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## A STUDY ON IMPACT OF GST ON MSME

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**Abstract:** GST is an indirect tax that has superseded numerous other indirect taxes in India, including excise duty, VAT, and service tax. A major change in the tax system was brought about by the implementation of the Goods and Services Tax (GST) in many nations, which has important effects for Micro, Small, and Medium-Sized Enterprises (MSMEs). This study looks into how there is a impact of GST on MSMEs. It starts by looking at how tax system changes affect the financial performance and operational efficiency of MSMEs. The study also looks at how MSMEs' business performance is affected by tax knowledge and awareness under the new tax system. It also shows the changes of the performance of the industry before and after the GST. The study provides a fair assessment of the positive and negative impacts of the GST implementation for MSMEs. A survey consisting of questions is given to a sample of MSMEs in order to accomplish these goals. The study has given conclusion regarding this topic. The research attempts to provide insights into how GST has affected MSMEs and suggest possible policy recommendations to maximise the advantages and lessen the difficulties presented by the GST framework through analysis of survey results.

**Key words:** GST, MSMEs, impact, positive effect, performance.

### I. INTRODUCTION

GST is known as goods and Services Tax. In India, it is an indirect tax that has taken the place of numerous other indirect taxes, including services tax, VAT, and excise duty. On March 29, 2017, the Parliament passed the Goods and Service Tax Act, which became operative on July 1st, 2017. Goods and Service Tax (GST) is levied on the supply of goods and services. Every value addition is subject to the comprehensive, multi-stage, destination-based Goods and Services Tax Law in India. For the whole nation, there is only one domestic indirect tax law, or GST.

The objective was to substitute the current complex and fragmented tax framework with a unified system that would streamline compliance, reduce tax cascades, and promote economic integration. MSME stands for Micro, Small, and Medium Enterprises. MSMEs are businesses that engage in the production, processing, and storage of goods and commodities. Through the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Indian government first introduced the idea of MSME.

### II. BACKGROUND OF THE TOPIC

MSMEs had a great deal of difficulty navigating the tax system before the GST. Multiple tax compliance, including excise duty, service tax, VAT, and others, was not only time-consuming but also raised operating expenses. Moreover, the fragmented tax code frequently impeded interstate commerce, restricting MSMEs' access to markets. Micro, Small, and Medium Enterprises (MSMEs) are found in a variety of industries, such as trade, services, and manufacturing. Businesses involved in textiles, food processing, IT services, handicrafts, construction, and other industries fall under this broad category. MSMEs were anticipated to gain from a more unified tax system with the implementation of GST. The goal of the GST tax consolidation was to lessen the cost of compliance by replacing an online tax return for several files. Furthermore, it was believed that the smooth operation of input tax credits along the supply chain would improve competitiveness and lessen the tax cascade effect, which would ultimately result in cheaper prices for consumers.

### III. RESEARCH OBJECTIVES

- To study the change in the tax system affecting the business performance of MSMEs.
- To study the impact of tax awareness and knowledge on the business performance of MSMEs.
- To study the impact of profitability after the recent tax changes.
- To study the positive and negative impacts of GST implementation.

### IV. NEED OF THE STUDY

- This study helps us to know the impact of GST in MSMEs.
- To find out the positive and negative impacts after the implementation of GST.
- To find out the performance of the businesses after the implementation of GST.
- To check the tax awareness built among the people.

### V. LIMITATIONS OF THE STUDY

- Sample size
- Response bias
- Limited scope of questions
- Limited geographic location

### VI. SCOPE OF THE STUDY

The present study is undertaken to know about the impact of GST on Micro, Small and Medium enterprises in order to study about the impacts occurred after GST implementation and to find out the performance of MSMEs post and pre-GST era, and to know the amount of tax awareness among the people for this purpose Bangalore have been selected as study area.

### VII. HYPOTHESIS

#### Hypothesis 1

H0: There is no significant relationship between the overall performance and the perceived impact on profitability after the recent tax changes

H1: There is a significant relationship between the overall performance and the perceived impact on profitability after the recent tax changes.

#### Hypothesis 2

H0: There is no the impact of tax awareness and knowledge on the business performance of MSMEs.

H1: There is impact of tax awareness and knowledge on the business performance of MSMEs.

### VIII. LITERATURE REVIEW

(Kanimozhi, 2023) The Goods and Services Tax (GST) is a crucial tax reform that unites several indirect taxes into a single one, aiming for "One Nation, One Tax" uniformity. In order to guarantee broad acceptance, it must attend to the concerns of MSMEs, enabling their integration. A thorough analysis of the GST's economic impact is necessary, emphasising its function in simplifying transactions both domestically and globally, promoting ease of commerce.

