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**Impact of GST on MSMEs and Small Traders**Author name – **Aarti Dattatray Pawar**

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Email – aartipawar1202@gmail.com**Abstract:**

The Goods and Services Tax (GST) has reconfigured the regulatory and economic landscape for MSMEs and small traders, producing divergent outcomes across social and spatial contexts. Compliance demands frequent return filings, e-invoicing, and complex reconciliations impose disproportionate administrative costs on micro and informal enterprises, creating procedural barriers that often translate into time poverty and higher operating expenses. Market integration improved where GST eliminated cascading taxes and reduced interstate friction, yet documentation requirements and digital compliance have unevenly redistributed competitive advantage toward better-capitalized and digitally literate firms, marginalizing many small traders. Formalization under GST has enhanced the visibility of transactions, offering a foundation for credit assessment and improved lender confidence for some businesses; however, pervasive gaps in bookkeeping, collateral shortfalls, and stringent underwriting practices continue to restrict formal credit access, driving reliance on costly informal finance. Policy measures simplified compliance procedures, calibrated thresholds, digital-literacy support, and credit products linked to GST records are necessary to convert structural reforms into inclusive growth. Interpreted through a humanities lens, GST's effects are not only economic but also cultural and institutional, reshaping small-scale economic citizenship and everyday practices of trade.

Keywords - GST impact, MSMEs challenges, Compliance costs, Market integration, Access to credit

1. Introduction

The implementation of the Goods and Services Tax (GST) in India on July 1, 2017, marked one of the most significant tax reforms in the nation's post-independence economic history. As a comprehensive, multi-stage, destination-based tax, GST replaced a complex web of central and state levies, aiming to create a unified national market. For Micro, Small, and Medium Enterprises (MSMEs) and small traders constituting the backbone of India's economy employing over 110 million people and contributing approximately 30% to GDP the reform promised simplification, reduced tax cascading, and enhanced market access.

However, the lived experience of small economic actors reveals a more nuanced reality. From a humanities perspective, GST is not merely a fiscal mechanism but a cultural and institutional force that reshapes everyday practices of trade, economic citizenship, and social relations in the marketplace. This paper examines three

critical dimensions of GST's impact on MSMEs and small traders: (1) compliance challenges and cost implications, (2) market integration and competitiveness, and (3) access to credit and formal finance. Through this analysis, we illuminate how structural reform intersects with human practices, creating both opportunities and constraints for small-scale economic actors.

2. Compliance Challenges and Cost Implications

2.1 The Burden of Procedural Complexity:

The philosophical promise of GST was simplification a single tax replacing multiple levies. Yet, for micro enterprises and small traders, the reality has been increased procedural complexity. The compliance architecture requires frequent return filings (GSTR-1, GSTR-3B, annual returns), e-invoicing for businesses above specified thresholds, and intricate input tax credit reconciliations.

For a small trader operating with limited human resources, these requirements translate into what humanities scholars might term "procedural time poverty." The time spent navigating digital portals, understanding classification codes, and maintaining compliance records is time diverted from productive economic activities, family care, and community engagement. A micro enterprise owner in Nagpur's busiest market may spend 15-20 hours monthly on GST compliance a significant portion of their working time that previously went toward customer relations, inventory management, or rest.

2.2 Differential Administrative Costs:

The administrative costs of GST compliance are not distributed equitably across enterprise sizes. Larger firms can dedicate specialized accounting departments, invest in Enterprise Resource Planning (ERP) systems, and hire tax consultants. In contrast, micro enterprises often lack even basic accounting software, relying on manual record-keeping that becomes fragile under GST's documentation demands.

Studies indicate that compliance costs as a percentage of turnover are significantly higher for smaller enterprises. For a business with annual turnover of ₹20 lakhs, the fixed costs of compliance including software subscriptions, consultant fees, and time invested can consume 2-4% of revenue, whereas for a ₹500 crore corporation, the same costs represent less than 0.1%. This regressive cost structure contradicts the progressive ideals often embedded in tax policy discourse.

