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Impact of GST on MSME Survival, Growth, and Competitiveness: A Comparative Analysis of Rural vs. Urban Enterprises

***Dr K. Rajesh **Dr B. Yuvaraja Reddy**
* Sr Lecturer in Economics, S.G.S. Arts College (Autonomous), TTD, Tirupati, Andhra Pradesh, Email id – rajesh9parvathi@gmail.com, Mobile no.9603853663
** Lecturer in Commerce, S.G.S. Arts College (Autonomous), TTD, Tirupati, Andhra Pradesh, Email id – yuvarajareddyb@gmail.com, Mobile no.9000274149
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Abstract

Micro, Small, and Medium Enterprises (MSMEs) are considered the backbone of the Indian economy because they contribute significantly to employment generation, industrial production, and regional development. The introduction of the Goods and Services Tax (GST) in July 2017 brought a major transformation in India's indirect taxation system by replacing several central and state taxes with a unified tax framework. While GST was introduced to simplify taxation and promote economic efficiency, its impact on MSMEs has been both positive and challenging. This research paper analyzes how GST has influenced the survival, growth, and competitiveness of MSMEs with a comparative perspective between rural and urban enterprises. The study is based on secondary data from government reports, research publications, and economic surveys. The findings indicate that GST has improved transparency, encouraged formalization, and expanded market access for MSMEs. However, rural enterprises continue to face difficulties related to digital infrastructure, compliance requirements, and financial limitations. The paper concludes that although GST has enhanced competitiveness for many urban enterprises, targeted support policies are necessary to ensure that rural MSMEs also benefit from the reform.

Key words: MSMEs (Micro, Small, and Medium Enterprises) - GST (Goods and Services Tax) - Rural vs. Urban Enterprises - Inclusive Growth

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in promoting inclusive economic growth in India. These enterprises contribute significantly to industrial output, exports, and employment opportunities across the country. In many rural areas, MSMEs act as a primary source of income and help in reducing regional economic disparities.

In order to modernize India's tax structure and improve economic efficiency, the government introduced the Goods and Services Tax (GST) in July 2017. GST replaced several indirect taxes such as Value Added Tax (VAT), excise duty, service tax, and entry tax with a single unified tax system. The main objective of GST was to simplify tax compliance, eliminate cascading taxes, and establish a common national market.

Although the reform aimed to benefit businesses of all sizes, the impact of GST on MSMEs has been uneven. Urban enterprises with better technological and financial resources have adapted relatively easily, while rural enterprises have encountered several challenges. This research paper examines how GST has affected MSME survival, growth, and competitiveness and compares the experiences of rural and urban enterprises.

2. OBJECTIVES OF THE STUDY

The main objectives of this research are:

3 To examine the impact of GST on the survival of MSMEs in India.
4 To analyze how GST has influenced the growth and expansion of MSMEs.
5 To compare the impact of GST on rural and urban enterprises.
6 To evaluate whether GST has improved the competitiveness of MSMEs.

3. Overview of GST and MSMEs

3.1 Goods and Services Tax (GST)

GST is a destination-based indirect tax levied on the supply of goods and services. Under this system, tax is collected at each stage of production and distribution, but businesses can claim credit for the tax paid on inputs. This mechanism, known as Input Tax Credit, prevents the problem of double taxation and reduces the overall tax burden on businesses.

The introduction of GST also aimed to create a unified tax system across the country, thereby reducing administrative complexities and improving efficiency in the movement of goods.

3.2 MSME Sector in India

The MSME sector includes a wide range of enterprises engaged in manufacturing, services, and trade activities. These businesses operate with relatively

small investments but play a major role in economic development. MSMEs contribute significantly to employment generation and support the development of local industries, particularly in rural and semi-urban regions.

4. GST on MSMEs

Positive Impact of GST on MSME in IndiaAll these benefits have come to MSMEs from GST streamlining their operations and opening them up to new opportunities. Here are the key advantages:

4.0 Simplification of Taxation

Introduction of GST replaced with a single unified tax structure various indirect taxes. This simplification helped to reduce complexities of managing multiple States and central taxes, and allowed the MSME to focus on business growth.

