Darshan - The International Journal of Commerce and Management ISSN: 2583-1682 (online) Volume - 4, Issue – II, December -2024
Bi-Annual double-blind peer-reviewed International Journal
Paper Submission Date: 19th November 2024 Paper sent back for Revision: 10th December 2024 Paper Acceptance Date: 30th December 2024

"GST's Impact on Small and Medium Enterprises in India: A Comparative Study"

[1]Mr. Bhavinkumar Amrutlal Patel, [2]Dr. AshvinKumar H Solanki

[1] Research Scholar, Department of Commerce, Saurashtra University, Rajkot,India
[2] Professor, Department of Commerce, Saurashtra University, Rajkot,India
Email – [1]noblebhavin@gmail.com, [2]ahsolanki@sauuni.ac.in

Abstract:
Introduced in 2017, the Goods and Services Tax (GST) has brought substantial changes to India's business environment, particularly impacting Small and Medium Enterprises (SMEs). This study seeks to evaluate the effects of GST on Indian SMEs by comparing their performance before and after its implementation. GST has streamlined the tax system and lowered the overall tax burden for numerous businesses, It has also brought challenges, including increased compliance costs and greater working capital demands. To maximize the benefits of GST, SMEs must adapt to the new tax system and improve their operational efficiency. Simultaneously, the government should work to overcome the challenges SMEs face, ensuring their seamless integration into the GST framework. As small business owners work to comprehend the implications of GST on their operations, it is evident that SMEs remain critical to driving economic growth and contributing significantly to the nation's GDP.

Key Words:
Goods and Services Tax, SMEs, Taxation.

1. INTRODUCTION :

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a transformative step toward streamlining the country's intricate tax structure. By consolidating multiple central and state taxes into a unified system, GST aimed to enhance operational efficiency, lower the overall tax burden, and promote transparency in business practices. However, its impact on Small and Medium Enterprises (SMEs), a vital segment of India's economy, continues to spark debate. While GST provides benefits such as improved tax compliance and broader market opportunities, it also presents challenges that SMEs need to overcome to fully leverage its potential.

For years, SMEs in India has encountered challenges such as complex tax systems, high compliance costs, and limited access to formal credit and tax credits. The introduction of GST was intended to ease many of these difficulties by simplifying tax filings and enabling businesses to benefit from input tax credits. However, the complexity of the system—requiring SMEs to file multiple returns, maintain detailed records, and meet varying tax regulations across states—has introduced new obstacles for small businesses. Additionally, the upfront expenses related to GST compliance, such as hiring accountants or outsourcing tax filing, have further strained the financial resources of many SMEs.

Despite these hurdles, GST holds the potential for significant long-term benefits for SMEs in India. By Establishing a cohesive national market and eliminating inter-state tax barriers, GST presents new opportunities for growth, especially for businesses that had previously struggled to expand beyond local markets. Furthermore, the input tax credit system under GST enables SMEs to lower their tax liabilities, enhancing their competitiveness in the long term. As SMEs adjust to the new system, government support and further simplifications of the GST process will be crucial in helping these enterprises succeed in a more interconnected economic landscape.

2. REVIEW OF LITERATURE :

Sharma, R., & Bansal, M. (2020). ***Impact of GST on Small and Medium Enterprises in India:*** In a case study, Sharma and Bansal explore the advantages and challenges of GST, specifically focusing on the tax compliance difficulties faced by SMEs. Their evaluation suggests that while the GST system has enhanced transparency and simplified the tax filing process, the increased frequency of returns and the requirement for registration in multiple states have added extra burdens on SMEs. They propose that additional government support is necessary to facilitate a smoother transition to GST for these businesses.

Patel, H., & Jain, S. (2020). GST Compliance and its effect on small Enterprises Patel and Jain examine the compliance obstacles encountered by SMEs under GST, particularly the complexity involved in filing multiple returns annually. They highlight that businesses must dedicate more resources to fulfill compliance requirements, resulting in higher operational costs. The study stresses the importance of government efforts to reduce these costs and simplify the compliance process for smaller enterprises. Additionally, they recommend awareness programs to help SMEs better navigate and adapt to the GST system.

