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IMPACT OF GOODS AND SERVICE TAX ON MSME (MICRO, SMALL, MEDIUM ENTERPRISES)

SINDHU J K

Assistant Professor

Department of Commerce

GFGC Ranebennur



ABSTRACT

In Indian tax system there are two types of taxes are there, Direct tax and indirect tax .In that **GST (Goods and service tax)** comes under indirect tax.GST play very vital role in the economic progression in India. GST was implemented for MSME on July/1/2017 including turnover more than 40 lakhs for goods and 20 lakh for services. After implementation of GST on MSME (**Micro, Small, Medium**)it brings immense change in the revenue system India.

The MSME industries creating an effective and efficient and worth fully markets in India it facilitate inter and intra state trade by increasing compliance requirements. This journal looks into how GST impact on MSME performance in analytical way. This study covers also awareness, knowledge about GST and how tax system affects the performance and operational efficiency and effectiveness of MSME. This survey covers the opinion collected from the several indicators there profit and loss, market share, sales after implemented GST on MSME.

This survey focuses on Karnataka state, Davangere district, **HARIHARA Taluk**, in that I selected **15 to 20 units** who has been qualified and who are practice and handling GST related work. A survey consisting simple close ended questions. However this survey results also revel challenges such as compliances cost, technical difficulties in filling returns, lack of awareness among small enterprises.

KEYWORDS

- **Indirect tax, GST, MSME, Input tax credit, Compliance cost, Cascading effect**

INTRODUCTION

Goods and service tax are comes under indirect tax, which was come in to existence in India July/1/2017, it is replaced of VAT, excise duty, and service tax and it eliminate the cascading effect. GST is administered by both the central and state government, it has different slabs rate 0 % (exempt duty), 5% (merit rate duty), 18% (standard rate duty), 40% (sin/luxury duty), 3% (special rate duty i.e., gold, silver, finished jewellery), 0.25% diamond, unworked precious stones.

MSME is the important pillar in the Indian economy, it creates 70% of employment generation in India and is contributes 45% to production/manufacturing sector, and it increase's 40% export directly and indirectly (especially on semi urban area).

But after the implementation of GST on MSME it brought both opportunities and challenges in Indian economy. In one side it creates transparency and smooth and conditions/without interpretation of Input tax credit. In other hand it increases tax burden, and increase's compliance cost and difficulties while filing retunes, technological challenge's and higher compliance cost and lack of awareness.

OBJECTIVES

- ✓ To analyse the impact of GST on MSME.
- ✓ To analyse GST affect working capital.
- ✓ To identify GST help to reduced tax burden.
- ✓ To analyse Input tax credit availability under GST.
- ✓ To analyse/identify transparency in business transactions.
- ✓ To analyse impact of competitiveness after implementation GST.
- ✓ To identify the major challenges faced under GST.

METHODOLGY

Methodology is strategy of new thing process that sets out or obtains the answer of research study. Here I selected primary data secondary data as research methodology to collect information and research study is purely based on structured questionnaire. The selected respondents (around 15-20 MSME units) are based In simple random sampling and survey was conducted through questionnaire in Karnataka state, Davanagere district, HARIHARA taluk.

LITREATUREREVIEW

(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, emphasizing 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 favorably. 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 law and promoting national development in the face of behavioral 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.

ANALYSIS AND INTRPRITATION OF DATA

The Goods and Services Tax (GST) was introduced in India to replace multiple indirect taxes with a single, unified tax system. GST aims to simplify taxation, reduce the cascading effect of taxes, improve transparency, and promote ease of doing business. MSMEs play a crucial role in India's economic development through employment generation and industrial growth. Hence, understanding the impact of GST on MSMEs is important. To examine the impact of Goods and Services Tax (GST) on Micro, Small and Medium Enterprises (MSMEs), a field-based empirical study was carried out using a structured questionnaire. The survey aimed to assess both the positive and negative implications of GST on various operational aspects of MSMEs such as registration procedure, compliance requirements, working capital management, tax burden, and input tax credit availability, transparency in business transactions, market competitiveness, and interstate trade.

Primary data were collected from 19 MSME units belonging to manufacturing, trading, and service sectors. The respondents included micro, small, and medium enterprises with varying years of business experience. The data collected through the questionnaire were systematically classified, tabulated, and analyzed using percentage analysis to draw meaningful interpretations. The analysis reflects the real experiences and perceptions of MSMEs after the implementation of GST and provides insights into the challenges faced as well as the benefits gained by them. The following section presents a detailed question-wise analysis and interpretation of the survey results.

Respondents

The survey covered 19 MSMEs, representing a balanced mix of:

Enterprise size: Micro (31.6%), Small (31.6%), and Medium (36.8%)

Nature of business: Manufacturing (36.8%), Trading (31.6%), and Service (31.6%)

Years of operation: Majority (42.1%) operating for more than 3 years

GST Registration and Compliance

84.2% of respondents are registered under GST.

GST registration process was perceived as: Easy / very easy: 63.1%, Difficult / very difficult: 36.9%, Easy to manage: 42.1% moderately difficult: 42.1% Very difficult: 15.8%.

Impact on Working Capital: Most respondents (42.1%) reported a negative impact on working capital, indicating cash flow pressure due to GST compliance and delayed ITC refunds.

Tax Burden: A large number of respondents (42.1%) were unsure whether GST reduced the tax burden, showing lack of clarity regarding GST benefits.

Input Tax Credit: Majority of MSMEs (63.2%) found ITC availability adequate, though some faced complexity in claiming credit.

Transparency: About 42.1% of respondents agreed that GST improved transparency in business transactions, indicating better documentation and digital compliance.

Competitiveness: The impact of GST on competitiveness was mixed, with equal respondents reporting improvement and reduction.

Interstate Trade: GST moderately eased interstate trade, as 42.1% of MSMEs reported positive impact.

Overall Impact: The overall impact of GST on MSMEs is mixed, with equal proportions viewing GST as positive and negative.

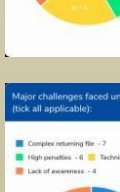
Major Findings

GST registration is widely adopted among MSMEs.

Compliance procedures remain complex.

Working capital is negatively affected for many MSMEs.

ITC is beneficial but complicated; MSMEs face challenges like complex return filing and high penalties.



CONCLUSION:

Based on the survey of 19 MSMEs, the study concludes that GST has produced a mixed impact on business operations. A majority of respondents are registered under GST and acknowledge improved transparency and better availability of input tax credit. However, a significant proportion of MSMEs reported negative effects on working capital and difficulties in return filing and compliance procedures. Equal responses indicating positive and negative effects on competitiveness show uneven adaptation to GST. Uncertainty regarding reduction in tax burden highlights lack of clarity and awareness among MSMEs. Overall, the survey indicates that while GST offers structural benefits, compliance complexity and cash-flow issues continue to challenge MSMEs.

Based on the survey of 19 MSMEs, the study reveals a mixed impact of GST. About 84.2% of respondents are registered under GST, indicating wide adoption. While 63.2% reported adequate availability of input tax credit and 42.1% agreed that GST improved transparency, 42.1% experienced a negative impact on working capital. Nearly 36.8% respondents viewed the overall impact of GST as negative, mainly due to complex return filing (36.8%) and high penalties (31.6%). Equal responses on improved and reduced competitiveness (47.4% each) show uneven benefits. Thus, GST benefits exist, but compliance challenges persist for MSMEs.

GST has brought transparency and uniformity in taxation but has also increased compliance burden for MSMEs. With simplified procedures and better awareness, GST can become more beneficial for the MSME sector.

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