(Shetty Deepa Thangam Geeta, 2019) The study shows that the real benefits of GST adoption are hampered by MSME entrepreneurs' lack of readiness and weaknesses in the GST network. The survey's findings show that the GST has a moderate effect with potential for improvement. Closing gaps in implementation processes is essential to a successful and seamless conclusion. In this sense, prompt government action can produce innovative outcomes for long-term sustainable economic growth.

(Gautam, 2022) Despite difficulties, outsourcing GST tasks to professionals is seen favourably. Given the benefits that GST offers and the government's support, researchers believe that resolving issues will strengthen MSMEs. Respondents note that the online interface of the GST improves compliance but express mixed views on its impact, citing increased compliance burden and restrictions on purchases. Many were unprepared for the introduction of the GST, leading to stress and rising compliance costs.

(Shivani, 2019) Although initial implementation of the GST may present administrative and compliance issues, it is anticipated that the long-term scheme will increase output, employment, and economic advancement. MSMEs stand to gain from utilising technology to streamline compliance and coordinating procedures with GST obligations. Successful GST implementation requires MSMEs to adapt to digital taxation forms, which calls for their bravery in adhering to tax laws and promoting national development in the face of behavioural shifts in the tax system.

(Basavanagouda, 2020) MSMEs are essential to the economic development of India because they provide employment and entrepreneurship, particularly in rural areas, and they lessen regional inequality. Their ability to compete internationally is significantly impacted by tax measures, such as the GST. GST needs analysis for improved taxpayer friendliness, even though its goals are consistency and convenience of doing business. MSMEs stand to gain a great deal from fixing the problems with GST, which will encourage their expansion and increase their share of India's industrial sector.

(Dr. H.R. Kaushal, 2018) India's economy depends heavily on the MSME sector, which also makes a substantial contribution to socioeconomic growth. A significant tax reform known as the GST eliminates cascading taxes, promotes uniformity, and streamlines taxation. GST aspires to create "One Nation, One Tax, One Market," however despite its varied effects, MSMEs and consumers ultimately gain from it, even if it initially increases compliance costs for MSMEs.

## IX. DISCUSSION

### HYPOTHESIS 1

H0: There is no significant relationship between the overall performance and the perceived impact on profitability after the recent tax changes

H1: There is a significant relationship between the overall performance and the perceived impact on profitability after the recent tax changes.

### Bivariate Fit

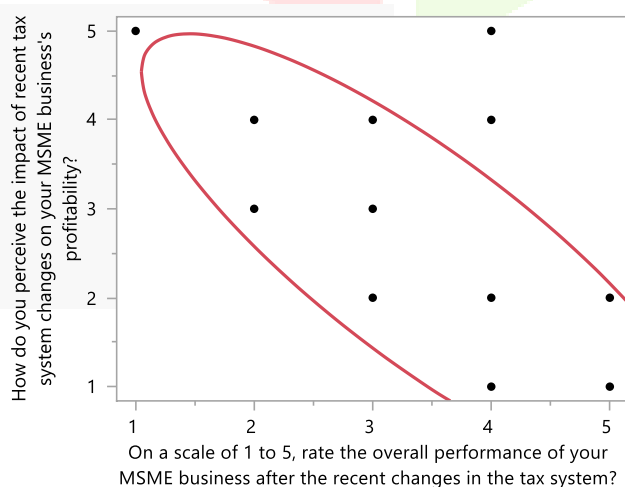


Fig 1

**Bivariate Normal Ellipse P=0.950**

Table 1

Variable	Mean	Std Dev	Correlation	Signif. Prob	Number
On a scale of 1 to 5, rate the overall performance of your MSME business after the recent changes in the tax system?	3.47	0.989388	-0.83276	<.0001	100
How do you perceive the impact of recent tax system changes on your MSME business's profitability?	2.41	1.045384			

With a p-value of less than 0.0001, the data presented shows a substantial negative correlation of -0.83276 between the MSME enterprises' overall performance rating and their perceived impact on profitability after recent tax adjustments. This very significant p-value highlights a strong adverse relationship: overall performance evaluations decrease as the perceived impact on profitability worsens. It also suggests that the observed association is not the result of chance. Moreover, 95% of the data points appear to align into this distribution according to the bivariate normal ellipse with a probability of 0.950, supporting the validity and consistency of the observed association under the null hypothesis.