2.3 Digital Exclusion and Epistemic Barriers:

GST's digital-first compliance architecture through the GST Network (GSTN) portal creates epistemic barriers for traders with limited digital literacy. The humanities lens reveals this not merely as a technical challenge but as a question of economic citizenship: who is included in the digital economy, and who is excluded?

Small traders, particularly those from older generations or rural backgrounds, face what we might call "digital alienation." The interface language, technical terminology, and navigation complexity of the GST portal assume a level of technological fluency that many small actors do not possess. This exclusion is not accidental but structural, reflecting policy assumptions about universal digital access that do not match ground realities.

The psychological impact is profound. Traders report anxiety, frustration, and a sense of inadequacy when confronted with technical glitches, rejected filings, and the constant fear of penalties. This emotional labour the stress of navigating an unfamiliar bureaucratic system represents an invisible cost of GST that quantitative economic analysis often overlooks.

2.4 The Composition Scheme: A Double-Edged Sword:

Recognizing compliance burdens, GST introduced a composition scheme allowing small taxpayers (turnover up to ₹1.5 crore for manufacturers, ₹50 lakh for traders) to pay tax at fixed rates with simplified compliance. However, this scheme carries significant limitations: composition dealers cannot claim input tax credit, cannot engage in interstate trade, and cannot sell through e-commerce platforms.

the composition scheme represents a form of "second-class economic citizenship" offering relief from compliance burdens but restricting market participation. Traders who opt for composition sacrifice growth opportunities, effectively ghettoizing themselves in local markets. This creates a paradoxical situation where the policy designed to help small traders simultaneously limits their economic mobility.

3. Market Integration and Competitiveness:

3.1 The Promise of Unified Markets:

GST's foundational promise was market integration the creation of a common Indian market free from interstate tax barriers. Prior to GST, goods moving across state boundaries faced multiple checkpoints, entry taxes, and complex documentation. The "cascading effect" of taxes-on-taxes increased final prices and distorted competitive relationships between producers in different states.

For MSMEs with aspirations beyond local markets, GST has delivered tangible benefits. Interstate transportation time has reduced significantly as physical checkpoints were replaced with electronic waybills (e-way bills). A manufacturer in Maharashtra can now supply to Tamil Nadu without the days-long delays that previously characterized interstate trade. This temporal compression the reduction of time required for economic exchange—represents a genuine improvement in market integration.

3.2 Uneven Distribution of Competitive Advantage:

However, the fruits of market integration have been unequally distributed. The humanities perspective reveals that competitive advantage in a GST regime accrues disproportionately to firms with specific characteristics: digital literacy, capital for compliance infrastructure, supply chain sophistication, and access to professional expertise.

Small traders lacking these attributes face what we might term "competitive marginalization." For instance, e-invoicing requirements while rational from a tax administration perspective assume that all businesses have access to compatible software, reliable internet, and technical support. A small retailer in a tier-3 city may find themselves unable to compete with larger retailers who can seamlessly integrate e-invoicing into their operations.

The documentation requirements also create barriers. Larger firms can maintain sophisticated inventory management systems that automatically generate GST-compliant invoices and track input tax credits. Small traders, often relying on memory, handwritten records, or informal accounting, struggle with the precision and completeness demanded by GST. This creates an asymmetry where compliance competence becomes a source of competitive advantage, independent of product quality or customer service.

3.3 The E-commerce Transformation:

GST's treatment of e-commerce has profoundly reshaped competitive dynamics. The requirement that e-commerce operators collect tax at source (TCS) and that sellers be GST-registered has accelerated formalization but also marginalized informal traders. Platforms like Amazon, Flipkart, and Meesho now dominate retail, but selling through these platforms requires GST registration, digital literacy, and the ability to navigate platform-specific compliance requirements.

For traditional small traders, this represents a cultural as well as economic transformation. The marketplace is no longer a physical space of face-to-face negotiation but a digital interface governed by algorithms, ratings, and platform policies. Traders who cannot adapt to this new marketplace culture find themselves increasingly irrelevant, despite decades of experience and community trust.

