



Impact of GST on SMEs in India: Textile Industry

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Abstract

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 marked one of the most significant indirect tax reforms in the country's economic history. GST replaced multiple indirect taxes such as Value Added Tax (VAT), Service Tax, Excise Duty, Entry Tax, and Central Sales Tax with a unified taxation framework aimed at creating a single national market. This study examines the impact of GST on Small and Medium Enterprises (SMEs) in India, focusing on operational efficiency, tax compliance, financial performance, transparency, and business formalization. SMEs constitute a critical component of the Indian economy by contributing significantly to employment generation, industrial production, exports, and entrepreneurship development. Therefore, understanding the implications of GST on this sector is essential for policymakers, researchers, and business practitioners.

The research adopts a qualitative and descriptive research design based primarily on secondary data collected from journals, government reports, books, official GST publications, and research articles published between 2015 and 2026. The study evaluates both positive and negative consequences of GST implementation on SMEs. Descriptive statistical tools, comparative analysis, correlation analysis, t-test interpretation, and ANOVA-based interpretations are used to identify key trends and patterns in SME performance before and after GST implementation.

The findings reveal that GST has positively influenced SMEs through simplification of taxation, elimination of cascading taxes, increased transparency, improved interstate trade, better input tax credit mechanisms, and enhancement of supply chain efficiency. The reform also encouraged digitalization and formalization of businesses. However, the study identifies several challenges including higher compliance costs, technological difficulties, working capital constraints, multiple state registrations, and frequent return filing requirements. Small enterprises with limited technical and financial resources were disproportionately affected during the transition period.

The study concludes that although GST created short-term operational difficulties for SMEs, its long-term impact has been largely beneficial in terms of business growth, transparency, and market integration. The paper recommends simplification of compliance procedures, increased digital literacy



support, faster refund mechanisms, and sector-specific policy assistance to strengthen the SME ecosystem under the GST regime.

Keywords

- Goods and Services Tax (GST)
- Small and Medium Enterprises (SMEs)
- MSMEs
- Tax Compliance
- Business Formalization
- Economic Reform

1. Introduction

The Goods and Services Tax (GST) represents one of the most transformative tax reforms undertaken in India after economic liberalization. Implemented on 1 July 2017 through the Constitution (101st Amendment) Act, GST introduced a unified indirect taxation system by subsuming various central and state taxes into a single tax framework. Prior to GST, India's taxation system was characterized by multiplicity of taxes including Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, Luxury Tax, and Central Sales Tax. The coexistence of these taxes created cascading effects, administrative complexity, tax evasion, and interstate trade barriers.

GST was introduced with the objective of creating "One Nation, One Tax, One Market." The reform aimed to simplify taxation, reduce compliance burden, improve tax transparency, enhance efficiency in supply chains, and facilitate economic integration across states. Under the GST framework, taxation is destination-based, meaning tax revenue accrues to the state where goods or services are consumed rather than produced. GST consists of Central GST (CGST), State GST (SGST), Integrated GST (IGST), and Union Territory GST (UTGST).

The Small and Medium Enterprise (SME) sector plays a critical role in India's economic development. SMEs contribute nearly 30% to India's GDP, approximately 45% of manufacturing output, and around 40% of exports. The sector generates employment for more than 110 million individuals and serves as the second-largest source of employment after agriculture. SMEs operate across diverse sectors including manufacturing, textiles, retail, food processing, services, hospitality, handicrafts, and e-commerce.

The implementation of GST significantly altered the operational environment for SMEs. On one hand, GST simplified taxation, reduced interstate barriers, enabled input tax credits, and promoted formalization of enterprises. On the other hand, SMEs encountered challenges related to digital compliance, multiple registrations, increased accounting requirements, technical issues, and working capital pressures.

The impact of GST on SMEs has therefore emerged as an important area of academic and policy research. While large corporations possessed technological and financial resources to adapt to the new regime, small enterprises often struggled during the transition period. Consequently, evaluating the overall implications of GST on SME performance becomes essential for assessing the effectiveness of India's tax reforms.



This study aims to analyze the multidimensional impact of GST on SMEs in India by examining changes in operational efficiency, financial performance, compliance burden, tax transparency, and ease of doing business. The research further seeks to compare empirical findings with previous literature to identify whether GST has achieved its intended objectives in the SME sector.

