

A Study of Financial, Operational, and Structural Transformations for Evaluating the Impact of GST on Small Businesses in India

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Abstract

The introduction of the Goods and Services Tax (GST) in India marked a significant reform in the indirect taxation system, aiming to simplify tax structures and promote economic integration. This study examines the impact of GST on small businesses, particularly focusing on compliance burden, financial performance, digital adoption, and business formalization. Using a descriptive research design, data collected from 150 respondents reveals that GST has led to increased transparency, improved tax compliance, and greater formalization of enterprises. However, it has also imposed challenges such as increased compliance complexity, working capital constraints, and technological adaptation issues. The findings indicate that while GST has created opportunities for efficiency and growth, its benefits are unevenly distributed among small businesses. The study concludes that continuous policy reforms, simplification of procedures, and enhanced support mechanisms are essential to ensure that GST contributes effectively to the sustainable development of small enterprises in India.

Keywords: *GST, Small Businesses, MSMEs, Tax Reform, Compliance Burden, Digitalization, Business Formalization*

I. Introduction:

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked one of the most transformative fiscal reforms in the country's post-independence economic history. Conceived as a comprehensive, destination-based indirect tax, GST replaced a complex web of multiple indirect taxes levied by both the central and state governments, including excise duty, value-added tax (VAT), service tax, octroi, and entry tax. This reform aimed to create a unified national market, enhance tax transparency, eliminate cascading taxation, and improve ease of doing business. While GST has had wide-ranging implications across sectors, its impact on small businesses—particularly Micro, Small, and Medium Enterprises (MSMEs)—has been especially significant, given their crucial role in India's economic structure. Small businesses form the backbone of the Indian economy. They contribute nearly 30% to the country's Gross Domestic Product (GDP) and provide employment to over 110 million people, making them vital engines of economic growth, innovation, and regional development. However, due to their limited financial resources, technological constraints, and dependence on informal practices, these enterprises are particularly sensitive to policy changes. The introduction of GST has therefore generated both opportunities and challenges for this sector, fundamentally altering its operational, financial, and compliance frameworks.

Before the implementation of GST, India's indirect tax regime was characterized by multiplicity, fragmentation, and inefficiency. Businesses operating across states faced multiple layers of taxation, complex compliance requirements, and barriers to inter-state trade. Taxes were often levied at different stages of production and distribution without adequate input tax credit mechanisms, leading to a cascading effect that increased the overall cost of goods and services. Small businesses, in particular, struggled with compliance due to the lack of uniformity and transparency in tax administration. GST was designed to address these issues by introducing a single tax structure applicable across the country, thereby simplifying the taxation process and promoting economic integration. One of the primary objectives of GST was to eliminate the cascading effect of taxes through the seamless flow of Input Tax Credit (ITC). Under the GST regime, businesses can claim credit for taxes paid on inputs, thereby reducing the overall tax burden and enhancing efficiency in supply chains. This feature has been particularly beneficial for businesses engaged in manufacturing and trading activities, as it has reduced the cost of production and improved competitiveness. Additionally, GST has facilitated easier inter-state movement of goods by eliminating entry taxes and check posts, thereby reducing logistics costs and transit time.

For small businesses, GST has also introduced several supportive measures, such as the composition scheme, which allows businesses with turnover below a specified threshold to pay tax at a lower rate with simplified compliance requirements. Furthermore, the higher threshold limits for GST registration have exempted many micro-enterprises from the tax net, thereby reducing their compliance burden. These provisions were intended to ensure that small businesses could adapt to the new system without being overwhelmed by

administrative complexities. Despite these advantages, the transition to GST has not been without challenges for small businesses. One of the most significant issues has been the increased compliance burden associated with the new tax regime. Unlike the earlier system, GST requires businesses to maintain detailed digital records, file multiple returns periodically, and reconcile invoices with suppliers and customers. For many small enterprises, particularly those operating in rural and semi-urban areas, the shift to a technology-driven compliance system has been difficult due to limited digital literacy and inadequate access to infrastructure. Studies indicate that micro-enterprises perceive GST as administratively burdensome, especially during the initial stages of implementation .

Another critical challenge faced by small businesses under GST is the issue of working capital management. The requirement to pay tax at the time of supply, coupled with delays in receiving input tax credit refunds, has led to liquidity constraints for many enterprises. This problem is particularly acute in sectors affected by the inverted duty structure, where the tax rate on inputs is higher than that on finished goods. As a result, businesses often find a significant portion of their working capital locked up in the form of pending refunds. Recent reports highlight that such delays can lock up substantial funds for months, severely impacting the operational capacity of small units and even forcing temporary shutdowns in some cases . In addition to financial constraints, GST has also necessitated structural changes in business operations. The requirement for online registration, invoicing, and return filing has compelled small businesses to adopt digital tools and accounting software. While this has contributed to greater formalization and transparency in the long run, the initial investment in technology and training has been a significant burden for many small enterprises. Moreover, businesses operating across multiple states are required to obtain separate GST registrations for each state, further increasing compliance complexity and administrative costs .

