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India's GST Reform and MSME Performance: A Critical Review with Insights for Tourism Enterprises

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Abstract

The introduction of the Goods and Services Tax (GST) in 2017 marked a significant transformation in India's indirect tax regime, with wide-ranging implications for Micro, Small, and Medium Enterprises (MSMEs). Existing literature presents a comprehensive yet mixed assessment of GST's impact on MSME performance, indicating both structural benefits and operational challenges. Empirical studies suggest that GST has enhanced ease of doing business, improved operational efficiency, and contributed to higher profitability through tax unification, reduced cascading effects, and increased tax compliance awareness. Macro-level analyses further indicate growth in MSME exports, revenue generation, and contributions to national GDP in the post-GST period. Additionally, improvements in logistics, market accessibility, and formalisation have been observed across various regions.

However, these benefits are accompanied by significant challenges, particularly for smaller enterprises. Increased compliance costs, technological requirements, and working capital constraints have imposed burdens on MSMEs, especially those with limited digital literacy and infrastructure support. Short-term declines in sales and profitability have also been reported, highlighting transitional difficulties. Importantly, the impact of GST varies based on firm size, turnover, and organisational structure.

Despite the breadth of existing research, a critical gap remains in the analysis of tourism-related MSMEs, including small hotels, travel agencies, and tour operators. Sector-specific dynamics such as seasonality, bundled service pricing, and platform-based competition remain underexplored. Therefore, targeted research is essential to understand GST's nuanced effects on tourism MSMEs and to inform more sector-sensitive policy interventions.

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Keywords: GST, MSMEs, Tourism Sector, Compliance Burden, Economic Performance

Introduction

The Goods and Services Tax represent a monumental fiscal reform implemented in India, fundamentally altering the indirect taxation landscape across various sectors, including the critically important tourism industry. This reform aimed to subsume multiple central and state taxes into a single, unified tax, thereby streamlining the tax process and potentially improving the ease of doing business for Micro, Small, and Medium Enterprises in this sector. However, the implementation of GST has presented significant challenges for many MSMEs, often leading to increased compliance costs and complexities that can hinder their growth and profitability.

GST, introduced in 2017, reshaped India's indirect tax system with major implications for Micro, Small and Medium Enterprises (MSMEs). The available research provides a fairly rich picture of GST's impact on MSMEs in general, but there is almost no work specifically focused on tourism MSMEs, such as small hotels, tour operators, or travel agencies.

Literature Review

The existing scholarly discourse extensively examines the growth trajectories and challenges within the Indian tourism sector (Chakraborty & Ghosal, 2024), with particular attention to how economic crises impact tourism enterprises (Ferreira et al., 2023). Nevertheless, research specifically addressing the ramifications of the GST regime on MSMEs within the Indian tourism industry remains an area warranting further in-depth exploration, particularly concerning its influence on profit margins and operational complexities (Joshi et al., 2024). This study, therefore, aims to bridge this lacuna by systematically investigating the multi-faceted impact of GST on the financial performance, operational efficiency, and overall market competitiveness of MSMEs operating within India's dynamic tourism landscape.

Objectives:

Objectives of the Study

1. To evaluate the positive and negative implications of GST on the performance of MSMEs.

2. To examine the importance of MSMEs in the Indian tourism sector.
3. To analyse the effect of GST on operational efficiency and compliance burden of MSMEs, taking a few case studies
4. To identify research gaps and empirically assess sector-specific challenges faced by tourism MSMEs under the GST regime.

Methodology

The present study is based solely on secondary data collected from publications by various organisations and agencies. The present study used the information and data made available by the Ministry of Tourism, the Ministry of Small and Medium Enterprises, UNWTO, the Ministry of Statistics and Programme Implementations, Economic Journals, Newspapers, the Internet, etc. A systematic in-depth literature review was conducted to identify relevant studies and establish the current state of research in this domain (Ng et al., 2022). Four case studies from four different states in the tourism sector were compared to assess the impact of GST on MSMEs in this sector. This comprehensive analytical framework allowed for a nuanced understanding of how GST implementation affects the financial performance, corporate ethics, and overall market presence of tourism-focused MSMEs.

Overall Impact on MSME Performance

Across India, many studies report a mixed but often net-positive impact on MSME performance:

1. Survey-based work finds GST has improved ease of doing business, operational efficiency, profitability, and reduced working-capital blockage, mainly through unified tax structure, technology transition, and better tax awareness (Bhalla et al., 2023; Bhalla et al., 2024; Mohan & Ali, 2018).
2. Macro-level analysis (2015–2020) shows significant postGST increases in MSME export, revenue generation and GDP contribution (Bhalla et al., 2024).
3. Some regional studies (Punjab, Rajasthan, Sikkim, Bikaner, Durg Division) show better logistics, market access, and formalisation, but with strong variation across firms (Taneja, 2025; Garg et al., 2024; Madasu, 2024; Mohan & Ali, 2018; Mallikarjun & Soni, 2024).

