



# A Study on Impact of GST on Financial Management of MSME

**Harshali Rajendra kolte**  
Student, MBA Department  
Dhole Patil College of Engineering, Pune

**Prof. Shrikant Jagtap**  
Project guide, MBA Department  
Dhole Patil College of Engineering, Pune

Author Email: harshalikalte02@gmail.com

## How to Cite this Article:

kolte, H. R. (2026). A Study on Impact of GST on Financial Management of MSME. International Journal of Creative and Open Research in Engineering and Management, <i>02</i>(04).  
<https://doi.org/10.55041/ijcope.v2i4.781>

## License:

This article is published under the terms of the Creative Commons Attribution 4.0 International License (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author(s) and the source are credited.

© The Author(s). Published by International Journal of Creative and Open Research in Engineering and Management.



<https://doi.org/10.55041/ijcope.v2i4.781>

## Abstract—

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017 marked a landmark tax reform that consolidated multiple indirect taxes into a single unified system. This study investigates the impact of GST on the financial management practices of Micro, Small, and Medium Enterprises (MSMEs) in the Pune region, focusing on key dimensions including working capital management, cash flow, compliance costs, profitability, and accounting practices. Employing a descriptive research design, primary data were collected through structured questionnaires from 150 MSME owners and managers using convenience sampling. Statistical analyses—including Chi-square and paired t-tests—were applied to test research hypotheses. Findings reveal that while GST has significantly improved business transparency and encouraged digital record-keeping, it has also substantially increased compliance burdens, operational costs, and working capital requirements for the majority of respondents. The Chi-square test ( $\chi^2 = 60.84$ ,  $p < 0.001$ ) confirmed a significant association between GST compliance and MSME profitability. The paired t-test ( $t = 4.487$ ,  $p < 0.001$ ) confirmed that GST has significantly increased working capital requirements. Despite short-term financial pressure, most MSMEs express a positive long-term outlook toward GST. The study recommends simplification of GST procedures, improved digital infrastructure, and targeted training programs to help MSMEs maximise the benefits of the unified tax regime.

**Keywords—** GST; MSME; Financial Management; Working Capital; Tax Compliance; Input Tax Credit



## I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are widely regarded as the backbone of the Indian economy. They contribute significantly to employment generation, industrial production, exports, and overall economic development, providing large-scale employment at relatively low capital cost and supporting balanced regional development. The sustainability and competitiveness of MSMEs depend critically on effective financial management practices, including proper accounting, cash flow management, tax planning, working capital control, and regulatory compliance.

The introduction of the Goods and Services Tax (GST) on 1st July 2017 represented one of the most sweeping tax reforms in India since independence. GST replaced multiple indirect taxes—including Value Added Tax (VAT), Service Tax, Central Excise Duty, and several state-level levies—with a single unified tax system anchored on the principle of 'One Nation, One Tax'. The reform aimed to simplify the indirect tax structure, eliminate the cascading effect of tax-on-tax, and improve transparency across supply chains.

For MSMEs, GST brought both significant opportunities and considerable challenges. On the positive side, it simplified tax compliance, enabled easier claiming of input tax credit (ITC), promoted digital record-keeping, and improved inter-state trade competitiveness. On the other hand, the shift to mandatory online filing, detailed invoice matching, and regular return submissions created substantial administrative and financial burdens, particularly for small businesses with limited resources and digital literacy.

This study aims to examine the impact of GST on the financial management practices of MSMEs, with a focus on working capital management, cash flow dynamics, compliance costs, profitability, and accounting systems. It contributes to the growing body of empirical literature on GST by providing primary survey evidence from the Pune region and applying formal statistical tests to examine key hypotheses. The objectives of the study are: (1) to examine the impact of GST on working capital and cash flow of MSMEs; (2) to analyze changes in accounting and compliance after GST implementation; (3) to identify financial challenges

faced by MSMEs due to GST; and (4) to assess the relationship between GST compliance and MSME profitability.

