



Impact Of GST On Small and Medium Enterprises

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Business Communication Skills-I

Abstract

One of the biggest tax reforms in India is the Goods and Services Tax (GST), which aims to increase economic efficiency and establish a single indirect tax structure. GST presented opportunities as well as difficulties for small and medium-sized businesses (SMEs). By analyzing secondary data from government sources, trade journals, scholarly studies, and polls, this study investigates the effects of GST on Indian SMEs. The impact of GST on supply chain operations, working capital, pricing decisions, technology adoption, compliance, and overall competitiveness is assessed in this research. The results demonstrate that although GST improved transparency and streamlined interstate commerce, SMEs still struggle with issues like cash flow constraints, digital literacy, return files, and compliance expenses. Policy ideas to lessen administrative burdens and make GST more SME-friendly are included in the paper's conclusion.

Keywords:- GST, Small and Medium Enterprises (SMEs), Compliance Challenges, Supply Chain Efficiency, Working Capital Management

1. Introduction

SMEs, or small and medium-sized businesses, are vital to India's economy. They account for almost half of India's exports, employ over 110 million people, and contribute almost 30% of the country's GDP. SMEs may have limited financial, technological, and administrative resources despite their significance. They are therefore more affected than large enterprises by any significant regulation change. Several indirect taxes were superseded by a single, unified tax in July 2017 with the implementation of the Goods and Services Tax (GST). The reform sought to eliminate interstate barriers, improve compliance, streamline the national market, and simplify taxation. Although the GST was successful in formalizing many aspects of the economy, its implementation presented additional difficulties for small enterprises, particularly those without specialist accounting help or digital infrastructure. The operational, financial, and competitive landscape of SMEs in India is evaluated in this article in relation to GST. The report reveals the inconsistent results of GST and pinpoints particular areas that require improvement.

2. Research Objectives

1. To assess SMEs' tax environments before and after the GST.
2. To examine how GST affects SMEs' administrative and compliance efforts.
3. To assess the impact of GST on pricing, working capital, and cash flow for SMEs.
4. To research how the GST has affected supply chains and operations.



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5. To determine the main obstacles and possibilities brought about by GST.
6. To recommend legislative actions that can assist SMEs in the context of the GST system.

3. Literature Review (Expanded with Authors and Years)

Indirect Tax Reform and SMEs

Sharma (2018) examined the transition from the VAT-excise-service tax system to the Goods and Services Tax (GST) and found that while GST made taxes easier, it made it more difficult for smaller businesses to submit paperwork. He pointed out that the lack of expert tax assistance made SMEs more difficult. Because the previous system promoted tax-based warehousing rather than efficiency-based warehousing, supply chain networks became more linked, according to Bansal and Kaur's (2019) analysis of the efficiency improvements from GST.

GST Compliance and Administrative Burden

According to Garg (2020), SMEs experienced stress due to the GST's requirement of several monthly returns. He discovered that a significant barrier for companies operating in rural and semi-urban locations was digital filing.

According to Rao and Roy (2021), the implementation of e-way bills increased real-time compliance efforts while also improving transparency. This need was more challenging for SMEs with smaller teams than for larger businesses.

Financial and Cash Flow Impact

According to Sinha and Kumar's (2020) analysis of the input tax credit system's impact, SMEs were under a great deal of working capital pressure. Liquidity was impacted by ITC refund delays, particularly for exporters.

According to Chattopadhyay (2019), the destination-based structure of GST boosted upfront tax obligation while reducing cascading taxes.

Technology Adoption Under GST

Mehta and Shah (2022) discovered that GST sped up SMEs' adoption of digital technology. Although cloud-based accounting and GST software became more popular, small firms with less digital literacy encountered obstacles during the switch.

Competitiveness and Market Impact

According to Verma (2019), GST increased competition by removing obstacles at the state level. However, informal SMEs found it difficult to adapt to the structured environment, particularly in industries like manufacturing, retail, and textiles.

4. Research Methodology

Only secondary data are used in this investigation.

Government documents (MSME Annual Reports, GST Council Reports), RBI statistical data, Ministry of Finance GST performance reports, and scholarly journals were among the sources examined.



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FICCI, CII, and ASSOCHAM industry reports; Deloitte, KPMG, and MSME sector associations surveys.

Approach Used:

A comparative and qualitative analysis was done by:

Comparing pre- and post-GST situations; examining compliance, tax revenue, and SME registration trends; researching the effects on cash flow and working capital; and spotting trends across industries.

There were no field surveys or primary data included.

5. Analysis

5.1 Pre-GST vs Post-GST System

Prior to the GST, SMEs had to deal with a variety of state-level taxes (VAT, excise, and service tax). They were replaced by a consistent system under GST. This decreased cascading taxation and increased transparency. Short-term compliance pressure, however, rose as a result of the change.

5.2 Compliance Impact

- In the initial years of GST, the frequency of filing returns increased.
- Real-time tracking of the movement of products was necessary for e-way billing.
- Why Monthly filings were difficult for SMEs without qualified accountants.
- For low-tech companies, digital-only compliance has become a significant obstacle.

5.3 Working Capital and Financial Impact

- Because of the input tax credit system, SMEs reported paying more in taxes up front.
- Liquidity was impacted by exporters' refund delays.
- Taxes on acquisitions and stock caused capital blockages for small manufacturers.
- Many businesses become more reliant on credit.

5.4 Operational Impact

- Transport time was shortened by improved interstate logistics.
- Efficiency-based models replaced tax-based ones for making warehousing decisions.
- E-invoicing forced several SMEs to rearrange their supplier chains.

5.5 Market and Competitiveness Impact

- Many minor businesses reported greater expenses because of compliance, professional fees, and digital requirements; GST favored organized players with better compliance capabilities.
- Simplified interstate sales regulations were advantageous to online retailers.

6. Findings

1. Medium-sized businesses profited more from GST than micro units because it increased transparency and decreased tax cascading.



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2. Compliance requirements are still very high, particularly for small businesses with little technology.
3. There was more strain on working capital, especially for exporters and manufacturers.
4. Requirements for digital filing promoted modernization, although gaps in digital literacy still exist.
5. While SMEs benefited from the streamlining of interstate trade, informal companies struggled to transition to formalization.
6. The reliance on professional accountants grew, increasing small businesses' operating expenses.

7. Conclusion

The effects of GST on Indian SMEs have been mixed. The reform increased supply chain efficiency and united the market, but it also brought new difficulties with cash flow management, technology adoption, and compliance. Micro and small businesses encountered substantial challenges, but medium-sized businesses responded more quickly. The long-term viability of GST and the expansion of SMEs depend on striking a balance between transparency and ease of doing business. Small businesses will experience less financial strain if digital support is strengthened, return filing is made simpler, and timely ITC reimbursements are guaranteed.

8. Policy Recommendations

1. Make it easier for micro and small firms to file their GST returns by using a single quarterly filing method.
2. To lessen the strain on working capital, enhance refund processing.
3. Offer digital training courses to employees and owners of SMEs.
4. Reduce fines for small filing errors, particularly for first-time violators.
5. Create GST helpdesks tailored to the manufacturing, textile, and retail sectors.
6. Provide incentives for the adoption of digital technology, such as subsidies for accounting software.
7. To lessen the burden of compliance for extremely small firms, raise awareness of composition schemes.

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