4.1 Increased Transparency

Implementation of a uniform tax rate, and digital record keeping have promoted GST's transparency. It has gone a long way in reducing tax evasion, it helps compliant businesses and promotes fair competition.

4.2 Ease of Interstate Trade

Previously, MSMEs faced barriers to interstate trade due to varying taxes. GST eliminated these obstacles, creating a national market and enabling MSMEs to expand their customer base across states.

4.3 Input Tax Credit (ITC)

Total tax payable under GST is limited to tax on raw materials and services taken for business. The result has been the reduction of the overall tax burden, which has decreased costs and increased profit for MSMEs.

4.4 Boost to Exporters

The export provision providing zero rating of GST has helped export oriented MSME. This has brought down the cascading effect of taxes on Indian goods and services, making them now more competitive in global markets.

5 Challenges Faced by MSMEs Due to GST

Obviously GST is good, but the implementation of it also had lot of challenges specially for the MSMEs in its early stages.

5.0 Increased Compliance Burden

Nowadays, MSMEs need to file monthly, quarterly and annual returns through online platforms. This has meant higher compliance costs and a reliance on professional support for businesses not used to digital systems.

5.1 Cash Flow Issues

Delays in GST refunds, especially for exporters, have caused cash flow

challenges. Many MSMEs rely on consistent liquidity for daily operations, making these delays a significant concern.

5.2 Higher Tax Rates for Some Goods and Services

As GST simplifies tax structure some were put on tax at a higher rate than before GST. In this, it increased the cost for businesses operating in particular sectors, in this case, textiles and handicrafts.

5.3 Dependency on Technology

GST filing is also a process that is digital, which requires reliable internet connectivity and technical knowledge. The requirements often make compliance hard for small businesses in rural or remote areas.

6 Government Initiatives to Support MSMEs Under GST

Recognizing the challenges MSMEs face, the government has introduced measures to facilitate GST compliance and reduce its impact:

6.0 Composition Scheme: This scheme is applicable to MSMEs which have a turnover of up to
₹1.5 crore, and pay a flat tax rate with reduced compliance.

6.1 Relaxed Filing Rules: Compliance burden has been shifted to smaller businesses, allowing quarterly filings instead of monthly returns.

6.2 Awareness and Training Programs: The government and industry bodies have been training it to educate MSMEs of the procedures to follow GST filing and compliance.

6.3 GST Refund Acceleration: Steps have been taken to expedite GST refunds, especially for export-oriented MSMEs, to resolve liquidity concerns.

The initiatives are aimed at countering the impact of GST on MSME and making sure that the benefits of GST are more than what the small businesses face.

7 Long-Term Implications of GST on MSMEs

Over time, GST is expected to drive several transformative changes in the MSME sector:

7.0 Encouraging Formalization: On the other hand, GST has lured businesses to formalise and file tax returns to access such benefits, which in turn increases transparency, and enables access to institutional funding.

7.1 Improved Competitiveness: GST has made MSMEs more competitive in domestic and global markets by reducing costs through ITC and promoting efficiency.

7.2 Better Integration into Supply Chains: The streamlined tax system has included MSMEs in the organized supply chains increasing their market

reach.

It is clear that the impact of GST on MSME in India goes beyond the limited effect in the short term and are a reflection of the potential of GST to bring long term outcomes in the form of growth and resilience in the sector

1. Impact of GST on MSME Survival

The survival of MSMEs largely depends on their ability to adapt to changing economic and regulatory environments. GST has had both supportive and challenging effects on the sustainability of these enterprises.

Table 1: Survival Rate of MSMEs After GST (Rural vs Urban)

Year	Rural MSME Survival (%)	Urban MSME Survival (%)
2018	78	85
2019	76	84
2020	70	80
2021	72	82
2022	74	86
2023	75	88
2024	77	89
2025	79	91

