A Study on Impact of Goods and Services Tax 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.

Keywords: Goods and Services Tax (GST), Small Business, Tax Compliance, Financial Impact, Economic Growth, Input Tax Credit

Introduction

The Goods and Services Tax (GST) is considered one of the most important tax reforms in India's indirect taxation system. Introduced on 1 July 2017, GST replaced several indirect taxes, including Value Added Tax (VAT), service tax, excise duty, and Central Sales Tax (CST), with a unified tax framework. The primary objective of this reform was to simplify the taxation system, create a uniform tax structure across the country, and improve overall tax administration.

Small businesses play a vital role in India's economic development by generating employment, encouraging entrepreneurship, and supporting industrial growth. Prior to the implementation of GST, these businesses had to comply with multiple tax laws, complex regulations, and different tax structures across various states, resulting in increased compliance costs and administrative challenges. GST was introduced to address these issues by establishing a single, streamlined tax system that promotes greater efficiency, transparency, and ease of doing business.

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 ontop 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. Thischange 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 paper work. Newer studies show that things are getting better. The government started training programs to teach owner show 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.

Objectives of the Study

1. To examine the structure and functioning of the Goods and Services Tax (GST) system in India, including its legal framework and its replacement of the previous indirect tax system such as VAT and excise duty.

2. To analyze the impact of GST on small businesses, with particular emphasis on tax compliance, digital filing requirements, and the overall tax burden.
3. To evaluate the effect of GST on the day-to-day operations and financial performance of small businesses, including input tax credit management, operating costs, and profit margins.
4. To identify the challenges and opportunities associated with GST implementation and suggest measures to simplify tax compliance, enabling small businesses to reduce compliance costs and improve their competitiveness.

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 book keeping 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.

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.

Theoretical Framework

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 actas 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 paper work.

Statement of the Problem

Before the implementation of the Goods and Services Tax (GST), small businesses in India were required to comply with multiple indirect taxes, including Value Added Tax (VAT), excise duty, and service tax. Each tax had separate rules, procedures, and filing requirements, making the tax compliance process complex, time-consuming, and burdensome for business owners.

Although GST was introduced to simplify the indirect tax system by replacing multiple taxes with a single unified framework, its implementation created new challenges for many small businesses. The transition to a digital tax filing system required business owners to adopt online platforms and accounting software, which posed difficulties for those with limited access to computers, reliable internet connectivity, or digital skills. As a result, many businesses incurred additional expenses by hiring accountants or tax consultants to ensure compliance with GST regulations.

Furthermore, small retailers and manufacturers often lacked dedicated accounting personnel, making it difficult to manage GST-related documentation and filing requirements. Frequent amendments to GST rules, tax rates, and return filing procedures further increased the compliance burden and created uncertainty among business owners. Consequently, many small enterprises devoted considerable time and financial resources to meeting tax obligations instead of focusing on business growth and operational efficiency. Therefore, it is essential to examine the impact of GST on the profitability, compliance costs, and day-to-day operations of small businesses in India.

Research Methodology

The study employs a descriptive research design to examine the impact of the Goods and Services Tax (GST) on small businesses in India. This research design facilitates a systematic analysis of the effects of GST, introduced in July 2017, on the operational, financial, and administrative aspects of small enterprises across different sectors. The primary objective is to assess both the advantages and challenges associated with GST implementation, thereby providing a comprehensive understanding of its influence on the small business sector.

Sources of Data

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.

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 those 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 small erenterprises.

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.

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.

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.

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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