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GST and Small Business Performance: An Empirical Study in India

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Abstract:
The rollout of the Goods and Services Tax (GST) on 1 July 2017 replaced a fragmented indirect-tax regime with a single national levy, reshaping how India's small enterprises price, invoice and file returns. This paper investigates how that shift has played out in practice for micro and small businesses, looking beyond headline reform goals to the everyday compliance experience of owners. Primary data were gathered from thirty small-business respondents through a structured questionnaire covering GST awareness, dependence on professional filing support, perceived transparency, and overall satisfaction, and were examined using descriptive statistics, a one-way ANOVA and a simple regression model. The results point to a generally favourable owner assessment of GST most respondents credited it with clearer transactions and simpler procedures even though a large majority still lean on Chartered Accountants for filing and few have received any formal GST training. A statistically significant link between GST familiarity and satisfaction, together with a positive regression coefficient linking awareness to perceived operational improvement, suggests that knowledge gaps rather than the tax design itself are the main constraint on realising GST's full benefit for small firms. The paper closes with implications for policy, professional practice and business education.

Keyboard: Goods and Services Tax, MSME, small business compliance, Composition Scheme, tax awareness, operational performance

I. INTRODUCTION

Indirect taxation in India underwent a structural overhaul when the Goods and Services Tax came into force on 1 July 2017, folding Value Added Tax, Service Tax, Central Excise Duty, Entry Tax and Central Sales Tax into one destination-based levy. The reform's stated purpose was to knit together a single national market, cut the compliance patchwork created by overlapping state and central taxes, and widen the formal tax base. For the millions of small enterprises that anchor local economies across the country, the change touched almost every routine business activity invoicing, purchasing, record-keeping and return filing among them.

Small enterprises occupy an outsized place in India's economic story: they absorb labour at scale, incubate first-generation entrepreneurship, and feed into the broader industrial and export base. Under the pre-GST regime, a shop or workshop operating across state lines routinely had to reconcile several overlapping tax codes, each with its own rates, thresholds and paperwork, which pushed up both administrative effort and the effective cost of doing business. GST sought to collapse this complexity into one framework, and in doing so promised gains such as an end to tax cascading, a functioning input tax credit chain, and a lighter overall compliance load.

The transition has not been friction-free, however. Numerous small proprietors entered the GST era with limited exposure to digital filing systems, and the shift to monthly or quarterly online returns, combined with detailed record-keeping obligations, initially strained businesses that had neither in-house accounting staff nor ready access to professional advisors. To ease this burden for smaller taxpayers, the government created the Composition Scheme, under which eligible businesses pay tax at a flat, lower rate in exchange for simplified filing though they forfeit the right to claim input tax credit, a trade-off that suits some business models better than others.

This paper sets out to assess how GST has actually affected small business operations its benefits, the friction it has introduced, and the extent to which its net effect varies with a firm's size, sector, location and digital readiness. Doing so contributes to an ongoing conversation among policymakers, tax professionals, entrepreneurs and academics about whether the reform is delivering on its founding promise for the segment of the economy least equipped to absorb regulatory change.

A. The MSME Landscape

The Micro, Small and Medium Enterprise (MSME) segment spans manufacturing, trading and services across sectors as varied as textiles, food processing, engineering, retail, handicrafts, information technology and healthcare, and is frequently described as the employment backbone of the Indian economy because of its reach into rural and semi-urban areas. Its defining traits flexibility, low entry barriers, and a capacity to pivot quickly also made it the segment most exposed to the compliance demands that arrived with GST, since digital record-keeping and periodic return filing were new territory for many proprietors who had previously operated with informal bookkeeping.

India's MSME base now exceeds 63 million enterprises, employing more than 110 million people and contributing close to 30 per cent of national GDP and roughly 45 per cent of merchandise exports. Government programmes such as Startup India, Make in India, the Self-Reliant India Fund (which received a further ₹2,000 crore allocation), and the revised Mutual Credit Guarantee Scheme for MSMEs have been layered onto the GST framework to widen access to finance and encourage capital investment. A revised MSME classification in 2025 raised the investment and turnover ceilings that define micro, small and medium status, allowing firms to expand without immediately losing scheme eligibility, while over 7.3 crore enterprises have now registered on the Udyam portal, improving their access to institutional credit and government support. Parallel gains in digital payments, e-commerce integration and cloud accounting have further embedded GST compliance tools into everyday business practice.

B. Objectives Underlying GST

GST was conceived around the idea of "One Nation, One Tax, One Market" a single, technology-enabled framework intended to simplify rate structures, curb cascading taxation, and increase transparency and accountability in how tax is assessed and collected. Its operational mission extends this vision: broaden the tax base, pull informal transactions into the formal economy, ease the cost of interstate trade, and use digital administration to raise both revenue efficiency and the general ease of doing business in India.

