



GST AND ITS IMPACT ON MSME

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Abstract: This paper analyzes the impact of GST on the MSMEs. The paper specifically analyzes the impact of GST on overall performance, financial performance and the tax compliance of MSMEs. Through a structured questionnaire the survey was carried out, the reports are collected from owners, managers and others working in MSMEs. They were analyzed using descriptive inferential statistics. Further hypothesis test was done with the use of Chi-sq square test. The finding shows there is significant impact of GST on MSME's financial performance, overall performance and tax compliance. The changes made by the government to improve GST policies regarding MSMEs and suggestions to improve GST policies have been explained.

Index Terms – GST, MSME and policies .

I. INTRODUCTION

GST – Goods and service tax .It is the value added tax which is put upon the goods and service which is sold for domestic purpose. GST replaced VAT which was used earlier for goods and services. The GST is designed in such a way that it is a comprehensive indirect tax across the country. GST replaces the cascading effect which are levied by central and state government. The GST also helped in creating unified taxes across India. The GST was applied to all steps in the production of product, but which could be reimbursed by all parties other than the final consumer. The current GST tax rate are 0%,5%,12%,18% and 28%.But there are still product which are not taken under GST.

The definition of the MSME was given according to provision under the Micro Small and Medium Enterprises Development (MSMEs) Act 2006. The MSME is defined on the basis of the annual revenue and profit of the business So according to approval of Union cabinet micro enterprise are those who's turnover does not exceed 5 crore, small enterprise is company whose turnover exceed 5 crore and less than 75 crore ,medium enterprise is who's turnover is more than 75 crore and less than 250 crore.

But the definition of the MSME changed in the year 2023 by the GST council. According to the new definition the micro business is the turnover is less than 1crore and the annual turnover is not more than 5 crore. The small enterprise are those company which investment is not more than 10 crore and the turnover is not more than 50 crore. Last, the definition of medium enterprise is those companies which is turnover is less than 50 crore and annual turnover is not more than 250 crore.

II. Literature review

1.Pandit, S. (2017). GST: Opportunities and challenges for Indian MSMEs. *Inspira-Journal of Commerce, Economics & Computer Science (JCECS)*, 3(3), 208-214. This article is about Gst and its impact on MSME and also other department.It mainly focus on the positive and negative impact of the GST on MSME. It also discusses about the impact of Gst on various countries in the world. At last it discusses how MSME can adopt to GST and make use of it for its benefit.

2.Mohan, V., & Ali, S. (2018). Assessment of the implications of GST (Goods and Services Tax) rollout on Indian MSMEs. *Theoretical Economics Letters*, 8(15), 3567-3580.The study explain about impact of GST in India on the MSME sector

The paper use the qualitative interviews and also surveys for understanding gaps which are there between the predicted and actual existing GST tax compliance. So the findings in the paper can help in developing guidelines for having effective GST .

3. Murari, K., & Chettri, S. (2020). Perceived impact of Goods and Services, Tax (GST) and growth of micro, small and medium, enterprises (MSMEs) in Sikkim. *Orissa Journal of Commerce*, 41, 97-116. This study examines what is the impacts of GST on the MSMEs in Sikkim, by mainly focusing on 400 MSMEs in east, west and south districts of Sikkim. The study also see that how GST has its implication on manufacturing sector in Sikkim ,but service sector of msme is not doing that well in Sikkim. Finally in the study it is also observed that the impact of Gst is same in manufacturing sector across sizes but not in service sector of meme.

4. Bhalla, N., Sharma, R. K., & Kaur, I. (2023). Effect of Goods and Service Tax System on Business Performance of Micro, Small and Medium Enterprises. *SAGE Open*, 13(2), 21582440231177210. The impact is been explained as the result of the data which is collected from 404 registered companies (MSMES) by a questionnaire. So the result of those survey showed a positive impact on MSME from the GST like there was change in business, efficiency and etc. It also explores the negative impact of the Gst on Msme.