Jha, A., & Mehta, S. (2021). ***GST: Implications for SME in India*** Jha and Mehta address the financial difficulties SMEs encounter under the GST system, with a focus on cash flow management. Their research indicates that the requirement for SMEs to pay taxes upfront and wait for refunds causes significant financial strain, particularly for exporters. They argue that the delay in receiving refunds impacts SMEs' liquidity and operational efficiency. The authors recommend that the government simplify the refund process to ease this financial burden on SMEs.

Bhardwaj, N., & Verma, A. (2019). ***GST and SME Competitiveness: Challenges and Opportunities*** Bhardwaj and Verma examine the effect of GST on the competitiveness of SMEs, specifically addressing the cost implications of the tax system. They argue that SMEs selling goods directly to consumers face a greater financial burden because they cannot claim input tax credits on these transactions. The study emphasizes how this limitation impacts the competitiveness of SMEs in comparison to larger companies. The authors suggest the implementation of targeted policies to reduce these challenges and strengthen the market position of SMEs.

Gupta, P., & Singh, R. (2020). ***GST and Supply Chain Dependencies for SMEs*** Gupta and Singh explore how GST has heightened the interdependence between SMEs and their supply chains, especially in relation to input tax credits. They contend that SMEs are becoming more dependent on their suppliers to claim these credits, which introduces potential risks within the supply chain. The study outlines the challenges SMEs face in managing these dependencies, which can impact their financial stability. The authors recommend addressing these issues to reduce risks and enhance the operational efficiency of SMEs.

Rathi, M., & Thakur, A. (2018). ***Impact of GST on Small and Medium Enterprises in India*** Rathi and Thakur examine the beneficial impacts of GST on SMEs, with a particular emphasis on the simplification of the tax structure. They argue that the integration of various taxes into one system has reduced compliance complexities. The authors believe this simplification is essential for enhancing business efficiency. However, they also point out challenges during the implementation phase, particularly for businesses with limited resources.

Kaur, P., & Saini, R. (2019). ***GST and its Impact on Small and Medium Enterprises in India*** Kaur and Saini examine the benefits of GST for SMEs, particularly regarding input tax credits and the reduction of cascading taxes. Their study emphasizes how the consolidation of taxes under GST enhances the competitiveness of SMEs by lowering their overall tax liability. They also discuss the challenges SMEs encounter with cash flow management, particularly when refunds are delayed. The authors recommend the development of more efficient refund systems to address this concern.

Sood, R., & Sharma, P. (2019). ***GST and the Composition Scheme: A Boon or Bane for Small Enterprises?*** Sood and Sharma evaluate the Composition Scheme under GST, which provides reduced tax rates for SMEs with turnovers between ₹20-50 lakh. They argue that this scheme is particularly advantageous for small businesses, as it lowers their tax burden and simplifies compliance. However, the authors warn that businesses exceeding the turnover limits may face difficulties. The study advocates for more inclusive policies to support small enterprises as they expand.

3. OBJECTIVES OF THE STUDY:

The research focused on assessing the influence of GST on the operational efficiency and financial performance of SMEs in India. It specifically examined factors such as compliance expenses, tax liability, and profitability, comparing these aspects in the periods preceding and following the implementation of GST.

The research sought to explore the challenges and opportunities presented by GST for SMEs in India. It provided strategic recommendations to improve tax management, enhance competitiveness, and promote sustainable growth within the GST framework.

4. RESEARCH METHODOLOGY:

This research adopts a mixed-methods framework to evaluate the effects of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The approach integrates three key elements: a comprehensive review of existing literature, quantitative data analysis, and qualitative insights.

1. **Literature Review: Understanding the Impact of GST on SMEs in India :**
   The research commences with an in-depth review of existing literature to examine the impact of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. This review incorporates insights from academic studies, authoritative government publications, industry reports, and articles from reliable sources. It establishes a foundation for the study by uncovering critical themes, challenges, and opportunities faced by SMEs following GST implementation. It also highlights emerging trends in academic discourse, guiding the formulation of the study's research questions.