3.4 Regional Disparities in Market Integration:

Market integration under GST has not been uniform across regions. States with better infrastructure, higher digital penetration, and more proactive business support services have benefited more from GST's market-unifying effects. Conversely, regions with weaker infrastructure particularly in eastern and central India have experienced slower integration, with small traders in these areas continuing to face logistical and compliance challenges.

This regional disparity has cultural implications. It reinforces existing geographical hierarchies, where traders in economically advanced regions accumulate advantages while those in less developed regions face compounded disadvantages. The humanities lens reveals this as a question of spatial justice: who benefits from economic reform, and who bears its costs?

4. Access to Credit and Formal Finance

4.1 Formalization and Transaction Visibility:

One of GST's most significant contributions to MSMEs has been the formalization of economic transactions. Every GST-compliant sale generates a digital trail, creating visibility into business turnover, customer relationships, and cash flow patterns. This visibility, from a financial perspective, offers a foundation for credit assessment that previously did not exist for many informal enterprises.

Banks and non-banking financial companies (NBFCs) can now access GST data to evaluate creditworthiness, reducing reliance on traditional collateral-based lending. Several banks have introduced GST-backed loans, where GST return filings serve as primary evidence of business viability. The Central Bank of India's "Cent GST Loan," for instance, explicitly targets GST-registered businesses, offering timely finance based on GST compliance history.

4.2 The Persistence of Credit Constraints:

Despite this potential, access to formal credit remains constrained for many MSMEs and small traders. The humanities perspective illuminates several intersecting barriers:

Bookkeeping Gaps: GST formalization assumes that businesses maintain accurate books of accounts. However, many small traders continue to operate with informal record-keeping habits, creating gaps between their actual business performance and their GST records. Banks, unable to reconcile GST data with ground realities, remain cautious.

Collateral Shortfalls: Traditional lending practices still emphasize collateral land, property, or assets as primary security. MSMEs, particularly micro enterprises, often lack such assets. While GST data can supplement credit assessment, it rarely replaces collateral requirements entirely, especially for larger loan amounts.

Stringent Underwriting: Financial institutions, wary of non-performing assets in the MSME sector, have adopted conservative underwriting practices. The formalization of transactions has not automatically translated into faster or easier credit approval. Application processes remain complex, documentation requirements extensive, and approval timelines lengthy.

4.3 The Continued Dominance of Informal Finance:

Consequently, many small traders continue to rely on informal finance moneylenders, family loans, (rotation) savings groups (chit funds), and trader-to-trader credit. These sources, while costly (with interest rates often exceeding 24% annually), offer advantages that formal finance does not: speed, flexibility, minimal documentation, and social enforcement mechanisms grounded in community relationships.

From a humanities perspective, informal finance is not merely a "second-best" option but a culturally embedded practice. Moneylenders are often community members who understand local business cycles, seasonal variations, and personal circumstances. The social relationships underlying informal credit provide not just financial accommodation but also social safety nets during economic distress. GST-driven formalization, by devaluing these informal practices without providing adequate formal alternatives, risks eroding social capital without delivering commensurate economic benefits.

4.4 The Psychology of Formal Credit:

Access to formal finance also involves psychological dimensions. Many small traders harbour distrust of formal financial institutions, viewing banks as bureaucratic, exigent, and unfriendly. This distrust is grounded in lived experiences: loan applications rejected without clear explanation, relationships with bank officers that feel hierarchical and demeaning, and fear of legal consequences for minor irregularities.

GST formalization, by making transactions more visible, also increases the perceived risk of engaging with formal finance. Traders worry that any discrepancy between their GST records and their actual financial situation could lead to penalties, legal action, or blacklisting. This caution, while rational from a risk-management perspective, perpetuates reliance on informal finance and limits the potential benefits of GST-driven formalization.

5. Humanities Interpretation: GST as Cultural and Institutional Transformation

5.1 Economic Citizenship and Subjectivity:

GST is not merely a tax reform but a transformation of economic citizenship. The reform redefines what it means to be a legitimate economic actor in contemporary India. GST registration becomes a marker of legitimacy, a form of economic identity that distinguishes "formal" from "informal" enterprises.