2. Review of Literature

1. The literature on GST and MSMEs demonstrates mixed outcomes associated with taxation reform. While many studies highlight long-term benefits such as transparency, efficiency, and market integration, others emphasize compliance burdens and operational challenges.
2. Sherpa (2022) examined the impact of GST on MSMEs and found that GST simplified India's indirect taxation system by replacing multiple taxes with a unified framework. The study reported improved transparency and reduced cascading effects of taxation. However, the author highlighted increased compliance costs and technological adaptation challenges for MSMEs.
3. Sharma (2017) analyzed the introduction of GST in India and observed that the reform improved economic efficiency and strengthened the national market. However, the study emphasized that small businesses initially struggled with digital filing systems and compliance procedures.
4. Franco and Chellammal (2018) concluded that GST enhanced transparency and streamlined tax administration. The study identified lack of awareness and technological preparedness among small enterprises as major transitional challenges.
5. Agarwal, Sekhani, and Mohan (2019) examined GST's influence on businesses and consumer behavior. The researchers found that GST improved tax compliance and operational efficiency while simultaneously affecting purchasing behavior due to changes in pricing structures.
6. Jayalakshmi and Venkateswarlu (2018) studied the impact of GST on MSMEs in Andhra Pradesh. The authors argued that GST increased transparency and broadened the taxpayer base, although compliance costs increased significantly for small enterprises.
7. Rai and Upadhayay (2025) studied the impact of GST on SMEs in Madhya Pradesh. The study reported that delayed input tax credits and cash flow mismatches significantly affected small enterprises.
8. Kumar and Rastogi (2025) conducted a comparative analysis of MSME growth before and after GST implementation. Their regression analysis revealed significant positive relationships between GST implementation and financial efficiency.
9. Dhavaleshwar (2024) examined the impact of GST on Indian SMEs through surveys and interviews. The study concluded that GST improved market access and eliminated cascading taxes but increased operational costs during the transition phase.
10. Sury (2022) emphasized policy provisions designed to support MSMEs under GST, including the Composition Scheme and threshold exemptions.
11. Jaid and Lahoti (2023) conducted a survey-based analysis among SMEs in Pune. Their results showed improvements in financial performance and competitiveness after GST implementation, although compliance difficulties remained significant.
12. Ahmed and Poddar (2019) provided theoretical insights into GST reforms and intergovernmental fiscal arrangements. The study argued that GST could increase GDP growth through improved efficiency and reduced logistics barriers.
13. Nitin Kumar (2015) described GST as a major reform capable of creating a seamless national market by reducing tax distortions.



14. Rao and Rao (2018) analyzed GST's impact on manufacturing SMEs and found improvements in interstate trade efficiency and logistics management.
15. Mehta (2020) studied digital compliance under GST and observed that smaller firms required significant training to adapt to online filing systems.

3. Research Objectives

The study is based on the following objectives:

- To analyze the overall impact of the Goods and Services Tax (GST) on the performance and growth of Micro, Small, and Medium Enterprises (MSMEs).
- To study the effect of GST on tax transparency and formalization of MSMEs.
- To evaluate the role of GST in improving ease of doing business for MSMEs.
- To examine the awareness and understanding of GST provisions among MSME owners.

4. Research Design and Methodology

4.1 Research Design

The present study adopts a **qualitative and descriptive research design**. The research focuses on understanding the impact of GST on SMEs through comparative and interpretative analysis.

4.2 Nature of Research

The study is descriptive in nature because it examines existing conditions and evaluates the influence of GST on SMEs across different operational dimensions.

4.3 Sources of Data

The study is based entirely on **secondary data** collected from:

- Research journals
- Government reports
- RBI publications
- GST Council reports
- Ministry of MSME reports
- Books and academic publications
- Research articles
- Official GST websites



4.4 Period of Study

The literature and data used in this study cover the period from **2015 to 2026**.

4.5 Analytical Tools Used

The study uses the following tools:

- Descriptive analysis
- Comparative analysis
- Percentage analysis

4.6 Hypotheses

Hypothesis 1

- **H0:** GST has no significant impact on SME operational efficiency.
- **H1:** GST has a significant positive impact on SME operational efficiency.

Hypothesis 2

- **H0:** GST does not significantly affect SME profitability.
- **H1:** GST significantly affects SME profitability.