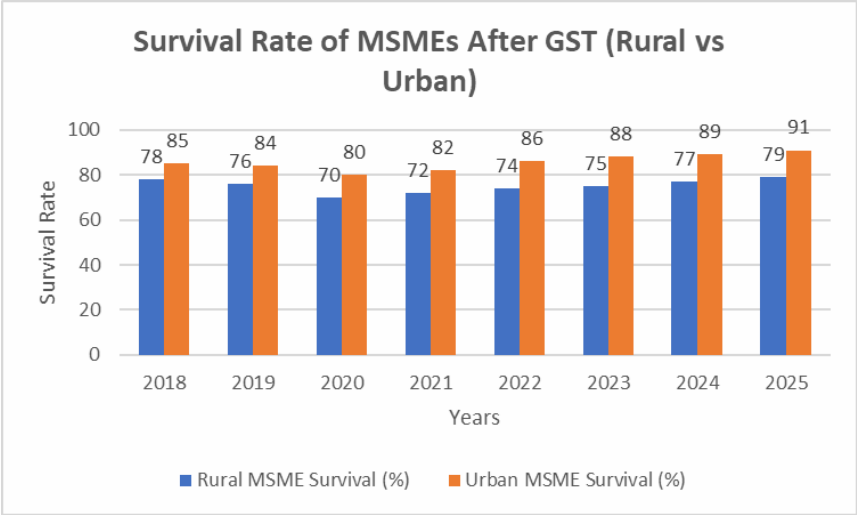


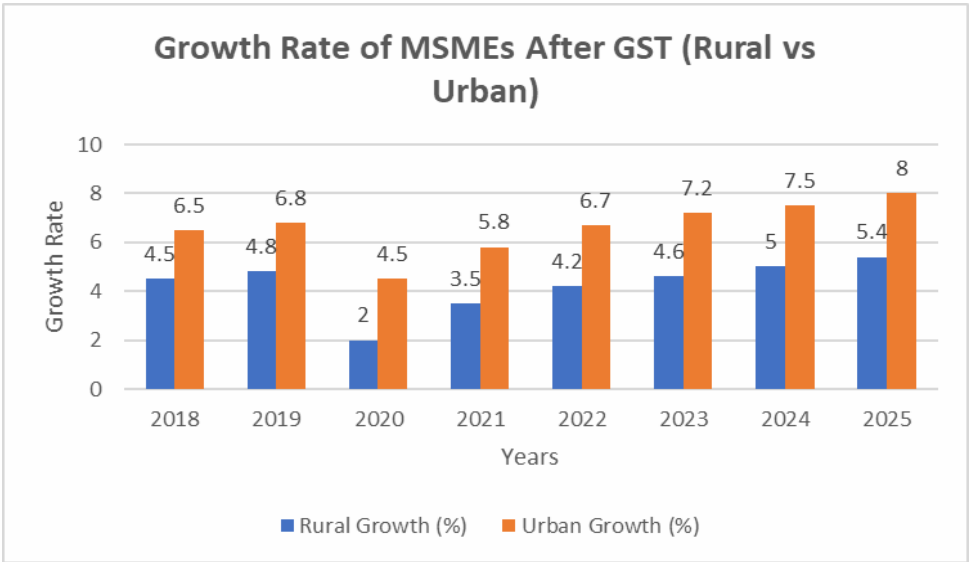
Figure 1 : Survival Rate of MSMEs After GST (Rural vs Urban)

Interpretation

1. Urban MSMEs show higher survival rates due to better infrastructure and financial support.

2.Rural MSMEs experienced a decline during 2020 due to COVID effect and compliance difficulties and economic slowdown, but gradually recovered.On the positive side, GST has simplified the indirect tax structure by replacing multiple taxes with a single system. This has reduced confusion related to different tax rules across states and made interstate trade easier. Businesses can now operate in multiple states without facing complex tax barriers.However, the implementatiSon of GST also introduced several compliance requirements such as online return filing, digital record maintenance, and invoice matching. Many small businesses, particularly those located in rural areas, initially struggled to adapt to these requirements due to limited access to digital technology and professional accounting services.

Impact of GST on MSME Competitiveness



Competitiveness refers to the ability of businesses to produce goods and services efficiently and compete successfully in domestic and international markets.

GST has improved competitiveness in several ways. By eliminating cascading taxes and simplifying supply chains, the reform has reduced production costs for many businesses. The Input Tax Credit mechanism allows enterprises to claim credit for taxes paid on raw materials, thereby lowering the overall cost of production.