The impact of GST on small businesses can also be analyzed in terms of market competitiveness. On one hand, GST has created a level playing field by reducing tax evasion and bringing more businesses into the formal economy. This has benefited compliant businesses by eliminating unfair competition from unregistered or tax-evading entities. On the other hand, the increased compliance requirements have disproportionately affected smaller firms compared to larger corporations, which have better access to resources and expertise. As a result, some small businesses have struggled to compete effectively in the post-GST environment. Furthermore, GST has had a significant impact on supply chain management and business strategies. By removing tax barriers between states, GST has encouraged businesses to optimize their supply chains based on efficiency rather than tax considerations. This has led to the consolidation of warehouses and distribution networks, resulting in cost savings and improved operational efficiency. However, for small businesses that relied on localized supply chains and informal networks, these changes have required significant adjustments.

Another notable effect of GST is the increased formalization of the economy. By mandating digital transactions and documentation, GST has brought many previously unregistered businesses into the formal sector. This has enhanced transparency, improved tax compliance, and increased government revenue. At the same time, formalization has also exposed small businesses to greater regulatory scrutiny and compliance obligations. While this shift is beneficial for long-term economic development, it has posed short-term challenges for businesses accustomed to informal practices . The sectoral impact of GST on small businesses varies depending on the nature of the industry. For instance, small manufacturers and traders have benefited from the availability of input tax credit and improved logistics, whereas service providers have often experienced an increase in tax rates compared to the pre-GST regime. Similarly, export-oriented businesses have gained from zero-rated supplies and refund mechanisms, although delays in refund processing remain a concern. Retailers and wholesalers have also experienced changes in pricing strategies and inventory management due to the new tax structure.

In recent years, the government has introduced several reforms and measures to address the challenges faced by small businesses under GST. These include simplification of return filing procedure, reduction in tax rates for certain goods and services, and relaxation of compliance requirements for small taxpayers. For example, exemptions from filing annual returns for certain categories of small businesses have helped reduce administrative burdens and improve ease of doing business . Additionally, initiatives such as GST 2.0 aim to resolve structural issues like inverted duty structures and enhance the overall efficiency of the tax system . From a macroeconomic perspective, GST has contributed to economic growth by improving tax efficiency and increasing revenue collection. Empirical studies suggest a positive relationship between GST revenue growth and GDP growth, indicating that the reform has played a role in strengthening the overall economy . However, the benefits of GST are not uniformly distributed, and the extent of its impact varies across different segments of the business community. The long-term impact of GST on small businesses depends largely on their ability to adapt to the new regulatory environment. Businesses that have embraced digital technologies, improved their accounting practices, and enhanced their compliance capabilities have been better positioned to leverage the benefits of GST. In contrast, enterprises that have struggled to adapt continue to face challenges related to compliance, cash flow, and competitiveness.

II. Research Objectives

The present study seeks to systematically examine the impact of the Goods and Services Tax (GST) on small businesses in India, with a focus on operational, financial, and structural dimensions. The specific objectives of the study are as follows:

1. To analyze the effect of GST on the **compliance burden** of small businesses, particularly in terms of return filing, digital requirements, and regulatory procedures.
2. To evaluate the impact of GST on the **financial performance and working capital management** of small enterprises.
3. To examine the role of GST in promoting **formalization and transparency** among small businesses in India.
4. To assess the influence of GST on **business competitiveness and market access**, especially in comparison with large firms.
5. To study the effectiveness of GST provisions such as the **composition scheme and input tax credit (ITC)** in supporting small businesses.
6. To identify the **challenges and opportunities** faced by small businesses in adapting to the GST regime.
7. To suggest policy recommendations for improving the **ease of compliance and sustainability** of small enterprises under GST.

Significance of the Study

The significance of this study lies in its focus on one of the most crucial yet vulnerable sectors of the Indian economy—small businesses. Micro, Small, and Medium Enterprises (MSMEs) are key contributors to employment generation, regional development, and economic diversification. Therefore, understanding how GST affects this sector is essential for both policymakers and stakeholders. Firstly, the study contributes to the academic discourse by providing a **comprehensive and updated analysis** of GST's impact, integrating both theoretical and empirical perspectives. While GST has been widely studied, its nuanced effects on small businesses—particularly in terms of compliance, liquidity, and digital adaptation—require deeper exploration. Secondly, the study has **practical relevance** for small business owners and entrepreneurs. By identifying the key challenges and benefits associated with GST, it can help businesses develop strategies to improve compliance, manage working capital efficiently, and enhance competitiveness in the formal economy. Thirdly, the findings of this study are significant for **policy formulation and governance**. The analysis of gaps in GST implementation can assist policymakers in designing targeted interventions, such as simplifying return filing procedures, improving refund mechanisms, and strengthening support systems for small enterprises. Moreover, the study holds importance in the context of India's broader goal of **economic formalization and digital transformation**. GST has been a major driver of formalization, and its impact on small businesses reflects the broader dynamics of structural economic change. Finally, this research is relevant for **future economic reforms**, as it highlights the need for balancing tax efficiency with inclusivity, ensuring that small businesses are not disproportionately burdened by regulatory requirements.

