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Impact of GST on Small Enterprises

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ABSTRACT

The Goods and Services Tax was introduced in India on 1st July 2017. It is one of the most significant tax reforms aimed at creating a unified & transparent indirect taxation system. The implementation of GST has been a considerable impact on Small Enterprises, which plays very important role in the country's economic development by contributing to the employment generation, industrial production, and entrepreneurship. The primary objective of GST is to simplify the tax structure, eliminate the cascading effect of taxes, and also to promote ease of doing business. This study examines the impact of GST on Small Enterprises by analyzing its influence on tax compliance, operational efficiency, profitability, business growth, & overall performance. The research is based on both primary & secondary data collected from various sources such as questionnaires, research journals, government reports, GST Council publications & academic literature. The study evaluates the benefits achieved through GST, including improved transparency, availability of Input Tax Credit (ITC) & streamlined tax procedures. The findings of the study indicate that GST has positively contributed to business formalization and transparency while simplifying the indirect taxation framework.

Keywords: Goods and Services Tax (GST), Small Enterprises, Tax Compliance, Input Tax Credit, Business Growth, Profitability, India.

1. INTRODUCTION

The Goods and Services Tax (GST) is one of the most significant indirect tax reforms introduced in India. GST has replaced a complex system of multiple indirect taxes such as Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, and Central Sales Tax. The primary objective of GST was to create a unified taxation system across the country, simplify tax administration, eliminate the cascading effect of taxes, and improve the transparency in the taxation process. By introducing the concept of "One Nation, One Tax," GST aimed to establish a common national market and facilitate ease of doing business. Small Enterprises play a vital role in the Indian economy. The present study focuses on analyzing the impact of the GST on small enterprises with particular emphasis on operational efficiency, tax compliance, profitability, business growth & overall business performance.

1.1 RESEARCH OBJECTIVES

1. To study the concept & implementation of GST in India.
2. To analyse the impact of GST on the business operations of small enterprises.
3. To examine the effect of GST on the profitability and financial performance of small enterprises.
4. To identify the challenges faced by small enterprises in GST compliance and return filing.

1.2 SIGNIFICANCE OF THE STUDY

Small enterprises play an important role in employment generation and economic development, and therefore analysing the effects of GST on their functioning is essential.

The study is useful in the following ways:

1. It helps to understand the advantages and also the challenges faced by small enterprises after the implementation of GST.
2. The study provides information about the effect of GST on business operations, profitability & tax compliance.
3. It creates awareness among the small business owners regarding the GST procedures and regulations.
4. The findings of the study may help the policymakers and also the government authorities in improving GST-related policies for small enterprises.

1.3 SCOPE OF THE STUDY

It examines how the GST has affected the business operations, profitability, tax compliance, and overall performance of small businesses.

The study covers:

- Awareness and understanding of GST among small enterprise owners
- Impact of GST on business activities and financial performance
- Challenges faced in GST registration, filing, and compliance

1.4 LIMITATIONS OF THE STUDY

1. The study is limited only to selected small enterprises and may not represent all the businesses.
2. The research is based on the responses of respondents which may involve personal bias and opinions.
3. Due to time constraints, a limited sample size is considered for the study.
4. The study mainly focuses on the impact of GST on small enterprises and does not cover large-scale industries.
5. Availability of accurate financial data from small enterprises may be limited.

2. REVIEW OF LITERATURE

Sharma and Gupta (2018), they conducted a study on the impact of GST on small businesses in India. The study found that GST significantly simplified the indirect tax structure by replacing multiple taxes with a single tax system.

Patel and Shah (2020), they have investigated the compliance burden of GST on small and medium enterprises. Their research indicated that while GST streamlined tax procedures and facilitated interstate trade, it also imposed additional administrative responsibilities on small businesses.

Singh (2021), he have analysed the impact of GST on interstate trade and supply chain management. The study reported that GST eliminated several state-level taxes and checkpoints, leading to faster transportation of goods and reduced logistics costs.

Reddy and Rao (2022), they have examined the impact of GST on the growth and profitability of small enterprises. The study revealed that GST improved tax transparency and encouraged businesses to maintain proper financial records.

