



Outcomes of Goods and Services Tax on Small Businesses in India

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Abstract

One of India's largest indirect tax reforms was the introduction of the Goods and Services Tax (GST) on July 1, 2017. GST created a single taxing system in place of several indirect taxes, including VAT, excise duty, service tax, and entry tax. "One Nation, One Tax" and streamlining the taxation procedure were the primary goals of GST. Because they provide jobs and make a substantial contribution to GDP and exports, small companies and Micro, Small, and Medium Enterprises (MSMEs) are regarded as the foundation of the Indian economy.

This study looks at how Goods and Services Tax has affected Indian small enterprises. The report examines the benefits and drawbacks of GST, including standard working capital management, tax compliance, technological advancement, and ease of running a business. The report also highlights the difficulties small firms had following the introduction of the GST and offers recommendations for enhancing the system. The supplementary information included in the study was gathered from publications, journals, articles on the internet, and government sources.

Keywords: *Goods and Service Tax, compact Businesses, MSMEs, Digitalization, Fiscal policies, Compliance, Economy of India.*

1 Introduction

• Introduction to tax of goods and service

The Goods and Services Tax is referred to as GST. It is an indirect tax on a source of goods and services that is based on the destination. In order to eliminate the downward spiral of taxes and establish a single tax system throughout India, GST was implemented.



Businesses were required to pay several taxes, including taxation on VAT, service tax, excise duty, octroi, and central sales tax, under the former tax regime. These taxes were superseded by just one tax system under GST.

- **Meaning of compact Businesses**

Minor companies, also known as MSMEs, are companies with low investment and turnover that are involved in manufacturing, trade, or providing services. These companies are crucial to India's economic growth and job creation.

- **Significance of the Study**

Changes in tax laws have a significant impact on small enterprises. The financial and operational landscape for MSMEs has changed as a result of GST. To comprehend the advantages and difficulties of GST, it is crucial to research how it affects small enterprises.

- **Objectives of the Study**

1. To understand the concept and structure of GST.
2. To analyse the impact of GST on small businesses in India.
3. To identify challenges faced by MSMEs after GST implementation.
4. To study the benefits of GST for small businesses.
5. To provide suggestions for improving GST compliance.

- **Hypothesis**

- **H0:** GST has no significant impact on small businesses in India.
- **H1:** GST has a significant impact on small businesses in India.

- **Methods of research**

- **Type of Research:** Descriptive and Analytical
- **Collected of data:** Secondary Data
- **Resources:** Journals, articles, government reports, GST portal, newspapers, and websites
- **Area of Study:** all over the India

2 Review of Literature

The consequences of Taxation on MSMEs and traditional small businesses have been examined by a number of scholars and specialists.

According to a scholarly Cleartext study, the GST enhanced operational efficiency and streamlined the indirect tax structure, but firms still encounter difficulties due to the various tax bands and compliance requirements.



According to study released by Zoho Books, claiming that GST improved transparency and made interstate business easier, however small firms found it challenging to switch to digital filing systems.

Kanakkupillai claims that GST gave MSMEs access to new markets and input tax credits. However, operational difficulties were brought about by a greater weight of compliance, reliance on technology, and delayed refunds.

According to IIFL, GST increased tax clarity and MSMEs made a substantial contribution to GDP and employment. However, many small enterprises were impacted by compliance expenses and working capital concerns.

According to recent accounts from Gujarat MSMEs, firms are still experiencing liquidity issues as a result of standard versus input tax credit imbalances and delayed GST returns.

Agrawal (2022) examined how the GST affected SMEs in the country and discovered that it improved transparency and streamlined the tax structure. However, digital filing and regulatory processes presented challenges for small enterprises.

Based on Sharma and Gupta (2021), GST decreased tax burdens through input tax credits and enhanced interstate trade. The report also brought attention to issues that MSMEs face, such as ignorance and technical difficulties.

