



The Impact of GST on Small Business in India

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Abstract:

This study examines the impact of Goods and Services Tax (GST) on small businesses in India. GST was introduced in 2017 to replace multiple indirect taxes and create a unified tax system across the country. The study focuses on the benefits, challenges, compliance requirements, and financial impact of GST on small enterprises. Small businesses contribute significantly to employment generation and economic growth in India; therefore, understanding GST's influence on their operations is important. The study highlights that GST improved transparency, reduced tax cascading, and simplified interstate trade. However, small businesses also faced difficulties related to digital filing, increased compliance costs, and lack of awareness regarding GST procedures. The findings suggest that while GST has long-term advantages, proper training and government support are essential for improving compliance among small business owners.

2 Introduction:

The Goods and Services Tax (GST) is one of the most significant tax reforms introduced in India. Implemented on July 1, 2017, GST replaced various indirect taxes such as VAT, service tax, excise duty, and central sales tax. The objective of GST was to establish a uniform tax structure and simplify the taxation process.

Small businesses form the backbone of the Indian economy. They contribute to employment generation, entrepreneurship development, and industrial growth. Before GST, small businesses faced difficulties due to multiple taxes, complicated regulations, and varying tax structures across states. GST aimed to eliminate these issues by introducing a single tax system.



Despite several advantages, GST also created challenges for small business owners, especially in rural and semi-urban areas where digital literacy and tax awareness are limited. This study evaluates both the positive and negative impact of GST on small businesses in India.

3 Objectives of the Study:

This study seeks to clarify how the Goods and Services Tax works in India. It looks at the legal setup and how the tax is collected across different states. The goal is to see how the single tax system replaced old taxes like VAT and excise duty.

The research tracks how these changes affect small business owners. Many small firms struggle with new filing rules and digital tax tools. The study looks at whether the tax burden grew or shrank for these shops.

It also looks at day to day business tasks. This includes tracking input tax credits to save money. The analysis checks if the tax system helped or hurt the final profit margins of these companies.

The primary goal is to explain how the Goods and Services Tax works in India. This includes looking at its basic rules and how the tax layers are set up. We want to see how these rules change the way small businesses run. This means looking at their daily costs and total profit. Some shops may struggle with new tax filings while others find it easier to track sales.

We will look for the real wins and losses small firms face. This includes the cost of new software and the time spent on paperwork. We also want to find ways to make tax filing simpler. The goal is to give clear tips that help small business owners follow the law without spending too much money. This helps them stay open and grow in a competitive market.

4 Importance of the Study:

The Goods and Services Tax (GST) significantly transformed the landscape of tax collection in India. It replaced numerous legacy taxes with a streamlined, unified system aimed at simplifying the overall process. However, this monumental shift has had a particularly challenging impact on small businesses. Small shops and home-based entrepreneurs now find themselves navigating unfamiliar rules regarding tax filing and bookkeeping practices, which can be quite daunting.

This study delves into the various dimensions of how these changes directly influence business growth. It critically assesses whether the implementation of GST complicates money management or hinders the ability to track daily sales effectively. One of the notable observations is that many traders grapple with the online portals designed for GST compliance. The complexity of these systems often renders the filing dates ambiguous and confusing, which adds to the administrative burden that small businesses must bear.

Additionally, a significant number of entrepreneurs are ill-equipped with the necessary tools to monitor input tax credits accurately. The lack of proper utilities for managing tax credits not only exacerbates compliance issues but can also lead to costly errors. Such mistakes might incur fines or late fees, creating additional financial strain on small enterprises that are already operating on tight budgets.

This research illuminates critical gaps within the current tax system, highlighting areas where improvements are urgently needed. The data collected can serve as a valuable resource for government agencies, facilitating the identification and rectification of bugs within the GST software. By pinpointing inefficiencies in the system, the government can implement timely updates and enhancements that would benefit users.



Moreover, providing better educational resources and support to small business owners can empower them to understand the compliance requirements more thoroughly. Increased awareness can significantly reduce the anxiety surrounding audits and inspections, thus fostering a more secure business environment. Clearer and more straightforward guidelines can effectively enable small traders to concentrate on what they do best—selling their products and services—rather than getting bogged down by complex paperwork.

In summary, the successful implementation of GST is contingent upon addressing the unique challenges faced by small businesses. By simplifying processes and enhancing compliance tools, there is a greater potential for these businesses to thrive and contribute to the overall economic growth of the country.