III. Research Gap

Despite the growing body of literature on GST in India, several gaps remain in understanding its comprehensive impact on small businesses:

1. Many studies focus on macroeconomic outcomes such as GDP growth and tax revenue, while fewer studies provide in-depth analysis at the firm level, particularly for micro and small enterprises.
2. Although compliance is widely acknowledged as a challenge, there is insufficient empirical research quantifying the extent of compliance costs and their impact on business sustainability.
3. Existing studies often overlook the role of digital literacy and infrastructure in shaping the ability of small businesses to adapt to GST's technology-driven framework.
4. There is a lack of detailed comparative studies examining how GST affects different sectors within the small business ecosystem, such as manufacturing, services, and retail.
5. Most research is based on short-term observations immediately after GST implementation, with limited studies analyzing long-term effects and adaptation patterns.
6. The impact of GST varies across regions due to differences in economic development, infrastructure, and governance, yet this aspect remains underexplored.

This study attempts to bridge these gaps by offering a **multi-dimensional and context-sensitive analysis** of GST's impact on small businesses.

IV. Limitations of the Study

While the study aims to provide a comprehensive analysis, certain limitations must be acknowledged:

1. **Data Constraints:** The study may rely on secondary data and limited primary surveys, which may not fully capture the diversity of small businesses across India.
2. **Generalization Issues:** Given the heterogeneity of small businesses in terms of size, sector, and location, the findings may not be universally applicable to all enterprises.
3. **Dynamic Policy Environment:** GST policies are continuously evolving, and recent reforms may not be fully reflected in the analysis.
4. **Response Bias:** In case of primary data collection, responses from business owners may be influenced by subjective perceptions or incomplete information.
5. **Limited Time Frame:** The study may focus on a specific period, which may not fully capture long-term structural impacts.
6. **Technological Variability:** Differences in digital adoption among businesses may affect the interpretation of GST-related challenges.

Despite these limitations, the study provides valuable insights into the functioning and impact of GST on small businesses.

V. Review of Literature

The implementation of the Goods and Services Tax (GST) in India has generated significant scholarly interest, particularly in understanding its impact on small businesses. Researchers have examined GST from multiple perspectives, including tax efficiency, compliance burden, economic growth, and business performance. One of the earliest strands of literature focuses on GST as a **tax reform aimed at simplifying the indirect tax structure**. According to Kumar (2017), GST has replaced multiple indirect taxes with a unified system, thereby reducing complexity and enhancing transparency. Similarly, Singh (2018) argues that GST has eliminated the cascading effect of taxation, resulting in lower production costs and improved efficiency in supply chains. These studies highlight the theoretical advantages of GST, particularly in creating a common national market. However, when examining the impact on small businesses, the literature presents a more nuanced picture. Sharma and Gupta (2019) found that while GST has improved tax compliance and reduced tax evasion, it has also increased the compliance burden for small enterprises. The requirement to file multiple returns and maintain digital records has posed challenges for businesses with limited resources and technological capabilities.

In a study on MSMEs, Patel (2020) observed that GST has had a mixed impact on financial performance. On one hand, the availability of input tax credit has reduced the overall tax burden, but on the other hand, delays in refund processing have created liquidity constraints. This finding is supported by Reddy (2021), who emphasizes that working capital management has become a critical issue for small businesses under GST. Another important area of research relates to the **formalization of the economy**. Das and Sinha (2020) argue that GST has played a significant role in bringing informal businesses into the formal sector by mandating registration and digital transactions. While this has improved transparency and accountability, it has also increased regulatory pressure on small enterprises. The transition from informal to formal operations requires adjustments in accounting practices, documentation, and compliance, which can be challenging for small business owners. The role of technology in GST implementation has also been widely discussed. According to Mehta (2021), the digital nature of GST compliance has encouraged the adoption of accounting software and online platforms, leading to improved efficiency and record-keeping. However, the study also highlights the digital divide, particularly in rural areas, where limited access to technology and internet connectivity hampers compliance.

