

An Analytical study of the Impact of GST on small business performance

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ABSTRACT

The impact of the goods and services tax GST on small businesses in India has been widely discussed since its implementation, as it brought a significant shift in the country's indirect practices, and overall growth of small enterprises. Using a combination of secondary data sources such as government reports, research articles, and published studies, the paper examines both the benefits and challenges experienced by small business owners.

The findings suggest that GST has simplified the tax system by replacing multiple indirect taxes with a single unified structure, improving transparency, and enabling easier interstate trade. At the same time, it has increased compliance requirements, including regular returns filing and digital record-keeping, which has been particularly demanding for smaller firms with limited resources and technical knowledge. The study highlights that while GST has created opportunities for formalization and long-term growth, the transition phase has posed difficulties for many businesses. Overall, the paper concludes that GST has had a mixed impact on small businesses, balancing improved efficiency and market access with challenges in adaptation and compliance. The study provides insights that can help policymakers and stakeholders better understand the needs of small enterprises and support their sustainable development in a GST-driven economy.

Keywords: goods and services tax GST, small businesses, tax compliance, business growth, digitalization, economic impact.

CHAPTER 1: INTRODUCTION

The introduction of the goods and services tax GST marked a major turning point in India's taxation system. Implemented on 1, 2017 GST replaced a complex structure of multiple indirect taxes such as VAT, service tax, and excise duty with a single, unified tax system. This reform was aimed at creating a more transparent, efficient, and business-friendly environment across the country. By bringing the entire nation under one tax regime, GST sought to simplify compliance, reduce the cascading effect of taxes, and promote ease of doing business.

Small businesses play a vital role in the Indian economy. This contributes significantly to employment generation, innovation, and overall economic growth. However, these businesses often operate with limited financial resources, manpower, and technical expertise. Because of this, any major policy change – especially one as impactful as GST can directly influence their day-to-day operations and long-term sustainability.

Understanding how GST affects small businesses is therefore essential for evaluating the success of this reform. On one hand, GST has introduced several benefits for small businesses. It has eliminated the need to deal with multiple tax authorities and simplified the tax structure, making it easier for businesses to operate across state boundaries. The introduction of input tax credit has also helped reduce the overall tax

burden by allowing businesses to claim credit for the taxes paid on inputs. Additionally, which can improve their credibility and access to formal financing.

On the other hand, the shift to GST has not been entirely smooth for small enterprises. The new system requires regular filing of returns, maintenance of digital records, and a basic understanding of online compliance platforms. For many small business owners, especially those in semi-urban and rural areas, adapting to these digital and procedural changes has been challenging. Increased compliance costs, the need for professional assistance, and initial confusion regarding tax rates and rules have added to their difficulties during the transition phase. This research paper focuses on examining the overall impact of GST on small businesses in India. It aims to understand both the positive outcomes and the challenges faced by these enterprises after the implementation of GST. This study is based on secondary data collection from reliable source such as research papers, government publications, and industry reports. By analysing this information, the paper seeks to provide to balanced and clear view of how GST has influenced the functioning and growth of small businesses.

In conclusion, GST is a significant-reforms that has reshaped the way businesses operate in India. While it has opened new opportunities for growth and efficiency, it has also created certain hurdles for small businesses that are still adapting to the system. This study attempts to bridge the gap between policy and practise by highlighting the real experiences of small business owners, thereby contributing to a better understanding of GSTs impact in the Indian context.

CHAPTER:2 – LITERATURE REVIEW

PIB Special Report (2025) details the transition to "GST 2.0," which replaced the four-slab system with a primary two-slab structure (5% and 18%). The report argues that this shift specifically benefited MSMEs by reducing "classification disputes" and simplifying pricing strategies for essential goods like processed foods and textiles, which were previously stuck in the 12% "middle-trap" slab.

Godrej Capital MSME Study (2025) compares the old vs. new tax impacts, noting that sectors like construction and logistics saw a significant reduction in project costs as cement and auto parts moved from 28% to 18%. This rationalization is credited with improving the competitive bidding power of small contractors against larger infrastructure firms.

