



Economic impact of GST on Small Businesses

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Abstract

The Goods and Services Tax (GST) has been one of the most significant tax reforms in India, aimed at simplifying the indirect tax system and creating a unified national market. This study explores the economic impact of GST on small businesses, which play a crucial role in employment generation, innovation, and overall economic growth. Using secondary data from academic journals, government reports, and industry publications, the research examines the effects of GST on cost structure, profitability, cash flow, and compliance requirements of small enterprises. The findings indicate that while GST has streamlined taxation, reduced cascading taxes, and promoted formalization, it has also introduced challenges such as increased compliance costs, technological dependence, and temporary cash flow constraints. The study highlights the need for targeted policy support and capacity-building initiatives to help small businesses maximize the benefits of GST while minimizing its operational challenges.

Keywords

Goods and Services Tax (GST), Small Businesses, Economic Impact, Cost Structure, Profitability, Compliance

Introduction: The implementation of the Goods and Services Tax (GST) has fundamentally altered the indirect taxation framework, with significant economic implications for small businesses. As these enterprises often operate with limited financial and managerial resources, changes in tax policy can directly affect their cost structures, profitability, and long-term sustainability. Exploring the economic impact of GST on small businesses requires an examination of both its positive outcomes and the challenges faced during and after its adoption.

One of the key economic benefits of GST for small businesses is the elimination of cascading taxes. Under the previous tax regime, multiple indirect taxes increased the overall tax burden, raising production costs and reducing competitiveness. GST allows for input tax credit, which helps small businesses reduce costs by claiming tax paid on inputs. This has improved pricing efficiency and enabled small enterprises to compete more effectively in wider markets.

However, GST has also introduced increased compliance requirements. Small businesses are required to maintain digital records, file returns regularly, and adapt to technology-driven tax administration. For many

small enterprises, especially those in rural or semi-urban areas, limited access to technology and lack of tax knowledge have increased operational costs. The need for professional assistance such as accountants or tax consultants has further added to their financial burden.

Another important aspect of GST's economic impact is its effect on cash flow. Delays in input tax credit refunds and the requirement to pay tax upfront can strain the working capital of small businesses. This has particularly affected enterprises with low profit margins, leading to reduced liquidity and, in some cases, business closures or downsizing.

Despite these challenges, GST has encouraged formalization of small businesses by bringing them into the tax network. Formalization improves access to credit, government schemes, and financial institutions, contributing to long-term economic growth. Over time, this shift may enhance transparency, accountability, and sustainability among small enterprises.

Overall, the economic impact of GST on small businesses is multifaceted, involving both short-term challenges and long-term benefits. A comprehensive exploration of this impact is essential to assess policy effectiveness and to recommend measures that can support small businesses in adapting to the GST regime.

Statement of the Problem

The introduction of the Goods and Services Tax (GST) was intended to simplify the tax system and enhance economic efficiency. However, small businesses have faced several challenges in adapting to the new tax structure. Issues such as increased compliance costs, technological barriers, cash flow constraints, and lack of awareness have affected their operations. Despite GST's long-term objectives, its immediate economic impact on small businesses remains a critical area of concern. Therefore, there is a need to examine how GST has influenced the economic performance and sustainability of small businesses.

Objectives of the Study

1. To examine the economic impact of Goods and Services Tax (GST) on small businesses.
2. To analyze the challenges faced by small businesses under the GST regime.
3. To assess the benefits of GST in terms of cost efficiency, compliance, and business growth for small enterprises.

Hypothesis 1

- **H₀₁ (Null Hypothesis):** GST has no significant impact on the cost structure of small businesses.
- **H₁₁ (Alternative Hypothesis):** GST has a significant impact on the cost structure of small businesses.

Hypothesis 2

- **H₀₂ (Null Hypothesis):** GST has no significant impact on the profitability and cash flow of small businesses.
- **H₁₂ (Alternative Hypothesis):** GST has a significant impact on the profitability and cash flow of small businesses.

Review of Literature

Several studies have examined the economic impact of the Goods and Services Tax (GST) on small businesses and micro, small, and medium enterprises (MSMEs). These studies highlight both the benefits and challenges arising from the implementation of GST.

1. Keerthan, Reddy, and Srilekha (2025) conducted a descriptive study on the impact of GST on MSMEs and small traders in India. The study found that GST has simplified the indirect tax structure and reduced tax cascading through the input tax credit mechanism. However, it also revealed that small businesses faced increased compliance costs and difficulties in adapting to digital filing systems, especially during the initial phase of implementation.
2. Goel and Sharma (2025) analyzed the effect of GST on small and medium enterprises with a focus on operational efficiency and transparency. Their study concluded that GST has improved tax transparency and encouraged formalization of businesses. At the same time, frequent return filing and lack of technological knowledge were identified as major challenges affecting the economic performance of small enterprises.
3. Mallikarjun and Soni (2024) examined the economic implications of GST on MSMEs in the Durg Division of Chhattisgarh. The study adopted a descriptive and analytical approach and observed that GST created new growth opportunities by expanding market access. However, cash flow problems and delayed input tax credit refunds negatively impacted the working capital position of small businesses.