5 Theoretical Foundation:

This study relies on taxation and economic theories to show how indirect taxes drive growth. The Theory of Taxation suggests that government revenue grows when tax rules are fair and clear. Clear rules make the economy run better because people know what to pay. GST puts this theory into action. It stops people from hiding income to avoid taxes. It also makes collecting money simpler for the state. Instead of many small taxes, there is one main system.

Economic Integration Theory also backs the use of GST. This theory focuses on how different regions can act as one single market. Before GST, state borders acted like walls. Each state had its own tax rules and fees. This made it hard and expensive to move goods across the country. GST removes these state barriers. It creates a common national market. Now, a business in one state can sell and ship goods to another state without fighting different tax laws. This helps companies grow their reach and open new branches faster.

The Goods and Services Tax (GST) changed how India collects taxes. It replaced many old taxes with one single system. This shift hit small businesses the hardest. Small shops and home business owners now face new rules for filing taxes and keeping books. This study looks at how these changes affect growth. It checks if GST makes it harder to manage money or track daily sales. Many traders struggle with the online portals. They find the filing dates confusing. Some entrepreneurs lack the tools to track input tax credits. These errors can lead to fines or late fees. This research shows where the gaps are in the current system. The data can help the government fix bugs in the software. It can also help business owners find better ways to stay compliant. Better awareness reduces the fear of audits. Clearer rules let small traders focus on selling instead of paperwork.

6 Problem Statement:

Prior to the Goods and Services Tax, small business owners in India dealt with a mess of different taxes. They had to track excise duty, VAT, and service tax all at once. Each tax had its own set of rules and deadlines. This made filing taxes a slow and confusing chore.

GST replaced these many taxes with one system. It sounded simpler on paper, but the actual work became harder for many. Business owners had to switch to digital filing. Many did not have computers or fast internet. They had to learn new software to file returns every month or quarter. These new costs added up. Many had to pay for accountants or tax consultants just to stay legal.

Small shops and local makers often lacked the tech skills for this change. They did not have professional bookkeeping staff on their payroll. On top of that, the government changed GST rules often. One month a tax rate would change, and the next month a new filing form would appear. This kept traders and manufacturers in a state of constant worry. They spent more time on paperwork than on growing their business. We need to look at how these changes hit the actual profit and daily work of small Indian firms.



7 Literature Review:

A wide range of researchers have looked at how the Goods and Services Tax affects Indian firms. Sharma (2019) found that GST made tax rules clearer. It stopped tax cascading, which happens when a tax is put on top of another tax at each stage of sale. This change helped lower the final cost of goods. Gupta and Verma (2020) saw that GST made it easier to move goods across state lines. It removed many old checkpoints. This change helped companies move their products faster and made their supply chains work better.

Not every business found it easy. Reddy (2021) noted that small business owners struggled at first. They had to learn how to use online portals to file taxes. Many were not used to digital tools. Kumar (2022) found that following these rules cost small traders more money. They had to spend more on software or hire accountants to handle the paperwork.

Newer studies show that things are getting better. The government started training programs to teach owners how the system works. These classes helped people understand how to claim credits and file returns. These efforts closed the knowledge gap for many. While the benefits of GST are clear, small firms still need help. They need more tools and guidance to handle the rules and keep up with the law.

7 Research Methodology:

The study adopts a descriptive research design to analyze the impact of GST on small businesses in India. This approach allows for a comprehensive examination of how the Goods and Services Tax, implemented in July 2017, has influenced the operational dynamics of small enterprises across various sectors. By focusing on small businesses, the research aims to identify both the positive and negative repercussions of GST, providing a balanced understanding of its effects.

Small businesses constitute a significant part of India's economy, contributing to employment and income generation. The introduction of GST promised to simplify the tax structure and enhance compliance, but it also brought forth challenges. The research explores these challenges by evaluating case studies of different small businesses that have navigated the new tax landscape. These case studies highlight the varied experiences of entrepreneurs from diverse backgrounds and regions, reflecting the nuances in how GST impacts industries like retail, manufacturing, and services.

Furthermore, the study dives into the administrative burden that GST compliance imposes on small businesses. Many small business owners often lack the necessary resources and expertise to manage the complexities associated with the new tax system effectively. This has led to increased costs related to accounting, consulting, and technology adoption, as businesses strive to stay compliant with tax regulations. The study also considers how this administrative overhead can hinder growth prospects, particularly for startups and smaller enterprises that are already financially constrained.

In addition to the burdens, the study will analyze the potential benefits of GST, including the reduction of tax cascading, improved market access, and the enhancement of formalization in the economy. An important aspect of this analysis will be the link between GST compliance and the ability to expand into new markets, both domestically and internationally. Understanding this relationship is vital for entrepreneurs who seek to leverage GST to enhance their business operations and increase competitiveness.