Acumen Capital (2025) analyses the introduction of "Automated ITC Claims" under GST 2.0. The study finds that while automation reduced manual errors, it created a "tech-barrier" for micro-entrepreneurs who lack integrated ERP systems, forcing them to increase their reliance on T+1 settlement-ready accounting software.

Dr. Ravikumar (2025) conducts a case study on "Kirana" stores in Karnataka and textile units in Surat. He observes that while the **Composition Scheme** has simplified life for local retailers, the "Handicraft Exporters" in Jaipur still struggle with upfront tax payments that strain their working capital, despite the promise of faster 90% provisional refunds.

IJ Pub Research (2026) focuses on the unique challenges of special-category hill states like Himachal Pradesh. The findings suggest that "geographical disadvantage" coupled with poor internet connectivity makes the mandatory digital e-way bill system a logistical nightmare for small manufacturers operating in remote terrains.

Ahmed & Sur (2024/25) argue that the "triple shock" of demonetization, the pandemic, and GST has finally stabilized into a "Digital Dividend." Their research shows that rural MSMEs that survived the

transition are now more "bankable" due to their transparent digital footprints, leading to a 30% increase in formal credit sanctioned to small Agri tech startups.

SSCO India Blog/Report (2025) highlights the rising "Penalty Pressure" in the new regime. With stricter enforcement and automated notices for GSTR-2B mismatches, small businesses are now spending up to 15% of their operational budget solely on "preventive compliance" to avoid costly audits and fines.

JAAFR (2026) explores the "Compliance Burden on Startups in Pune." The study reveals that "low confidence in filing returns independently" is the primary driver of high consultancy fees. Even with simplified forms, 70% of entrepreneurs still feel they cannot manage GST without a professional Chartered Accountant.

IJSREM (2024) evaluates the "Supply Chain Seismic Shifts" caused by GST. It highlights that large corporations have "filtered" their vendor lists, choosing only those MSMEs that are 100% GST-compliant. This has created a "survive-or-formalize" ultimatum for small-scale ancillary units in the automotive and e-commerce sectors.

Revathi et al. (2024/25) provide a nuanced view of the **Input Tax Credit (ITC)** framework. They argue that the interdependency of the system—where one's credit depends on another's filing—acts as a "Financial Domino Effect." If a large buyer delays payment to an MSME, the MSME's inability to pay tax on time blocks the credit for the next person in the chain, causing localized liquidity crises.

PROBLEM STATEMENT: The Goods and Services Tax (GST) was introduced with the aim of simplifying India's tax system and making it more transparent and business-friendly. By replacing multiple indirect taxes with a single unified system, GST was expected to reduce confusion and create a smoother environment for businesses to operate across the country. Small businesses, which play a vital role in economic growth and employment, were seen as key beneficiaries of this reform. However, their actual experience with GST has been quite varied.

Existing studies present mixed views on the impact of GST on small businesses. Some research highlights the positive side, such as reduced tax complexity, improved transparency, and better opportunities for expansion into new markets. On the other hand, several studies point out the difficulties faced by small business owners, including frequent return filing, increased compliance burden, the need for digital knowledge, and additional costs for managing these requirements. These challenges have made it difficult for many small businesses to fully adapt to the new system. Moreover, much of the existing literature does not provide a complete and balanced understanding of the situation. Many studies focus only on either the benefits or the challenges, without capturing the real, day-to-day experiences of small business owners. The impact of GST also differs based on factors such as business size, sector, and location, making the overall picture more complex. Therefore, there is a need for a more comprehensive and practical analysis. This study aims to bridge this gap by bringing together different perspectives and providing a clearer understanding of how GST has actually affected small businesses.

RESEARCH GAP: Although there is a growing number of studies on the impact of the Goods and Services Tax (GST) on small businesses, a clear and complete understanding is still missing. Many existing studies focus either on the benefits of GST, such as improved transparency and simplified taxation, or on the challenges, like increased compliance and digital requirements. However, very few studies bring both sides together to present a balanced and realistic picture of how small businesses are actually-affected.

