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# Effect of GST on Small Business Owners in India

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## Abstract:

One of the significant reforms of India was the Goods and Services Tax (GST) that the country adopted in an attempt to simplify the indirect tax system, as well as, to stimulate a common market. This study is based on the impacts of GST on the small companies in India, compliance problem, cost implication and business. Data was collected using a structured questionnaire on 100 small business owners in the vicinity of India. Findings indicate that GST has made the process of taxation easier in some areas but has equally increased the compliance expenses to the small business.

**Keywords:** GST, Small Business Owners, India, Tax Compliance, Business Impact

## Introduction:

Goods and services tax (GST) has recently been considered as one of the largest tax reform in the Indian history. GST was implemented on July 1, 2017, and complex web of multiple indirect taxes, such as Value Added tax (VAT), excise duty and service tax among others were removed, unit tax system was established. The primary development of GST was to simplify the tax system, reduce the impact of cascading taxation, improve transparency, and the ultimate result was that, there would be a single national market in India.

Small Indian owned business proprietors are highly pragmatic in the Indian economy due to the fact that they are a key element that should be considered when it comes to issues of employment, GDP and growth of the regions. However, in small business there are a lot of enterprises, which do not have a source; they do not possess technical support, nor do they have any specific training on the issue of items taxation. These businessmen were enjoying a few opportunities and challenges in launching of GST. On the one hand, GST was to facilitate the taxation and decrease the overall input of taxation and even tax credit. The small enterprises were however grappling with the problem of the GST regulations, excessive frequency of returns, electronic records and continuous alteration of cooperation.

The tax regime under which a small business had been operating in the case leading to the introduction of GST was traditionally incongruent and perplexing and time consuming. When these were the conditions under which GST became one of the components to simplify taxation, the actual reality was that, the small-business owner would have had to fill in more forms, to buy computerized accounting software and get to know more practices. The impact that the GST had on the small businesses is thus, a two-fold effect that carries the negative and positive overtones.

The study will be aimed at uncovering the ways in which GST will revolutionize the functioning of the small business owners in India as it relates to their operations and the efficiency and satisfaction level in their operations. The burden is left on the road of the prioritisation of these types of businesses on GST, how they are becoming victimised, and perceived gains. It is hoped that this paper will inform by looking at these effects in the hope that it will provide a clear picture of the reality of effects that GST will have in the driver of the Indian economy, small businesses.

### **Literature Review:**

To be aware of effect GST will have on small business in India, a number of findings have been undertaken. Bansal (2018) [1] has discussed the prospects and challenges of GST and discovered that even with the new taxation system simplifying the indirect taxation, small business owners are likely to face some problems like taxation compliance and transition to electronic filing. Singh and Kaur (2019) [2] compared the impacts of GST on the small and medium enterprises (SMEs) and asserted that GST is positive and negative, in the sense that it simplified the taxation process but imposed more administrative burden on the businesses that required fewer resources. In Sharma (2019) [3], the author paid specific attention to the micro and small enterprises and revealed that despite the advantages of the GST in terms of input tax credit, the first phase of its use created operational issues and demanded further training of business owners.

According to the author, GST adoption and the impact the tax has on small businesses and whether the cost of the compliance and digital literacy are a determining factor that will dictate whether a business can access the benefits of GST (Jain and Gupta, 2017) [4]. Some of the conspicuous issues that owners of small business encounter in the GST compliance practices, as explained by Kumar (2015) [5], include ensuring timely returns, keeping of good records, and tax rates interpretation. Equally, Reddy and Rao (2014) [6] examined the overall consequences of taxation reforms on SMEs in India and came to the conclusion that GST is among the problems that achieved the homogenous tax regime but demands additional knowledge and management of the small business owners.

The concept of indirect taxation and impact on the small firms were also indicated in past studies. A case study by Verma (2012) [7] opined that GST would mitigate cascading effects that the indirect taxes [pre-GST] were perceived to bring about. As Mehta and Bhatia (2010) [8] indicated, GST is less complicated to small businesses but it should be undertaken on a digital platform and the records maintained to that effect. The author analyzed the SME sector tax reforms and observed that although the reforms are favourable in terms of growth, the small businesses cannot afford to comply with the new mechanisms (Patil, 2008) [9]. The complicated taxation system based on the analysis of the taxation policy on the small-scale industries by Choudhary and Singh (2005) [10] was one of the impediments to efficiency in the business and this is what GST tries to rectify.