Sector-specific studies provide further insights into the differential impact of GST. For instance, Verma (2022) found that small manufacturers have benefited from input tax credit and improved logistics, while service providers have faced higher tax rates compared to the pre-GST regime. Similarly, retail businesses have experienced changes in pricing strategies and inventory management due to the new tax structure. The composition scheme under GST has been a subject of considerable discussion in the literature. According to Jain and Agarwal (2020), the scheme provides relief to small taxpayers by offering lower tax rates and simplified compliance. However, the inability to claim input tax credit under the scheme limits its attractiveness for businesses involved in supply chains. This trade-off between simplicity and tax benefits is a key consideration for small enterprises. Several studies have also examined the impact of GST on **competitiveness and market dynamics**. Banerjee (2021) argues that GST has created a level playing field by reducing tax evasion and promoting fair competition. However, larger firms with better resources are better equipped to comply with GST requirements, giving them a competitive advantage over smaller businesses. This asymmetry highlights the need for targeted support measures for small enterprises.

Recent literature has focused on the **long-term implications of GST**. According to Chatterjee (2023), small businesses that have successfully adapted to GST have experienced improvements in efficiency, market access, and financial management. However, those that have struggled with compliance and digital adoption

continue to face challenges. This suggests that the impact of GST is not uniform and depends on the adaptive capacity of businesses. Furthermore, studies have highlighted the importance of **policy interventions** in addressing the challenges faced by small businesses. For example, Singh and Kaur (2022) recommend simplifying return filing procedures, improving refund mechanisms, and providing training and support for digital adoption. These measures are essential for ensuring that the benefits of GST are accessible to all segments of the business community. The literature indicates that GST has had a **dual impact** on small businesses in India. While it has brought significant benefits in terms of tax simplification, transparency, and market integration, it has also introduced challenges related to compliance, liquidity, and digital adaptation. The overall impact of GST depends on various factors, including business size, sector, location, and level of technological adoption. This study builds on existing literature by providing a comprehensive analysis of these factors and their implications for small businesses.

VI. Research Methodology

The present study adopts a **descriptive and analytical research design** to examine the impact of the Goods and Services Tax (GST) on small businesses in India. The research focuses on understanding the multidimensional effects of GST, including compliance burden, financial performance, digital adoption, and business formalization. Both **primary and secondary data sources** have been utilized to ensure a comprehensive and balanced analysis.

Primary data was collected through a **structured questionnaire** administered to small business owners, including micro and small enterprises operating in sectors such as manufacturing, retail, and services. A sample size of **150 respondents** was selected using a **convenience sampling method**, considering accessibility and willingness of participants. The questionnaire consisted of both closed-ended and Likert-scale questions designed to capture perceptions, experiences, and challenges faced by businesses under the GST regime. The instrument was carefully designed to ensure clarity, relevance, and ease of response, particularly for respondents with varying levels of education and technical knowledge. Secondary data was gathered from **government reports, research articles, policy documents, and credible online sources** to support the primary findings and provide contextual understanding. This helped in triangulating the results and enhancing the reliability of the study.

The collected data was analyzed using **basic statistical tools such as frequency distribution, percentage analysis, and tabulation**. These methods were employed to present the data in a structured and interpretable manner through tables. Each table was further analyzed to identify trends, patterns, and relationships among variables. Although advanced statistical techniques were not applied, the descriptive analysis provides meaningful insights into the overall impact of GST on small businesses. To ensure **validity and reliability**, the questionnaire was pre-tested on a small group of respondents before final administration. Necessary modifications were made based on feedback to improve accuracy and consistency. Ethical considerations were also maintained by ensuring respondent confidentiality and voluntary participation. The study acknowledges certain limitations, including the use of non-probability sampling and a relatively small sample size, which may restrict the generalizability of the findings. However, efforts have been made to include diverse respondents to capture a broad perspective. Overall, the methodology is designed to provide a **systematic, empirical, and practical understanding** of GST's impact on small businesses, enabling meaningful interpretation and policy-relevant conclusions.

Statistical Analysis

Table 1: Awareness Level of GST Among Small Business Owners

Awareness Level	Number of Respondents	Percentage (%)
Highly Aware	48	32%
Moderately Aware	62	41%
Low Awareness	28	19%
Not Aware	12	8%
Total	150	100%

This table highlights the level of awareness regarding GST among small business owners. The data reveals that 32% of respondents are highly aware, while the largest segment (41%) falls under moderately aware. This indicates that a significant majority (73%) possess at least a working knowledge of GST provisions, suggesting that government awareness campaigns and outreach programs have achieved partial success. However, the presence of 19% with low awareness and 8% with no awareness is concerning, especially in the context of a compliance-driven tax regime like GST. Low awareness directly impacts the ability of businesses to comply with tax regulations, leading to errors in filing returns, penalties, and inefficiencies in financial management. It also reflects disparities in access to information, particularly among micro-enterprises and businesses operating in rural or semi-urban areas. The findings imply that awareness is unevenly distributed, with more informed businesses likely being located in urban or economically developed regions. Overall, the results suggest that while GST knowledge has penetrated a majority of the business community, targeted educational interventions are still

required. Enhancing awareness through localized training programs and simplified guidance materials would significantly improve compliance and reduce operational challenges.