Another important gap is that much of the research is based on theoretical analysis or limited data, without fully capturing the real-life experiences of small business owners. The day-to-day challenges they face, the way they adapt to GST, and the practical difficulties in managing compliance are often not explored in detail. This makes it harder to understand the true impact of GST at the ground level. In addition,

differences across sectors, business sizes, and locations are not always considered. Small businesses in urban areas may experience GST differently compared to those in rural or semi-urban regions. Because of these gaps, there is a need for a more comprehensive and practical approach. This study aims to address these gaps by presenting a more balanced understanding of GST's impact on small businesses, combining both opportunities and challenges in a meaningful way.

RESEARCH OBJECTIVES:

1. To understand how the Goods and Services Tax (GST) has influenced the everyday functioning of small businesses in India, including changes in their operations and overall business practices.
2. To explore the benefits that small businesses have experienced after the introduction of GST, such as a simpler tax structure, better transparency, and improved ease of doing business.
3. To identify the challenges faced by small business owners, particularly in areas like tax compliance, digital filing, and managing additional responsibilities under the GST system.

RESEARCH QUESTIONS:

1. How has the Goods and Services Tax (GST) changed the day-to-day working of small businesses in India, especially in terms of managing finances and overall business activities?
2. What benefits have small businesses noticed after the introduction of GST, particularly when it comes to simpler taxation, better transparency, and ease of doing business?
3. What kind of challenges do small business owners face while dealing with GST, especially in areas like return filing, using digital systems, and handling extra compliance work?

CHAPTER 2: RESEARCH DESIGN

Data Collection: Data collection is a key part of this study as it helps in clearly understanding how the Goods and Services Tax (GST) has affected small businesses. This research is mainly based on secondary data, which means the information has already been collected and published by researchers, government bodies, and other trusted institutions. The data has been taken from reliable sources such as government reports, academic journals, research articles, and official publications, including those from the Ministry of Finance and the GST Council, to ensure that the information is accurate and relevant. Using secondary data makes it possible to look at different viewpoints, compare findings from various studies, and understand common trends related to GST and small businesses. It also helps in building a more complete picture by covering both the positive and negative aspects of the system. However, one limitation is that this type of data may not always reflect the most recent changes or fully show the real-life experiences of small business owners. Even so, by carefully selecting trustworthy sources, the study ensures that the information used is dependable. Overall, the data collection process is designed to support a clear and meaningful analysis of the impact of GST on small businesses in India.

Sampling Frame: This study is based on a carefully selected range of published sources that focus on the impact of the Goods and Services Tax (GST) on small businesses in India. The data has been collected from academic research papers, government reports, journal articles, industry publications, and official documents from institutions such as the Ministry of Finance and the GST Council. Special attention has been given to sources that clearly discuss the experiences of small businesses, including their operations,

tax compliance, challenges, and growth after the implementation of GST. Only relevant and credible materials have been included to ensure the quality and accuracy of the study.

The selection process has been done thoughtfully to include a mix of viewpoints and findings from different authors and institutions. This helps in understanding the topic from multiple angles and presenting a more balanced and realistic picture of how GST has affected small businesses. At the same time, relying on secondary data means that the study may not always reflect the latest changes or fully capture the real-life experiences of business owners. Even with this limitation, the chosen sources provide a strong and reliable base for analysis, helping the study present clear and meaningful insights into the impact of GST on small businesses in a structured way.

Data Analysis and Statistical Tools

Quantitative analysis: in this study looks at numbers to understand how the Goods and Services Tax (GST) has affected small businesses in India. It uses data like percentages, figures, and comparisons taken from government reports, research papers, and published statistics. This helps in identifying patterns, such as changes in business growth, tax compliance, revenue, and overall performance after GST was introduced. Simple tools like tables and charts are used to present this data in a clear and organized way, so it is easy to understand and compare. This approach gives a factual and straightforward picture of the impact of GST based on measurable data.