The research will also look at the perceptions of small business owners regarding GST and the support provided by governmental agencies. Surveys and interviews will capture their sentiments, opinions, and suggestions for improving the GST framework. By accumulating qualitative data from small business



owners across various states, the study aims to cultivate insights that can inform policymakers in refining GST regulations to better serve this crucial segment of the economy.

Ultimately, this descriptive research aims to contribute to the existing body of knowledge on GST's impact on small businesses in India, enabling a well-rounded discussion on how tax policies can be shaped to support sustainable economic growth.

8.1 Sources of Data

The research uses two types of data. Primary data comes straight from the source. The team gave questionnaires to small business owners to get quick, set answers. They also held interviews to hear a more personal side of the story. These talks helped the researchers understand the real problems these owners face every day.

Secondary data adds more weight to the study. This info comes from existing records. The team read academic journals and government reports to find hard facts. They also looked at books, news articles, and online databases. This mix of old and new records gives a full view of the topic. Using both methods ensures the results are based on real life and proven facts.

8.2 Sampling Technique

Convenience sampling was utilized to gather responses from small business owners across various sectors, including retail, manufacturing, and services. This method allowed for the efficient collection of data by targeting readily accessible participants, fostering a broad spectrum of insights from diverse industries. Each sector contributes its own unique challenges, and understanding these perspectives is essential for comprehensively assessing the overall business environment.

Retail business owners, for instance, face distinct market dynamics influenced by consumer behavior and economic conditions. In contrast, manufacturing leaders often contend with supply chain issues and technological advancements that shape their operational frameworks. Service industry proprietors, on the other hand, navigate customer satisfaction and service delivery challenges that are critical to their success.

By engaging with owners from these varied sectors, the study aims to identify common trends and unique concerns that impact small businesses as a whole. This approach emphasizes the importance of recognizing sector-specific nuances while also acknowledging overarching themes that may apply to all small enterprises. The findings derived from this sampling strategy can provide valuable insights for policy-making, strategic planning, and support initiatives tailored to the needs of small business owners, ultimately fostering a more resilient economic landscape.

8.3 Sample Size

The study considered responses from 100 small business owners spanning various regions, providing a comprehensive overview of their perspectives and challenges. These entrepreneurs, representing diverse industries such as retail, technology, and services, shared valuable insights regarding their operational experiences, market dynamics, and the impact of local economies on their businesses. The geographical diversity of the participants offered a wide-ranging view that highlights how regional differences can influence business strategies and growth opportunities.



By analyzing the feedback, the study aimed to uncover common trends and unique challenges faced by small business owners across various locations. For instance, the participants discussed issues such as access to financing, workforce development, and the ever-evolving landscape of consumer preferences. Additionally, they highlighted the importance of networking and community support as critical factors that contribute to their business success. This rich pool of qualitative data not only sheds light on the current state of small businesses but also serves as a foundational tool for policymakers and business development organizations seeking to create effective support systems tailored to the needs of these essential contributors to the economy. The findings emphasize the resilience and adaptability of small business owners as they navigate their distinct environments.

8.4 Data Analysis Tools

Percentage analysis, charts, and statistical interpretation methods were utilized to analyze the collected data comprehensively. This multifaceted approach provided valuable insights into the patterns and trends that emerged from the dataset, enabling a deeper understanding of the underlying phenomena. The percentage analysis allowed for a clear representation of the data, highlighting significant proportions and facilitating comparisons across different categories. By utilizing various chart types, such as bar charts and pie charts, the visual representation of data became more accessible, making it easier for stakeholders to grasp complex information at a glance.

Statistical interpretation methods further enhanced the analysis by applying robust techniques to identify correlations and causal relationships within the data. This combination of visual and statistical approaches not only enriched the data interpretation process but also supported more informed decision-making. The integration of these methods revealed nuances that may have been overlooked with a singular approach. Overall, the comprehensive use of percentage analysis, charts, and statistical interpretation methods proved essential in transforming raw data into actionable insights, thereby contributing significantly to the overall research objectives and outcomes. This meticulous analysis underscores the importance of employing systematic methodologies in data evaluation for precision and clarity.

9 Impact of GST on Small Businesses:

The Goods and Services Tax (GST) has significantly reshaped the landscape for small businesses in India, introducing both advantageous opportunities and formidable challenges. On one hand, the positive impact of GST has been profound, contributing to a more streamlined tax system that simplifies transactions and reduces the administrative burden on businesses. By consolidating various indirect taxes into one unified tax, GST has effectively eliminated the complexity associated with previous tax regimes. This simplification enables small businesses to better navigate the tax landscape, allowing them to focus more on growth rather than grappling with a myriad of tax obligations.

