Research Paper IMPACT FACTOR VALUE : 6.247 | E-ISSN NO : 2455-295X | VOLUME : 12 | ISSUE : 6 | JUNE 2026

IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES (SME'S)

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ABSTRACT:

GST introduction has shown a great change in indirect tax system of India. Increasing effectiveness and efficiency of taxing system, elimination of cascading effects and establishment of integrated market nationwide. Due to GST, SME and Indian Economy have faced both development and problems. Sources of primary data and secondary data are used for evaluation of GST impact on processes of company, managing cash flow and integrating supply chain within SME. However improvement among transparency, accessibility of widened market and interstate trade can be seen but greater burden can also be seen, technology necessity and increased pressure of working capital on small enterprises. New policies and ideas are generated fot tackling these difficulties and utilizing GST for sustainable expansion of small entreprises.

KEYWORDS:

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PAPER ACCEPTED DATE:	PAPER PUBLISHED DATE:
25th June 2026	30th June 2026

INTRODUCTION

Small and Medium Enterprises contributes about 30% in GDP and employs more than 110 million. Small and Medium Enterprises were always facing problems of multiple taxing, cascading effects and different policies of different states. Tax is the main source of revenue for government and significant tool for affecting economy, redistribution of income and increasing competency in companies. In last 10 years many countries have shifted from multi layer taxing system to simple VAT or GST. Thus firms are now able to perform better in domestic markets and international markets.

More than 160 countries have adopted GST or VAT according to their respective administration. Single Market System is supported by VAT of European Union. Input Tax Credit provides strength to efficiency of supply-chain across value addition stages, thus hidden tax cost is lowered and price competitiveness is improved. Different firms responded differently on GST implementation. Small and Medium Enterprises experience its benefit little lower because of small scale operations and lack of resources.

MSMEs contributes in production and employment. This sector has contributed about 110 million jobs, approximately 29% GDP contribution, good share in exports. GST can be proved as efficient gain for medium sector but little dangerous for small enterprises.

GST effects SMEs on compliablity and digitalizing, liquid assets and integrity and competition among market. It was discussed in a working paper of an Institute of India, GST designing has created problems for MSME specially for compliability and scheme constraints delays in Income Tax Refunds are also creating Working Capital stresses.

As per composition of sector, experiences of GST differs from state level and region level. Chopra and Modi published a study in 2025, in which impact of GST in Rajasthani SMEs accounts and both positive and negative sites were discussed. Such proofs provide strength for designing of research of Small and Medium Enterprises thus stimulates different sectors such as digital readiness and input output structure of Business to Business and Business to Customer.

Thus GST can't be said as good or bad completely for for Small and Medium Enterprises, also it depends on way of adoption in firm. This study will analyse its way in a structural way. Input of reforms in GST like structure of rate, e-invoice, thresholds, rules of return filing, provisions of Income Tax Credit, affects mechanism of transmission like like load of compliancing, adaptation of digital system, aligning supply chai, price system, tax system i.e. tax incidence capacity of state, digital literacy and jerk support can improve it like simplifying methods of filing returns, increasing refund speeds, unlocking Input Tax Credits, providing training and complying support of transition. Variables are easy to select in this transparent structure of framing, analyzing is organized and recommendations of policy are derived which are particular for SME limits

instead of general for whole economy.

GAPS IN PRIOR RESEARCH

Despite extensive research on the topic some important research gaps still exist:

-Many existing studies are mainly descriptive and do not clearly establish cause and effect relationships.

-There is limited research comparing the performance of SMEs before and after the implementation of GST.

-Existing studies do not sufficiently distinguish between micro, small and medium enterprises.

-The relationship between GST compliance costs and the competitiveness of SMEs has not been adequately studied.

-There is limited comparative research examining the impact of GST on SMEs across different regions.

RESEARCH METHODOLOGY

RESEARCH DESIGN

This study uses a qualitative, descriptive, and interpretive research approach based on secondary data to examine the impact of GST on SMEs in India. The study focuses on understanding how and why GST has influenced SMEs through various areas such as compliance requirements, working capital, competitiveness, and formalisation. A thematic approach has been used to identify and organise common themes and findings from different sources.

DATA SOURCES

The study is based on secondary data collected from the following sources:

- **Government and statutory sources:** GST Council updates, Ministry of MSME reports, RBI publications, and other official documents.
- **Policy and institutional reports:** Reports and policy documents published by organisations such as NITI Aayog, World Bank, and Asian Development Bank (ADB), wherever relevant.
- **Industry and professional organisations:** Reports and publications from organisations such as CII and FICCI, along with accounting and tax advisory reports.
- **Academic research:** Peer-reviewed research papers and studies related to GST and SMEs.
- **Business and economic research:** Reliable business reports and economic research studies covering GST compliance, Input Tax Credit (ITC), and the performance of the MSME sector.