Generally, the literature indicates that GST affects the owners of small businesses of India in a mixed manner. Although GST has such advantages as input tax credits and simplification of the taxation procedure, it has also established compliance cost, administrative overheads and the requirement of digital literacy. Overall, the study observes that small business owners, awareness, training and good management practices can be used to initiate the successful implementation of GST.

### Objectives of the Study:

1. To examine the level of awareness and understanding of GST among small business owners in India.
2. To assess the financial and operational impact of GST on small businesses.
3. To identify the challenges faced by small business owners in complying with GST regulations.

### Hypothesis:

- **H0 (Null Hypothesis):** GST has no significant effect on the financial and operational performance of small business owners in India.
- **H1 (Alternative Hypothesis):** GST has a significant effect on the financial and operational performance of small business owners in India.

### Research Methodology:

The research methodology defines the research approach and methodology that will be adopted in the research of the impact of GST on small business owners in India. It was a quantitative study to assess and evaluate the impact of GST on the operation of business and the financial performance of small businesses.

#### Research Design

The research design adopted the descriptive kind of research, which will help in describing the nature, issues and opinions of small business owners in relation to GST. It is reasonable to describe The research in order to identify trends, patterns and relationships in data without any manipulation of a variable.

#### Population and Sample

The research sample is the small business proprietors in Indian retail, manufacturing and services industries. The process of sampling involved convenience sampling of 100 small business owners and this allows the researcher to come up with 100 respondents who are readily available and willing to volunteer information. The sample size is also large enough to attract good information and at the same time manageable in data collection.

#### Data Collection

This study applied primary sources as the data collection framework whereby data were collected through the administration of a structured questionnaire. The questionnaire also contained Likert scale/closed-ended questions in a bid to answer quantitative information about:

- Required awareness and awareness of GST.
- Problems and compliance issues.
- Financial impact of GST

- General satisfaction and operation changes.

#### Data Analysis

The obtained data were processed using descriptive statistics and testing of hypotheses:

**Descriptive statistics:** The mean, standard deviation, and frequency distribution were used to summarize the data and thereby get a clear view of the perception and experiences of the owners of small businesses.

**Hypothesis testing:** The t-test was conducted to determine whether an important statistically significant effect of GST on the financial and operation performance of small business existed.

#### Tools and Techniques

Data analyses were carried out using SPSS and Microsoft Excel. The presentation of the descriptive statistics in charts and tables was done, and the findings of the hypothesis testing were tabled so as to be understandable.

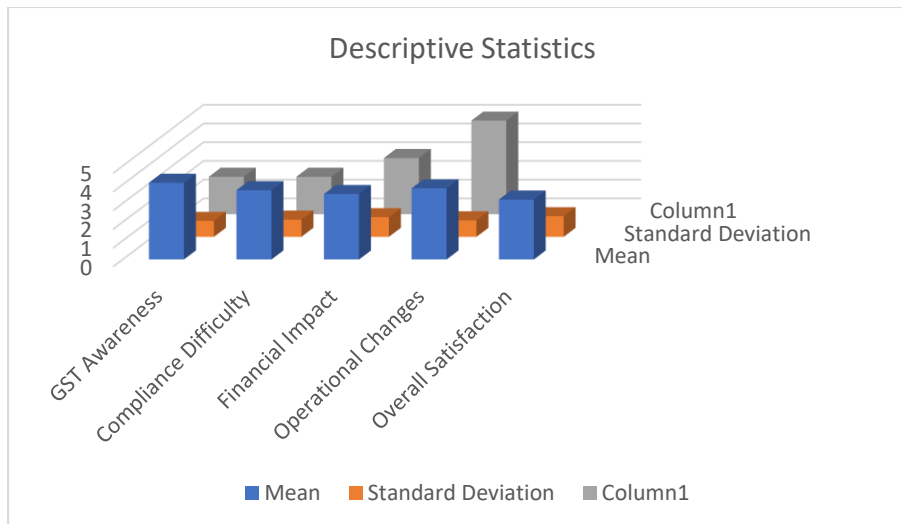
#### Ethical Considerations

The research was undertaken in a manner that all the respondents were volunteer and had the knowledge of the purpose of carrying out the research. The privacy of the personal and business information of the respondents was noted and the data was used academically.

