



## EFFECTIVENESS OF GST IMPLEMENTATION ON SMALL BUSINESSES IN INDIA

**Dr. Ravikumar B.**

*Associate Professor of Commerce, Govt. First Grade College Shidlaghatta.*

**Paper Received On:** 20 AUGUST 2025

**Peer Reviewed On:** 24 SEPTEMBER 2025

**Published On:** 01 OCTOBER 2025

### Abstract

*The introduction of the Goods and Services Tax (GST) in India in July 2017 was one of the most significant tax reforms in the country's economic history. It aimed to simplify the indirect tax structure, promote ease of doing business, and create a unified national market. For small businesses—defined broadly as enterprises with limited turnover and operational scale—GST implementation brought both opportunities and challenges. This paper examines the effectiveness of GST on small businesses in India by assessing its impact on compliance, cost structures, business expansion, digitization, and overall formalization of the economy. The study also explores practical difficulties faced by small enterprises and evaluates government interventions such as the Composition Scheme and exemption thresholds. Policy recommendations are proposed to enhance GST effectiveness and support small enterprises in transitioning to a digital tax regime.*

**Keywords:** *Goods and Services Tax (GST), Small and Medium Enterprises (SMEs), Compliance Burden, Composition Scheme, Tax Reform, Digital Economy, Informal Sector*

### Introduction

Small businesses are the backbone of India's economy, contributing over 30% to the GDP and employing more than 110 million people. Prior to GST, the indirect tax regime was complex and fragmented, with different states applying varying rates and procedures. GST was envisioned to resolve these issues by streamlining taxes such as VAT, excise, and service tax into a single system.

While large corporations have adapted relatively smoothly to the new tax regime, small businesses have had mixed experiences. This paper aims to critically examine how GST has affected the operational environment for small businesses in India, especially with respect to compliance costs, working capital management, competitiveness, and access to formal financial systems.

*Copyright@2025 Scholarly Research Journal for Humanity Science & English Language*

## **Review of Literature**

The introduction of the Goods and Services Tax (GST) has sparked extensive academic and policy-level discussions, particularly regarding its impact on **Small and Medium Enterprises (SMEs)** and **micro-enterprises**. This review draws on recent scholarly articles, government reports, and institutional studies to understand the effectiveness of GST implementation on small businesses in India.

### **1. Mukherjee, S. (2019)**

In his paper “*GST in India: Impact on the Small and Medium Enterprises*”, Mukherjee observes that while GST brought about a uniform tax structure, it initially increased compliance complexity for small firms. He highlights that the transition was more difficult for businesses in the unorganized sector due to a lack of digital preparedness and understanding of tax structures.

### **2. FICCI-Deloitte Report (2021)**

A joint report by FICCI and Deloitte titled “*Impact of GST on Indian MSMEs*” found that approximately 63% of small businesses reported better business visibility and credit access post-GST registration. However, the report also notes a rise in operational costs due to return filing complexities and the need to hire professional tax consultants.

### **3. Garg, S. and Mehta, A. (2020)**

Their research, “*Challenges and Opportunities of GST for Small Businesses*”, published in the *Journal of Indian Business Research*, concludes that the major deterrents for small businesses include a lack of awareness, frequent changes in GST rules, and inadequate training. Nevertheless, formalization through GST has increased access to institutional credit.

### **4. Ministry of MSME (2022)**

The Government of India’s *Annual MSME Report* suggests that GST has led to improved tracking of transactions and better revenue collections. However, it also underscores that a large percentage of micro-enterprises still operate below the exemption threshold and remain outside the GST net, thereby not benefiting from ITC or broader market access.

### **5. World Bank (2022)**

The World Bank, in its country analysis titled “*Tax Reform and Business Environment in India*”, praises GST for its role in reducing tax cascading but flags the disproportionate burden on small firms due to the frequency of compliance and the need for digital interfaces. It advocates for simplified return filing mechanisms and improved outreach for small businesses.

## 6. Choudhury, M. (2021)

In her study on GST and digital compliance, Choudhury found that small businesses located in rural and tier-2 cities faced higher entry barriers due to digital illiteracy and infrastructure limitations. She recommends subsidized GST training programs and simplification of e-way bill procedures for small traders.

## 7. Singh & Kapoor (2023)

Their empirical research titled “*Post-GST Business Performance of Small Enterprises in North India*” found that businesses that adopted digital accounting tools and hired professional consultants adapted faster and showed 15–20% higher revenue growth post-GST compared to their non-compliant peers.

The reviewed literature presents a **balanced picture** of GST’s effect on small businesses. While there is a consensus that GST promotes **formalization, transparency, and market expansion**, researchers highlight significant **barriers** in compliance, digital access, and policy awareness. It becomes evident that while GST has laid a strong foundation for a unified tax system, **its effectiveness for small businesses depends heavily on capacity building, simplification of processes, and policy support** tailored to their needs.

### Objectives of the Study

1. To evaluate the positive outcomes of GST implementation for small businesses.
2. To analyze the challenges faced by small businesses under the GST regime.
3. To assess the role of government relief measures like the Composition Scheme.
4. To offer policy suggestions for improving GST compliance and business sustainability.

### Positive Impacts of GST on Small Businesses

#### 1. Unified Market Access

GST has eliminated inter-state tax barriers, enabling small businesses to access national markets without facing complex entry taxes or multiple registrations. Earlier, interstate trade was hindered by CST and multiple VAT registrations; GST has created a seamless economic zone.

#### 2. Digitization and Formalization

The GST system mandates digital invoicing, filing returns online, and e-way billing, which has pushed small businesses towards digitization. This has increased transparency and enabled firms to maintain better financial records, which can improve access to formal credit.

