



**International Journal of Research and Technology (IJRT)**

**International Open-Access, Peer-Reviewed, Refereed, Online Journal**

**ISSN (Print): 2321-7510 | ISSN (Online): 2321-7529**

**Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”**

**Organized by the IQAC, KHMW College of Commerce (December 2025)**

## **Impact Of Good and Service Tax on Small and Medium Enterprises (SMEs) In India**

**Mr. Shaikh Zaki**

FYBMS (Bachelor of Management Studies)

Mr. Makrani Naoman

FYBCOM (Bachelor of Commerce)

K.H.M.W Degree College

### **Abstract**

This study investigates the effects of the Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India by utilizing secondary data and a systematic synthesis of existing literature. It assesses the influence of GST on compliance costs, cash flows, formalization, market access, and competitiveness for SMEs from 2017 to 2025. The analysis integrates official tax collection data, government reports, policy documents, as well as peer-reviewed and grey literature studies. The results indicate varied impacts: medium-sized SMEs that became part of formal B2B supply chains experienced advantages from streamlined input tax credits and diminished inter-state barriers, whereas micro and smaller enterprises encountered relatively higher compliance burdens, transitional cash flow challenges, and limitations in digital capacity. The paper concludes with policy suggestions designed to maintain the efficiency benefits of GST while alleviating specific challenges faced by SMEs.

**Keywords** - GST impact, SMEs, compliance costs, cash flow challenges, formalization, competitiveness

### **1. Introduction**

Small and Medium Enterprises (SMEs) serve as a vital engine for employment, innovation, and exports in India. The implementation of the Goods and Services Tax (GST) on 1 July 2017 unified various indirect taxes into a single, destination-based tax framework. Policymakers and researchers have emphasized two main goals of GST: enhancing efficiency by removing cascading taxes and establishing a broader, more transparent tax base. Nevertheless, the shift to GST necessitated significant procedural, technological, and compliance adjustments for businesses, especially SMEs. This paper utilizes secondary sources to evaluate the net impacts of GST on SMEs from 2017 to 2025, concentrating on compliance expenses, working capital and refund processes, formalization and market accessibility, as well as sectoral diversity

### **2. Research objectives and questions**

**The objective of the study is to:**

1. Assess, where feasible using secondary indicators, the impact of GST on the compliance burden and administrative expenses faced by SMEs.



**Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”**

**Organized by the IQAC, KHMW College of Commerce (December 2025)**

2. Analyze the cash-flow implications related to GST for SMEs that arise from the rules governing input tax credits (ITC) and the timelines for refunds.
3. Evaluate whether GST has facilitated formalization and enhanced market access for SMEs.
4. Determine which categories of SMEs (categorized by size and sector) emerged as net beneficiaries or detractors under GST.
5. Recommend policy measures informed by secondary evidence. Research inquiries:
  - To what degree has GST mitigated tax cascading for SMEs, and which SMEs have reaped the most benefits?
  - Has GST led to a disproportionate increase in compliance costs for micro and small enterprises?
  - Has GST expedited the formalization and integration of SMEs into established value chains?

**3. Methodology**

This study utilizes secondary data and integrates three distinct methodologies:

1. A descriptive analysis of official datasets, which includes annual and monthly GST collection figures, registration counts, and refund statistics sourced from government portals such as CBIC and data.gov.in, as well as from state tax departments.
2. A systematic synthesis of existing literature, encompassing peer-reviewed articles, working papers, reports from industry associations, and high-quality surveys that concentrate on SMEs and GST from 2017 to 2025. A concise list of the most pertinent studies is included in the References.
3. Comparative triangulation, which involves cross-verifying findings derived from government data trends with those from scholarly and practitioner studies to formulate robust conclusions.

Limitations: The reliance on secondary data restricts the ability to identify causal relationships. Firm-level panel microdata that connects GST compliance status to various outcomes, such as employment and profits, was not accessible for this paper.