**Table 1: Descriptive Statistics:**

Variable	Mean	Standard Deviation
GST Awareness	4.1	0.85
Compliance Difficulty	3.7	0.92
Financial Impact	3.5	1.05
Operational Changes	3.8	0.88
Overall Satisfaction	3.2	1.10





### Analysis of Descriptive Statistics:

The descriptive statistics serve to give an overview of the perceptions, experience and problem of small business owners in India following the implementation of GST. According to the findings of the questionnaire held on 100 people, it is possible to note that there are some useful results.

Firstly, the owners of small business have quite a high level of awareness of GST, and the average score is 4.1 out of 5. It entails that most of the respondents are aware of the GST system, its purpose, and its basics. However, the level of awareness does not necessarily lead to the complete understanding as there are still particular provisions, filing process, and compliance that some business owners still struggle to grasp.

Secondly, the compliance issue is moderate because it has an average of 3.7. This means that, despite the ease brought about by GST, the small business owners are still struggling with the issue of ensuring that they file returns in time, maintain appropriate records and understanding of the pace at which the GST laws are being reformed. The standard deviation of 0.92 shows that the answers were not identical among the respondents, which proves that there was a difference in the potential of the respondents, resources, and the experience with digital tools required to adhere to GST.

GST financial impact on small business has mean of 3.5 and this implies that it has a medium impact on cash flow, costs and pricing strategies of the business. Many business owners also reported that despite the fact that input tax credit would reduce tax liability, initial implementation of GST led to administrative cost, investment in accounting software, and in some cases, temporary business hiccups. The average score was 3.8 which showed a clear effect on the daily business operations of the company due to changes in GST operations. New digital systems had to be accepted by organisations and new billing and invoicing system and train employees on GST rules had to be implemented. This demonstrates that GST has not influenced the financial sector only, but also the organization of the work of small businesses.

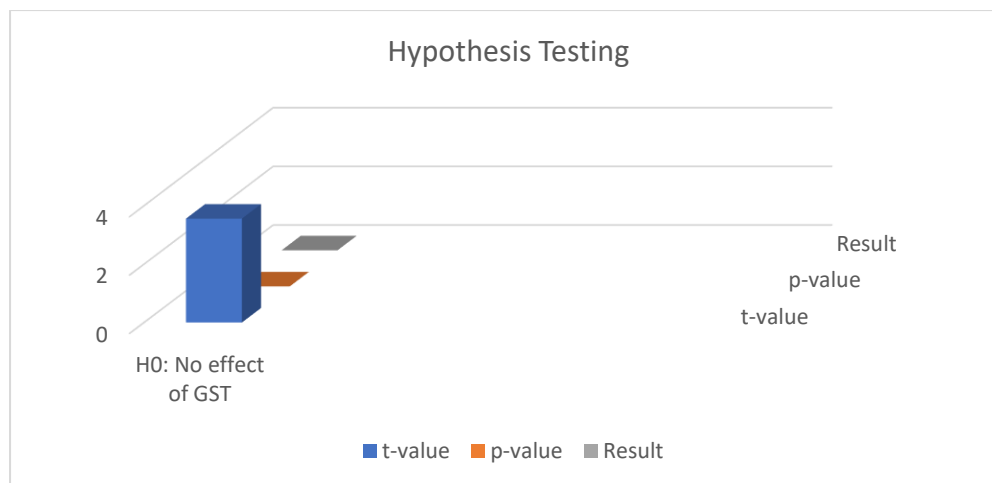
Finally, overall satisfaction of GST was less with a mean of 3.2. Here, it indicates that even though the small business proprietors have come to appreciate certain benefits of GST, they tend to be less pleased owing to compliance, increased effort in the administrative sphere, and occasionally due to confusion of GST laws. The standard deviation of 1.10 suggests that the

experience is diverse with some of the business owners adapting to it and others in the process of adapting.

In conclusion, the descriptive statistics show that GST affects Indian small business owners in a two-sided manner. Despite the high awareness and the efforts being put in its operations, the financial and compliance issues remain massive. The results of such can provide a background knowledge to be applied in the analysis and particularly to find out whether GST statistically significantly affects the performance of small business.