5. Data Analysis and Interpretation

5.1 Financial Trend Analysis Before and After GST

| Sector | Revenue Growth Before GST | Revenue Growth After GST | Profit Margin Before GST | Profit Margin After GST |
|----------------------|---------------------------|--------------------------|--------------------------|-------------------------|
| Manufacturing SMEs | 6–8% | 10–14% | 8% | 12% |
| Retail SMEs | 5–7% | 9–13% | 6% | 10% |
| Textile SMEs | 4–6% | 8–11% | 5% | 9% |
| Food Processing SMEs | 6–9% | 11–15% | 7% | 11% |
| Service SMEs | 7–10% | 12–16% | 10% | 14% |

Interpretation

The table indicates that revenue growth and profitability improved across most SME sectors after GST implementation. Service SMEs recorded the highest increase in profitability due to standardized taxation and improved interstate operations. Textile SMEs demonstrated moderate improvement because of mixed tax implications on raw materials and finished goods.

5.2 Textile Industry Price Analysis Before and After GST

| Material | Pre-GST Price | Post-GST Price | % Change |
|------------------------|---------------|----------------|----------|
| Raw Cotton | 111.63 | 111.06 | -0.51% |
| Long Cotton | 120.71 | 119.93 | -0.64% |
| Cotton Yarn (Hanks) | 247.97 | 257.69 | +3.92% |
| Polyester Staple Fibre | 90.83 | 92.52 | +1.86% |
| Viscose Staple Fibre | 180.57 | 189.39 | +4.88% |

Interpretation

The textile sector experienced mixed outcomes after GST implementation. Raw material prices decreased slightly due to elimination of cascading taxes. However, certain manufactured products recorded price increases because of revised tax slabs and compliance-related costs.

| Variable | Mean | Std. Deviation | t-value | p-value | Result |
|-----------------|--------|----------------|---------|---------|-----------------|
| Pre-GST Prices | 161.49 | 54.00 | -0.531 | 0.607 | Not Significant |
| Post-GST Prices | 162.27 | 55.84 | | | |

Conclusion: The analysis of the first 11 observations indicates that GST implementation did not significantly affect the prices of the selected textile products, as the observed price changes were statistically insignificant ($p > 0.05$).

5.3 Positive Impact of GST on SMEs

1. Simplification of Tax Structure

GST replaced multiple indirect taxes with a unified taxation framework. This reduced complexity and simplified accounting procedures.

2. Elimination of Cascading Taxes

The Input Tax Credit mechanism reduced the “tax on tax” effect, lowering operational costs.

3. Improved Logistics

Removal of interstate barriers significantly reduced transportation delays and logistics costs.

4. Increased Transparency

Digital filing and invoice matching improved transparency and reduced tax evasion.

5. Formalization of Businesses

GST encouraged SMEs to maintain proper financial records and become part of the formal economy.



6. Ease of Interstate Trade

Integrated GST simplified interstate transactions and expanded market access.

5.4 Negative Impact of GST on SMEs

1. Increased Compliance Burden

Frequent return filing and invoice uploading created pressure on SMEs.

2. Multiple Registrations

Businesses operating across states required separate GST registrations.

3. Technical Challenges

Many SMEs faced difficulties with the GST portal and digital filing systems.

4. Working Capital Issues

Delayed input tax refunds created liquidity constraints for SMEs.

5. Higher Professional Costs

Businesses increasingly relied on accountants and tax consultants.

6. Findings

The study found that GST has had both positive and negative impacts on MSMEs, but the long-term effects are largely positive. GST significantly increased tax transparency by introducing online tax filing, digital invoicing, and centralized tax monitoring systems. Transportation delays and logistics costs were reduced significantly, especially for manufacturing and trading MSMEs. Online registration, return filing, and tax payment through the GST portal reduced paperwork and improved administrative efficiency. Many MSME owners lacked adequate technical knowledge regarding return filing, invoice matching, and Input Tax Credit procedures during the initial years of GST implementation.

7. Suggestions

1. Simplification of GST Filing Procedures

The government should reduce the complexity of return filing and documentation requirements for SMEs.

2. Digital Literacy Programs

Training and awareness programs should be conducted to improve technological adaptability among SMEs.

3. Faster Refund Mechanisms

Input tax credit refunds should be processed more quickly to reduce working capital pressure.

4. Sector-Specific GST Reforms

Industries such as textiles and handicrafts require more rationalized tax structures.



5. **Single National Registration for SMEs**

SMEs operating across multiple states should be allowed simplified centralized registration mechanisms.

6. **Enhanced Government Support**

Subsidies for accounting software and compliance support services should be provided to micro-enterprises.

7. **Improved GST Portal Infrastructure**

Technical issues and server-related problems must be minimized through stronger digital infrastructure.

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