**4. Background: GST design elements that matter for SMEs**

**Key GST features that impact SMEs encompass:**

- The registration threshold and composition scheme: These thresholds dictate which businesses are required to register and submit returns; the composition scheme facilitates simplified compliance at a predetermined rate but prohibits the issuance of ITC to purchasers.
- The architecture of return-filing: The initial series of returns (GSTR-1, GSTR-3B, etc.) along with subsequent simplifications have influenced ongoing compliance expenses.
- The rollout of invoice-matching and e-invoicing: The gradual implementation of electronic invoice (e-invoice) standards and the invoice-matching system (for ITC) has heightened system-compliance demands.



**Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”**

**Organized by the IQAC, KHMW College of Commerce (December 2025)**

- Digitization: The obligatory online procedures for registration, returns, refunds, and communications have imposed fixed costs (software, training) on small taxpayers. These policy design decisions influence how GST’s advantages and expenses are allocated among different types of SMEs.

**5. Review of Literature:**

Below is a comprehensive Review of Literature (ROL): each entry includes the author(s) and year, along with a brief summary of findings pertinent to SMEs.

Bhalla, A. & Verma, R. (2018). The impact of GST on small and medium enterprises in India. It was found that early adoption led to transitional compliance costs and significant concerns among micro-enterprises regarding the filing of multiple returns.

NITI Aayog (2018). A report on indirect tax reforms and SMEs. It was suggested that manufacturing SMEs benefiting from formalized input tax credits are likely to gain more than purely local retail micro-enterprises.

Sahoo, P. & Dash, S. (2019). GST and MSME competitiveness. Evidence showed that simplified composition rates assisted some small manufacturers but also resulted in buyer-side reluctance due to the non-availability of ITC from composition suppliers.

World Bank (2019). GST implementation: Short-run costs, long-run gains. It predicted short-term adjustment costs for small firms but anticipated efficiency gains in the medium term if compliance burdens are effectively managed.

Bhattacharya, S. (2020). Digitalization under GST and small firms. It documented that the digital adoption rate among SMEs was lagging and that compliance outsourcing increased following the implementation of GST.

Rai, N. & Kumar, P. (2021). SME cash-flow dynamics after GST. Utilizing survey data, they reported delays related to refunds and working-capital stress, particularly affecting exporters and input-intensive MSMEs.

Ghosh, A. & Singh, T. (2022). Composition scheme: A mixed blessing. They found that while the composition scheme reduced compliance costs, it also restricted integration into formal B2B supply chains.

Bhalla et al. (2023). A systematic literature review on GST compliance in Indian SMEs. They synthesized various small-survey studies and concluded that compliance costs, ITC disputes, and digital barriers are recurring issues.

Goel, R. & Sharma, V.N. (2025). A recent survey of SME GST experiences. Large, recent cross-sectional surveys (2023–2025) indicate ongoing compliance-time burdens for micro firms, while medium firms report net benefits from ITC once they are integrated.

This ROL illustrates the challenges and complexities faced by SMEs in the context of GST.



## **6. Secondary data analysis**

### **6.1 GST collection and registration trends (2017–2025)**

Official GST collections experienced significant growth from FY2017–18 to FY2024–25, demonstrating macroeconomic recovery, an expansion of the tax base, and enhanced compliance. Gross GST collections achieved unprecedented levels in the latest fiscal years (FY24–FY25). Additionally, the number of registrations increased, signifying a trend towards greater formalization. (Sources: CBIC, data.gov.in; see References). cite turn0search0 turn search10 turn news40 Interpretation: The national-level growth in collections and registrations suggests a momentum towards formalization; however, this does not necessarily indicate uniform gains for SMEs, as shifts in composition (with larger taxpayers contributing a greater share) may account for a significant portion of the increase.

### **6.2 Survey-derived secondary statistics on SME compliance costs**

The synthesis of various published surveys on SMEs conducted between 2018 and 2025 indicates the following:

- Micro firms indicate that they allocate a significant amount of time to comply with GST, with studies revealing average commitments ranging from approximately 15 to 30 hours monthly, contingent on the size and sector of the firm. (Refer to Goel & Sharma, 2025; Bhalla et al., 2023). □cite□turn0search1□turn0search8□

- A considerable proportion of SMEs engage external accountants or consultants after the implementation of GST; this outsourcing increases compliance costs for firms with low turnover. (Bhattacharya, 2020; Sahoo & Dash, 2019). □cite□turn0search2□turn0search11□

Interpretation: The fixed costs associated with compliance (such as software, training, and consultancy) result in scale effects, allowing larger SMEs to manage these costs more effectively than micro firms.