The null hypothesis, which states that there is no meaningful correlation between the overall performance rating and the perceived impact on profitability after tax adjustments, can be rejected through this statistical evidence. The recent tax changes have a significant and unfavourable impact on the performance evaluations and profitability perceptions of MSME enterprises, as indicated by the low p-value and high negative correlation. As a result, the data suggests that these tax increases are connected to a significant drop in respondents' perceptions of business performance.

**HYPOTHESIS 2**

H0: There is no the impact of tax awareness and knowledge on the business performance of MSMEs.

H1: There is impact of tax awareness and knowledge on the business performance of MSMEs.

Table.2.1

Model	Variables Entered/Removed <sup>a</sup>		Method
	Variables Entered	Variables Removed	
1	On a scale of 1 to 5, how would you rate your level of tax awareness and knowledge? <sup>b</sup>		Enter

a. Dependent Variable: Our business revenue has increased compared to the previous year.

b. All requested variables entered.

Table 2.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.182 <sup>a</sup>	.033	.023	1.101

a. Predictors: (Constant), On a scale of 1 to 5, how would you rate your level of tax awareness and knowledge?

Table 2.3 Anova

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.058	1	4.058	3.346	.070 <sup>b</sup>
	Residual	118.852	98	1.213		
	Total	122.910	99			

a. Dependent Variable: Our business revenue has increased compared to the previous year.

b. Predictors: (Constant), On a scale of 1 to 5, how would you rate your level of tax awareness and knowledge?

Table 2.4 Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.619	.478		5.477	<.001
	On a scale of 1 to 5, how would you rate your level of tax awareness and knowledge?	.215	.118	.182	1.829	.070

a. Dependent Variable: Our business revenue has increased compared to the previous year.

Regression research looks into the connection between MSMEs' business performance and tax awareness and understanding, with a particular emphasis on revenue growth. The R Square value of the model summary is 0.033, meaning that the degree of tax awareness and understanding accounts for just 3.3% of the variance in the rise in business revenue. Although tax awareness provides considerable explanatory power, there are probably other factors that have a greater impact on business performance, as indicated by the relatively low R Square. The typical divergence of observed values from the regression line is indicated by the standard error of the estimate, 1.101, which highlights the importance of taking into account additional variables that could affect business performance.

With a borderline significance level of  $p = 0.070$ , the ANOVA results show an F-statistic of 3.346, precisely at the significance threshold. This p-value, along with the tax awareness and knowledge coefficients ( $B = 0.215$ ,  $p = 0.070$ ), point to a marginally significant positive relationship: business revenue rises by 0.215 units for every unit increase in tax awareness. Despite the fact that this result points to a possible benefit of tax understanding for company success, the evidence is flimsy and hardly significant statistically. Consequently, although the results suggest that tax awareness may affect business performance, they are insufficient to conclusively refute the null hypothesis. It might be essential to conduct more study with a bigger sample size or more variables in order to validate these preliminary findings and offer more reliable conclusions.

### **To study the change in the tax system affecting the business performance of MSMEs.**

Understanding how tax reforms affect the economy requires examining the tax system's shift and how it affects Micro, Small, and Medium-Sized Enterprises' (MSMEs') financial performance. Here is a theoretical justification for the importance of this study: Tax regimes have a significant impact on the expenses, incentives, and regulatory loads that businesses must deal with, which in turn shapes the business climate. Changes in the tax system can have a significant impact on MSMEs' operations, competitiveness, and overall performance because they frequently have fewer resources and are more susceptible to regulatory changes.

MSMEs face opportunities as well as obstacles when a new tax system is implemented, such as the Goods and Services Tax (GST) or changes in tax rates. The ease of doing business for MSMEs can be improved by streamlining administrative procedures, lowering compliance costs, and facilitating interstate trade through the simplification and rationalisation of the tax structure under the GST. Increased profitability, resource allocation, and competitiveness in the market could result from these advantages.

However, MSMEs may also need to make modifications and adaptations as a result of tax reforms, such as revisions to their financial planning, supply chain management, and pricing strategies. MSMEs may be required to make short-term financial and administrative burden investments in technology, human resources, and training in order to comply with new tax regulations, which may include filing requirements, input tax credit schemes, and tax rate adjustments. Furthermore, it is crucial to research the complex implications on MSMEs due to the varying effects of tax reforms on different industries, geographical areas, and company sizes. Changes in input tax credit provisions or supply chain dynamics under GST, for instance, may result in varied degrees of disruption and adjustment costs for sectors that depend more heavily on input purchases or have complicated supply networks.