One of the major advantages of GST is the improved transparency and accountability it fosters within the business environment. With a single tax structure, businesses have a clearer understanding of their tax liabilities, fostering a sense of trust in the system. This transparency can positively influence consumer confidence, which is vital for small businesses as they seek to build a loyal customer base. Coupled with easier interstate trade, GST has facilitated smoother transactions across state borders. As businesses can now transport goods without the fear of having to pay different taxes at every state line, this reduces the logistical hassles previously faced by many small enterprises.



Another noteworthy positive impact is the reduction in tax cascading, where tax is levied on top of tax, inflating costs for businesses and consumers alike. GST addresses this issue directly, enabling small businesses to claim input tax credits for the goods and services they purchase, thus lowering their overall tax burden. Additionally, the implementation of GST has prompted many businesses to formalize operations, thereby enhancing their legitimacy. This shift towards formalization can provide better access to credit and investment opportunities, enabling small businesses to expand and innovate.

However, despite these positive aspects, the introduction of GST has not been without its challenges for small businesses. One significant downside has been the increase in the compliance burden, which can be particularly overwhelming for smaller firms that may lack the necessary resources. The requirement for regular online return filing is a major shift from previous practices and necessitates that small businesses invest time and money into understanding and navigating the new requirements. For some, the transition has proven difficult, diverting attention away from core operations and impacting overall productivity.

Furthermore, as GST increasingly relies on digital technology, small businesses that have not yet adapted to this new digital landscape find themselves at a disadvantage. The need for robust accounting systems and IT infrastructure can impose additional costs that may strain the financial resources of smaller enterprises. The additional cost of hiring professional accountants or consultants to ensure compliance with the new tax laws can further exacerbate the financial strain, particularly for those operating on thin margins.

Frequent changes in GST regulations also pose a challenge for small businesses, as staying up to date with the latest amendments and understanding their implications can be quite demanding. The uncertainty surrounding ongoing changes can lead to confusion and reluctance to invest in business growth, as entrepreneurs grapple with the effects of regulatory shifts on their operations and financial projections.

Despite these challenges, small businesses that have implemented proper accounting systems and embraced the requirements of GST have often seen substantial benefits compared to unorganized enterprises. By adapting to the changes and leveraging the advantages of the GST framework, these businesses have positioned themselves for better growth prospects in a competitive marketplace. Overall, while GST has introduced new hurdles for small businesses to navigate, it has also paved the way for a more transparent, accountable, and growth-oriented economic environment. This dual impact of GST underscores the importance of adaptability and preparedness in the face of an evolving business landscape.

GST has both positive and negative effects on small businesses in India.

Positive Impact:

- Simplified tax structure.
- Elimination of multiple taxes.
- Improved transparency and accountability.
- Easier interstate trade.
- Reduction in tax cascading.
- Increased formalization of businesses.

Negative Impact:

- Increased compliance burden.
- Requirement for regular online return filing.
- Dependence on digital technology.
- Additional accounting and professional costs.



- Frequent changes in GST regulations.

Small businesses with proper accounting systems benefited more from GST compared to unorganized businesses.

10 Findings of the Study:

- GST improved tax transparency and reduced tax duplication.
- Small businesses faced challenges in understanding digital filing procedures.
- Compliance costs increased for small traders.
- Interstate business transactions became easier after GST implementation.
- Many business owners lacked awareness regarding GST rules and filing requirements.
- Government awareness programs helped improve GST adoption among small enterprises.

11. Suggestions

- The government should provide more GST awareness and training programs.
- Simplified return filing procedures should be introduced for small businesses.
- Financial assistance and subsidies can be provided for digital accounting systems.
- GST compliance requirements should be reduced for micro and small enterprises.
- Continuous support and helpline services should be strengthened for traders and entrepreneurs.

12. Conclusion:

GST is a major economic reform that transformed the indirect taxation system in India. The introduction of GST simplified taxation, improved transparency, and created a unified market across the country. Small businesses benefited from easier interstate trade and reduced tax complexity.

However, many small enterprises faced difficulties related to compliance, digital filing, and increased administrative costs. The success of GST among small businesses depends on proper awareness, simplified procedures, and continuous government support. Overall, GST has long-term benefits for the Indian economy and small business sector if implementation challenges are effectively addressed.

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