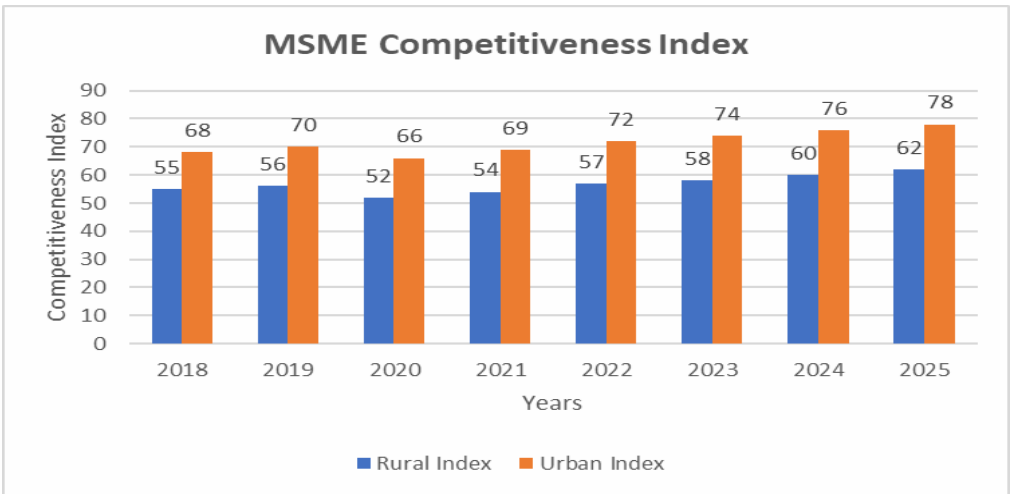
Additionally, GST has improved transparency in business transactions, which strengthens trust between businesses and financial institutions. This transparency can help MSMEs secure financing more easily. Despite these advantages, rural enterprises often face difficulties in competing with urban businesses due to infrastructure limitations, lower levels of digital adoption, and restricted access to financial services.

Table 3: MSME Competitiveness Index

Year	Rural Index	Urban Index
2018	55	68
2019	56	70
2020	52	66
2021	54	69
2022	57	72
2023	58	74
2024	60	76
2025	62	78

Interpretation

- GST improved competitiveness through input tax credit and supply chain efficiency.Urban enterprises remain more competitive due to better logistics, technology, and skilled workforce.



The impact of GST varies significantly between rural and urban enterprises because of differences in infrastructure, technology, and market access.

Spect	Rural Enterprises	Urban Enterprises
Digital Infrastructure	Limited internet access and digital literacy	Advanced digital connectivity
GST Compliance	More difficult due to lack of expertise	Easier due to professional support
Market Access	Mostly local or regional markets	Wider national markets
Technology Adoption	Slow adoption of digital systems	High adoption of technology
Business Competitiveness	Relatively lower	Higher due to efficiency and resources

Urban MSMEs benefit from better infrastructure, skilled manpower, and access to professional services such as accountants and tax consultants. Rural MSMEs, on the other hand, often operate in environments where such resources are limited.

2. Findings of the Study

The analysis of available data leads to several important findings:

- GST has simplified the indirect tax structure and improved transparency in business transactions.
- Urban MSMEs have adapted more quickly due to better infrastructure and access to technology.
- Rural MSMEs face greater challenges in compliance and digital adoption.
- GST has improved supply chain efficiency and market access for businesses.
- Additional policy support is required to ensure that rural enterprises can benefit equally from GST reforms.

3. Conclusion

The introduction of GST represents a significant milestone in India's economic reform process. By creating a unified tax system, GST has improved transparency, reduced tax cascading, and facilitated smoother movement of goods across the country.

For MSMEs, the reform has created opportunities for expansion and integration into formal markets. However, the impact of GST differs across regions. Urban enterprises have been able to adapt quickly and benefit from improved market access

and technological integration. Rural enterprises, in contrast, face several challenges related to infrastructure, digital literacy, and financial constraints.

In order to ensure inclusive economic development, policymakers must focus on strengthening digital infrastructure, simplifying compliance procedures, and providing targeted

training programs for rural entrepreneurs. Such measures will enable MSMEs across both rural and urban areas to fully benefit from the GST system and contribute to sustainable economic growth.

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