Researchers and policymakers can learn more about the ways in which tax reforms affect economic outcomes by examining the impact of the tax system's change on the performance of MSMEs' businesses. This information can be used to improve the competitiveness, resilience, and development potential of MSMEs in the changing tax environment through the creation of policies, modifications to regulations, and assistance programmes. Furthermore, for MSMEs negotiating the complexity of the tax environment, empirical knowledge on the effects of tax legislation can direct business strategy, investment choices, and risk management techniques.

### **Positive and negative impacts of GST implementation.**

The Goods and Services Tax (GST) has had a variety of effects, both good and bad, and each has affected stakeholders in a different way. This is an explanation:

#### **POSITIVE IMPACTS:**

1. **Simplified Tax Structure:** GST creates a single, unified tax structure in place of several indirect levies. This simplicity relieves firms of the difficulty of managing various tax systems, hence reducing compliance costs and administrative difficulties.
2. **Ease of Doing Business:** The GST lowers barriers to conducting business internationally and promotes interstate trade by standardising taxation across states. This encourages supply chain efficiency and market integration.
3. **Enhanced Tax Compliance:** The introduction of GST in the tax system results in increased accountability and transparency, which enhances compliance. Tax evasion is decreased and tax revenues are raised through the use of technology in the GST implementation process, such as online tax filing and invoice matching.
4. **Input Tax Credit:** Businesses can lower their overall tax burden by claiming input tax credit under the GST

for taxes paid on inputs. This promotes economic formalisation and provides incentives for companies to buy products and services from vendors that pay taxes.

5. Boost to GDP Growth: By lowering tax inefficiencies, raising tax collections, and encouraging investment, the GST is anticipated to have a favourable impact on economic growth. Economic competitiveness and productivity can both rise with an effective tax structure.

### NEGATIVE IMPACTS:

1. Initial Implementation Challenges: Businesses faced a number of difficulties during the GST transition, including complicated compliance requirements, software upgrades, and procedural changes. Particularly small firms found it challenging to adjust to the new tax structure.
2. Temporary Disruption: As companies adapted to the new tax rates and compliance procedures, the implementation of the Goods and Services Tax (GST) led to temporary disruptions in pricing dynamics and supply chains. Production and distribution activities experienced brief difficulties as a result.
3. Compliance Burden: Although the Goods and Services Tax (GST) is intended to streamline the tax system, small firms with limited resources and technological know-how may find it difficult to meet the standards. Businesses have more administrative work to do when it comes to fulfilling their GST compliance requirements, which include filing returns and keeping records.
4. Effect on Prices: Certain goods and services saw price adjustments as a result of the GST switch. Reduced tax rates resulted in price rises for some goods while making others cheaper. In the near run, this had an impact on inflation rates and consumer purchasing power.
5. Transition Issues: IT hiccups, misunderstandings regarding tax rates, and administrative problems marred the GST launch. Businesses experienced uncertainty and disruption due to these transitional challenges, which had an impact on their operations and financial planning.

Overall, the Goods and Services Tax (GST) has resulted in notable advantages such as streamlined taxation, heightened compliance, and stimulated economic expansion. However, there have also been obstacles encountered during the implementation phase. Maximising the GST's long-term advantages for businesses and the economy requires addressing these issues and making sure the implementation goes smoothly.

## **X. CONCLUSION**

Micro, Small, and Medium-Sized Enterprises (MSMEs) have been significantly impacted by the introduction of the Goods and Services Tax (GST) in a number of ways. The study aimed to compare the industry's performance in the pre- and post-GST eras, analyse the implications of the tax system change on business performance, evaluate the benefits and drawbacks of the GST implementation, and evaluate tax awareness and knowledge's influence on MSMEs. The study reveals there is a strong negative correlation between the overall performance rating and perceived impact on profitability after recent tax change. The analysis reveals that tax awareness and knowledge have a borderline significant positive impact on MSME business performance. The research further emphasises how GST has a twofold effect on MSMEs. On the one hand, the tax system has become more efficient and simplified with the introduction of the Goods and Services Tax (GST). However, it might have also presented difficulties including burdens associated with compliance and adjusting to new rules.

In conclusion, even if GST has given MSMEs the chance to enhance their operations and business procedures by raising tax awareness and understanding, there are still difficulties in complying with new regulations.

In order to ensure that MSMEs can optimise the advantages while minimising the disadvantages of the GST regime, governments must continue to provide assistance and resources.

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