5. Khaitan, S., & Trivedi, G. P. (2023). A STUDY OF IMPACT OF GST ON MICRO, SMALL AND MEDIUM ENTERPRISES. *Jamshedpur Research Review* The study further explain the scenario of MSME before GST like it had limited reach and had to pay many tax related document. The study explain show GST aim in increase in the tax payers base mainly MSMEs ,also explain the compliance and related charges. Lastly the study explores overall effect of GST on MSME its benefit and challenge.

6. Geeta, Shetty Deepa & Subramanian, Sp Mathiraj & Sundar, Thivya. (2019). Impact of GST on MSMEs. 8. 688-694 The study explains the challenges which are faced by the MSME mainly in Tamil Nadu due to GST introduction. The study is used Cluster random technique to know the impact of GST. The study concluded that GST can have both positive and negative impacts on the Indian MSME sector.

7. Nayaka, Basavanagouda. (2021). IMPACT OF GOODS AND SERVICES TAX (GST) ON MSMEs. *International Journal of Research in Marketing*. Tax incentive countries like India MSME is very important . Policies related to tax help the performance and growth which require less compliance for MSME .So this paper explores the factors which influence GST payment by the MSME. Further explores the positive and negative impact of GST on MSME after its implementation.

8. Naskar, D. (2019). Implications of Goods and Services Tax on Micro, Small and Medium Enterprises in India: An Explorative Study. *International Journal of Research in Engineering, IT and Social Sciences*, 9(01), 86-89. A study is conducted for reviewing the challenges faced by MSME due to GST and also how GST impacted the profit of the MSMEs. So a questionnaire was prepared and there were 237 respondents for the survey. So from this study it was identified that the factors affecting profits of business and equation modeling was used to analyze the data. Finally the impact of GST on Indian economy was also explained.

9. Beemabai, K., & Krishnakumar, K. (2019). Impact of Goods and Service Tax (GST) on MSMEs in India. *Annual Report of MSME, 2017*, 18. In this present paper it explores the already existing scenario and what are the trends of MSME in India .Also the development of MSME sector is equally important. All sectors of msme which are manufacture ,agriculture and service sector must develop equally. So in this paper an attempt has been made in the study for finding out contribution to GST from each MSME sector wise after the GST was implemented in the country .

10. Gupta, A. K., & Meher, B. K. (2021). Perception of MSMEs towards favourable aspects of goods and service tax (GST) in India. *Wesleyan Journal of Research*, 14(02), 458-476. This paper it tries to get the perception of MSMEs owners and managers on if there assumptions related to effect of Gst came right or wrong which is done after 3 years of implementing GST .Finally this study is based on primary data which is collected through questionnaire. The random sampling method is used and is designed based on scale of 5.

11. Joseph, J. K., & Jacob, R. (2020). An Evaluation on the Influence of Goods and Service Tax (GST) on Micro Small and Medium Enterprises (MSMEs). *Journal of the Social Sciences*, 48(3). There implementation of GST also brought problems to industrial sector due to demographics and socio economic factor of the industrial sector. So the implementation of GST brought opportunities and also challenges to MSMEs. So this study explores how msme's experience under GST.

12.Harishakar, Lichchavi & Manoj, Greeshma. (2021). GST and its Impact on Small and Medium Scale Enterprises - A Study of Peenya Industrial Area in Banglaore, Karnataka. *Studies in Business and Economics*. 16. 81-94. 10.2478/sbe-2021-0007.The paper help analysis of impact of GST on small scale industries mainly in Karnataka. The paper aims to prove some of the assertion though primary data and further help in identifies need reform with respect to definition of job and etc. Thus the study has implications for policy makers, industries and academia and also provides a better understanding of the new tax system itself.