Key Positive Mechanisms

Positive effect	How GST contributes
Simpler indirect tax & unified market	Replaces multiple levies, removes cascading taxes, eases interstate trade
Better supply chain & logistics	No entry tax/check posts, smoother movement
Formalization & credit access	Registration and digital trail help access formal finance

Table 1: Main positive channels through which GST aids MSMEs

Negative Experiences

Studies consistently highlight heavy compliance and technology-related burdens, especially for smaller units:

1. Increased compliance costs, return filing fees, software and accountant costs, and working-capital pressures are widely reported (Bhalla et al., 2023; Santosh, 2024; Garg et al., 2024; Kundhadia, 2025; Mohan & Ali, 2018; Monachan et al., 2024; Dhillon & Gautam, 2022).
2. Digital requirements (GSTN portal, online returns) create barriers due to limited digital literacy and poor connectivity, particularly in smaller towns and semiurban areas (Taneja, 2025; Santosh, 2024; Garg et al., 2024; George & Antony, 2023; Mallikarjun & Soni, 2024).
3. Many MSME owners report falls in sales and profits in the short run; only a small minority show profit gains (Monachan et al., 2024).
4. Size, turnover, and legal form influence how severely GST compliance affects performance (Bhalla et al., 2023).

MSMEs and Tourism

India received 2948.19 million domestic tourist visits in 2024, a 17.51% increase from 2508.82 million in 2023. Foreign tourist visits (FTVs) stood at 20.94 million in 2024, showing an 8.84% increase from 19.24 million in 2023. India's share in global tourism receipts stood at 2.02% in 2024, reflecting its steady progress in the global tourism economy.

According to the 3rd Tourism Satellite Account (TSA), the study conducted by the Ministry of Tourism estimated that the share of tourism jobs in India during 2022-23 was 12.57%. The tourism sector contributes 5% to India's GDP, further highlighting its crucial role in the country's economic growth. MSMEs account for 80% of enterprises in tourism and hospitality, giving the industry breadth and reach into smaller towns, rural belts, and emerging destinations, turning tourism into a genuine driver of regional growth.

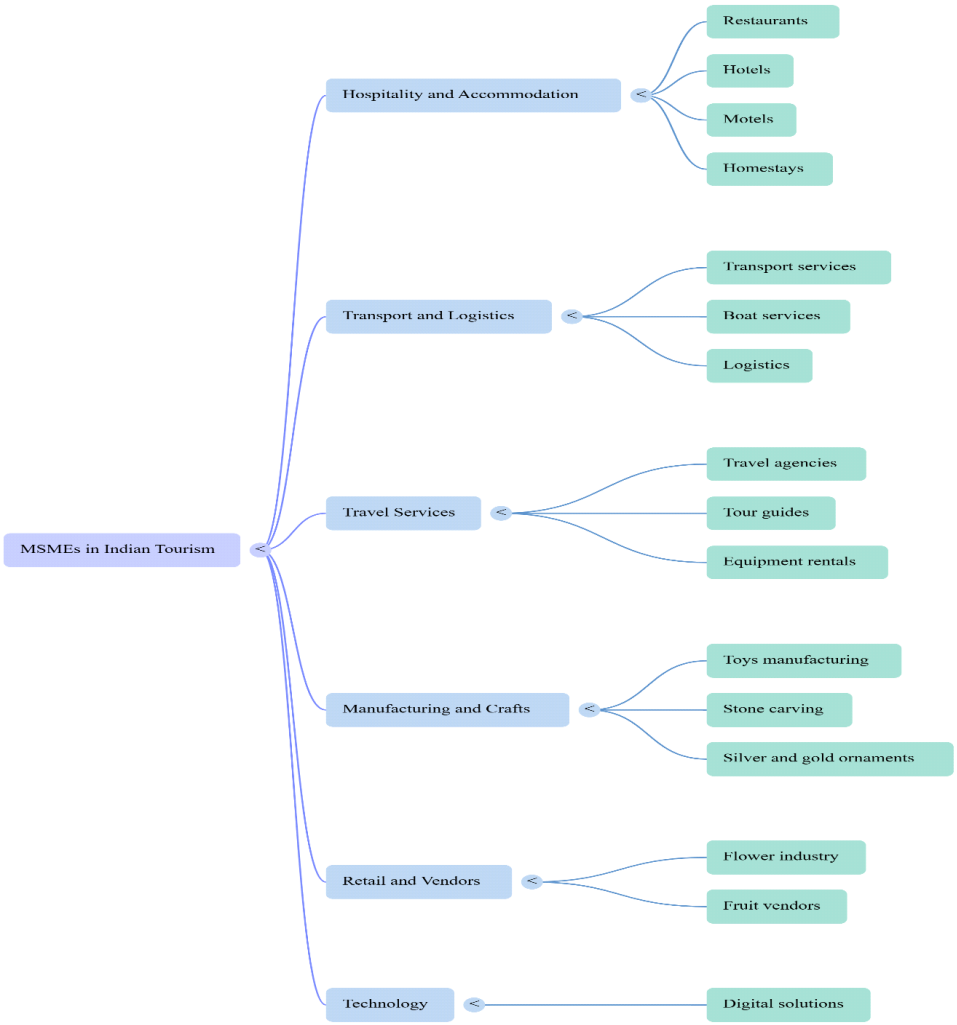
Tourism MSMEs not only provide direct economic impacts, such as job creation and increasing regional income, but also contribute to cultural preservation and community empowerment. Recent studies emphasise the importance of local entrepreneurial ecosystems, digitalisation, and social capital as determinants of MSME success. It underscores the paradigm shift towards regenerative tourism, positioning MSMEs as the primary actors in sustainable development.

