

ASSESSING THE FINANCIAL IMPACT OF GST ON SMALL AND MEDIUM ENTERPRISES

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Abstract

The Goods and Services Tax (GST) is one of the most significant tax reforms introduced in India with the objective of creating a unified and simplified indirect tax system. It replaced multiple indirect taxes such as Value Added Tax (VAT), service tax, and excise duty with a single comprehensive tax structure. Small and Medium Enterprises (SMEs) form the backbone of the Indian economy, contributing significantly to employment generation, industrial production, and economic development. However, the implementation of GST has brought both opportunities and challenges for SMEs. This study aims to examine the impact of GST on the financial performance of SMEs, focusing on factors such as profitability, compliance costs, tax transparency, and operational efficiency. Primary data was collected through structured questionnaires from SME owners and managers, while secondary data was obtained from journals, books, and government reports. Statistical tools such as simple percentage analysis, correlation, and regression were used to analyse the data. The findings of the study reveal that GST has improved transparency and reduced tax cascading but has also increased compliance requirements and administrative responsibilities for SMEs. The study highlights the need for better awareness programs, simplified compliance procedures, and improved digital infrastructure to support SMEs in adapting to the GST system.

Keywords: *Goods and Services Tax, SMEs, Financial Performance, Tax Reform, Compliance Cost, Profitability.*

Introduction

Taxation plays a crucial role in the economic development of any country. A well-structured tax system helps governments generate revenue while promoting business growth and economic stability. In India, the indirect tax system was historically complex, involving multiple taxes such as excise duty, service tax, central sales tax, and value-added tax. These taxes were levied by both central and state governments, resulting in a complicated tax structure that often created confusion and inefficiency in the business environment. To address these issues, the Government of India introduced the Goods and Services Tax (GST) on 1 July 2017. GST is a comprehensive indirect tax system designed to replace multiple taxes with a single unified tax structure. The primary objective of GST is to eliminate the cascading effect of taxes, improve tax transparency, and create a common national market for goods and services.

Small and Medium Enterprises (SMEs) are considered the backbone of the Indian economy. They contribute significantly to employment generation, innovation, industrial production, and exports. SMEs also play an important role in regional economic development by promoting entrepreneurship and supporting local industries. In cities such as Coimbatore, SMEs operate in various sectors including textiles, engineering, manufacturing, and services. The implementation of GST has brought significant changes to the functioning of SMEs. On the positive side, GST has simplified the tax structure, improved input tax credit

availability, and facilitated interstate trade. However, SMEs have also faced several challenges during the transition to the GST regime. These challenges include increased compliance requirements, the need for digital tax filing, frequent changes in GST rules, and higher administrative costs. Many SMEs initially struggled to understand the GST framework and adapt to the new digital tax system. The requirement for regular filing of returns, maintaining detailed records, and complying with complex regulations created additional burdens for small businesses that often have limited financial and technical resources. Therefore, it becomes essential to analyse how GST has affected the financial performance of SMEs. Understanding the benefits and challenges associated with GST will help policymakers, financial institutions, and business owners develop strategies to improve the effectiveness of the tax system. This study aims to examine the impact of GST on the financial performance of SMEs and provide insights into how SMEs can better adapt to the new tax environment.

Review of Literature

Garg (2017) studied the impact of GST on the Indian economy and concluded that GST simplified the tax structure and reduced the cascading effect of taxes. The study emphasized that GST improved transparency and efficiency in the tax system. **Kumar (2018)** analysed the impact of GST on small businesses and found that while GST created a unified tax system, many SMEs initially faced challenges due to complex compliance requirements and lack of awareness. **Sharma and Singh (2019)** conducted a study on the effect of GST on SMEs and observed that GST improved interstate trade and tax transparency. However, the study also reported that compliance costs increased for small businesses due to digital filing requirements. **Patil (2020)** examined the financial impact of GST on manufacturing SMEs and concluded that the availability of input tax credit reduced the tax burden. However, technological adaptation remained a significant challenge for many SMEs. **Reddy and Rao (2021)** analysed the impact of GST on working capital management and found that delayed input tax credit refunds sometimes created cash flow problems for small businesses.