13.Gautami, S. (2018). Effect of goods services tax on micro small medium enterprises in India. *J Emerg Technol Innov Res*, 5(1), 473-476.This study is conducted with the objective to study awareness of GST among MSMEs and to find relationship between business size and experience. The objective of the study is to study the how aware are msme companies about the GST and find relationship between business size and gst perceptions in chitoor “The findings out of this study are more than 72% of the respondents are aware of the GST mechanism and issues”.

14.Pandey, Pramod & N, Jesmon. (2022). A Study on GST Compliance Issues Faced by MSMEs with Special Reference to the State of Karnataka. *VISION: Journal of Indian Taxation*. 9. 1-24. 10.17492/jpi.vision.v9i2.922201.So this pilot study explore the compliance issue which is faced by msme after the implantation of Gst and mainly located in Karnataka.. The data is collected in this study from the questionnaire which done 35 msme’s and analyzed the result .So this study found that the compliance issued faced by msme is a obstacle for their growth.

15.Antony, T. M. (2023). GST and Its Versatility: The Case of Indian Micro, Small and Medium Enterprises This study explores the measures which extended by gst policy to msme. The study also examine compliance measure taken .The data is collected though sample of 90 MSMES from all sectors like “manufacturers, service providers, wholesalers, retailers etc.” in Bengaluru .The data analyzed by garret ranking and percentage analysis. So the findings of the paper is msme was benefited the by the implementation of gst.

III. REASERCH DESIGN

3.1Problem statement

The MSME contributes almost 30% of GDP, along with 50% of country’s total exports and employs 11 cores people, so it is important to look at impact of GST on MSME. MSME turnover are small compared o large companies ,hence incomes are less. So GST polices effects MSME more when compared to large companies because of their size .So sudden changes in GST polices related to tax will affect MSME then any other type of business.

Even though GST policies have made things easy for MSME ,yet there are many areas need to be improved for making it better for MSMEs. So the problem statement here is to find the effect of GST post its introduction and what needs to be improved in terms of policy to help MSME in a better way.

3.2Research Objectives:

To understand the overall impact of GST on MSMEs

To understand the impact of GST on MSMEs financial performance

To understand the effect of GST on tax compliance among MSMEs

To understand the changes that have been bought in GST policies to support MSME

Suggestions on how GST polices can be improved to help MSME.

3.3Scope of the study

The scope of the study is to analyze the impact of Gst on MSMEs performance. The study specifically examines the impact of GST on MSMEs financial performance ,overall performance and tax compliance .Further the study explains the changes brought by government in GST polices ,schemes and etc related to MSME. Finally the suggestion to improve the GST related to MSMEs has been mentioned.

3.4 Research methodology

Data collection method

Primary data - Survey was conducted to find the impact of GST on MSMEs. Data collected in this survey contains impact of GST on the company's performance, financial performance, compliance, ease of paying taxes, challenges faced, performance of sale and etc.

Secondary Data-Secondary data involves article, websites, books and etc. This data collected from various above mentioned sources is related to the policies, schemes and changes brought by government in GST help MSME in terms of growth and ease of doing business also suggestion to improve GST policies even further has been collected from secondary source.

Sample design -The method used for the study is random sampling method. This method is chosen to collect unbiased data, time and resource constraints.

Population-The population considered for the study are Msme(Micro small and medium enterprise) companies which are affected by GST.

Sample size -The size of the sample will be 60 respondents for the questionnaire. The sample size taken for the study is small because of different kinds of constraints.

Sample unit -In this study each individual respondents who receives and answers the questionnaire are sampling unit. So each respondent represent one unit, so they provide their own perspective and experience regarding the impact of GST on Msme.

Method of Data collection

Primary Data – Questionnaire targeting people working in MSME companies

Secondary Data - Articles and papers to collect information for descriptive data

Instrument of data collection

Questionnaire for primary data and for descriptive analysis journal and websites

Data analysis technique

Few types of data analysis tools are used for analyzing the primary data which is collected. Descriptive statistic, frequency distribution table and chi square test are also used.