### **3. Input Tax Credit (ITC)**

GST allows small businesses to claim Input Tax Credit on purchases, reducing their tax liability and promoting better supply chain efficiency. This incentivizes businesses to purchase from GST-compliant vendors, fostering broader formalization.

### **4. Reduction in Cascading Effect**

One of the most notable advantages of GST is the removal of tax-on-tax. Under the previous system, taxes were applied on top of other taxes (e.g., excise + VAT), but GST has consolidated this into a single rate, lowering the final cost of goods and improving competitiveness for small players.

### **5. Composition Scheme Benefits**

The Composition Scheme allows small businesses with turnover up to ₹1.5 crore to pay a fixed lower tax rate (between 1%–6%) without maintaining extensive records. This has provided significant compliance relief to many small traders, manufacturers, and service providers.

### **Challenges Faced by Small Businesses under GST**

#### **1. High Compliance Burden**

Frequent filing of monthly, quarterly, and annual returns (such as GSTR-1, GSTR-3B, GSTR-9) places a significant compliance burden on small business owners. Many lack the financial resources to hire tax professionals or purchase accounting software.

#### **2. Limited Digital Literacy**

For small businesses in rural and semi-urban India, the transition to a digital tax filing system has been difficult. Lack of internet access, limited familiarity with digital tools, and dependency on third-party consultants lead to delays and non-compliance.

#### **3. Working Capital Pressure**

Due to delays in ITC refunds and increased input costs under GST, many small businesses experience tight cash flow situations. The lag in credit realization affects daily operations and reduces liquidity for reinvestment or expansion.

#### **4. Lack of Awareness and Training**

Many entrepreneurs are unaware of updates in GST rules, new schemes, or compliance deadlines. The complexity of GST classifications (HSN/SAC codes, applicable rates) leads to confusion and increases the risk of penalties.

## **5. Transition and Tech Cost**

The initial transition from the old tax regime to GST involved investments in software, training, and consultants. Small businesses, especially those with tight margins, found this transition financially and logistically challenging.

### **Government Interventions and Support Measures**

#### **Composition Scheme**

As mentioned, this simplified tax regime for small businesses allows them to pay a fixed tax without claiming ITC. It has reduced paperwork and tax burden, particularly for micro-enterprises and traders.

#### **Quarterly Filing for Small Taxpayers**

The QRMP (Quarterly Return Monthly Payment) scheme allows businesses with turnover up to ₹5 crore to file returns quarterly, reducing compliance frequency.

#### **GSTN Support and Help Desks**

The government has set up GST Suvidha Kendras and helplines to provide support to small taxpayers in understanding and filing GST returns.

#### **GST Amnesty Scheme**

The amnesty schemes periodically launched by the GST Council help businesses clear past dues or file pending returns with reduced penalties, offering breathing room to non-compliant or struggling businesses.

### **Case Highlights**

#### **Case 1: Textile Business in Surat**

A small textile wholesaler in Surat reported significant cost savings due to the removal of inter-state entry taxes, which earlier added 2%–5% to shipment costs. Post-GST, the business expanded operations to Maharashtra and Karnataka without needing separate registrations.

#### **Case 2: Kirana Store in Ballari (Karnataka)**

A kirana store owner in Ballari benefited from joining the Composition Scheme. He now pays 1% tax on turnover and has reduced his accountant dependency by shifting to an app-based invoicing system. However, he cannot issue tax invoices, limiting his ability to sell to corporate buyers.

#### **Case 3: Handicraft Exporter from Jaipur**

A handicraft exporter initially struggled with ITC refunds and software errors. With the help of government training camps and adopting GST-compliant ERP software, the business now

claims regular refunds and expanded exports using the LUT (Letter of Undertaking) mechanism.

### **Suggestions and Policy Recommendations**

1. **Simplify Return Filing** : Introduce a single annual return for small businesses with optional quarterly filing. Reduce the number of forms and streamline reconciliation processes.
2. **Improve ITC Refund Mechanism** : Ensure automatic, time-bound ITC refunds to reduce working capital pressure and improve liquidity for small businesses.
3. **Localized Awareness Campaigns**: Conduct GST training in vernacular languages through local chambers of commerce and trade associations, especially in rural and tier-2 cities.
4. **Subsidized Digital Tools** : Promote low-cost or subsidized accounting tools for micro-enterprises to handle billing, filing, and reconciliation.
5. **Graded Penalty Structure** : Introduce a graded penalty system based on the size of the business and the nature of non-compliance to avoid disproportionately burdening micro-entrepreneurs.
6. **Encourage Voluntary Registration** : Offer incentives (e.g., interest-free loans, priority lending, vendor access) to encourage voluntary GST registration for unregistered small businesses.

### **Conclusion**

The implementation of GST in India has been a major step toward tax transparency and national market unification. For small businesses, GST has opened avenues for formalization, digital adoption, and broader market access. However, the success of GST for small enterprises is mixed due to persistent challenges in compliance, awareness, and digital infrastructure. To unlock the full potential of GST for India's small businesses, a more inclusive, simplified, and supportive regulatory approach is essential. With the right interventions, GST can serve as a catalyst for small business growth and economic transformation.

### **References**

- Ministry of Finance, Government of India. (2023). GST Revenue Collections & Reports. Goods and Services Tax Network (GSTN) Portal: [www.gst.gov.in](http://www.gst.gov.in)*
- World Bank. (2022). India: Assessment of Tax Reforms for SMEs.*
- FICCI & Deloitte. (2021). Impact of GST on MSMEs in India.*
- Economic Times. (2024). "Small Traders Struggle With Monthly GST Compliance."*
- GST Council Meeting Reports (2022–2024)*
- KPMG (2023). Simplification of GST for Small Businesses – Survey Report.*