TIME FRAME METHODOLOGY

TIME FRAME AND SCOPE

The study covers the **post-GST period starting from July 2017** and examines developments during the later stages of GST implementation. These developments include the stabilization of GST procedures and the increasing use of digital systems such as **e-way bills, e-invoicing, and changes in the return filing system**.

The study is limited to **India** and focuses mainly on **SMEs/MSMEs** operating in the manufacturing, services, and trading sectors.

THEMATIC INTERPRETATION METHOD

The study uses a **thematic interpretation method** to organise information collected from secondary sources into clear and meaningful themes. The process includes the following steps:

- **Document Screening:** Relevant reports, research papers, and studies related to the impact of GST on SMEs were selected.
- **Identification of Common Issues:** Repeated issues such as **compliance burden, delays in ITC, digital readiness, and formalisation** were identified.
- **Development of Themes:** Similar issues were grouped together to form broader themes based on the conceptual framework of the study.
- **Analysis and Interpretation:** Findings from different sources were compared and combined to provide a balanced understanding of both the **advantages and challenges of GST** for SMEs.

VALIDITY APPROACH

To improve the reliability of the study, **triangulation** was used. This involved comparing information from different types of sources, including government and policy documents, industry reports, and academic research.

Where differences or contradictions were found, they were examined in relation to factors such as **business size, industry type, and regional conditions**.

FINDINGS: THEMATIC ANALYSIS AND INTERPRETATION

THEME 1: COMPLIANCE BURDEN AND PROCEDURAL COMPLEXITY

One of the commonly reported effects of GST on SMEs is the increase in **compliance requirements**, particularly during the initial period of implementation.

SMEs had to follow new procedures related to **GST registration, invoice-based reporting, return filing, reconciliation, and proper record keeping**. For many micro and small businesses that previously relied on informal accounting practices, GST required a shift towards **systematic digital accounting and tax reporting**.

The cost of compliance is not limited to money spent on software, professional services, or other support. It also involves **time and effort** required for filing returns, correcting errors, resolving mismatches, responding to notices, and keeping up with changes in GST rules.

Therefore, GST has contributed to more **formal and organised reporting**, but it has also increased the administrative workload, particularly for smaller

businesses.

THEME 2: CHANGES IN COST STRUCTURE AND COMPLIANCE COSTS

GST has affected the cost structure of SMEs in both positive and challenging ways.

On the positive side, GST aims to reduce the effect of **multiple indirect taxes and tax-on-tax (cascading)** through the Input Tax Credit (ITC) system. This can help reduce the effective tax burden throughout the supply chain.

However, SMEs also face additional costs related to:

- Accounting software and ERP upgrades
- Hiring or consulting GST professionals
- Employee training and additional working time
- Penalties and interest resulting from errors or delayed compliance

Thus, although GST can improve efficiency, the **fixed cost of compliance** can have a greater impact on micro and small businesses. Medium-sized enterprises are generally better positioned to manage these costs because of their larger scale of operations.

THEME 3: WORKING CAPITAL, ITC AND LIQUIDITY PROBLEMS

Working capital pressure is an important GST-related issue for SMEs. Liquidity problems may arise because of:

- Time gaps between payment of tax and availability of ITC
- Delays in refunds, particularly for exporters
- Dependence on suppliers for correct invoices and timely compliance

For SMEs operating with **low profit margins and limited credit facilities**, even short delays in receiving funds can affect purchasing decisions, salary payments, and inventory management.

Therefore, the impact of GST depends not only on the tax rate but also on **cash-flow timing**. The smooth availability of ITC and refunds plays an important role in the financial position of SMEs.

THEME 4: FORMALISATION AND TRANSPARENCY

GST has encouraged greater **formalisation of businesses** because the ITC system encourages firms to maintain proper documentation and conduct recorded transactions.

Many SMEs have been encouraged to register under GST in order to remain connected with **formal business-to-business (B2B) supply chains**.

Greater formalisation has contributed to:

- Better invoicing practices
- Improved record keeping and audit trails
- More transparent business transactions

Over time, formalisation may help SMEs obtain **institutional credit and financial services** more easily because of better financial records.

However, businesses that face difficulties in adopting digital systems may be disadvantaged. This shows that SMEs should not be treated as a completely **uniform group**, as their ability to adapt differs according to their size and resources.

THEME 5: COMPETITIVENESS, SUPPLY CHAIN EFFICIENCY AND MARKET INTEGRATION

One of the major objectives of GST was to promote **national market integration** by reducing state-level tax barriers and simplifying indirect taxation.

Secondary sources indicate improvements in areas such as:

- Movement of goods between states
- Supply-chain planning
- Logistics efficiency, particularly where earlier check-post delays were reduced

SMEs connected with larger businesses and organised supply chains may benefit from GST because of greater **standardisation and easier market integration**.