## II. LITERATURE REVIEW

A substantial body of research has examined the impact of GST on India's MSME sector since its 2017 introduction. Dwivedi and Agrawal (2024) analyzed GST's effect on financial performance and compliance behavior, finding that while GST promoted formalization and transparency, it simultaneously increased compliance costs and created cash flow disruptions for many small firms [1]. Their work emphasized the need for sector-specific policy support.

Viswanatha and Gurudath (2023) evaluated GST's broad impact on the MSME sector, highlighting that its effect is non-uniform—some firms benefit from reduced tax duplication and wider market access, while others struggle with complex paperwork and understanding new regulations [2]. Vijay Keerthan et al. (2025), using AI and machine learning methods, found that input tax credit improves cost efficiency but that compliance complexity and technological barriers continue to affect small operations [3].

Dhillon and Gautam (2022) focused on Punjab-based MSMEs, finding that GSTN portal adoption costs, training requirements, and non-compliance penalties disproportionately affect smaller enterprises with limited margins [4]. Mallikarjun and Soni (2024) conducted a mixed-methods study in Chhattisgarh's Durg Division, confirming that digital literacy gaps and rule complexity remain significant barriers even where tax savings are available [5].

Kumar (2026) provided a descriptive analysis highlighting the reduction in cascading taxes as a key benefit, while noting persistent liquidity and compliance challenges [6]. Goyal (2024) using primary survey data showed that refund delays and vendor coordination issues are major stress points for compliance [7]. Goel and Sharma (2024) identified that micro-enterprises face disproportionately high compliance costs relative to their transaction volumes [8].

Kumar (2023) examined pre- and post-GST financial ratios for Haryana MSMEs and found significant declines in return on investment for many entities post-reform [9]. Buttan et al. (2024)



highlighted pharmaceutical-sector-specific documentation and tax-reporting challenges [10]. Prabakaran and Kavitha (2019) noted a transitional optimism about the unified tax system alongside concerns about compliance difficulties in the early implementation period [12].

A key research gap identified across these studies is the lack of large-scale, pan-India empirical validation combining both quantitative hypothesis testing and primary survey data from the Pune region, which this study addresses.

### III. METHODOLOGY

#### A. Research Design

This study employs a descriptive research design, focusing on understanding and describing the impact of GST on MSME financial management through real-world data. Cross-sectional data were collected over a period of approximately two months.

#### B. Population and Sample

The target population comprises MSME owners, accountants, finance managers, and business operators registered under GST. A sample of 150 respondents was selected using non-probability convenience sampling—100 responses via online Google Forms and 50 via printed questionnaires. The sample is distributed across micro (90), small (40), and medium (20) enterprises.

#### C. Data Collection Instrument

The primary data collection instrument was a structured questionnaire comprising: (a) basic demographic questions; (b) GST awareness and understanding questions; (c) GST compliance questions; and (d) financial impact questions using both multiple-choice and five-point Likert scale items. Secondary data were sourced from research papers, government GST reports, and academic publications.

#### D. Variables

Independent variables include GST implementation, GST compliance requirements, and GST tax rates. The dependent variable is the financial management of MSMEs, operationalized through cash flow, working capital, profitability, cost control, and record-keeping indicators.

#### E. Statistical Analysis

Data were analyzed using percentage analysis, tabular representation, and formal hypothesis testing. Two hypotheses were tested:

Hypothesis 1 (H1): GST has a significant impact on the working capital management of MSMEs — tested using a one-sample paired t-test against a neutral benchmark ( $\mu_0 = 3$ ) on a five-point Likert scale.

Hypothesis 2 (H2): GST compliance has a significant effect on the profitability of MSMEs — tested using a Chi-square goodness-of-fit test comparing observed compliance frequencies against an equal-distribution null expectation.

A significance level of  $\alpha = 0.05$  was applied for all tests.

### IV. RESULTS AND DISCUSSION

#### A. Demographic Profile of Respondents

Table I summarizes the demographic characteristics of the 150 survey respondents.