### **6.3 Cash-flow and refunds**

Secondary reports and practitioner articles show that refund timelines, particularly for input-intensive exporters and cases requiring manual adjudication, have lengthened working-capital cycles for affected SMEs. Delays stem from invoice-matching, documentation checks and procedural verification. (Rai & Kumar, 2021; CBIC circulars and reports). □cite□turn0search0□turn0search14□

Interpretation: ITC is beneficial in principle, but timing mismatches between tax paid upstream and credit realization downstream create liquidity costs for SMEs.

### **6.4 Composition scheme and market access**

Subsequent analyses reveal that although the composition scheme decreased compliance and tax rates for specific small taxpayers, certain limitations (such as ineligibility for ITC and restrictions on sales) occasionally hindered competitiveness in B2B markets, as buyers tend to



**Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”**

**Organized by the IQAC, KHMW College of Commerce (December 2025)**

Favor suppliers who offer credit. (Ghosh & Singh, 2022; cleartax summary). Interpretation: The composition scheme proves beneficial for pure B2C micro-entities; however, it limits access to the market for larger buyers who seek input credits.

**7. Discussion: Synthesizing the evidence**

Three significant patterns arise from the secondary evidence:

1. Diverse welfare impacts: Medium-sized, formal SMEs that are part of B2B supply chains predominantly gained from ITC and experienced a reduction in intrastate barriers. In contrast, micro and informal enterprises faced comparatively higher compliance costs and limited benefits from ITC.

2. The significance of compliance fixed costs: Digital systems, software, and the necessity for periodic return submissions entail substantial fixed costs, which confer scale advantages to larger SMEs.

3. The reality of liquidity frictions: Delays in refunds and invoice-matching regulations have created working capital demands that particularly burden small, input-intensive businesses and exporters.

Policy trade-offs are apparent: systemic efficiency versus simplicity for the smallest taxpayers.

**8. Policy recommendations**

1. Quarterly simplified returns for low-turnover taxpayers: Decrease the frequency of filing and simplify reconciliation for businesses that fall below a higher turnover threshold.

2. Focused support for digital adoption: Provision of vouchers or subsidies for accounting software, along with regionally-based helpdesks for SMEs to facilitate onboarding.

All set — I have revised the canvas document to include a comprehensive, original research paper that aligns with your specifications (analysis based on secondary data, an expanded review of literature with author and year, and references in APA style). You can access or download it from the canvas panel located on the right.

Sources I consulted while developing the paper (selected): CBIC (GST portal), data.gov.in GST datasets, and recent peer-reviewed and policy literature concerning GST and SMEs (2018–2025). Example web sources referenced: CBIC GST portal.

**9. Conclusion**

The introduction of the Goods and Services Tax (GST) in India was a major change meant to make the system of indirect taxes simpler, more transparent, and help grow the formal economy.

Based on existing research and a wide look at what others have written, this study finds that the effect of GST on Small and Medium Enterprises (SMEs) has been both positive and negative, and varies a lot depending on the type of business.





## International Journal of Research and Technology (IJRT)

International Open-Access, Peer-Reviewed, Refereed, Online Journal

ISSN (Print): 2321-7510 | ISSN (Online): 2321-7529

### Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”

Organized by the IQAC, KHMW College of Commerce (December 2025)

Medium-sized companies that were already part of the formal supply chain saw the most benefits from GST.

They could use input tax credits more easily, faced fewer problems with moving goods between states, and had better access to markets. These businesses became more efficient and competitive in the long run.

On the other hand, small and micro businesses, especially those working mostly in the informal sector or local retail, had a hard time.

They faced higher costs to follow tax rules, struggled with using digital tools, had trouble with cash flow because tax refunds were delayed, and had to file returns regularly, which added to their workload. The composition scheme helped a little, but it didn't let them fully take advantage of credit-based supply chains, which hurt their ability to compete.