This redefinition has profound implications for subjectivity how small traders understand themselves and their place in the economy. Traders who successfully navigate GST compliance may experience enhanced economic agency, feeling recognized as legitimate participants in the national economy. Those who struggle may experience alienation, viewing themselves as excluded from the economic mainstream despite their continued economic activity.

5.2 Everyday Practices of Trade:

GST has reshaped the everyday practices of trade the routines, rituals, and relationships that constitute commercial life. The morning ritual of checking the GST portal, the weekly routine of filing returns, the monthly practice of reconciling input tax credits these have become embedded in the temporal rhythms of small business life.

The relational dimensions have also shifted. The trust-based relationships between trader and customer, trader and supplier, once grounded in informal understandings, now require formal documentation. The handshake agreement is insufficient; invoices, e-way bills, and digital records become necessary. This transformation is not merely procedural but cultural, altering the texture of economic relationships.

5.3 Institutional Memory and Cultural Discontinuity:

For many small traders, GST represents a cultural discontinuity a break from familiar practices accumulated over generations. Older traders, who learned their craft in a pre-GST economy, must now navigate a system that operates on different logics. This creates what we might call "institutional dissonance" a gap between inherited economic knowledge and new institutional requirements.

The cultural cost of this discontinuity includes the devaluation of traditional knowledge, the marginalization of experienced traders, and the erosion of intergenerational transmission of commercial wisdom. Younger, digitally literate family members often become gatekeepers of GST compliance, reversing traditional authority structures within family businesses.

6. Policy Recommendations

6.1 Simplified Compliance Procedures:

Policy interventions should prioritize simplification of compliance procedures for small enterprises:

- **Tiered compliance requirements:** Tiered compliance honours small traders' everyday commercial rhythms with lighter documentation, recognizing that uniform bureaucratic demands marginalize workers whose inherited trade wisdom does not match standardized institutional templates.
- **Extended filing frequencies:** Allow quarterly or annual filings for businesses below specified turnover thresholds.
- **Simplified return formats:** Develop streamlined return forms specifically for small traders.

6.2 Calibrated Thresholds and Incentives:

- **Revision of thresholds:** Adjust composition scheme thresholds upward to encompass more small enterprises.
- **Incentives for compliance:** Provide tax credits or rebates for consistent, timely compliance.
- **Penalty flexibility:** Implement graduated penalty structures that account for first-time infractions and small enterprises.

6.3 Digital-Literacy Support:

- **Government-sponsored training:** Establish GST compliance centres in market clusters offering free training and support.
- **Regional language support:** Develop GST portal interfaces and guidance materials in regional languages.
- **Peer-learning networks:** Facilitate knowledge-sharing among successfully compliant small traders

6.4 Credit Products Linked to GST Records:

- **GST-based credit scoring:** Develop credit scoring models that weight GST compliance history heavily
 - **Collateral-free loans:** Expand collateral-free loan schemes specifically for GST-compliant MSMEs
 - **Simplified loan applications:** Create streamlined loan application processes leveraging GST data
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7. Conclusion:

The impact of GST on MSMEs and small traders is multifaceted, producing both opportunities and constraints that vary across social, spatial, and economic contexts. Compliance challenges impose disproportionate administrative burdens on micro enterprises, creating procedural barriers that translate into time poverty and higher operating costs. Market integration has improved where GST eliminated cascading taxes, yet digital compliance requirements have redistributed competitive advantage toward better-capitalized firms. Formalization has enhanced transaction visibility, offering foundations for credit access, but persistent gaps in bookkeeping, collateral shortfalls, and conservative underwriting continue to restrict formal finance access.

GST's effects extend beyond economics into cultural and institutional realms. The reform reshapes economic citizenship, everyday practices of trade, and intergenerational transmission of commercial knowledge. Policy interventions must address not only economic metrics but also cultural and institutional dimensions, ensuring that structural reforms translate into inclusive growth rather than marginalization.

The ultimate measure of GST's success will not be tax revenue collected or compliance rates achieved, but whether small traders those who constitute the economic backbone of India can flourish within the new regulatory order. This requires recognizing them not merely as tax subjects but as economic citizens deserving of policies that respect their realities, build on their strengths, and expand their opportunities.

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