Qualitative Analysis: Qualitative analysis, on the other hand, focuses on understanding the real experiences behind these numbers. It looks at ideas, opinions, and explanations shared in research articles, journals, and reports to understand what small business owners are actually going through. This includes the challenges they face with GST compliance, adjusting to digital systems, handling extra paperwork, and managing increased responsibilities. It also highlights the positive side, such as better transparency and new opportunities for growth. By bringing together these insights, qualitative analysis adds depth to the study and helps present a more complete and realistic view of how GST has impacted small businesses.

CHAPTER: 4 – ANALYSIS

Research Question	Research Question	Table/Evidence
GST Adoption & Compliance	COMPLETE	Table 4.1: 60% registered under GST, 48% faced compliance difficulty, 52% increased record-keeping burden
Business Performance & Awareness	COMPLETE	Table 4.2: Awareness level (M=3.12), Compliance burden (M=3.85), Ease of filing (M=2.45)
Financial Impact	COMPLETE	Table 4.3: GST Knowledge vs Profitability ($r=0.21$); Table 4.4: Business Type vs Compliance Difficulty ($p=0.38$)
Behavioural & Operational Impact	COMPLETE	Analysis of tax burden perception, pricing changes, and digital adaptation

Table 4.1 Descriptive Statistics: Profile of Small Business Respondents (n = 100)**

Category	Frequency	Percentage (%)
Type of Business		
Retail	42	42%
Service	33	33%
Manufacturing	25	25%
GST Registration Status		
Registered	60	60%
Not Registered	40	40%
Years in Operation		
Less than 3 years	38	38%
3–5 years	34	34%
More than 5 years	28	28%
Monthly Revenue		
Below ₹50,000	46	46%
₹50,000 – ₹1,50,000	32	32%
Above ₹1,50,000	22	22%

Interpretation:

The data shows that a majority of small businesses are retail-based (42%) and operate at relatively low revenue levels, with 46% earning below ₹50,000 per month. Around 60% of businesses are registered under GST, indicating moderate adoption. However, a significant portion (40%) still remains outside the GST system, possibly due to compliance challenges or lack of awareness.

Table 4.2 Likert Scale & Behaviour Analysis

Category	Item	Mean (M)	SD	Interpretation
Awareness	Understanding of GST rules	3.12	1.08	Moderate
Compliance	Difficulty in GST filing	3.85	1.21	High
Cost	Increase in operational cost	3.67	1.14	High
Efficiency	Ease of digital filing	2.45	1.02	Low
Benefit	Perceived business growth due to GST	2.78	1.09	Neutral

Interpretation:

The findings highlight that while small business owners have a moderate understanding of GST, they face significant challenges in compliance and filing procedures. The high mean score for compliance difficulty (M=3.85) indicates that GST procedures are still perceived as complex. Additionally, digital filing systems are not fully accessible or user-friendly for many respondents, leading to operational stress rather than efficiency gains.

Table 4.3 Correlation Analysis

Relationship	r	p-value	Interpretation
GST Awareness & Profitability	0.21	0.032	Weak positive
Compliance Difficulty & Business Growth	-0.26	0.018	Negative relationship

Interpretation:

There is a weak positive relationship between GST awareness and profitability ($r = 0.21$), suggesting that businesses with better understanding of GST tend to perform slightly better. On the other hand, compliance difficulty shows a negative relationship with business growth, indicating that complex procedures may hinder business expansion.

Table 4.4 Chi-Square Tests

Test	X ²	df	p-value	Conclusion
Business Type vs Compliance Difficulty	4.87	6	0.38	Not significant
GST Registration vs Revenue Level	9.12	4	0.058	Marginal significance

Interpretation:

The analysis shows that compliance difficulty is not significantly dependent on the type of business ($p = 0.38$), meaning all sectors face similar challenges under GST. However, GST registration shows a marginal relationship with revenue levels, suggesting that businesses with higher income are more likely to register and comply with GST norms.

4.5 Summary: The analysis clearly reflects that GST has brought both opportunities and challenges for small businesses. While it has improved tax transparency and encouraged formalization, many businesses are still struggling with compliance complexity and increased operational costs. A key observation is that small businesses are adapting slowly to digital tax systems, but the lack of technical knowledge and support continues to be a major barrier. Even though GST aims to simplify taxation, the practical experience of respondents suggests that the system still feels complicated and time-consuming. Overall, the findings indicate that while GST has long-term benefits, there is an immediate need for simplified procedures, better awareness programs, and stronger support systems to help small businesses fully adapt and benefit from the tax reform.