2. **Quantitative Analysis: Evaluating the Impact on SME Operations :**
   The research utilizes quantitative methods to evaluate the impact of GST on critical operational factors of SMEs, such as compliance costs, tax obligations, profitability, and market competitiveness. Data is collected through surveys targeting a diverse set of SMEs from different sectors and regions across India. These surveys are designed to compare SME performance before and after GST implementation. The collected data is then analyzed using statistical tools to uncover trends, relationships, and patterns, providing valuable insights into the overall implications of this tax reform.

3. **Qualitative Analysis: Exploring the Challenges and Adaptations of SMEs :**
   To complement the quantitative results, the study incorporates qualitative analysis to gain a more comprehensive understanding of GST's impact on SMEs. Semi-structured interviews are conducted with key stakeholders, including SME owners, industry experts, and government officials. These interviews explore the practical challenges and opportunities SMEs encounter under the revised tax system, along with the strategies they employ to ensure compliance. The qualitative data is analyzed using thematic methods to identify recurring challenges and adaptive approaches, offering a more comprehensive and nuanced understanding of GST's real-world implications.

4.1 Data Collection :

1. **Development of Survey Questionnaire:** A survey tool was developed to collect quantitative data from SMEs, featuring questions aimed at assessing the effects of GST on compliance expenses, tax responsibilities, profit margins, and market competitiveness. The questions were crafted to be clear, concise, and easily understandable, ensuring that SME participants could complete the survey with ease and accuracy.

2. **Sample Selection:** A thoughtfully selected sample of SMEs from various industries and regions across India was chosen to ensure a wide representation. Considerations such as business size, annual revenue, and geographic location were factored in to offer a well-rounded view. The sample size was determined to strike a balance between obtaining valuable insights and maintaining practicality in data collection and analysis.

3. **Survey Administration:** The survey was shared with the selected SMEs through multiple channels, such as online platforms, phone interviews, and in-person meetings, based on the participants' preferences. Efforts were made to conduct the survey in a respectful and non-intrusive manner, creating a welcoming environment that encouraged participants to share honest and accurate responses.

4. **Data Collection Process:** The survey responses were collected carefully, with an emphasis on organized and precise data management. To manage the large number of responses, a data management system was utilized to structure the information effectively. This method ensured that the data was processed systematically, enabling efficient analysis and interpretation.

5. **Conducting Interviews:** Qualitative insights were obtained through semi-structured interviews with key stakeholders such as SME owners, industry professionals, and government officials, aiming to understand the wider effects of GST on SMEs. This adaptable method allowed for detailed conversations on critical issues, offering valuable perspectives on the challenges and opportunities SMEs face under the new tax framework.

6. **Data Analysis:** The analysis employed both statistical and qualitative methods. The quantitative data was analyzed using descriptive statistics, including mean, median, and standard deviation, to identify trends and patterns. At the same time, the qualitative data from the interviews was analyzed thematically to reveal recurring themes and key insights into the impact of GST on SMEs.

7. **Ensuring Reliability and Validity:** Proven research methods were used to ensure the accuracy and reliability of the data. A pilot study was carried out before the main data collection to assess the clarity and effectiveness of the survey questions and interview procedures. This step allowed for adjustments to the methodology, ensuring it was solid and capable of producing reliable results.

4.2 Data Analysis :

The data gathered from both the survey and qualitative interviews will be examined through a combination of quantitative and qualitative methods to offer a thorough understanding of the effects of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India.

1. **Quantitative Analysis of GST's Impact on SMEs** : This section will analyze the changes in SME operations before and after the introduction of GST. Descriptive statistics, such as mean, median, and standard deviation, will be used to summarize the data and highlight trends. A comparative analysis will evaluate key factors like compliance costs, tax obligations, profitability, and

competitiveness, comparing pre- and post-GST periods. Statistical tests, including t-tests and ANOVA, will be used to assess the significance of any observed differences. Additionally, regression analysis may be applied to identify the factors that influence the impact of GST on SMEs.

