formalisation may also help compliant enterprises establish clearer financial records when seeking institutional finance or expanding their operations.

CONCLUSION

The study concludes that the introduction of Goods and Services Tax (GST) has brought significant changes to the business environment of Small and Medium Enterprises (SMEs) in India. GST has replaced multiple indirect taxes with a more integrated taxation system and has contributed to greater uniformity, transparency, and formalisation of business activities. The availability of Input Tax Credit has also helped eligible businesses reduce the cascading effect of taxation. At the same time, the implementation of GST has created certain challenges for SMEs. Compliance with registration, return filing, record maintenance, invoicing, and digital procedures can require additional time, skills, and financial resources. Smaller enterprises may face difficulties in adapting to technology-based compliance and may need professional assistance. GST-related procedures can also influence working capital and cash-flow management, particularly for businesses with limited financial resources.

The study further concludes that GST has encouraged SMEs to adopt digital accounting practices and maintain more systematic financial records. This can improve transparency and contribute to the formalisation of businesses. However, the benefits of GST are not experienced equally by all SMEs, as the impact depends on factors such as business size, industry, location, financial capacity, and technological preparedness. Overall, GST represents an important reform in India's indirect taxation system and has created both benefits and challenges for SMEs. Continued efforts towards taxpayer awareness, simplified compliance procedures, accessible digital support, and timely guidance can help reduce difficulties faced by smaller enterprises. A supportive GST environment can enable SMEs to manage tax compliance more efficiently and contribute more effectively to India's economic growth and development.

RECOMMENDATIONS

The study on the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India suggests several measures to make GST compliance easier and more beneficial for smaller businesses. GST procedures should be kept as simple and user-friendly as possible so that SMEs can complete registration, invoicing, return filing, and other compliance requirements without excessive administrative difficulty. Greater awareness and training programmes should be provided to SME owners, managers, and accounting staff. Regular workshops and practical guidance on GST rules, Input Tax Credit, invoicing, return filing, and digital compliance can help businesses understand their responsibilities and reduce avoidable errors.

The government and relevant authorities should continue improving digital GST systems so that online registration, return filing, payment, and other procedures are easy to understand and use. Special assistance should be made available to SMEs that have limited technological knowledge or inadequate access to digital resources. Efforts should also be made to reduce the compliance costs faced by smaller enterprises. Simple procedures, clear instructions, timely communication of changes, and accessible taxpayer-support services can help SMEs manage GST obligations more efficiently. Small businesses should also be encouraged to maintain proper accounting records and use suitable accounting software to improve financial management.

Working-capital management is another area requiring attention. SMEs should maintain proper cash-flow planning to meet tax obligations on time and avoid financial pressure. Greater awareness of Input Tax Credit rules and timely reconciliation of business transactions can also help eligible enterprises manage their finances more effectively. Professional support should be made more accessible to small businesses, particularly enterprises that do not have specialised accounting or taxation staff. Affordable accounting and GST advisory services can help SMEs comply with tax requirements while allowing business owners to concentrate on their core activities.

Finally, regular feedback from SMEs should be considered when improving GST procedures and policies. Since businesses differ in terms of size, sector, location, and technological preparedness, their practical difficulties should be studied before introducing major compliance changes. A simpler, transparent, and supportive GST environment can help SMEs adapt effectively, improve their operations, and contribute more significantly to employment and economic growth in India.

REFERENCES

1. Central Board of Indirect Taxes and Customs (CBIC). Goods and Services Tax (GST): Concept and Status. Government of India. CBIC – Know About GST
2. Central Board of Indirect Taxes and Customs (CBIC). GST Acts: CGST Act, IGST Act, UTGST Act and GST (Compensation to States) Act. Government of India. CBIC – GST Acts
3. Ministry of Micro, Small and Medium Enterprises. Annual Report 2024–25. Government of India. MSME Annual Report 2024–25
4. Ministry of Finance, Government of India. Economic Survey 2025–26. Government of India. Economic Survey 2025–26
5. Ministry of Finance, Government of India. Economic Survey 2022–23. Government of India. Economic Survey 2022–23
6. Ghosh, S. (2021). Small Businesses, Big Reform: A Survey of the MSMEs Facing GST. *Economic and Political Weekly*. Research article
7. Ghosh, S. (2022). Formalising the Informal through GST: Evidence from a Survey of MSMEs. *Review of Development and Change*, 27(2), 150–169. Research article

-
8. Dang, G. P., Kaur, J., & Kaur, D. (2020). Impact of Goods and Services Tax on Micro, Small & Medium Enterprises of India. Research article
 9. Thangam, D., & Subramanian, S. P. M. (2019). Performance and Consequences of GST for Micro, Small & Medium Enterprises. Research article
 10. Sharma, P., & Sharma, J. K. (2026). Impact of GST on Small and Medium Enterprises (SMEs) in India. International Journal of Academic Excellence and Research, 2(1), 48-58. DOI: 10.62823/IJAER/2026/02.01.156. Research article