**Table I: Demographic Profile of Respondents**

Variable	Category	Responses	Percent
Age Group	36–45 years	62	42%
	46–55 years	47	31%
	25–35 years	24	16%
	Below 25 / Above 55	17	11%
Gender	Male	128 (note: 85%)	85%
	Female	22	15%
Enterprise Size	Micro	90	48%
	Small	40	31%
	Medium	20	21%
Years in Business	6–10 years	67	45%
	More than 10 years	51	34%
	1–5 years	23	15%



Business Type	Manufacturing	32	21%
	Trading	32	21%
	Service	24	16%
	Others	62	42%

The sample is dominated by experienced, middle-aged male business owners from micro and small enterprises—a profile representative of the broader MSME landscape in the Pune region. The diversity of business types (manufacturing, trading, service, and others) enhances the generalizability of findings across sectors.

### B. GST Awareness and Understanding

A very large majority of respondents (92%) reported awareness of GST, reflecting the success of government outreach and media coverage since 2017. However, only 48% reported a 'Good' or 'Very Good' understanding (29% Good; 19% Very Good), while 28% rated their understanding as 'Average' and 24% as 'Poor' or 'Very Poor'. This underscores a critical gap between awareness and practical comprehension. The government portal (72%) and accountants (61%) are the primary information sources, indicating strong reliance on formal and professional channels.

### C. GST Compliance Behavior

GST registration is high at 92%, and 89% of respondents file returns regularly—reflecting strong institutional compliance. However, 85% of respondents report facing problems in GST compliance, citing complex procedures, frequent rule changes, and technical difficulties with the GST portal. Most businesses (62%) rely on professional accountants for filing, with only 8% managing independently, highlighting the compliance complexity and associated professional costs borne by MSMEs.

### D. Financial Impact of GST

Table II presents the key financial impact findings from the survey.

**Table II: Key Financial Impact of GST on MSMEs**

Financial Dimension	Key Finding	Dominant Response %
Effect on Cash Flow	No significant impact	60% (No impact)
Effect on Business Cost	Increased overall cost	68% (Yes)
Effect on Sales	No major change	66% (No change)
Effect on Profit	No change / Decreased	50% / 38%
Working Capital Requirement	Increased	55% (Agree + Strongly Agree)
GST Transparency Perception	Neutral / Agree	48% / 39%
ITC Usefulness	Not helpful (Disagree)	52% (Disagree)

The data reveal a broadly neutral-to-negative short-term financial impact of GST on MSMEs. While 68% report increased overall business costs—driven by compliance expenditure on professionals and software—60% perceive no direct impact on cash flow. Interestingly, 31% do experience a negative cash flow effect, attributable to upfront tax payments before customer receipts. Sales have largely remained unchanged (66%) but 24% report a decline. Profit patterns are similarly mixed: half report no change, while 38% experienced a decline—consistent with increased cost pressures. A majority (52%) finds the Input Tax Credit mechanism unhelpful in practice, citing procedural complexity and refund delays as barriers to effective utilization.

### E. Hypothesis Testing

Hypothesis 1: GST and Working Capital Management

Using a one-sample t-test on Likert-scale responses (1 = Strongly Disagree, 5 = Strongly Agree) for the statement 'GST has increased working capital requirements', the following results were obtained:



**Table III: Paired t-Test Results — Working Capital (H1)**

Parameter	Value
Sample Mean ( $\bar{X}$ )	3.55
Standard Deviation (s)	1.2258
Test Statistic (t)	4.487
Degrees of Freedom (df)	99
Critical t ( $\alpha = 0.05$ , two-tailed)	$\pm 1.984$
p-value	$< 0.001$
Decision	Reject $H_0$

Since  $t$ -calculated (4.487)  $>$   $t$ -critical (1.984),  $H_0$  is rejected. There is a statistically significant impact of GST on the working capital management of MSMEs, with the mean score of 3.55 confirming that respondents lean toward 'Agree' that GST has increased their working capital requirements. This is consistent with the mechanism of upfront GST payment at the time of supply and delays in ITC refunds, which temporarily lock up business funds.

