



GST Adoption and Its Effects on Small and Medium Enterprises

Dr.Shabana.S, Assistant Professor
Department of Commerce PA & AF
Nehru Arts & Science College, Coimbatore
Mail id: nascshabanas@nehrucolleges.com

Dr.B.Indira Priyadarshini, Assistant Professor
Department of Commerce (CA)
NGM College, Pollachi
Mil Id: kdarshana13@gmail.com

Ms.V.Johny Rani, Assistant Professor & Head
Bharathamatha Arts & Science College, Palakkad
Mail id: Johny@bharathamathacollege.com

Dr. Abibu Rahman.P, Assistant professor
Department of B.Com (IT)
Sree Saraswathi Thyagaraja College, Pollachi,
Mail id: abirahman521@gmail.com

ABSTRACT

The Goods and Services Tax (GST) was introduced in India to simplify and unify the indirect tax system and to promote ease of doing business. While GST aims to improve tax transparency and efficiency, Micro, Small and Medium Enterprises (MSMEs) face several challenges in complying with the new tax regime. This study examines the GST compliance issues faced by MSME entrepreneurs in Palakkad District and analyses their impact on business operations. Primary data were collected from 103 MSME entrepreneurs using a structured questionnaire, supported by secondary sources such as journals, reports, and government publications. The study employs percentage analysis and One-Way ANOVA to evaluate compliance difficulties and variations across socio-economic groups. The findings reveal that MSMEs face significant challenges related to return filing, technological infrastructure, and awareness of GST provisions. The study highlights the need for simplified procedures, enhanced training, and supportive policy measures to improve GST compliance and ensure sustainable growth of MSMEs.

Keywords: *MSMEs, GST Compliance, Return Filing & Tax Reform*

INTRODUCTION

The Goods and Services Tax (GST) is a landmark reform in India's indirect tax system, introduced on 1st July 2017 to replace multiple central and state taxes with a unified tax structure. The pre-GST tax system was complex, characterized by cascading taxes, varied rates, and barriers to interstate trade. GST was implemented to eliminate these inefficiencies and create a common national market. The Micro, Small and Medium Enterprises (MSMEs) sector plays a vital role in India's economic development by generating employment, supporting industrial output, and contributing significantly to exports and GDP. Despite the advantages of GST such as input tax credit, simplified tax structure, and ease of interstate trade, MSMEs face difficulties in adapting to the new system. Challenges such as lack of technological readiness, frequent changes in tax rules, complex return filing procedures, and increased compliance costs affect their business operations. Therefore, understanding GST compliance issues faced by MSMEs is essential to ensure that tax reforms do not adversely affect this important sector. This study focuses on MSME entrepreneurs in Palakkad District to examine their GST-related challenges and to suggest measures for improving compliance and efficiency.

REVIEW OF THE LITERATURE

Manjunath (2021) emphasized the need for greater awareness, facilities, and training for small business owners to enable them to fully benefit from the GST system and to support import substitution in the Indian economy. Singh (2021) stated that GST, by replacing multiple indirect taxes such as VAT and service tax with a single unified tax, has simplified the taxation structure and reduced the cascading effect of taxes, thereby lowering the overall tax burden, even though it has increased compliance requirements for MSMEs in the short run. Gupta and Meher (2021) found that MSMEs have mixed responses towards GST implementation, suggesting that the government should examine MSME-specific requirements and introduce easier compliance mechanisms while also highlighting the need for further research to promote awareness of GST benefits. Hindustan Times Mint (May 20, 2021) reported that MSMEs face several practical challenges under GST, including difficulties in availing input tax credit due to mismatches in vendor payments, errors in invoice classification, and problems in adapting to continuously changing technological requirements and an unfriendly GST portal, indicating that while GST aims to simplify taxation, significant operational and technological barriers remain for MSMEs.

STATEMENT OF THE PROBLEM

The MSME sector is a major contributor to employment generation and economic growth in India. Effective GST compliance is essential for MSMEs to remain competitive and financially sustainable. Identifying the challenges faced by MSME entrepreneurs under GST helps policymakers, tax authorities, and business support institutions develop appropriate training programs, simplified procedures, and technological support systems. This study provides region-specific insights into GST implementation and its impact on MSMEs, contributing to better policy formulation and improved compliance mechanisms.

SCOPE OF THE STUDY

The study covers a broad range of GST-related issues faced by MSME entrepreneurs in Palakkad District, including registration procedures, return filing, input tax credit, tax payments, compliance costs, technological challenges, and awareness of GST provisions. It also examines the overall impact of GST on business operations, cash flow, working capital, pricing, and profitability of MSMEs. In addition, the study considers the perceptions of MSME entrepreneurs regarding the effectiveness of the GST system and the difficulties they face in adapting to regulatory and technological changes. This wider scope enables a deeper understanding of how GST influences the functioning and sustainability of MSMEs.

OBJECTIVES OF THE STUDY

- To identify the major GST-related issues faced by MSME entrepreneurs.
- To examine the nature and extent of GST compliance difficulties experienced by MSMEs.
- To analyse the impact of GST-related issues on the business operations of MSME entrepreneurs.

RESEARCH METHODOLOGY

The study is descriptive and analytical in nature. Primary data were collected from 103 MSME entrepreneurs in Palakkad District using a structured questionnaire. Convenience sampling was adopted to select respondents. Secondary data were gathered from books, journals, government reports, and websites. Statistical analysis was carried out using SPSS. Tools such as percentage analysis and One-Way ANOVA were used to analyse the data and identify significant differences among respondent groups.