However, these benefits are more visible among businesses that are:

- Already operating formally
- Digitally equipped
- Working mainly in B2B markets where ITC flows more smoothly

Therefore, the benefits of GST for competitiveness depend on the characteristics and preparedness of individual businesses.

THEME 6: DIGITAL ADOPTION AND TECHNOLOGICAL READINESS

GST is often considered a **digital tax reform** because its implementation has increased the use of technology in tax-related activities.

GST has encouraged the adoption of:

- Online return filing
- E-way bills
- E-invoicing, wherever applicable
- Digital accounting systems

The level of **digital readiness** has therefore become an important factor for SMEs. Businesses with better digital knowledge are generally able to manage compliance more smoothly and reduce errors.

On the other hand, businesses with limited digital skills may have to depend more heavily on accountants, tax professionals, or other intermediaries.

Thus, the impact of GST is also connected with the **digital gap among SMEs**.

THEME 7: DIFFERENT IMPACT ON MICRO, SMALL AND

MEDIUM ENTERPRISES

The secondary literature indicates that GST has not affected all businesses equally. The impact differs according to the **size and capacity of the enterprise**.

Micro enterprises are more likely to experience:

- Higher compliance pressure in relation to their size
- Greater risk from cash-flow and liquidity problems
- More difficulty in adopting digital systems

Small and medium enterprises may also face adjustment and compliance costs, but they may have greater opportunities to benefit from:

- Better integration with supply chains
- Standardised tax procedures
- Wider access to the national market

Therefore, the impact of GST varies across different categories of SMEs and depends on their **size, resources, digital capability, and market connections**.

FIGURE 4: RELATIVE INTENSITY OF MAJOR GST IMPACT THEMES ON SMES

Source: Author's thematic synthesis of secondary literature

RESEARCH OBJECTIVES

Based on the identified gaps, the study pro**poses the following objectives:**

Primary Objective: To examine the impact of GST on the performance and operational dynamics of Small and Medium Enterprises (SMEs) in India.

SPECIFIC OBJECTIVES

- Toanalyze the effect of GST on compliance burden and administrative costs of SMEs.
- To evaluate the impact of GST on working capital management and liquidity, particularly through the Input Tax Credit mechanism.
- To assess whether GST has influenced SME competitiveness, supply-chain integration, and market access.
- To examine the role of digital adaptation and technological readiness in moderating GST impact.
- To compare differential effects across micro, small, and medium enterprises.
- To identify policy measures that can reduce compliance stress and enhance SME resilience under GST.

Research Questions In alignment with the objectives, the study seeks to answer the following research questions:

- Core Research Question How has GST affected the operational performance and sustainability of SMEs in India?
- Sub-Questions
  - Has GST increased or reduced the compliance burden for SMEs?
  - How has the Input Tax Credit mechanism influenced working capital cycles of SMEs?
  - Has GST enhanced market integration and competitiveness for SMEs?
  - Do micro enterprises experience GST impact differently compared to small and medium enterprises?
  - What role does digital literacy and technological adoption play in determining GST adaptation success?
  - What policy interventions can improve the effectiveness of GST for the SME sector?

1. RESEARCH DESIGN

The present study follows a **qualitative, descriptive, and interpretive research design**. The study aims to understand the impact of Goods and Services Tax (GST) on Small and Medium Enterprises (SMEs) in India. It examines the major changes experienced by SMEs in areas such as compliance requirements, taxation costs, working capital, Input Tax Credit (ITC), digitalisation, formalisation, competitiveness, and supply-chain efficiency. The study is based mainly on **secondary data** collected from government reports, GST Council publications, RBI reports, MSME-related reports, academic research papers, industry reports, and reliable economic studies. A thematic approach is used to identify common patterns and issues from the available literature. The study covers the period beginning with the implementation of GST in **July 2017** and considers developments during the subsequent phases of GST implementation.

2. RESEARCH TECHNIQUE

The study uses the **secondary data analysis technique**. Information has been collected from published and reliable sources rather than through direct surveys or interviews. Relevant literature was reviewed and organised according to major themes. Thematic analysis was used to identify recurring issues such as compliance burden, ITC availability, working capital requirements, digital adoption, formalisation, and competitiveness. The findings from different sources were compared to develop a balanced understanding of both the positive and negative effects of GST on SMEs.

3. SAMPLING TECHNIQUE

Since the study is based on secondary data, **purposive sampling** is used for selecting relevant documents, reports, research papers, and publications. Sources were selected based on their relevance to GST and the SME/MSME sector. Preference was given to reliable government publications, statutory bodies, peer-reviewed academic studies, recognised industry organisations, and established economic institutions. The study does not involve direct sampling of individual SMEs.