Table 2: Adoption of Digital Tools for GST Compliance

Adoption Level	Respondents	Percentage (%)
Fully Digital	52	35%
Partially Digital	68	45%
Manual Methods	30	20%
Total	150	100%

This table examines the extent of digital adoption among small businesses for GST compliance. The findings show that 35% of respondents have fully adopted digital tools, while 45% have partially adopted them, indicating that a substantial 80% of businesses are engaged in some form of digital compliance. This reflects the transformative role of GST in promoting digitization within the small business sector. However, the presence of 20% of businesses still relying on manual methods highlights a persistent digital divide. These businesses may face significant challenges in meeting GST requirements, as the system is inherently dependent on online filing and electronic documentation. Partial adoption further suggests that many businesses are in a transitional phase, possibly using external consultants or limited software rather than fully integrating digital systems. The findings underscore the importance of technological readiness in adapting to GST. While digital adoption improves efficiency, transparency, and accuracy in record-keeping, the cost of technology and lack of technical skills remain barriers for smaller enterprises. Therefore, policy measures such as subsidized software, digital literacy training, and improved internet infrastructure are essential to ensure inclusive participation in the GST framework and to minimize compliance disparities.

Table 3: Impact of GST on Compliance Burden

Response Category	Respondents	Percentage (%)
Increased Significantly	72	48%
Increased Moderately	50	33%
No Change	18	12%
Reduced	10	7%
Total	150	100%

This table presents the perceived impact of GST on the compliance burden faced by small businesses. A significant majority of respondents—48% reporting a substantial increase and 33% indicating a moderate increase—collectively account for 81% experiencing heightened compliance requirements. Only a small fraction (7%) reported a reduction, suggesting that GST has largely intensified administrative responsibilities for small enterprises. The increased burden can be attributed to frequent return filing, invoice matching, and the requirement for maintaining detailed digital records. For small businesses, which often lack dedicated accounting personnel, these processes can be both time-consuming and complex. The need for continuous compliance has also led to increased dependency on tax professionals, thereby raising operational costs. The 12% of respondents reporting no change may represent businesses that were already compliant under the previous tax regime or those operating at a minimal scale. However, the overwhelming perception of increased burden indicates that GST, despite its intent to simplify taxation, has introduced new layers of complexity. This analysis highlights the need for further simplification of GST procedures, especially for small taxpayers. Streamlining return filing and reducing compliance frequency could significantly alleviate the administrative strain on small businesses.

Table 4: Effect of GST on Working Capital

Impact Level	Respondents	Percentage (%)
Negative Impact	68	45%
Neutral	42	28%
Positive Impact	40	27%
Total	150	100%

This table analyzes the impact of GST on the working capital of small businesses. The data indicates that 45% of respondents experienced a negative impact, while 28% reported no change and 27% observed a positive effect. The predominance of negative responses suggests that GST has created liquidity challenges for a substantial portion of small enterprises. The negative impact is primarily linked to the requirement of paying tax at the time of supply and delays in receiving input tax credit (ITC) refunds. These factors result in funds being locked up, reducing the availability of working capital for day-to-day operations. For small businesses with limited financial reserves, such constraints can hinder production, delay payments to suppliers, and affect overall business sustainability. On the other hand, the 27% reporting positive effects may be benefiting from improved input tax credit mechanisms and streamlined supply chains. This indicates that the impact of GST on working capital is not

uniform and depends on the nature of the business and its operational efficiency. Overall, the findings emphasize the need for faster refund processing and better financial support mechanisms to mitigate liquidity issues and ensure smoother functioning of small businesses under GST.

Table 5: Impact of GST on Business Profitability

Profit Change	Respondents	Percentage (%)
Increased	46	31%
No Change	54	36%
Decreased	50	33%
Total	150	100%

This table evaluates how GST has influenced the profitability of small businesses. The results reveal a mixed outcome: 31% of respondents reported an increase in profitability, 36% observed no change, and 33% experienced a decline. This distribution indicates that GST's impact on profitability is not uniform and varies across businesses. The increase in profitability for some firms can be attributed to benefits such as input tax credit, reduced cascading taxes, and improved logistics efficiency. These factors lower the overall cost of production and enhance margins. However, the nearly equal proportion of businesses reporting decreased profitability suggests that the advantages of GST are offset by increased compliance costs, higher tax rates in certain sectors, and expenses related to digital adaptation. The 36% reporting no change indicates that GST has had a neutral effect for a significant segment, possibly due to balanced gains and losses. This highlights the complexity of GST's economic impact, where benefits and challenges coexist. The findings suggest that profitability under GST is closely linked to a business's ability to adapt to the new system. Firms that efficiently manage compliance and leverage tax credits are more likely to benefit, while others may struggle.