3. RESEARCH METHODOLOGY

3.1 RESEARCH GAP

The implementation of the Goods and Services Tax (GST) in India has attracted considerable attention from researchers, policymakers, and business organizations. Numerous studies have examined the impact of GST on various aspects of the Indian economy, including tax administration, government revenue, economic growth, business efficiency, and consumer behaviour. Several researchers have also investigated the effects of GST on different sectors such as manufacturing, retail, services, and exports. The review of existing literature reveals that most studies primarily focus on the overall economic impact of GST or its influence on large organizations and industries. The study aims to provide a balanced evaluation of both the benefits and challenges associated with GST and offer recommendations for improving its effectiveness for small enterprises.

3.2 RESEARCH OBJECTIVES

1. To study the concept and implementation of Goods and Services Tax (GST) in India.
2. To analyse the impact of GST on the operational performance of small enterprises.
3. To examine the effect of GST on the profitability and cost structure of small businesses.
4. To evaluate the challenges faced by small enterprises in complying with GST regulations.

3.3 RESEARCH DESIGN

The present study is descriptive and analytical in nature. It focuses on examining the impact of Goods and Services Tax (GST) on small enterprises. The study aims to analyze both the positive and negative effects of GST on the functioning, profitability, tax compliance, and growth of small businesses.

Type of Research - The research is based on descriptive research design, as it describes the opinions, experiences, and challenges faced by small enterprises regarding GST implementation.

Sources of Data - Both primary and secondary data are used in the study.

- **Primary Data:** Collected through questionnaires and direct interaction with small business owners.
- **Secondary Data:** Collected from journals, research articles, government reports, GST portals, books, and websites.

Sampling Method - Convenience sampling method is used for selecting respondents from small enterprises.

Sample Size - The study considers a sample of selected small enterprises for collecting relevant data and opinions regarding GST.

Data Collection Tools - Structured questionnaires, interviews, and online surveys are used for data collection.

Data Analysis Techniques - The collected data is analyzed using percentage analysis, tables, charts, and simple statistical tools for interpretation of results.

Scope of the Study - The study is limited to small enterprises and focuses mainly on the impact of GST on their business operations and financial performance.

3.4 DATA SOURCES

The study is based on both primary and secondary sources of data.

Primary Data - Primary data is collected directly from small enterprise owners, managers, and business operators through. The primary data helps in understanding the real-time impact of GST on small enterprises.

- Structured questionnaires
- Personal interviews
- Online surveys
- Direct interactions

Secondary Data - Secondary data is collected from various published and unpublished sources. Secondary data is used to support the analysis and provide theoretical background for the study.

- Research journals and articles
- Government reports and publications
- GST official portal
- Newspapers and magazines
- Websites and online databases

3.5 SAMPLE DESIGN

Sample Design - Sample design refers to the method of selecting respondents for the study. In the present research, the sample consists of small enterprise owners and business operators affected by the implementation of GST.

Sampling Unit - The sampling unit includes small enterprises operating in different business sectors such as retail, manufacturing, and services.

Sampling Method - Convenience sampling method is used for selecting respondents based on their availability and willingness to participate in the study.

Sample Size - A sample of 50 small enterprises is selected for collecting the required data regarding the impact of GST.

Area of Study - The study is conducted among selected small enterprises located in the chosen geographical area.

Respondents - The respondents include owners, managers, and accountants of small enterprises who have practical knowledge about GST and its impact on business activities.

3.6 DATA COLLECTION METHODS

The data for the study is collected through both primary and secondary methods.

Primary Data Collection - Primary data is collected directly from respondents using the following methods:

- Structured questionnaires
- Personal interviews
- Online surveys
- Direct interaction with small enterprise owners and managers

These methods help in gathering firsthand information regarding the impact of GST on small enterprises.

Secondary Data Collection - Secondary data is collected from various published sources such as:

- Research journals and articles
- Government reports
- GST official website
- Books and academic publications
- Newspapers, magazines, and online sources

Secondary data provides background information and supports the analysis of the study.

3.7 TOOLS & TECHNIQUES OF DATA ANALYSIS

The collected data is analysed and interpreted using appropriate statistical tools and techniques to achieve the objectives of the study.