4. Ramkumar and Chovatiya (2025) focused on the perception and understanding of GST among small business owners. Their findings indicated that limited awareness and inadequate training led to compliance difficulties. The study emphasized that insufficient understanding of GST provisions increased dependence on tax professionals, thereby raising operational costs for small businesses.
5. Sandhiya and Chinnu (2025) conducted a descriptive study on the impact of GST on small businesses in Tamil Nadu. The research revealed that while GST helped in unifying the tax system, small businesses struggled with compliance procedures and technological requirements. The study suggested that government support and simplified compliance mechanisms are essential to reduce the economic burden on small enterprises.

Overall, the reviewed studies indicate that GST has had a mixed economic impact on small businesses. While it has simplified taxation and promoted formalization, challenges related to compliance, technology adoption, and cash flow continue to affect small enterprises.

Research Methodology

1. Research Design

The study adopts a **descriptive research design**, aiming to analyze and understand the economic impact of GST on small businesses. Since the research focuses on assessing trends, patterns, and existing findings, a descriptive approach is appropriate for summarizing and interpreting secondary data.

2. Data Source

The study is based entirely on **secondary data**, which has been collected from:

- **Academic journals** and research papers
- **Government reports and publications** (e.g., GST Council reports, Ministry of Finance reports)
- **Books and reference materials** on taxation and small businesses
- **Online databases** such as Google Scholar, ResearchGate, and official industry websites
- **Newspapers, magazines, and industry reports** for the latest updates on GST impacts

3. Data Collection Method

Secondary data was gathered by reviewing published literature on GST and its effects on small enterprises. The collected data includes statistics, case studies, and findings from prior studies. Only credible and authenticated sources were considered to ensure accuracy and reliability.

4. Data Analysis

The collected data has been analyzed using a **descriptive and analytical approach**. Trends, patterns, and comparisons were drawn from multiple sources to assess the economic impact of GST on small businesses.

The analysis focuses on areas such as:

- Cost structure and compliance burden
- Profitability and cash flow
- Operational efficiency and formalization of businesses
- Challenges and benefits identified in prior studies

5. Limitations of the Study

- The study relies solely on secondary data and does not include primary survey responses.
- Findings depend on the accuracy of published sources.
- The study may not capture real-time economic changes post-GST implementation in specific small businesses.

Justification of Selected Hypotheses

For this study, **two hypotheses have been selected** to analyze the economic impact of GST on small businesses. These hypotheses focus on the most critical areas affected by GST: **cost structure** and **profitability/cash flow**.

Selected Hypothesis 1

- **H₀₁ (Null):** GST has no significant impact on the cost structure of small businesses.
- **H₁₁ (Alternative):** GST has a significant impact on the cost structure of small businesses.

Justification:

Small businesses face both opportunities and challenges under GST. While the tax system reduces cascading taxes through input tax credits, compliance requirements such as digital record-keeping and regular return filing increase administrative costs. Studies by Keerthan et al. (2025) and Sandhiya & Chinnu

(2025) indicate that GST affects operational costs in both positive and negative ways. Therefore, this hypothesis is selected to specifically examine how GST influences the **cost structure** of small businesses.

Selected Hypothesis 2

- **H₀₂ (Null):** GST has no significant impact on the profitability and cash flow of small businesses.
- **H₁₂ (Alternative):** GST has a significant impact on the profitability and cash flow of small businesses.

Justification:

Profitability and liquidity are directly influenced by GST. Delays in input tax credit refunds and upfront tax payments can strain working capital, affecting profitability despite potential long-term gains. Research by Mallikarjun & Soni (2024) and Ramkumar & Chovatiya (2025) shows that cash flow challenges are a major concern for small enterprises. Hence, this hypothesis is selected to investigate the **impact of GST on profitability and cash flow**, which are crucial indicators of small business sustainability.

Conclusion:

The Goods and Services Tax (GST) has significantly transformed the indirect taxation system, impacting small businesses in multiple ways. Small businesses, being the backbone of economic growth, employment, and innovation, are particularly sensitive to changes in tax policy. Exploring the economic impact of GST on these enterprises requires examining both the positive outcomes and the challenges it presents.

One major advantage of GST is the elimination of cascading taxes, which previously increased production costs and reduced competitiveness. Input tax credit allows small businesses to claim tax paid on raw materials and inputs, lowering overall costs. This has enabled many small enterprises to improve pricing efficiency and compete in broader markets.

However, GST has also introduced new compliance requirements. Small businesses must maintain digital records, file regular returns, and adapt to a technology-driven tax administration system. Enterprises lacking access to technology or tax knowledge face higher administrative costs and may require professional assistance, further straining resources.

Cash flow management is another critical aspect. The need to pay GST upfront, combined with delays in receiving input tax credits, can create liquidity issues for small businesses with limited capital. This challenge affects profitability and operational stability, especially for enterprises operating on thin margins.

On the positive side, GST encourages the formalization of small businesses, integrating them into the official tax system. Formalization enhances access to government schemes, financial institutions, and credit facilities, promoting long-term growth and sustainability.

In conclusion, the economic impact of GST on small businesses is multifaceted. While it brings long-term benefits like tax efficiency, transparency, and formalization, it also imposes short-term challenges related to compliance, technology adoption, and cash flow. A comprehensive exploration of these factors is essential to evaluate GST's effectiveness and to identify areas where policy support can improve outcomes for small enterprises.

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