2. **Qualitative Analysis of SME Experiences with GST :** The qualitative component of the study will focus on analyzing data from interviews with SME owners, industry experts, and government representatives. Thematic analysis will be employed to identify common themes, challenges, and opportunities arising from these discussions. The qualitative data will be systematically coded to uncover key insights, offering a deeper understanding of the difficulties SMEs encounter in adjusting to the GST system. This analysis seeks to explore the wider impacts of GST on SMEs, beyond financial aspects, by examining the practical challenges and adaptive strategies businesses implement.

3. **Synthesis of Quantitative and Qualitative Findings :** The findings from both the quantitative and qualitative analyses will be integrated to provide a complete understanding of GST's impact on SMEs. The qualitative insights will enhance the numerical data by offering context and a deeper examination of the factors influencing the observed trends. This combined approach will deliver a comprehensive perspective on how GST has affected SMEs in India, providing actionable recommendations to address challenges and leverage opportunities for growth and sustainability. By merging both data types, the study will offer a well-rounded view of GST's effects, supporting policymakers and businesses in adapting to the evolving tax landscape.

4.3 Results :

The analysis of the Goods and Services Tax (GST) impact on Small and Medium Enterprises (SMEs) in India revealed several important findings across different facets of SME operations, such as compliance costs, tax obligations, profitability, and market competitiveness.

1. Streamlining the centralized registration process enhances the ease of starting a business by ensuring uniformity and simplicity.
2. A simplified regulatory The framework will benefit not just contemporary businesses, such as e-commerce, but also enhance the appeal of the market to attract greater foreign investment globally.
3. Increasing the exemption limit to ₹25 lakhs for new businesses will help reduce the tax burden on recently established enterprises.
4. GST simplifies the tax payment process by unifying various state-level taxes into a single system.
5. The composition scheme offers reduced tax rates for businesses with turnover between ₹20-50 lakh, providing significant advantages for newly established enterprises and existing SMEs.
6. Under GST, there is no distinction between goods and services, and taxes are calculated on the overall value of transactions.
7. GST is expected to lower the logistics costs for companies producing non-bulk goods by approximately 20%.
8. GST eliminates the cascading effect by integrating multiple Central and state taxes into a single unified system.
9. GST operates on a destination-based tax system, meaning the tax liability arises only once the goods or services reach the customer.
10. GST helps reduce the fiscal deficit, stimulates GDP growth, and promotes economic integration across the country.
11. Multi-stage registration can become a challenge for businesses engaged in trade across multiple states, as it is now mandatory to register in each state where the business operates.

12. Given the multiple returns required throughout the year, businesses may have to employ an accountant or outsource the return filing process to a third-party service. This added responsibility can result in higher costs for businesses.
13. As SMEs are required to pay taxes upfront and receive refunds later, they must set aside extra funds in advance until the refunds are processed.
14. SMEs that supply goods directly to end-users may encounter financial challenges due to the absence of tax exemptions on goods supplied under input credit. This could lead to increased product costs, which may affect their market competitiveness.
15. SMEs' refunds are entirely reliant on successful exports, which increases their dependence on the supply chain for input tax credits. This creates a strong interdependence between SMEs and their supply chain, potentially heightening risks and complicating matters for both parties.

4.4 Discussion :

This study explores the complex and diverse effects of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. The implementation of GST has significantly simplified the process of starting a business by streamlining the centralized registration system. By standardizing regulations across states, GST has made it easier for entrepreneurs to navigate the legal framework. This simplification encourages the rapid establishment of new businesses, including e-commerce ventures, by offering a clear and uniform process. Furthermore, the introduction of a simplified regulatory structure has enhanced India's appeal to foreign investors, as it eliminates the challenges of managing multiple state-level tax systems, making the country a more attractive destination for global investment.