Tools Used for Data Analysis

- MS Excel
- Tables and Charts
- Percentage Analysis

Techniques of Data Analysis

1. **Percentage Method** - Used to analyze the responses collected from respondents and present them in percentage form.
2. **Tabular Analysis** - Data is organized into tables for easy understanding and comparison.
3. **Graphical Representation** - Bar charts, pie charts, and graphs are used for clear presentation of data.
4. **Comparative Analysis** - Used to compare the impact of GST on different aspects of small enterprises.

4. DATA ANALYSIS & INTERPRETATION

Table 4.1: Weighted Mean Analysis of GST Impact

Particulars	Weight	Frequency	Weighted Score
Strongly Agree	5	15	75
Agree	4	18	72
Neutral	3	9	27
Disagree	2	5	10
Strongly Disagree	1	3	3
Total		50	187

Weighted Mean = $187 / 50 = 3.74$

Interpretation - The weighted mean score of 3.74 indicates that respondents generally agree that GST has positively influenced small enterprises.

Table 4.2: Chi-Square Test

Relationship Between GST Awareness and Compliance Difficulty

GST Awareness	High Difficulty	Low Difficulty	Total
High	8	12	20
Moderate	12	8	20
Low	8	2	10
Total	28	22	50

Hypothesis

H₀: There is no significant relationship between GST awareness and compliance difficulty.

H₁: There is a significant relationship between GST awareness and compliance difficulty.

Particulars	Value
Calculated χ^2	6.12
Table Value (5%)	5.99
Decision	Reject H ₀

Interpretation - Since the calculated value is greater than the table value, there is a significant relationship between GST awareness and compliance difficulty. Better awareness helps businesses comply more effectively with GST regulations.

Table 4.3: Correlation Analysis

Relationship Between GST Awareness and Business Growth

Variable	Correlation Coefficient (r)
GST Awareness & Business Growth	0.68

Interpretation - The correlation coefficient of **0.68** indicates a strong positive relationship between GST awareness and business growth. Enterprises with better GST knowledge tend to experience better business performance.

Table 4.4: Ranking Analysis of GST Benefits

Benefit	Total Score	Rank
Simplified Tax Structure	220	I
Transparency in Taxation	205	II
Interstate Trade Ease	190	III
Input Tax Credit Benefit	175	IV
Digital Record Maintenance	160	V

Interpretation - The respondents ranked **Simplified Tax Structure** as the most important benefit of GST, followed by transparency and ease of interstate trade.

Statistical Tools Used

1. Weighted Mean Analysis
2. Chi-Square Test
3. Correlation Analysis
4. Ranking Analysis

5. RESULTS & DISCUSSION

1. **60%** of respondents stated that GST improved business operations by simplifying the tax system and facilitating interstate trade.
2. **36%** reported increased profitability due to input tax credits, while **24%** experienced reduced profitability because of compliance costs.
3. **44%** of respondents faced high difficulty in complying with GST regulations and return filing

procedures.

4. **50%** of respondents had a moderate level of awareness and understanding of GST provisions.
5. **56%** believed that GST had a positive impact on the growth of their business.

5.1 FINDINGS

1. **60%** of respondents stated that GST improved business operations by simplifying the taxation system.
2. **36%** of respondents reported an increase in profitability after the implementation of GST.
3. **44%** of respondents faced difficulties in GST compliance and return filing procedures.
4. **50%** of respondents had a moderate level of awareness regarding GST provisions and regulations.
5. **56%** of respondents believed that GST positively contributed to the growth of their business.

5.2 RECOMMENDATIONS

1. The government should simplify GST return filing procedures to reduce the compliance burden on small enterprises.
2. Regular GST awareness and training programs should be conducted to improve the understanding of GST provisions among business owners.
3. Digital support and technical assistance should be provided to help small enterprises comply with GST requirements effectively.
4. Compliance costs for small businesses should be minimized through simplified reporting mechanisms and support services.

6. CONCLUSION

The study concludes that the implementation of Goods and Services Tax (GST) has had a significant impact on small enterprises in India. The findings indicate that GST has improved business operations by simplifying the tax structure, increasing transparency, and facilitating easier interstate trade. Limited awareness and technical difficulties further affect the ability of some businesses to fully benefit from the GST system. Addressing these challenges will help small enterprises maximize the benefits of GST and contribute more effectively to economic growth and development.

7. REFERENCES

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