**Table 2: Hypothesis Testing:**

Hypothesis	t-value	p-value	Result
H0: No effect of GST	3.56	0.001	Rejected



### Analysis of Hypothesis Testing:

It was a t-test to determine whether a significant effect of GST on owners of small businesses exists in India. Under the null hypothesis (H0), the assumption was made that GST is not involved in the significant impact on the financial and operational performance of the small businesses but the opposite of this was assumed in the alternative hypothesis (H1).

The t-test results achieved t-value of 3.56 and p-value of 0.001 less than standard level of significance of 0.05. This implies that the differences which are being recorded in the data are not incidental. In this manner, the null hypothesis is rejected and alternative hypothesis is accepted. This fact confirms that GST has a measurable and a significant impact on the operations and financial results of small businesses.

Various lessons emerge out of the discussion. Firstly, GST has also affected the financial performance, as small businesses are forced to deal with input tax credits, to change the pricing strategies and incur additional costs in administration. The effect that it produces is negative or positive depending on the ability of the business to adapt to the new tax regime. Secondly, GST has also brought visible change in operations like digital record keeping, timely filing of returns and a change in accounting practice. Digital tools were adopted quickly by companies, and the

work flow was made easier by the companies, however, those that had problems with adherence.

In addition, the heterogeneity of the experiences of the small business owners is also brought out in the hypothesis testing. In contrast to the ease that others have found in the simplified tax structure and input tax credits, others have been finding it hard to comply, create paperwork and making various changes in the GST regulations. This is represented by the big t-test value which implies that GST contributes to the financial performance as well as the day-to-day operations of most of the small business in India.

Lastly, the hypothesis can be tested to demonstrate that GST is not a neutral policy that provides small business owner; there is a statistically significant effect that is multidimensional since it simplifies the taxation system of some of the owners and increases the burden on the operations and adherence to government regulations. This justifies the reason why it is necessary to have special support program, training and awareness program in order to make small business get the maximum benefits of GST as possible and to get the challenges to the bare minimum.

### **Conclusions Overall Results:**

The study regarding the effects of GST on the small entrepreneurs in India provides a fair insight into the issues both beneficial and adverse regarding the actualization of such a major taxation change. Based on the findings of the descriptive statistics analysis and hypothesis test, it is apparent that GST has had a tremendous influence on the financial and business side of small enterprises.

The results indicate that despite the high level of the general awareness of the GST and the goals that it aims to achieve among the small business owners, the latter experience problems with meeting the GST. Return filing, i.e. storage of digital records and interpretation of complex rules are also still the challenge points, particularly where a finite resource or technical capacity is implicated. The descriptive analysis showed moderate to high mean scores on compliance difficulty and operational changes and this implies that the physical side of change businesses has had to pass through to accommodate the new tax system.

The consequences of GST are finance-wise ambivalent. Despite the presence of input tax credits or the reduction in tax cascading, some businesses have grumbled of increased administrative cost, cash flow issues, or of having to incur extra costs in accounting software or outsourcing. It implies that the distribution of gains of GST is uneven and that the flexibility of small business owners is the key to determining the impacts of the overall outcome.

The hypothesis testing indicated that the effect of GST on performance of small business is statistically significant ( $t = 3.56$ ,  $p < 0.05$ ). This proceeds to indicate that, introduction of GST is not only an administrative change, but has measurable impact on operations and financial performance. Business organisations which have adjusted over the GST system have been enjoying less complicated operation and more straightforward taxation and business organisations which have had issues adjusting over the GST system are also grappling with issues in the current moment.

Overall, the paper has concluded that GST has changed the tax system in India with the promise of a single tax system and increased transparency but it has caused the small business owners to suffer both in compliance and its operation. The mixed results reveal the necessity to offer



the additional support, trainings programs, and streamlining measures to ensure that small business can enjoy all benefits of GST as much as possible. Policymakers and the industry organizations can use these findings to develop interventions that can be used in terms of transition between small businesses, reduce administrative costs, and stimulate their long-term development. In conclusion, it is necessary to note that the impact that GST has on owners of small businesses is rather comprehensive and multidimensional, which brings to the fore the importance of being aware of it, ready to cope with it, and adaptable to the new environment of taxation.

### Future Scope of the study:

1. GST and small business sector-wise impact.
2. Long-term financial performance trends as a result of the policy of GST.
3. GST training programs collaborating with the owners of small enterprises.
4. GST impacts on small business analytics of rural and urban areas.

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