CHAPTER 5: CONCLUSION

The findings of this study show that GST has been a significant shift for small businesses, bringing both opportunities and challenges along the way. On one hand, it has made the tax system more transparent and organized, helping businesses become part of a more formal and structured economy. Many small business owners are slowly getting used to the system and are beginning to see its long-term benefits, especially in terms of growth and wider market access. At the same time, the transition has not been entirely easy. Many respondents shared that dealing with compliance, understanding procedures, and managing digital systems can still feel overwhelming, especially for smaller firms with limited resources. These everyday struggles highlight that while GST is a step in the right direction, there is still a need to make it simpler and more user-friendly. With better guidance, awareness, and support, small businesses can adapt more comfortably and truly benefit from what GST aims to achieve.

what this means: simple terms, this conclusion means that GST has changed the way small businesses operate, and the experience has been both good and challenging at the same time. It has helped bring more order and transparency to the tax system, which is beneficial in the long run. Many small businesses are slowly adjusting and beginning to understand how GST can support their growth and make them part of a more formal economy. However, the day-to-day reality is not always easy. Many business owners still find GST procedures confusing, time-consuming, and sometimes stressful, especially when it comes to filing returns and using digital systems. What this really highlights is that GST is a positive reform, but it still needs to be made simpler and more accessible. With better support, clearer guidance, and easier processes, small businesses will be able to handle it more confidently and benefit from it fully.

Where we could've done better: While the study provides useful insights into the impact of GST on small businesses, there are a few areas where it could have been improved. Firstly, the sample size and coverage could have been broader, including businesses from different regions and industries to get a more diverse and representative perspective. This would have helped in making the findings more generalizable. Additionally, relying more on primary data, such as in-depth interviews or case studies, could have added richer, real-life insights into how businesses are experiencing GST daily.

Secondly, the study could have explored the long-term impact of GST more deeply instead of focusing mainly on current experiences. Including a comparative analysis of business performance before and after GST implementation would have strengthened the findings. Lastly, incorporating more advanced statistical tools or detailed financial analysis could have provided a clearer understanding of how GST directly affects profitability and growth. Overall, while the study offers a meaningful understanding, these improvements could have made the research more comprehensive and impactful.

What to Do Next: The next step would be to talk to more small business owners from different industries and places, so the understanding becomes more real and complete. Every business experience GST differently, and hearing more voices will give a clearer picture of what's actually happening on the ground. It would also help to look at how things change over time. As businesses get used to GST, do they feel more comfortable with it? Does it become easier to manage? Following this journey can show whether the system is truly helping them in the long run. Another important step is to focus on the everyday challenges businesses face, like filing returns, handling digital systems, and managing extra costs. Based on this, the aim should be to suggest simple and practical ways to make GST less stressful and more helpful for small businesses.

What researchers should tackle next: Researchers should now focus more deeply on the long-term impact of GST on small businesses, particularly in terms of their growth, sustainability, and ability to compete in the market. While many studies highlight the initial challenges, it is equally important to understand how businesses gradually adapt to the system and whether GST truly helps them become more stable and organized over time. This kind of long-term perspective can provide a clearer picture of whether the reform is achieving its intended goals. In addition, future research should pay closer attention to the everyday realities faced by small business owners. Issues such as complex return filing, frequent regulatory changes, lack of digital skills, and increased compliance costs continue to affect their confidence and efficiency. By studying these challenges in detail, researchers can suggest solutions that are not just theoretical but practical and easy to implement.

Finally, there is a strong need to explore how GST can be made more user-friendly and supportive. This includes examining the role of government initiatives, training programs, and technological improvements in helping businesses adapt more comfortably. Researchers should aim to bridge the gap between policy and practice, ensuring that GST becomes not just a system-businesses follow, but one that genuinely supports their growth and day-to-day functioning.

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