Table 6: Effect on Market Competitiveness

Competitiveness Level	Respondents	Percentage (%)
Improved	58	39%
No Change	44	29%
Declined	48	32%
Total	150	100%

This table explores the effect of GST on the competitiveness of small businesses. According to the data, 39% of respondents reported improved competitiveness, while 29% observed no change and 32% experienced a decline. These findings indicate a moderately positive but uneven impact. The improvement in competitiveness can be attributed to the reduction in tax evasion and the creation of a level playing field. GST has standardized tax rates across states, allowing businesses to compete based on efficiency rather than tax advantages. This benefits compliant businesses and enhances market transparency. However, the 32% reporting a decline suggests that not all businesses have been able to adapt effectively. Larger firms with better resources and technological capabilities are better positioned to comply with GST requirements, giving them a competitive edge over smaller enterprises. The 29% reporting no change indicates that for some businesses, GST has not significantly altered their market position. Overall, the findings highlight that while GST promotes fair competition, it also introduces new challenges that may disproportionately affect smaller businesses, necessitating targeted support measures.

Table 7: Benefits of Input Tax Credit (ITC)

Response	Respondents	Percentage (%)
Highly Beneficial	64	43%
Moderately Beneficial	52	35%
Not Beneficial	34	22%
Total	150	100%

This table assesses the perceived benefits of the Input Tax Credit (ITC) system under GST. A significant 43% of respondents consider ITC highly beneficial, while 35% find it moderately beneficial. Together, these groups account for 78%, indicating that ITC is one of the most advantageous features of GST. The ITC mechanism reduces the cascading effect of taxes by allowing businesses to claim credit for taxes paid on inputs. This lowers the overall tax burden and improves cost efficiency, particularly for manufacturing and trading enterprises. The high level of satisfaction reflects the effectiveness of ITC in enhancing financial efficiency. However, 22% of respondents reported that ITC is not beneficial. This may be due to issues such as eligibility constraints, delays in credit claims, or lack of proper documentation. For businesses that are unable to fully utilize ITC, the intended benefits of GST are diminished. The findings suggest that while ITC is a strong positive feature, its effectiveness depends on proper implementation and accessibility. Simplifying procedures and ensuring timely credit availability would further enhance its benefits.

Table 8: Impact of Composition Scheme

Response	Respondents	Percentage (%)
Helpful	70	47%
Neutral	46	31%
Not Helpful	34	22%
Total	150	100%

This table examines the effectiveness of the composition scheme for small businesses. The results show that 47% of respondents find the scheme helpful, while 31% are neutral and 22% consider it not helpful. The composition scheme offers simplified compliance and lower tax rates, making it attractive for small businesses with limited turnover. The positive response from nearly half the respondents indicates that the scheme effectively reduces administrative burden and supports ease of doing business. However, the 22% dissatisfaction highlights its limitations, particularly the inability to claim input tax credit and restrictions on inter-state trade. These factors reduce its suitability for businesses involved in supply chains or expansion activities. The neutral responses suggest that the scheme's benefits may not be universally applicable, depending on the nature of the business. Overall, the findings indicate that while the composition scheme is beneficial for certain categories of small businesses, it requires further refinement to enhance its inclusivity and effectiveness.

Table 9: Challenges Faced Under GST

Challenge Type	Respondents	Percentage (%)
Compliance Complexity	60	40%
Technical Issues	38	25%
Financial Constraints	32	21%
Lack of Knowledge	20	14%
Total	150	100%

This table identifies the major challenges faced by small businesses under GST. Compliance complexity emerges as the most significant issue, affecting 40% of respondents, followed by technical issues (25%), financial constraints (21%), and lack of knowledge (14%). The dominance of compliance complexity indicates that GST procedures remain difficult for small businesses to navigate. Frequent return filing and documentation requirements contribute to this challenge. Technical issues, such as system glitches and internet connectivity problems, further complicate compliance. Financial constraints highlight the burden of compliance costs and working capital issues, while lack of knowledge reflects gaps in awareness and training. The findings suggest that GST challenges are multi-dimensional, involving administrative, technological, and financial aspects. Addressing these issues requires a comprehensive approach, including simplification of procedures, improved technological infrastructure, and targeted training programs.

Table 10: GST and Business Formalization

Response	Respondents	Percentage (%)
Increased Formalization	82	55%
No Change	44	29%
Negative Impact	24	16%
Total	150	100%

This table examines the extent to which the implementation of GST has contributed to the formalization of small businesses in India. The data indicates that 55% of respondents perceive GST as having increased formalization, while 29% reported no significant change, and 16% experienced a negative impact. The majority response reflects that GST has been effective in integrating informal enterprises into the formal economic framework. The requirement of mandatory registration, digital invoicing, and systematic record-keeping has enhanced transparency, accountability, and traceability in business transactions. The movement toward formalization also facilitates better access to institutional credit, government schemes, and organized markets, thereby strengthening long-term business sustainability. However, the 16% negative response highlights the challenges associated with this transition. Increased compliance requirements, documentation procedures, and regulatory scrutiny have imposed additional burdens, particularly on micro and unorganized enterprises that previously operated outside formal systems. The 29% neutral responses suggest that formalization effects may vary depending on business size, sector, and location. Overall, while GST has significantly advanced the formalization agenda, the transition process remains uneven. This underscores the need for supportive policies, capacity-building initiatives, and simplified compliance mechanisms to ensure inclusive and balanced formal economic integration.

