JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

IMPACT OF GST ON MSME GROWTH AND SUSTAINABILITY IN INDIA

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Abstract

GST has altered the regulatory and operational environment of micro, small and medium-sized enterprises in India. This article examines how GST influences MSME growth, cost management, compliance, digital readiness, market access and formalization. Using a conceptual and secondary-data approach, the study analyses official GST materials and relevant tax and business perspectives. It finds that GST can create efficiency gains through input tax credit, common-market participation and digital documentation, while smaller enterprises may face higher relative compliance and technology costs. The article concludes that MSME benefits depend strongly on administrative simplicity, stable policy, taxpayer capability and affordable digital tools.

Keywords: Goods and Services Tax (GST), MSMEs, Tax Compliance, Input Tax Credit, Digitalization, Business Growth, Cost Management, Market Access, Formalization, India.

1. Introduction

Micro, small and medium-sized enterprises (MSMEs) are an important part of the Indian business ecosystem. Their performance is affected by finance, market access, technology, regulation and taxation. GST changed the indirect-tax environment by introducing a common framework for supplies of goods and services. The reform therefore has implications for MSME growth, operating efficiency and participation in formal supply chains.

GST can create opportunities for MSMEs through input tax credit, digital documentation and easier participation in inter-state trade. At the same time, smaller enterprises may face proportionately higher compliance costs because they have fewer specialized employees and may depend on external accountants or software providers.

2. Problem Statement

The central problem is whether GST has created a net improvement in the growth environment of MSMEs or whether compliance requirements and digital dependence continue to create significant operational burdens. The answer is likely to differ across sectors and according to the accounting and technological capacity of each enterprise.

3. Research Questions

- How has GST influenced MSME growth and operational efficiency?
- What role does input tax credit play in MSME cost management?
- How does digital GST compliance affect formalization?
- What are the major compliance barriers faced by small enterprises?
- What measures can improve GST-related ease of doing business for MSMEs?

4. Objectives

- To analyze the relationship between GST and MSME growth.
- To examine GST-related cost, compliance and working-capital issues.
- To assess the role of GST in MSME formalization and market access.
- To identify operational challenges faced by small enterprises.

• To recommend measures for a more MSME-friendly GST system.

5. Review of Literature

Research on tax reform commonly emphasizes that indirect taxes influence business costs and administrative decisions. A value-added tax can reduce cascading when eligible input tax credit is available, but the benefit depends on documentation and compliance quality. MSME research also highlights the importance of administrative simplicity because smaller enterprises possess limited financial and human resources.

The official GST framework provides simplified mechanisms and extensive taxpayer guidance. GST Council materials include explanations of composition levy, input tax credit, accounts and records, e-way bills and other compliance matters.

6. Conceptual Framework

The proposed framework links GST implementation with MSME outcomes through five mediating mechanisms: input-tax-credit efficiency, digital readiness, compliance cost, supply-chain integration and formalization. Stronger digital and accounting capability is expected to improve compliance quality and help firms realize potential efficiency benefits.

7. Hypotheses

• H1: GST-related input tax credit efficiency positively influences MSME cost management.

• H2: Digital GST capability positively influences compliance quality.

• H3: GST compliance complexity negatively influences MSME operational efficiency.

• H4: GST-related formalization positively influences market access.

• H5: Better GST knowledge positively influences business preparedness.

8. Methodology

This paper adopts a conceptual and secondary-data design. No questionnaire is used and no survey statistics are fabricated. The analysis is based on statutory provisions, official GST Council and CBIC materials and relevant conceptual literature. The discussion is organized around MSME growth, compliance cost, digital capability, market integration and formalization.

9. GST and MSME Growth

GST may support growth when it reduces embedded tax costs and facilitates participation in wider supply chains. A common tax architecture can be particularly useful for enterprises seeking customers outside their home state. Digital records may also improve the quality of financial information available to management.

The benefits, however, are conditional. A firm that lacks accurate invoices or reconciliation processes may not fully realize the expected advantages. GST should therefore be viewed as both a tax reform and a managerial capability challenge.

10. Compliance Cost and Digital Readiness

MSMEs frequently operate with limited administrative capacity. Return filing, invoice controls, classification and reconciliation may therefore consume a larger share of managerial time. Digital readiness can reduce repetitive manual work but requires investment in software, training and data controls.

The GST Council's digital architecture has progressively incorporated e-invoicing and e-way bill mechanisms. Official Council information notes the integration of e-invoices with e-way bills and GST returns and records the mandatory e-invoicing framework for specified businesses.

11. Formalization and Market Access

GST registration and invoice-based transactions can increase business visibility within formal supply chains. Better records may help firms participate in procurement systems and maintain stronger relationships with organized buyers. Formalization can also strengthen internal accounting discipline.

Nevertheless, formalization is sustainable only when businesses perceive meaningful benefits. Simplification, taxpayer education and predictable administration are therefore important.

12. Major Challenges

- High relative cost of professional and technology support.
- Difficulty in tracking changing rules and classifications.
- Working-capital pressure when credits or refunds are delayed.
- Dependence on supplier documentation and reporting.
- Limited accounting and digital skills in some enterprises.

13. Discussion

The overall effect of GST on MSMEs is best understood as a balance between structural opportunities and transition costs. Enterprises with stronger digital systems and accounting controls are more likely to convert compliance requirements into useful business information. Smaller and less digitally prepared firms may experience the same requirements as an administrative burden.

14. Recommendations

- Develop simplified and stable compliance processes for genuinely small enterprises.
- Expand practical GST training and sector-specific guidance.
- Encourage affordable digital accounting solutions.
- Improve helpdesk and grievance-resolution systems.
- Reduce avoidable reconciliation burdens while preserving tax controls.

15. Limitations and Future Research

This paper is conceptual and secondary-data based. Future studies can collect firm-level data and compare GST experiences across manufacturing, services, retail and rural enterprises. Longitudinal research may examine how digital readiness changes the relationship between GST and business growth.

16. Conclusion

GST has the potential to support MSME growth through tax integration, input credit, formalization and digital records. Its benefits are not automatic. Administrative simplicity, stable policy and enterprise-level capability are essential to ensuring that compliance obligations do not outweigh economic advantages.

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