ISSUES FACED BY MSME ENTREPRENEURS AFTER THE ADOPTION OF GST

H_0 = There is no significant variation in the means score obtained for the variable related to the impact of GST compare to the earlier taxation with respect to number of years in business.

H_1 = There is significant variation in the means score obtained for the variable related to the impact of GST compare to the earlier taxation with respect to number of years in business.

TABLE 1
DESCRIPTIVE STATISTICS TABLE

	Up to 5 years		6 to 10		More than 10		Total	
	N=40		N=50		N=13		N=103	
	M	SD	M	SD	M	SD	M	SD
Employee cost and software cost has been increased in GST	2.2000	1.06699	1.7400	.94351	2.2308	1.01274	1.9806	1.01923
Process to file return has been simplified in GST	2.1500	.69982	2.0600	.51150	2.3077	.75107	2.1262	.62119
Payment process has been simplified in GST	2.2250	.89120	2.5800	.83520	2.8462	1.06819	2.4757	.90581
The return process is simplified in GST	2.3250	1.11832	2.5400	1.35842	2.6923	.94733	2.4757	1.21949
The refund process has simplified in GST	2.6500	1.27199	2.4200	1.35662	2.5385	1.05003	2.5243	1.28219
ITC process has been simplified in GST	2.6500	1.00128	2.2600	.85261	2.7692	1.30089	2.4757	.98861
Stock transfer across the branch have simplified in GST	2.3000	1.09075	1.8400	.79179	2.0769	1.18754	2.0485	.98398
Invoicing system has improved in GST	2.1250	.85297	1.9800	.84491	2.3077	.94733	2.0777	.85965
Penalty and interest amount is more in GST	1.9500	.87560	2.3000	.93131	2.4615	.87706	2.1845	.91553
Export procedure has been simplified in GST	1.9750	.97369	2.0000	1.06904	2.0000	1.00000	1.9903	1.01455

ANOVA

Analysis of variance (ANOVA) is a statistical formula used to compare variance across the mean (or average) of different groups . A range of scenarios use it determine if there is any difference between the mean of different groups.

TABLE 2
ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Employ cost	Between Groups	5.633	2	2.817	2.808	.045
	Within Groups	100.328	100	1.003		
	Total	105.961	102			
Process to file	Between Groups	.670	2	.335	.866	.424
	Within Groups	38.689	100	.387		
	Total	39.359	102			
Payment process	Between Groups	4.842	2	2.421	3.070	.051
	Within Groups	78.847	100	.788		
	Total	83.689	102			
Return process	Between Groups	1.725	2	.863	.575	.564
	Within Groups	149.964	100	1.500		
	Total	151.689	102			
Refund process	Between Groups	1.179	2	.589	.354	.703
	Within Groups	166.511	100	1.665		
	Total	167.689	102			
ITC process	Between Groups	4.662	2	2.331	2.453	.091
	Within Groups	95.028	100	.950		
	Total	99.689	102			
Stock transfer	Between Groups	4.714	2	2.357	2.506	.087
	Within Groups	94.043	100	.940		
	Total	98.757	102			
Invoicing system	Between Groups	1.254	2	.627	.846	.432
	Within Groups	74.124	100	.741		
	Total	75.379	102			
Penalty	Between Groups	3.864	2	1.932	2.367	.033
	Within Groups	81.631	100	.816		
	Total	85.495	102			

The result of the one way ANOVA for the variable impact of GST compare to earlier taxation with the number of years gives an F value of 2.808 and 2.367 respectively ,which are significant at 5 per cent level.($p < 0.05$) hence the H_0 is rejected . This implies that there is significant difference variation in the means score obtained for the variable related to the impact of GST compare to the earlier taxation with respect to number of years in business , with respect to employees cost and software cost has been increased , penalty and interest amount is more in GST in related to number of years in business. In case of variables such as process to file return has been simplified in GST , Payment process has been simplified in GST , The return process has simplified in GST, ITC process has been simplified in GST , Stock transfer across the branch have simplified in GST, Invoicing system has improved , Export procedure has been simplified with correspondence of F values .866,3.070,.575,.354,2.453,2.506,.846, and .007 respectively , are found to be not significant at 5 per cent level.($p > 0.05$) .Hence H_0 is not rejected.

To conclude the class with highest mean value is rejected as the class with highest level of impact on GST compare to earlier taxes regarding number of years in business which has significant at 5 per cent level of significant. Hear in case of employees cost and software cost has been increased in GST penalties and interest amount is more in GST respondents having more than 10 years of experience in business having highest mean score (2.2308), penalties and interest amount is more in GST having more than 10 years of experience in business have highest mean score (2.4615).In case of other variables listed above shows that they are in different.

CONCLUSION

The study concludes that while the Goods and Services Tax (GST) has brought transparency, uniformity, and simplification to India's indirect tax system, MSME entrepreneurs in Palakkad District continue to face several compliance-related challenges. Issues such as difficulty in filing returns, lack of technological awareness, problems in availing input tax credit, and dependence on tax consultants have increased the operational burden on small businesses. Although GST offers long-term benefits like reduced tax cascading and improved market integration, its short-term impact on MSMEs has been demanding. Therefore, to ensure that MSMEs can fully benefit from the GST framework, there is a need for simplified procedures, user-friendly digital platforms, regular training programs, and targeted government support. Strengthening these areas will not only improve compliance but also enhance the growth and sustainability of the MSME sector.

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