Statement of the Problem

Small and Medium Enterprises play a vital role in the economic growth and development of India. However, the introduction of the Goods and Services Tax has significantly changed the tax environment in which these enterprises operate. While GST aims to simplify the tax structure and improve transparency, many SMEs face difficulties related to compliance procedures, digital tax filing, and increased documentation requirements. The transition to the GST system requires businesses to adopt digital technologies, maintain proper accounting records, and file regular tax returns. For many SMEs, particularly those with limited technological expertise and financial resources, these requirements can create additional challenges. Increased compliance costs and administrative responsibilities may affect their profitability and operational efficiency. Furthermore, frequent changes in GST rules and regulations can create uncertainty for small businesses. Many SME owners may lack adequate knowledge and training to fully understand the GST system, leading to errors in tax filing and potential financial penalties. Despite the importance of SMEs in the Indian economy, there is limited research examining how GST has affected their financial performance at the local level. Understanding these challenges is essential for developing policies and support mechanisms that help SMEs adapt to the new tax regime. Therefore, this study seeks to analyse the impact of GST on the financial performance of SMEs and identify the key issues faced by them after its implementation.

Objectives of the Study

1. To understand the concept and structure of Goods and Services Tax (GST).
2. To analyse the impact of GST on the financial performance of SMEs.
3. To identify the challenges faced by SMEs in complying with GST regulations.
4. To evaluate the relationship between GST compliance and the profitability of SMEs.

Scope of the Study

The scope of the study is limited to Small and Medium Enterprises operating in Coimbatore. The research focuses on analysing how GST has influenced their financial performance and business operations. The study examines various aspects such as profitability, compliance costs, tax transparency, and operational efficiency. The research also aims to identify the major benefits and challenges experienced by SMEs after the implementation of GST. By examining these factors, the study provides insights into how SMEs can better adapt to the GST system and improve their financial performance. The findings of the study may be useful for business owners, policymakers, and researchers who are interested in understanding the impact of GST on small businesses. It may also help government authorities design better policies and support mechanisms to assist SMEs in complying with tax regulations.

Research Methodology

Research methodology refers to the systematic approach used to conduct research and analyse data. It provides a framework for collecting, analysing, and interpreting information related to the research objectives.

Research Design

The study adopts a **descriptive research design** to examine the impact of GST on the financial performance of SMEs. Descriptive research helps in understanding the characteristics of a particular phenomenon and analysing relationships between variables.

Sources of Data

Primary data was collected through structured questionnaires distributed to SME owners and managers. The questionnaire included questions related to GST compliance, financial performance, and challenges faced by SMEs.

Sampling Method

A convenient sampling method was used to select respondents for the study. SME owners and managers who were willing to participate in the survey were included in the sample.

Sample Size

The study was conducted with a sample size of 93 respondents from SMEs operating in different sectors.

Tools for Data Analysis

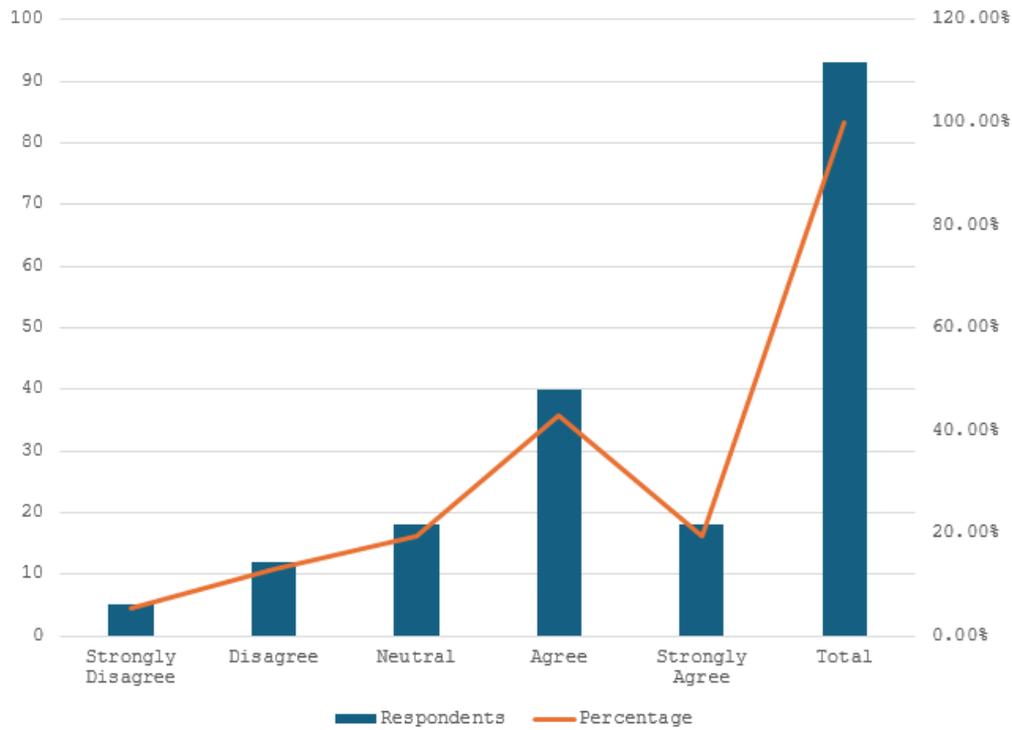
The collected data was analysed using statistical tools such as:

- Simple Percentage Analysis
- Weighted Average method
- Mean Score Analysis

These tools helped interpret the responses and identify relationships between variables related to GST and financial performance.

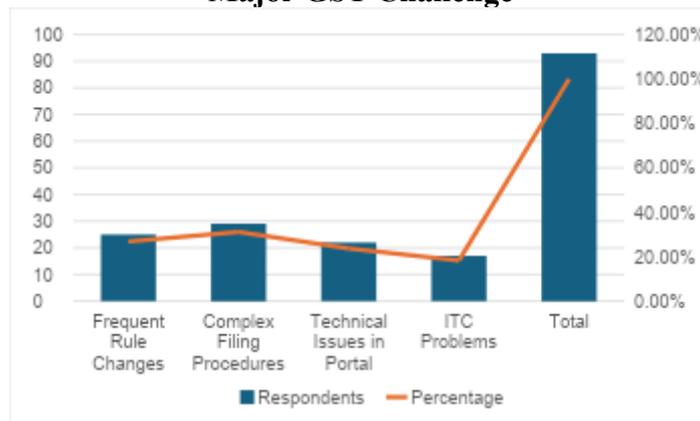
Data Analysis and Interpretation

GST Simplified the Tax Structure



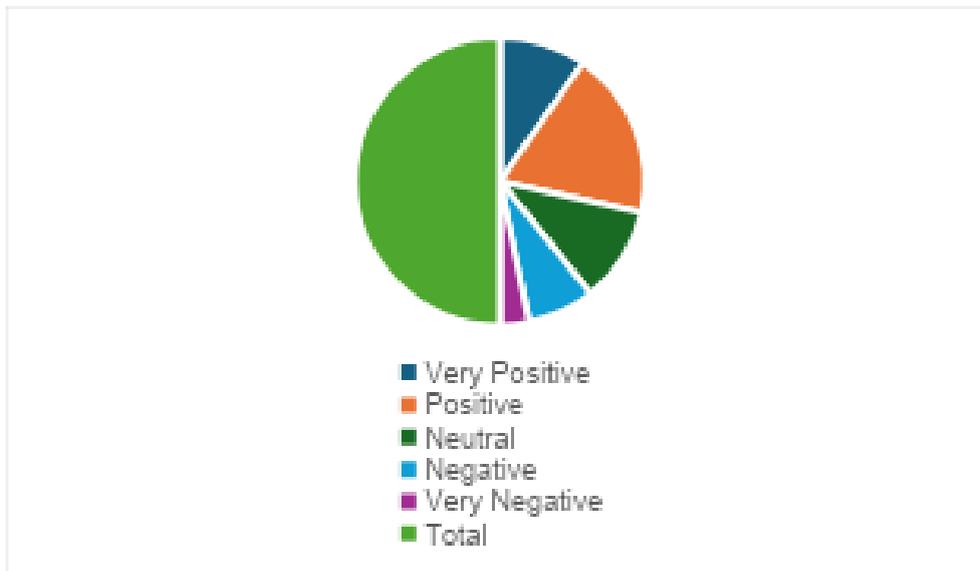
The majority of respondents (43%) agree that GST has simplified the indirect tax structure. About 19.3% strongly agree, indicating a positive perception toward the new tax system. However, some respondents remain neutral (19.4%), suggesting mixed opinions about GST benefits. A smaller percentage disagrees, indicating that certain SMEs still face challenges in understanding the system. Overall, the results suggest that GST has contributed to simplification of the tax framework for many SMEs.