Descriptive Statistics – This statistics uses percentage and means to understand the analysis of data better and hence better presentation of data for analysis.

Inferential statistics – This hypothesis developed using the person chi-square test of independent attribute for knowing whether there is relationship between independent and dependent variable. A software was used to do the Chi-square. Chi square test belong to non parametric test as it does not assume a specific probable distribution of data. The significance value taken in the test is usually 0.05. So the probability seeing if variable is independent is known as asymptotic significance, which is also called as p value. So if the value of P is less than the significance value then the null hypothesis will be rejected and alternative hypothesis will be accepted. But if the p value is more than the significance value the null hypothesis will be fail to reject, which means that the null hypothesis will be accepted and alternative hypothesis will be accepted.

IV. DATA ANALYSIS AND INTERPRETATION

4.1 Table 1- The data represent the respondent's companies type under MSME

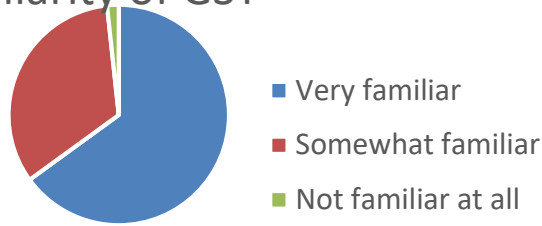
Category	Frequency of the respondents	Percentage (in %)
Micro	31	51.7
Small	23	38.3
Medium	6	10
Total	60	100

Interpretation

Among the data collected half of them belong to micro enterprise **31 (51.7%)** and followed by small enterprise **23(38.3%)** and only small percentage belongs to medium enterprise **6 (10%)**.

4.2 The data represents the respondent’s familiarity with GST

Familiarity of GST

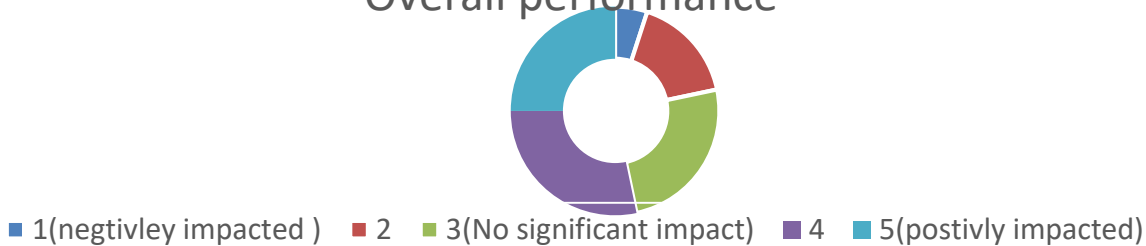


Interpretation

The observation is that out of 60 respondents to this question 39(65%) are familiar with GST ,which forms the majority. Followed by 20(33.23%) respondents who know show what about GST and only 1(1.7%) of them do not know much about GST. So this means among the respondents majority of them know about what is GST and how is it effecting their business.

4.3 The data represent Impact of GST on MSME overall performance of respondents

Overall performance

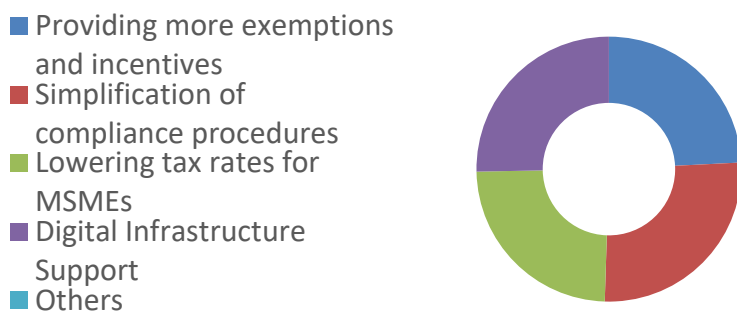


Interpretation

The overall performance of a business include factors which contributes to successes and growth. This factors are operational, customer related and strategic aspects. The result of the question is that more than half the respondents feel that GST has positive impact on their overall performance 15 (25%) respondents and 17 (28.3%) respondents have answered GST has slightly positive impact. The next 15 (25%) of the respondents feel GST has no impact on their overall business and finally 13 (21%) of them feel that it has negatively effected their business. Overall the interpretation is GST has a positive impact of MSMEs overall performance