II. LITERATURE REVIEW

Academic and institutional interest in GST's effect on small business predates and follows the reform in roughly equal measure. Pre-implementation studies were largely anticipatory, projecting the efficiency gains a unified indirect tax could deliver, while post-2017 research has increasingly focused on how those projections held up against the lived experience of compliance.

GST itself is best understood as a destination-based, multi-stage indirect tax applied to the supply of goods and services, collected incrementally across the production and distribution chain with credit allowed for tax already paid on inputs a design intended to remove the tax-on-tax effect that characterised the earlier VAT-and-excise system.

A. Pre- and Early-Implementation Perspectives

Garg (2014), writing ahead of GST's rollout, argued that consolidating indirect taxes would lower production costs by removing cascading and would sharpen India's competitiveness in domestic and export markets alike, with small firms among the expected beneficiaries of a simplified rate structure. Sehrawat and Dhanda (2015) reached a similar conclusion, forecasting that a common national market and uniform rates would ease business expansion, while cautioning that the reform's success would hinge on adequate taxpayer training. Vasanthagopal (2011) likewise expected GST to reduce tax-related disputes and to raise small-firm profitability chiefly through the input tax credit mechanism.

Once GST took effect, Kumar (2017) documented early friction: many traders struggled with online registration and digital return filing, particularly where technological familiarity was low, though the study still concluded that formalisation and transparency would improve over the medium term. Agrawal (2018) reported a comparable pattern a simpler underlying tax structure offset by heavier administrative demands, including monthly filings and continuous digital record maintenance and recommended structured compliance training for MSMEs. Poonam (2017) framed the reform as a net positive over time, weighing reduced tax burden and easier interstate trade against technological and procedural hurdles that were expected to ease as the system matured.

B. Institutional and Macro-Level Findings

Economists Ehtesham Ahmed and Satya Poddar, whose early work shaped much of India's GST policy debate, argued that a comprehensive GST would improve resource allocation and lower production costs by removing the distortions multiple overlapping taxes had created. NITI Aayog's assessments similarly point to GST-driven formalisation, noting that previously unregistered businesses have entered the tax net and gained improved access to institutional finance, alongside continuing difficulty for some firms in adapting to digital processes. The Ministry of MSME has observed that GST registration has strengthened financial discipline and credit access, with the Composition Scheme easing the compliance load for eligible smaller taxpayers, while the Reserve Bank of India has linked GST to smoother interstate goods movement and a broader shift of commercial activity into the organised sector.

C. Recurring Themes: Benefits and Friction

Read together, this body of work converges on a consistent set of benefits a simpler unified tax structure, the removal of cascading through input tax credit, greater transactional transparency, accelerated formalisation of previously informal businesses, an enlarged addressable market free of state-level tax barriers, and improved access to institutional finance for GST-compliant firms set against a similarly consistent set of frictions: a heavier filing and documentation workload, uneven digital literacy among owners, added costs from hiring accountants or purchasing compliance software, uncertainty created by frequent rule amendments, and cash-flow strain where input tax credit refunds are delayed.

D. Gaps in the Existing Evidence

Despite this substantial body of research, several questions remain only partially answered. Most existing work concentrates on the immediate post-implementation period and says relatively little about GST's longer-run influence on small-firm growth, sustainability and competitiveness. Sector-specific analysis is likewise thin manufacturing, retail, service and trading firms are likely to experience compliance and cost effects differently, yet studies rarely disaggregate along these lines. Regional variation is another underexplored dimension, given the uneven spread of digital infrastructure and literacy across Indian states, as is the specific question of how GST has influenced employment patterns and working-capital management inside small firms. Finally, comparatively little evidence exists on how well the Composition Scheme is working in practice, or on the experience of specific groups such as women entrepreneurs and informal enterprises transitioning into the formal economy. The present study is positioned to speak most directly to the awareness-compliance-satisfaction gap identified in this literature, using primary survey evidence from small business owners.

III. RESEARCH METHODOLOGY

A. Statement of the Problem

GST's 2017 rollout reshaped India's indirect-tax architecture with the aim of easing administration, improving transparency and knitting the country into one common market. Whether that promise has translated into tangible operational gains for small businesses, however, is not settled outcomes plausibly depend on a firm's size, sector, location and digital readiness, and on how well owners understand the rules they are now expected to follow. This study examines that question directly, drawing on the reported experience of small business owners rather than aggregate policy outcomes.