Kumar (2023) concentrated on the GST-related issues small businesses confront. The study discovered that small dealers faced operational and financial challenges due to online filing, delayed returns, and the burden of compliance.

3: Goods and Services' Effect on tiny companies

• Benefits of GST

➤ Tax Structure Simplification

It created a single, unified tax structure in place of several indirect taxes. Businesses' taxation processes were made simpler and less confusing as a result.

➤ Interstate Trade Facilitation

Prior to the taxation, businesses had to deal with obstacles like state-specific VAT regulations and entry levies. GST facilitated interstate commerce by establishing a single national market.

➤ Tax Credit Input (TCI)

Businesses can receive input tax credits on purchase-related taxes thanks to GST. This decreased production costs and the cumulative impact of taxes.

➤ Enhanced Openness

Online transactions and precise documentation were promoted by GST legislation. This decreased tax avoidance and increased business operations' openness.



➤ **Economic The process of formalization**

In spite of GST registration rules, a large number of unregistered enterprises entered the legal sector. Both corporate responsibility and government tax income grew as a result.

• **GST's detrimental effects**

➤ **A more responsibility of adherence**

Small enterprises must keep digital records and complete several GST returns. Complex compliance standards are a challenge for many small and medium-sized companies.

➤ **Reliance on Technology**

GST is entirely digital, necessitating technical expertise and internet connectivity. It is challenging for firms in rural and city-like locations to transition to online systems.

➤ **Issues with Working Capital**

Even before they get payment from clients, businesses are required to pay GST at the time of invoicing. Cash flow problems are also brought on by delayed refunds.

➤ **Higher Expenses for Administration**

In order to comply with GST requirements, many small businesses hire consultants or accountants, which raises operating costs.

➤ **Regular Modifications to the Rules**

Small business operators are confused by the GST regulations' frequent changes and notice.

4 Difficulties Small Businesses Face

➤ **Problems with Digital Literacy**

Tax applications and internet-based filing systems are unknown to many owners of businesses.

➤ **Repayment Delays**

Liquidity is impacted by the delays in GST returns for producers and exporting companies.

➤ **The Intricacy of Several Tax Slabs**

Multiple GST charges lead to misunderstandings about how goods and services are classified.

➤ **Notices and Punishment**

Micro business owners are more stressed because slight filing mistakes frequently result in fines and tax letters.

➤ **Exorbitant Compliance Expenses**

The cost of software and expert consultation adds to small and medium-size financial burden.

5 Results of the Research

1. India's indirect tax system was made simpler by the Goods and Services



2. Tax made firms more digital and transparent.
3. The introduction of the Taxes made interstate trading easier.
4. The burden of compliance increases for small firms.
5. Delays in refunds and working capital continue to be significant issues.
6. Rural MSMEs find it challenging to adopt new technologies.
7. While firms benefited from GST, many small dealers faced operational challenges.

6 Advice

1. The governing body ought to streamline the process of submitting returns for GST.
2. MSMEs should participate in further education and awareness-raising initiatives.
3. The procedure of GST refunds ought to be quicker.
4. There should be fewer and simpler tax slabs.
5. Financial and technical assistance for digital certification should be provided to small firms.
6. Charges for small filing errors must be kept to a minimum.

7 Conclusion

Among of the biggest tax changes in India is the Goods and Services Tax (GST). By substituting a single structure for several indirect taxes, it has completely changed the tax system. Benefit from GST include input tax credit facilities, convenience of interstate trade, and transparency. Additionally, it has promoted business formalization and digitization,

However, small firms now face a number of difficulties as a result of GST, such as the burden of compliance, reliance on technology, problems with working capital, and delayed refunds. Many MSMEs find it difficult to adjust to evolving rules and digital tax systems. In general, GST has affected Indian small enterprises in a number of ways that are beneficial and detrimental. Even though GST has altered the tax system over time, MSMEs will not be able to fully benefit from it without continued government support and reforms.

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