4.4 The data represents the respondents suggestion to improve GST policy

Respondents suggestion to improve GST policy



Interpretation

The above data represents the respondents suggestion to improve the GST polices related to MSME. The 26(26.3%) of the respondents have chosen the option simplification of compliance procedure.25(25.3%) of respondents have chosen the option need more digital infrastructure support. The next 24 (24.2) respondents choose lowering tax rates of MSME and 24(24.2%) respondents have chosen the option of providing more exemptions and incentives. So these means all the options mentioned are the for GST to improve.

4.5 Hypothesis :1

Null Hypothesis (H0): There is no significant impact of the GST on MSME's financial performance
Alternative Hypothesis (H1): There is significant impact of the GST on MSME's financial performance.

Tests			
N	DF	-LogLike	RSquare (U)
60	20	23.294526	0.3212
Test	ChiSquare	Prob>ChiSq	
Likelihood Ratio	46.589	0.0007*	
Pearson	53.205	<.0001*	

Warning: 20% of cells have expected count less than 5, ChiSquare suspect.
Warning: Average cell count less than 5, LR ChiSquare suspect.

Interpretation

The chi- Square revealed that yield value is 53.205 with 20 degrees of freedom .The significance taken 5% that is 0.05 So both of p value is less than 0.05. So based on the results null hypothesis is rejected and alternative hypothesis is accepted .So we can conclude that the there is impact of GST on MSMEs financial performance.

Hypothesis :2

Null Hypothesis (H0): There is no significant impact of the GST on MSME's tax compliance
Alternative Hypothesis (H1): There is significant impact of the GST on MSME's tax compliance

Tests			
N	DF	-LogLike	RSquare (U)
60	16	13.728656	0.1854
Test	ChiSquare	Prob>ChiSq	
Likelihood Ratio	27.457	0.0367*	
Pearson	27.821	0.0332*	

Warning: 20% of cells have expected count less than 5, ChiSquare suspect.
Warning: Average cell count less than 5, LR ChiSquare suspect.

Interpretation

The chi- Square revealed that yield value is 27.821 with 16 degrees of freedom .The significance taken 5% that is 0.05. So both of p value is less than 0.05 . So based on the results null hypothesis is rejected and alternative hypothesis is accepted .So we can conclude that the there is impact of GST on Msme's tax compliance

4.6 Government changes in GST policy impacting msme's

1. The government has launched the "MSME-SAMBANDH Portal" many years back, which was launched to help in monitoring procurement by the central government and other departments. This was launched with aim of enabling the share list of products from MSMES. The total share procurement amount to 166125.13 crore in the year FY 2023-24. The amount of purchase from all SMES amount to RS 56678 crore which benefited 1,93,202 msme's and this it is 34.12% of the total procurement.

2. Champions - It is network of control room created in hub. It is situated in the office of Ministry of MSME. The spokes are located in various offices in various state. The central control is 9in New Delhi and there is 68 state control rooms. This is done to support all MSME in local level in the areas of market access, technology up gradation, skill development and finance. So this incentive helped MSME to get digital infrastructure support, help in compliance to law and etc to grow their business and make it big.

3. One more scheme introduced by the government was The "TReDS(Trade receivables e-Discounting System)" where the companies with turnover more than 500 crore is been brought under the scheme. This enable entrepreneurs access credit

4. The scheme "Central Public Sector Undertaking (CPSUs)" unit is to make mandatory procurement of 25% instead of 20% from MSME. In the year 2023-24 so far the CPSUs has produced good and service which is worth 44,591.89 crore from 161305 MSMES which of 33.39% of total procurement.