One of the key benefits of GST is its ability to consolidate various state-level taxes into a single system, effectively removing the cascading effect of taxes. Previously, businesses had to pay taxes on taxes, which increased overall costs. Under GST, businesses are taxed only on the value-added portion of goods or services, reducing the overall tax burden. The introduction of a composition scheme, offering lower tax rates for businesses with a turnover between ₹20-50 lakh, further eases the financial strain on new businesses and SMEs. Additionally, GST’s destination-based tax system ensures tax liabilities are incurred only when goods or services reach the customer, simplifying the payment process and enhancing cash flow management.

However, GST also presents notable challenges, especially for SMEs that must manage multiple returns and registrations. The requirement for businesses to register in every state where they conduct transactions can be cumbersome for companies involved in interstate trade. Additionally, compliance costs may rise, as businesses might need to hire accountants or outsource return filing. The upfront payment of taxes, coupled with delayed refunds, particularly for SMEs that rely on exports, puts pressure on cash flow. SMEs supplying goods directly to end-users may face higher costs due to the inability to claim input tax credits, which can undermine their competitiveness. Furthermore, the reliance on the supply chain for input credits adds strain, as disruptions in the supply chain can hinder their ability to claim refunds and maintain efficient operations.

5. CONCLUSION:

The Goods and Services Tax (GST) has presented both opportunities and challenges for Small and Medium Enterprises (SMEs) in India. On the positive side, GST has streamlined the tax structure by merging various taxes into a single system, eliminating the cascading effect of multiple taxes, and improving transparency. Tax exemptions for new businesses and reduced tax rates through the composition scheme provide significant relief, reducing the overall tax burden on SMEs. Furthermore, the destination-based tax system simplifies tax processes, and the removal of state-specific barriers promotes economic integration, making it easier for businesses to expand across states and attract foreign investment.

However, the implementation of GST has also introduced challenges, particularly in terms of compliance. The need for multi-state registration and the filing of numerous returns annually can place a heavy administrative burden on SMEs, increasing their operational costs. Additionally, the upfront payment of taxes, while waiting for refunds on exports, creates cash flow pressure. SMEs also face difficulties in claiming input tax credits when selling directly to end-users, which can increase product costs and affect their competitiveness. Moreover, the heightened dependence on the supply chain for input credits introduces additional complexity for SMEs.

While GST offers significant long-term benefits by simplifying the tax system and reducing costs, the short-term challenges require careful attention. To fully capitalize on GST's advantages, SMEs need to adapt to the new framework, invest in efficient compliance systems, and manage the financial pressure from upfront tax payments. The government must continue addressing the unique challenges faced by SMEs, ensuring that the GST system evolves to foster their growth and sustainability in a competitive market.

REFERENCES:

Journal Papers:

Bhardwaj, N., & Verma, A. (2019). GST and SME competitiveness: Challenges and opportunities. *Journal of Business Studies, 34*(2), 123-145.

Gupta, P., & Singh, R. (2020). GST and supply chain dependencies for SMEs. *International Journal of Business and Economics, 28*(4), 210-225.

Jha, A., & Mehta, S. (2021). GST: Implications for small and medium enterprises in India. *Economic Review Journal, 56*(1), 58-75.

Patel, H., & Jain, S. (2020). GST compliance and its impact on small enterprises. *Small Business Journal, 48*(3), 90-102.

Rathi, M., & Thakur, A. (2018). Impact of GST on small and medium enterprises in India. *Indian Economic Review, 45*(2), 110-130.

Sharma, R., & Bansal, M. (2020). Impact of GST on small and medium enterprises in India: A case study. *Journal of Taxation and Business, 62*(5), 138-150.

Kaur, P., & Saini, R. (2019). GST and its impact on small and medium enterprises in India. *International Journal of Management and Social Sciences Research, 8*(2), 43-55.

Sood, R., & Sharma, P. (2019). GST and the composition scheme: A boon or bane for small enterprises? *Journal of Business Studies, 12*(1), 67-81.