There are various MSMEs that are serving the tourism sector in tourist places across the country. Of course, there are specific products and services for each tourist destination in a more diversified country like India.

1. Toys manufacturing and sales
2. Stone carving
3. Restaurants, Hotels and motels
4. Boat services at the Ghats of rivers Likje Ganga, Godavari
5. Travel agencies, Agencies providing tour guides
6. The ornament industry that deals especially in silver and gold ornaments
7. Flowers industry
8. Fruits vendors
9. Logistics,
10. Equipment Rentals, and
11. Digital Solutions
12. Running homestays
13. Transport services

The MSME landscape of Indian Tourism can be presented graphically as in Mind Map-1

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Source: MindMap-1: The MSME landscape of Indian Tourism- Author's self

GST reforms in the Tourism Sector

By 2028, the Indian hospitality and tourist industry is expected to have grown from Rs. 15.24 lakh crore (US$234.03 billion) in 2017 to Rs. 32.05 lakh crore (US$492.21 billion).

Before the Goods and Services Tax (GST), hotels had to pay a variety of taxes at varying

rates in various states, including the luxury tax and the service tax. But when the Goods and Services Tax (GST) was implemented, all of these levies were combined into a single tax, making the tax system more efficient. Hotel GST rates range from 0% to 28%, depending on the room rate. The whole supply chain, from hotel owners and operators to visitors and travel agencies, has been impacted by the GST.

The implementation of GST on hotels has also led to changes in pricing strategies and business models, as hotels have had to adapt to the new tax system to remain competitive. Overall, the impact of GST on the hotel industry has been significant and has played a crucial role in shaping the industry since its introduction.

The GST Council, based on the recommendations of the Group of Ministers on rate rationalisation, reduced the GST rate on hotel accommodation services priced up to ₹7,500 per day from 12% with input tax credit (ITC) to 5% without ITC in its 56th meeting held on 3 September 2025. The objective of the change is to simplify the tax structure in the tourism and hospitality sector and make accommodation services more affordable for consumers. The Government expects that lowering GST rates will reduce transaction costs, enhance trade competitiveness, stimulate demand for consumption, and support domestic industry and investment. The measure is also intended to encourage small businesses to enter the formal economy and broaden the tax base.

Advantages

1. Ease of Administration: The GST's removal of several other taxes will lead to fewer administrative procedures and more chances to streamline the taxation process.

   • Consumer Clarity: It may be difficult for the typical consumer to distinguish between value-added and entertainment taxes. Under the GST regime, customers will simply see one charge on their bill, indicating the amount of tax they are paying.
2. Better Service Quality: How many times have you had to wait in a hotel lobby because your bill wasn't ready yet, and you were afraid you would miss your ride home? Another advantage is that there will just be one tax to compute, making the check-out process for hotels and restaurants easier.
3. Availability of Input Tax – The input tax credit (ITC) process will be made simpler for the tourism and hospitality sectors, and they will be eligible for full ITC on their inputs. Prior to GST, it was not possible to easily offset the tax paid

on inputs (raw food for consumption, cleaning supplies, etc.) against the output. However, under the GST system, this will be simpler

Disadvantages

• Increased Technological Burden: When the service tax was first implemented, there were a number of mistakes. The GST will require firms to become tech-savvy, which will increase compliance costs and technological constraints. However, the GST contains very specific requirements regarding how each industry must maintain its accounts and file returns.