B. Rationale for the Study

Understanding how GST plays out at the level of an individual small business rather than in aggregate statistics is useful to policymakers refining compliance procedures, to tax professionals advising clients, and to the businesses themselves in benchmarking their own experience. The findings reported here are intended to feed into that practical conversation.

C. Research Questions

The study is organised around eight guiding questions: the effect of GST on operational performance; its influence on compliance requirements; the specific challenges owners encounter in meeting GST obligations; its bearing on profitability and growth; its effect on working capital and cash flow; whether it has helped firms sell beyond their home state; the benefits owners report experiencing; and the measures that could ease remaining difficulties.

D. Objectives

Four objectives follow from these questions: to examine GST's effect on the operational performance and growth of small businesses; to analyse its influence on profitability, cash flow and financial management; to identify the compliance challenges owners face; and to evaluate the benefits including transparency and market expansion that GST has generated for this segment.

E. Sample and Data Collection

Primary data were collected from 30 small business owners using a structured questionnaire covering demographic profile, GST familiarity, sources of GST knowledge, dependence on professional filing support, and perceived change in transparency, compliance ease and overall satisfaction. Responses were analysed descriptively and tested using a one-way ANOVA and a single-variable regression model to probe the relationship between GST awareness and perceived business improvement.

IV. RESULTS AND DISCUSSION

This section reports the survey findings, beginning with respondent demographics and moving through GST awareness, professional dependence, and perceived operational impact.

A. Respondent Profile

A majority of respondents (83.3 per cent) were above 28 years of age, indicating that the sample is weighted toward owners with meaningful business experience rather than very early-stage entrepreneurs.

table i. age distribution of respondents

Age Group	Frequency	Percentage
Below 18	0	0.0%
18–22	2	6.7%
23–27	3	10.0%
28–32	10	33.3%
Above 32	15	50.0%

Business type was reasonably diverse: wholesale accounted for the largest share of respondents (35 per cent), followed by an "other" category (30 per cent), retail (25 per cent) and service businesses (10 per cent), giving the sample a cross-section of trading and non-trading activity rather than a single business archetype.

B. GST Awareness and Sources of Knowledge

Only one in five respondents described themselves as very familiar with GST rules; half reported little to no familiarity, and the remainder were neutral. Formal training was similarly rare just four of the thirty respondents, or roughly 13 per cent, had attended any GST awareness or training programme.

table ii. self-reported familiarity with gst regulations

Familiarity Level	Respondents	Percentage
Very Familiar	6	20.0%
Neutral	9	30.0%
Not at All Familiar	15	50.0%

Where knowledge had been acquired, Chartered Accountants were by far the dominant channel (50 per cent of respondents), with friends and family a distant but notable second source (40 per cent); social media and television together accounted for under 10 per cent. This pattern indicates that GST literacy among small owners is largely professionally mediated rather than self-taught or media-driven.

table iii. primary source of gst information

Source	Respondents	Percentage
Chartered Accountant	15	50.0%
Friends / Family	12	40.0%
Social Media	2	6.6%
Television	1	3.3%

C. Perceived Operational Impact

Eight in ten respondents felt GST had significantly improved their business operations, with a further 13 per cent reporting some improvement and only 7 per cent seeing no change a strongly favourable reading of the reform's practical effect despite the low levels of formal GST familiarity noted above.

table iv. perceived improvement in business operations

Response	Respondents	Percentage
Yes, Significantly	24	80.0%
Yes, to Some Extent	4	13.3%
No, Not at All	2	6.7%

A similar majority (73.3 per cent) agreed that GST has simplified their tax procedures, and an even larger share (76.7 per cent) felt it had improved transparency in business transactions notably, not a single respondent disagreed with the transparency statement, which stands out as the most uniformly positive result in the survey.

D. Professional Dependence and Satisfaction

Reliance on external expertise remains high: 86.6 per cent of respondents depend on a Chartered Accountant for GST filing, consistent with the low self-reported familiarity levels above. Overall satisfaction with the GST system was nonetheless positive, with 70 per cent of respondents satisfied, 13.3 per cent neutral and 16.6 per cent dissatisfied.

table v. overall satisfaction with the gst system

Response	Respondents	Percentage
Satisfied	21	70.0%
Neutral	4	13.3%
Dissatisfied	5	16.7%

E. Hypothesis Testing

H_0: GST has no significant effect on the business operations of small enterprises. H_1: GST has a significant positive effect on the business operations of small enterprises. Given that 80 per cent of respondents reported a significant operational improvement attributable to GST, the evidence favours the alternative hypothesis; H_0 is rejected and H_1 is accepted GST is judged to have a significant positive effect on small-business operations within this sample.

