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Impact of GST on Small Businesses

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ABSTRACT: This study examines the impact of the Goods and Services Tax (GST) on small businesses in India, focusing on financial performance, compliance burden, and awareness levels. Despite GST being introduced to simplify the indirect tax system, its practical implications for small enterprises remain complex and uneven. The research adopts a quantitative approach based on primary data collected from 62 small business owners across retail, service, and manufacturing sectors.

The findings indicate that while GST has contributed to increased formalization and improved transparency, it has also imposed significant compliance challenges, particularly for businesses with limited digital and administrative capabilities. The results reveal no statistically significant relationship between GST awareness and compliance difficulty, but a strong association between dependence on external support and perceived compliance burden. Additionally, business type significantly influences perceptions of GST's organizational benefits.

Overall, the study highlights the dual nature of GST as both a reformative and burdensome system for small enterprises. The findings suggest the need for simplified compliance procedures, enhanced awareness programs, and targeted policy support to improve GST effectiveness for small businesses.

KEYWORDS: GST, small businesses, compliance burden, financial impact, tax reform, India

I. INTRODUCTION

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017 marked a significant reform in the country's indirect taxation system. It replaced multiple cascading taxes with a unified tax structure, aiming to improve efficiency, transparency, and compliance. While GST has been widely acknowledged as a transformative policy, its impact has varied significantly across different segments of the economy.

Small businesses, which form a crucial part of India's economic structure, have experienced both opportunities and challenges under GST. Unlike large corporations, small enterprises often operate with limited financial resources, minimal administrative support, and lower levels of digital literacy. These constraints make adapting to GST requirements—such as online return filing, invoice matching, and compliance tracking—particularly difficult.

Although existing literature has examined GST from macroeconomic and policy perspectives, there remains a gap in understanding its ground-level impact on small business operations. This study seeks to bridge that gap by analysing how GST affects financial performance, compliance burden, and awareness among small business owners.

II. LITERATURE REVIEW

Previous studies have highlighted both the benefits and challenges associated with GST implementation. Sharma (2018) found that GST initially increased compliance burden for small traders, although long-term benefits were expected. Kumar and Gupta (2019) observed improved transparency but noted rising compliance costs for small manufacturers.

Rao (2020) emphasized the challenges in accessing input tax credit (ITC), particularly for informal businesses. Mehta (2021) identified low awareness levels as a major issue affecting compliance accuracy. Singh and Kaur (2022) highlighted GST's role in promoting business formalization, while Patel and Mehra (2023) discussed limitations of the Composition Scheme.



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Recent studies such as Shacheendran (2024) and Gupta and Sharma (2025) point toward a dual impact of GST—enhancing transparency while increasing operational complexity. However, most studies rely on secondary data or focus on larger enterprises, leaving a gap in primary-data-based research on small businesses.

III. RESEARCH OBJECTIVES AND HYPOTHESES

Objectives

- To assess GST awareness among small business owners
- To analyse the financial impact of GST
- To evaluate compliance burden under GST
- To examine differences based on business type and size

Hypotheses

- **H1:** GST awareness significantly affects compliance performance
- **H2:** GST has a significant impact on financial performance
- **H3:** Compliance burden differs between GST schemes
- **H4:** Business type influences GST outcomes

IV. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design using primary data collected through a structured questionnaire. A total of 62 small business owners were selected using convenience sampling.

The questionnaire covered:

- Business profile
- GST awareness
- Financial impact
- Compliance burden
- Perceptions of GST

Statistical tools used include:

- Percentage analysis
- Mean and standard deviation
- Chi-square test
- Correlation analysis

V. RESULTS AND DISCUSSION

The findings reveal several important insights:

- **Demographics:** Majority of respondents were aged 25–35, indicating a young entrepreneurial base
- **Business Type:** Retail businesses dominated the sample (56.5%), followed by services and manufacturing

Key Findings

✓ Awareness vs Compliance:

No significant relationship found ($p > 0.05$)

✓ Financial Impact:

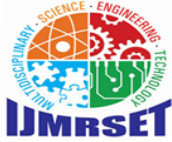
Mixed results; no statistically strong evidence but indications of working capital stress

✓ Business Type Influence:

Significant relationship found ($p < 0.05$), especially in perceived organizational benefits

✓ Dependence on External Support:

Strong positive correlation ($r = 0.393$), indicating higher perceived difficulty



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VI. DISCUSSION

The results suggest that GST has a **dual impact** on small businesses. While it enhances transparency and encourages formalization, it also introduces operational complexity.

Small businesses with limited resources face greater challenges in adapting to digital compliance systems. The lack of strong correlation between awareness and compliance suggests that knowledge alone is insufficient—practical support and system simplification are equally important.

VII. MANAGERIAL IMPLICATIONS

- Simplify GST compliance procedures for small businesses
- Increase awareness through targeted training programs
- Provide subsidies for digital tools and accounting support
- Improve accessibility of ITC mechanisms

VIII. LIMITATIONS AND FUTURE RESEARCH

- Small sample size (n = 62)
- Limited geographic scope
- Cross-sectional design
- Larger and more diverse samples
- Longitudinal studies
- Sector-specific analysis

IX. CONCLUSION

This study highlights that GST has significantly influenced small businesses in India, with both positive and negative outcomes. While it has improved transparency and encouraged formalization, it has also increased compliance burden and financial strain for many small enterprises.

The effectiveness of GST for small businesses depends on continuous policy refinement, improved awareness, and stronger support systems.

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