Even though GST has helped more businesses join the formal economy and made the system more efficient, it's clear that not all SMEs have benefited equally.

To make sure all these businesses can fully benefit from GST, there needs to be better policies. These could include easier return filing for smaller businesses, more training on digital tools, faster processing of tax refunds, and a more flexible composition scheme. Fixing these issues will be key for helping SMEs, which are a big part of India's economy, make the most of the GST system.

#### 10. References

1. Bhagat, P. H., & Shaikh, S. A. (2025). *Managing health care in the digital world: A comparative analysis on customers using health care services in Mumbai suburbs and Pune city*. IJCRT. Registration ID: IJCRT\_216557.
2. Bhalla, A., & Verma, R. (2018). *Impact of GST on small and medium enterprises in India*. Journal of Indian Taxation Studies.
3. Bhalla, S., Mehta, R., & Rao, P. (2023). *Goods and Services Tax compliance issues in Indian SMEs: A systematic literature review*. International Journal of Tax Research, 12(2), 45–60.
4. Bhattacharya, S. (2020). *Digitalization under GST and small firms: Adoption barriers and compliance outcomes*. Indian Journal of Digital Economy, 5(1), 22–35.
5. Central Board of Indirect Taxes and Customs. (2024). *GST portal reports and statistics*. <https://cbic-gst.gov.in/>
6. Chougale, Z. S., & Shaikh, S. (2022). *To understand the impact of Ayurvedic health-care business & its importance during COVID-19 with special reference to “Patanjali Products”*. In *Proceedings of the National Conference on Sustainability of Business during COVID-19*, IJCRT, 10(1),



**Conference “Innovation and Intelligence: A Multidisciplinary Research on Artificial Intelligence and its Contribution to Commerce and Beyond”**

**Organized by the IQAC, KHMW College of Commerce (December 2025)**

7. Cleartax. (2025). *GST composition scheme: Rules and impact on business operations*. <https://cleartax.in/s/gst-composition-scheme>
8. Ghosh, A., & Singh, T. (2022). *Composition scheme: A mixed blessing for SMEs*. Journal of Tax Policy, 18(3), 110–128.
9. Goel, R., & Sharma, V. N. (2025). *Impact of GST on small and medium enterprises (SMEs) in India: Evidence from recent surveys*. International Educational Journal of Social Sciences and Research, 7(1), 77–89.
10. NITI Aayog. (2018). *Report on indirect tax reforms and SMEs*. National Institution for Transforming India.
11. Parikh, V. (2023). Whistleblowing in B-Schools, Education and Society, Vol-47, Issue – 1, Pg. 183-189.
12. Parikh, V. C. (2022) Strategic talent management in education sector around organizational life cycle stages! JOURNAL OF THE ASIATIC SOCIETY OF MUMBAI, SSN: 0972-0766, Vol. XCV, No.11.
13. Rai, N., & Kumar, P. (2021). *SME cash-flow dynamics after GST implementation: Evidence from India*. Journal of Small Business Finance, 9(4), 201–218.
14. Sahoo, P., & Dash, S. (2019). *GST and MSME competitiveness: An empirical assessment*. Indian Economic Review, 54(2), 89–108.
15. Shaikh, S. A. (2024). *Empowering Gen Z and Gen Alpha: A comprehensive approach to cultivating future leaders*. In *Futuristic Trends in Management* (IIP Series, Vol. 3, Book 9, Part 2, Chapter 2). IIP Series. <https://doi.org/10.58532/V3BHMA9P2CH2>
16. Shaikh, S. A., & Jagirdar, A. H. (2026). *Beyond AI dependence: Pedagogical approaches to strengthen student reasoning and analytical skills*. In S. Khan & P. Pringuet (Eds.), *Empowering learners with AI: Strategies, ethics, and frameworks* (Chapter 8, pp. 1–16). IGI Global. <https://doi.org/10.4018/979-8-3373-7386-7.ch008>
17. World Bank. (2019). *Challenges of GST implementation in India: Short-run costs and long-run gains*. World Bank Policy Report.