Major GST Challenge



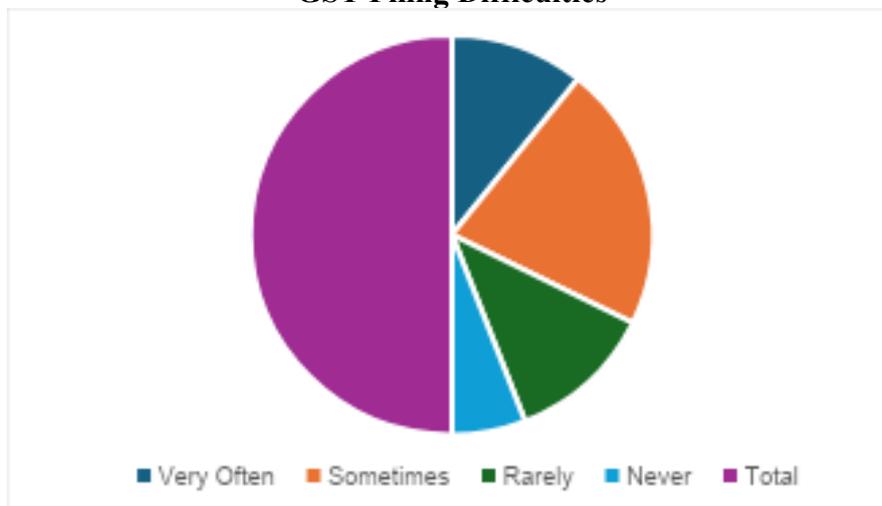
The table shows the major GST-related challenges faced by SMEs. The majority of respondents (32.3%) reported complex filing procedures as the most significant challenge. About 28.0% identified frequent rule changes, while 23.7% experienced technical issues in the GST portal. A smaller proportion (16.1%) faced problems related to Input Tax Credit (ITC).

Overall Impact of GST



The table shows how often SMEs face difficulties in GST filing. A majority of respondents (43.0%) reported facing difficulties sometimes, while 21.5% experience them very often. About 23.7% stated that they rarely face difficulties, and a smaller group (11.8%) reported no issues. Overall, the results indicate that GST filing challenges are common among many SMEs.

GST Filing Difficulties



Results and Discussion

The findings of the study reveal that GST has had a mixed impact on the financial performance of SMEs. On the positive side, GST has simplified the tax structure, reduced the cascading effect of taxes, and improved transparency in financial transactions. The availability of input tax credit has helped reduce the overall tax burden for many businesses. However, SMEs have also faced several challenges in adapting to the GST system. Increased compliance requirements, frequent changes in GST rules, and the need for digital tax filing have created additional administrative burdens for small businesses. Many SME owners initially lacked the technical knowledge required to manage online tax filing systems. Another important finding is that GST has encouraged better record-keeping and financial discipline among businesses. The requirement for proper documentation and tax

reporting has improved financial transparency and accountability. Overall, while GST has created a more organized and transparent tax system, additional support and training are required to help SMEs fully benefit from the reform.

Conclusion

The introduction of the Goods and Services Tax represents a major milestone in India's tax reform process. By replacing multiple indirect taxes with a single unified system, GST aims to simplify taxation and promote economic efficiency. The findings of this study indicate that GST has had both positive and negative effects on the financial performance of SMEs. On the positive side, GST has improved tax transparency, reduced the cascading effect of taxes, and facilitated easier interstate trade. On the negative side, SMEs have faced challenges related to compliance procedures, digital filing requirements, and increased administrative responsibilities. For SMEs to fully benefit from the GST system, it is essential to provide adequate training, awareness programs, and technological support. Government authorities should also consider simplifying compliance procedures and providing assistance to small businesses that lack technical expertise. By addressing these challenges, SMEs can adapt more effectively to the GST system and contribute to the overall growth and development of the economy.

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