4. SAMPLE

The sample for the present study consists of **selected secondary sources related to GST and SMEs/MSMEs in India**. These include government and statutory publications, reports of the Ministry of MSME, GST Council information, RBI publications, policy reports, industry reports, academic research papers, and business and economic research studies. The selected sources cover different aspects of GST, including compliance, ITC, digitalisation, formalisation, working capital, taxation costs, and market integration. The sample also considers evidence relating to enterprises of different sizes and sectors wherever relevant.

5. HYPOTHESIS

The study may consider the following hypotheses:

H_0 (Null Hypothesis): GST has no significant impact on the operational and financial performance of SMEs in India.

H_1 (Alternative Hypothesis): GST has a significant impact on the operational and financial performance of SMEs in India.

As the present study is primarily qualitative and based on secondary data, these hypotheses are used as **broad research propositions** rather than being tested through statistical methods.

6. IMPORTANCE OF THE RESEARCH WORK

This research is important because SMEs/MSMEs play a significant role in India's economic development, employment generation, production, and supply chains. The introduction of GST brought major changes to the indirect taxation system and affected the way businesses maintain records, file returns, claim ITC, and conduct transactions across states.

Studying its impact helps in understanding whether GST has reduced tax-related complications and encouraged formalisation, or whether compliance and digital requirements have created additional difficulties for smaller businesses. The study can also help policymakers, business owners, tax professionals, and researchers understand the areas where SMEs require greater support.

7. SALIENT FINDINGS

The major findings of the study indicate that GST has had **both positive and challenging effects** on SMEs.

1. GST has encouraged greater **formalisation and transparency** in business transactions.
2. Digital systems such as online filing, e-way bills, and e-invoicing have increased the use of technology among SMEs.
3. The ITC mechanism can reduce the cascading effect of indirect taxation and improve tax efficiency.
4. SMEs have experienced additional **compliance costs and administrative responsibilities**.
5. Working capital may be affected by delays in ITC availability and refunds.
6. Micro enterprises generally face greater difficulties in managing compliance and digital requirements than larger enterprises.
7. GST has contributed to greater **market integration and supply-chain standardisation**.
8. The benefits of GST differ according to enterprise size, sector, digital readiness, and level of formalisation.

8. DISCUSSION

The findings suggest that GST has changed the operating environment for SMEs in India. On one hand, GST has created a more standardised indirect tax system and encouraged businesses to maintain proper records and adopt digital accounting practices. The ITC mechanism has also the potential to reduce the cascading effect of taxation.

On the other hand, smaller businesses may find GST compliance demanding because of regular return filing, documentation, reconciliation, and dependence on digital systems. The financial impact is also influenced by the timing of ITC and refunds. Therefore, the effect of GST cannot be considered identical for all SMEs. **Enterprise size, sector, digital capability, financial resources, and supply-chain position** influence the extent to which a business experiences the benefits or challenges of GST.

9. SIGNIFICANCE OF THE PRESENT WORK

The present study is significant because it provides a consolidated understanding of the **post-GST experience of SMEs in India**. Rather than examining GST only from a taxation perspective, the study considers its wider effects on compliance, working capital, technology adoption, formalisation, competitiveness, and market integration.

The study can be useful to policymakers in identifying areas where further simplification and support may be required. It can also help SME owners understand the importance of digital accounting, proper documentation, timely compliance, and effective working-capital management. For researchers, the study provides a basis for further empirical investigation into the long-term impact of GST on different categories of SMEs.

10. SUGGESTIONS FOR FURTHER RESEARCH

Future research can extend the present study through **primary data collection and quantitative analysis**. Researchers may conduct surveys or interviews with SME owners to measure the actual cost of GST compliance and its effect on profitability and working capital.

FURTHER STUDIES CAN ALSO:

- Compare the impact of GST on **micro, small, and medium enterprises** separately.
- Examine differences across **manufacturing, services, and trading sectors**.
- Conduct **pre-GST and post-GST comparisons**.

- Study the long-term effect of GST on SME profitability and productivity.
- Examine the relationship between **digital readiness and GST compliance**.
- Analyse the effect of ITC and refund mechanisms on SME liquidity.
- Conduct **state-wise or regional comparisons**.
- Study whether GST has improved SMEs' access to formal credit and institutional finance.

11. CONCLUSION

GST represents an important change in India's indirect taxation system and has significantly influenced the business environment of SMEs. The study shows that GST has promoted **formalisation, transparency, digitalisation, standardisation, and market integration**. At the same time, SMEs, particularly smaller and less digitally prepared businesses, have faced challenges related to compliance costs, procedural requirements, working capital, ITC, and technological adaptation.

Therefore, the impact of GST on SMEs is **mixed and varies according to the size, sector, resources, and digital preparedness of individual enterprises**. Continued simplification of procedures, better digital support, timely ITC and refunds, and appropriate assistance for smaller enterprises can help SMEs adjust more effectively to the GST framework.

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