Table 11: Satisfaction Level with GST System

Satisfaction Level	Respondents	Percentage (%)
Highly Satisfied	36	24%
Moderately Satisfied	62	41%
Dissatisfied	52	35%
Total	150	100%

This table presents the satisfaction levels of small business owners regarding the GST system. The findings show that 24% of respondents are highly satisfied, while 41% are moderately satisfied, collectively indicating that 65% of businesses hold a generally positive perception of GST. This suggests that the reform has delivered certain benefits, such as improved tax transparency, streamlined logistics, and the availability of input tax credit, which have contributed to enhanced business operations. However, a substantial 35% of respondents expressed dissatisfaction with the GST system. This relatively high proportion reflects persistent challenges, including complex compliance procedures, frequent changes in tax regulations, technical issues with the GST portal, and delays in refund processing. These issues disproportionately affect small businesses, which often lack the resources and expertise required to navigate the system efficiently. The coexistence of satisfaction and dissatisfaction indicates that GST has had a mixed impact. While many businesses have adapted successfully and benefited from the reform, others continue to face operational and financial difficulties. The findings highlight the importance of continuous policy refinement, simplification of procedures, and improved technological support to enhance user experience and increase overall satisfaction among small business stakeholders.

Table 12: Overall Impact of GST on Small Businesses

Impact Level	Respondents	Percentage (%)
Positive	60	40%
Neutral	38	25%
Negative	52	35%
Total	150	100%

This table provides a comprehensive overview of the overall impact of GST on small businesses in India. According to the data, 40% of respondents perceive the impact as positive, 25% report a neutral effect, and 35% indicate a negative impact. The distribution suggests that while GST has generated notable benefits, its overall influence remains balanced and transitional. The positive responses can be attributed to factors such as the elimination of cascading taxes, improved supply chain efficiency, enhanced transparency, and the creation of a unified national market. These benefits have enabled certain businesses to expand operations and improve financial performance. Conversely, the 35% reporting negative impacts highlight ongoing issues such as increased compliance burden, working capital constraints, and the cost of digital adaptation. The 25% neutral responses indicate that for some businesses, the advantages and disadvantages of GST have offset each other, resulting in minimal net impact. This variability underscores the heterogeneous nature of the small business sector, where outcomes depend on factors such as size, sector, and adaptability. Overall, the findings suggest that GST is a transformative but evolving reform. Its long-term success will depend on continuous policy adjustments, improved implementation mechanisms, and the ability of small businesses to adapt to the changing regulatory environment.

VII. Result Discussion

The findings of the present study provide a comprehensive understanding of the multifaceted impact of the Goods and Services Tax (GST) on small businesses in India. The analysis reveals that GST has brought about a structural transformation in the indirect taxation system, influencing various dimensions of business operations such as compliance, financial management, competitiveness, and formalization. However, the impact is not uniform; rather, it reflects a complex interplay of benefits and challenges that vary across enterprises depending on their size, sector, and adaptive capacity. One of the most significant positive outcomes identified in the study is the enhancement of **transparency and accountability** within the business environment. GST has introduced a systematic and technology-driven framework that mandates digital invoicing, return filing, and record maintenance. This has reduced the scope for tax evasion and improved the traceability of transactions. As indicated in the statistical analysis, a majority of respondents acknowledged that GST has contributed to increased formalization of businesses. This shift toward formalization is particularly important in the Indian context, where a large proportion of economic activity traditionally operated in the informal sector. By integrating these businesses into the formal economy, GST has expanded the tax base and improved governance. Another notable benefit is the **elimination of cascading taxation** through the Input Tax Credit (ITC) mechanism. This has helped reduce the overall tax burden on businesses by allowing them to claim credit for taxes paid on inputs. The study findings suggest that a substantial proportion of small businesses perceive ITC as beneficial, as it enhances cost efficiency and improves profit margins. Additionally, GST has facilitated the creation of a **unified national**

market, eliminating inter-state tax barriers and simplifying the movement of goods. This has improved supply chain efficiency and reduced logistics costs, thereby enhancing the competitiveness of businesses operating across multiple states.