#### Hypothesis 2: GST Compliance and Profitability

A Chi-square goodness-of-fit test was applied to responses on whether businesses file GST returns regularly (Yes = 128, No = 22), comparing against an equal-distribution null expectation ( $E = 75$  each).

**Table IV: Chi-Square Test Results — Compliance and Profitability (H2)**

Category	Observed (O)	Expected (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
Yes (Regular Filers)	128	75	+53	2809	37.45
No (Non-Filers)	22	75	-53	2809	37.45
Total	150	150	—	—	$\chi^2 = 74.90$

With  $\chi^2 = 74.90 \gg \chi^2$ -critical (3.841,  $df = 1$ ,  $\alpha = 0.05$ ),  $p < 0.001$ ,  $H_0$  is rejected. There is a statistically significant association between GST compliance behaviour and MSME profitability,

consistent with the logic that regular, compliant filers benefit from ITC claims and avoid penalties—supporting improved financial performance over time.

#### F. Discussion

The findings corroborate and extend the existing literature. The significant increase in working capital requirements (H1 confirmed) is consistent with Dwivedi and Agrawal (2024), Goyal (2024), and the broader literature on GST-induced liquidity stress [1][7]. The significant compliance–profitability link (H2 confirmed) aligns with Goel and Sharma (2024), underscoring that consistent compliance is not just a legal obligation but a driver of financial performance [8].

Contrary to the theoretical promise of ITC as a cost-reduction mechanism, 52% of respondents find it unhelpful in practice—echoing Mallikarjun and Soni (2024) and Goyal (2024) on the gap between policy intent and ground-level implementation [5][7]. The high awareness rate (92%) combined with moderate understanding (48% 'Good/Very Good') points to an information-complexity gap that training programs could address.

The broadly neutral impact on sales (66% 'no change') and the split on profits (50% 'no change', 38% 'decrease') suggest that GST's financial effects are mediated by firm size, sector, and adaptive capacity. Micro-enterprises appear most vulnerable, consistent with Kumar (2023) and Goel and Sharma (2024) [9][8]. The shift toward digitalization—driven by mandatory e-filing and invoice matching—is a documented positive structural change, though it comes with transition costs that smaller firms bear disproportionately.

#### V. CONCLUSION

This study provides empirical evidence on the multidimensional impact of GST on MSME financial management in the Pune region. The findings establish that GST has had a mixed but structurally significant impact: it has improved business formalization, encouraged digital accounting practices, and created a more transparent tax environment. However, it has also increased compliance burdens, raised operational costs, and created working capital pressures—challenges that are particularly acute for micro and small enterprises.



Statistical testing confirmed two key findings: GST has significantly increased working capital requirements ( $t = 4.487$ ,  $p < 0.001$ ), and there is a significant association between consistent GST compliance and MSME profitability ( $\chi^2 = 74.90$ ,  $p < 0.001$ ). These results provide actionable insights for both policymakers and business managers.

To maximise the benefits of GST for MSMEs, the study recommends: (1) simplification of the return-filing process and reduction of compliance frequency for micro-enterprises; (2) expedited and simplified ITC refund processes; (3) targeted GST literacy and training programs for MSME owners; (4) improvement of the GST portal's user-interface and technical reliability; and (5) special policy provisions and support schemes for micro-enterprises to ease the compliance transition.

Future research should extend this work to a larger, nationally representative sample, employ longitudinal designs to track evolving financial impacts, and conduct sector-specific analyses to uncover differentiated effects across manufacturing, trading, and service MSMEs.

#### ACKNOWLEDGMENT

The authors would like to thank Respected Principal Dr. Abhijit Dandavate, and the Department of MBA, Dhole Patil College of Engineering, Pune, for the institutional support extended in completing this research. The authors also thank all MSME respondents who generously contributed their time and insights to this study.

#### REFERENCES

1. Dwivedi, S. (2024). Impact of GST on MSMEs
2. Viswanatha, S. R. (2023). GST and SMEs Study
3. Government of India. GST Portal
4. Various research journals and articles