F. ANOVA: Familiarity and Satisfaction

A one-way ANOVA was run to test whether satisfaction with GST differs by familiarity level (H_0: no difference across familiarity groups; H_1: satisfaction differs significantly by familiarity).

table vi. anova summary — gst familiarity and satisfaction

Source	F-value	Significance (p)
Between Groups	5.24	0.011

With $p = 0.011$, below the conventional 0.05 threshold, the null hypothesis is rejected: respondents who understand GST rules more thoroughly report significantly higher satisfaction than those with limited familiarity, reinforcing the interpretation that awareness not the tax design itself is the binding constraint on how positively owners experience GST.

G. Regression: Awareness and Perceived Improvement

A simple regression was estimated with perceived business-operations improvement as the dependent variable and GST awareness/familiarity as the predictor, yielding $Y = 1.12 + 0.68X$, where both the intercept and the coefficient on GST familiarity are statistically significant ($p = 0.001$ and $p = 0.004$ respectively). The positive slope indicates that as owners' GST familiarity rises, their assessment of GST's contribution to business operations rises correspondingly, lending quantitative support to the survey's qualitative pattern.

V. FINDINGS AND SUGGESTIONS

A. Summary of Findings

Taken together, the results describe a small-business sample that is broadly positive about GST's practical effect on transparency, procedural simplicity and overall satisfaction despite carrying limited technical knowledge of the rules themselves and leaning heavily on Chartered Accountants to bridge that gap. Formal GST training reaches only a small fraction of owners, and the statistical tests indicate that the businesses who do understand GST better are also the ones who are more satisfied with it. This suggests the reform's underlying design is landing well with small businesses, but that the full benefit is being captured unevenly, gated by how much support and training an individual owner has access to.

B. Theoretical Implications

The findings add small-firm survey evidence to the broader GST literature, corroborating claims that the reform has improved transparency and operational efficiency while also supporting tax-compliance theory's emphasis on taxpayer knowledge as a driver of compliance behaviour and satisfaction. The strong reliance on Chartered Accountants observed here refines this picture by showing that, for small firms at least, compliance often runs through a professional intermediary rather than direct owner understanding a nuance existing models of GST adoption do not always capture.

C. Practical Implications

Three practical threads follow. First, structured GST awareness programmes and workshops, run by tax authorities and industry associations, could close the gap between the high satisfaction with GST outcomes and the low self-reported understanding of GST rules. Second, simplifying return-filing procedures and improving the usability of GST digital platforms would ease the burden on owners who currently depend entirely on professional support. Third, wider adoption of digital bookkeeping and GST-compliant accounting software could reduce filing errors and strengthen financial management within small firms, independent of any change to the tax rules themselves.

D. Policy and Educational Implications

For policymakers, the data argue for continued simplification of compliance procedures alongside rather than instead of expanded awareness campaigns, since the survey suggests owners are not rejecting GST but are under-equipped to navigate it independently. For educational institutions, embedding practical GST content into commerce, management and entrepreneurship curricula would build this literacy earlier, reducing long-run dependence on professional intermediaries and better preparing future business owners for a compliance-heavy operating environment.

VI. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The study's conclusions should be read against several constraints. The sample of 30 respondents, drawn from a single geographic area at one point in time, limits how far the findings can be generalised to India's small-business population as a whole. Data rest on self-reported questionnaire responses, which carry the usual risk of recall or social-desirability bias, and the cross-sectional design cannot establish causal or long-run relationships between GST and business performance. The survey instrument also concentrated on awareness, compliance and transparency, leaving other plausible influences on performance profitability, competitive pressure, financing access and broader technology adoption outside its scope, and did not distinguish respondents by turnover, industry sub-sector or ownership structure, all of which could shape how GST is experienced.

Future work could usefully expand the sample across states and business types, adopt a longitudinal design to track outcomes over several GST filing cycles, and incorporate additional variables such as turnover, digital literacy and access to finance. Comparative studies across firm sizes or industries, evaluations of GST training programmes and Composition Scheme uptake, and closer attention to specific groups such as women entrepreneurs and informal enterprises transitioning into the formal economy would all extend the present findings in directions this study could only gesture toward.

VII. CONCLUSION

This study set out to gauge how India's small businesses have actually experienced GST, five-plus years into its implementation. The evidence points to a reform that is, on balance, well-regarded by the owners it touches most credit it with greater transparency and simpler procedures but whose benefits are mediated heavily by professional support rather than owner-level technical understanding. Closing that awareness gap, through targeted training and continued procedural simplification, appears to be the most direct route to converting GST's designed benefits into consistently realised gains across the small-business segment.

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