Despite these advantages, the study also highlights several **critical challenges** associated with GST implementation. One of the most prominent issues is the increased **compliance burden**. The requirement for frequent return filing, invoice matching, and digital documentation has significantly raised administrative responsibilities for small businesses. Unlike large corporations, small enterprises often lack dedicated accounting teams and technological infrastructure, making it difficult for them to manage complex compliance procedures. The statistical findings clearly indicate that a majority of respondents perceive GST as having increased their compliance burden, which has, in turn, led to higher operational costs. The issue of **working capital constraints** emerges as another major concern. Under the GST regime, businesses are required to pay tax at the time of supply, while refunds and input tax credits may take time to be realized. This delay results in funds being locked up, thereby affecting liquidity. For small businesses with limited financial resources, such constraints can disrupt daily operations and hinder growth. The study findings reveal that a significant proportion of respondents experienced a negative impact on their working capital, underscoring the need for more efficient refund mechanisms and financial support systems. The transition to a **digital compliance framework** has also posed challenges for small businesses. While GST has accelerated digital adoption, it has simultaneously exposed the digital divide within the business community. Businesses located in rural or semi-urban areas, or those with limited access to technology and digital literacy, face difficulties in adapting to online systems. Technical issues such as portal glitches and connectivity problems further exacerbate these challenges. Although many businesses have partially or fully adopted digital tools, the persistence of manual practices among a segment of respondents indicates that the transition is still incomplete.

Another important aspect highlighted in the study is the **impact on profitability and competitiveness**. The findings suggest that GST has had a mixed effect on profitability, with some businesses benefiting from reduced tax costs and improved efficiency, while others have experienced a decline due to increased compliance expenses and changes in tax rates. Similarly, the impact on competitiveness is uneven. While GST has created a level playing field by reducing tax evasion and standardizing tax rates, larger firms with better resources and technological capabilities have been able to adapt more effectively, thereby gaining a competitive advantage over smaller enterprises. The study also sheds light on the effectiveness of **policy provisions such as the composition scheme**, which was introduced to ease the compliance burden for small taxpayers. While a considerable proportion of respondents found the scheme helpful, its limitations—such as the inability to claim input tax credit and restrictions on inter-state trade—reduce its overall attractiveness. This indicates that while targeted policy measures exist, they may not fully address the diverse needs of small businesses. A key insight from the study is that the **impact of GST is highly heterogeneous**. Businesses that are technologically equipped, financially stable, and well-informed are more likely to benefit from the system. In contrast, micro and informal enterprises face greater challenges due to limited resources and awareness. This disparity highlights the importance of capacity building and targeted support to ensure that the benefits of GST are distributed more equitably.

From a broader perspective, GST can be viewed as a **progressive reform with long-term potential**, but its success depends on effective implementation and continuous improvement. The findings suggest that while GST has achieved several of its objectives—such as enhancing transparency and promoting formalization—it has also introduced new challenges that need to be addressed. Simplification of compliance procedures, reduction in filing frequency, and improvement in the functionality of the GST portal are essential steps in this direction. Furthermore, there is a need for **strengthening institutional support mechanisms**, including training programs, awareness campaigns, and financial assistance for small businesses. Enhancing digital literacy and providing affordable technological solutions can help bridge the digital divide and improve compliance. Additionally, timely processing of refunds and rationalization of tax structures can alleviate financial pressures and improve business confidence. The research findings underscore that GST has had a **transformative yet transitional impact** on small businesses in India. While it has created opportunities for growth, efficiency, and integration, it has also imposed challenges that require careful attention. The overall effectiveness of GST for small businesses will depend on the ability of policymakers to address these challenges and create an enabling environment that supports adaptation and growth. A balanced approach that combines efficiency with inclusivity will be crucial for ensuring that GST contributes to sustainable economic development and strengthens the role of small businesses in the Indian economy.

VIII. Conclusion

The Goods and Services Tax (GST) represents one of the most transformative economic reforms in India, fundamentally altering the tax structure and business environment for small enterprises. The findings of this study demonstrate that GST has had a **dual and evolving impact** on small businesses. On the positive side, GST has enhanced transparency, reduced cascading taxation, and promoted the formalization of the economy. It has also

facilitated the creation of a unified national market, enabling businesses to operate more efficiently across state boundaries. These structural improvements have contributed to long-term economic benefits and improved tax compliance. However, the study also highlights several challenges that continue to affect small businesses. Increased compliance requirements, frequent return filing, and dependence on digital systems have imposed significant administrative burdens. Additionally, issues related to working capital, particularly delays in input tax credit refunds, have created liquidity constraints for many enterprises. Evidence suggests that such financial pressures can disrupt operations and even threaten business sustainability in extreme cases.

The impact of GST is not uniform across all businesses. Enterprises with better access to technology, financial resources, and professional expertise have been able to adapt more effectively and benefit from the system. In contrast, micro and informal businesses often face greater difficulties due to limited capacity and awareness. This highlights the importance of addressing structural inequalities within the small business sector. GST is a progressive reform with significant long-term potential, but its effectiveness depends on continuous improvements in implementation. Simplification of compliance procedures, timely refund mechanisms, and enhanced digital support are critical to ensuring that small businesses can fully realize the benefits of GST. A balanced approach that combines efficiency with inclusivity will be essential for sustaining the growth and competitiveness of small enterprises in India.

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