4.7 Statistics shows impact of GST on MSME

The India faced a huge growth in startups in MSME sector. So according to the Ministry of commerce and Industry recently there were more 4000 startups had been approved in past 800 days and in that the tier 2 and 3 account 49% of startups.

Overall MSME had created 120 million job across India .As per Udyam portal on until December 2022 there is approximately 1.28 crore registered which include 2.18 crore women owned MSMEs .Also Employed 2.18 crore more people.

The exports share of MSME on few products in India are 49.4%, 45% and 44% in the year 2020-21, 2021-22 and 2022-23 respectively. These reports as per the DGCIS "Directorate General of Commerce Intelligence and Statistics". The Indian government plan is to increase the number of MSME and jobs in MSME sector by 5 crore within 2025.

So from all the above data it provides the information that the GST had good impact on MSME. As we can see the number of MSME, export by MSME companies and employment has increased since the introduction of GST. Also in the time of Covid many MSME was helped due to GST as they had to pay less taxes, which is from many reliefs and schemes provided by the Government which mentioned above.

V. FINDINGS AND SUGGESTION

5.1 FINDINGS

1. The findings from the first hypothesis is that there is impact of GST on MSME's financial performance
2. The findings from the first hypothesis is that there is impact of GST on MSME's tax compliance
3. From the respondents we can say that they like to simplify GST compliance even more. Following that they like to have support for digital infrastructure. Finally tax reduction and exemptions and incentives are also there in wants of the a significant portion of respondents.
4. The observation is that out of 60 respondents more than half are aware about GST and few of respondents are somewhat aware about GST and only one of them do not know much about GST. So this means many have understood what is GST and how is it affecting their business.
5. The result of the question is that more than half the respondents feel that GST has positive impact on their overall performance. And quarter of the respondents feel GST has no impact and rest feel that it has negatively affected their business. Overall the interpretation is GST has a positive impact of MSMEs overall performance

5.2 SUGGESTION

1. **GST compliance** – The GST compliance procedure must be simplified, which includes filing of returns and claim of ITC. The simplification can be done by giving user friendly online portal and provide guidelines which help MSME in compliance.
2. **Threshold limit** – There should be increase in threshold limit for GST registration which provide relief for micro and small business. Due to this change the compliance burden of the company and help to reduce the expenses of the business which help in reducing cost.
3. **Technological upgradation** – The MSME should be encouraged to adopt new technology and upgrade it to up-to-date. This can be done through giving subsidies or incentives. The support can also be done through support for accounting and ERP systems
4. **Education** – There should seminars, training program and etc for education the MSME about GST compliance, benefit and etc, So that the MSME understand the things better and help in complying with GST and also use the benefits from it.
5. **Provide incentives for digital transaction** – There should be some incentives given for MSME if they conduct transaction digitally, which help to promote transparency and reduce cash transaction. This move will help in the improvement of GST compliance and also reduce the use of paper which help the environment.

VI. Conclusion

The purpose of the study is to gain the knowledge about how GST has affected the MSME. So this study provides the opinion of MSME on GST and how has it affected the MSME. The impact of GST on MSME's financial performance and tax compliance has been the objective of the study. Totally 60 respondents answer has been collected to gather data for study. The collected data is been analyzed using descriptive analysis and chi square test.

From study found out that the GST has positive effect on MSME financial performance and also impact on tax compliance of MSME. We also found out that the GST has positive impact on overall performance of MSME. Then the study further explored the changes made by the government and GST council in GST policy throughout the years to improve the its quality and help MSME run smoothly. Further the new policies introduced by the government to provide more facility to MSME.

Finally from the information gathered we can conclude that GST has good impact on MSME, but there are areas where it can still improve and make changes, which would help MSME for its growth and smooth running of business.

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