• Increased Cost: In Maharashtra, for example, food and drink were formerly taxed at 18.5%, while hotel rooms were charged at 19%. Even with the 18% GST, there are minor cost savings in both scenarios. In order to pay for new systems and technology, businesses may charge their customers an extra fee, which could lead to increased pricing in some situations.

- Lack of Parity with Asian Counterparts – We require services to be comparable to international prices as India becomes an even more significant player in the global hospitality and tourism sector. Because of their extremely low tax rates for the hospitality industry (8% and 7%, respectively), our Asian neighbours Singapore and Japan consistently rank highly on traveller wish lists. Although India is a popular tourist destination worldwide, its high prices deter backpackers.
- GST's Effect on the Hotel Sector

  • GST simplified the tax structure by replacing several levies in the Indian hotel sector with a single tax system.

  • There is no tax on hotel rooms under ₹1,000, 12% on those between ₹1,001 and ₹7,500, and 18% on those over ₹7,500.

  • The GST enables hotels to claim input tax credits, which lowers expenses and may result in lower consumer pricing.

  • Managing several GST rates for packaged services and handling reverse charge processes are examples of compliance problems.

  • Through automation and precise billing, technology such as BUSY software assists hotels in managing GST compliance.

Tourism MSMEs under GST: State-wise Case Evidence

1. Rajasthan – Small Hotel (Jaipur: Hotel Arya Niwas)

A case study of a three-star hotel in Jaipur highlights how GST affected financial performance at the firm level by replacing multiple taxes (VAT, luxury tax, service tax) and simplifying billing and pricing. However, higher tax slabs and compliance requirements increased operational costs. The hotel had to invest in accounting systems and GST filing mechanisms. As a result, short-term profit pressure due to compliance costs and long-term benefit from simplified taxation and transparency

2. Maharashtra – Tourism & Hospitality Firms (BSE-listed companies)

A broader industry-level study of hotel and tourism companies shows that measurable financial impacts, like GST, significantly affected the net sales of several tourism companies. Around 6 out of 34 companies showed statistically significant changes in revenue. Some firms experienced growth due to the unified tax system. Others faced decline due to pricing adjustments and demand sensitivity. Smaller tourism MSMEs likely face greater volatility, as they lack pricing power.

3. Kerala – Hospitality & Travel Sector (Service-oriented MSMEs)

Kerala, a major tourism state, provides insight into service-based MSMEs (hotels, travel agencies). GST introduced input tax credit (ITC), reducing cost of inputs such as food, transport, and services. However, multiple GST rates on bundled services (hotel + food + travel) created complexity. Through cost reduction through ITC (long-term gain), higher compliance burden and pricing confusion (short-term loss), GST also made tourism more affordable through rate rationalisation, stimulating demand.

4. Andhra Pradesh – Small Hotels & Hospitality MSMEs

A region-specific practical case from Andhra Pradesh highlights real financial stress in tourism MSMEs: the GST rate on hotel rooms was reduced from 12% to 5%, but Input Tax Credit (ITC) was removed. This led to higher effective costs for hotel operators, as taxes on inputs (18%) could not be claimed. It increased in operating costs (due to loss of ITC). Pressure on profit margins. Some hotels even passed the burden to customers, affecting demand. MSME associations in Andhra Pradesh demanded GST revisions to restore financial balance.

Comparative Analysis (Across Cases)

State	Type of MSME	Positive Impact	Negative Impact
Rajasthan	Small hotel	Tax simplification	Compliance cost
Maharashtra	Tourism firms	Market integration	Revenue volatility
Kerala	Service MSMEs	ITC benefits	Complex tax structure

Andhra Pradesh	Small hotels	Lower GST rates	Loss of ITC, cost

Table-2: Comparative case studies

These cases clearly show that GST has improved transparency, formalisation, and long-term efficiency. But the short-term financial performance of tourism MSMEs is often negatively affected by compliance burdens, Working capital issues, and the removal of ITC in some segments. Most importantly, tourism MSMEs experience more complex GST effects than manufacturing MSMEs due to bundled services, seasonal demand and high price sensitivity.

Evidence Gaps for Tourism MSMEs

- None of the studies examine tourism or hospitality MSMEs specifically; most samples mix manufacturing and services without sector-wise breakdown (Bhalla et al., 2023; Taneja, 2025; Garg et al., 2024; Madasu, 2024; George & Antony, 2023; Mohan & Ali, 2018).
- Sectoral work mentions services broadly, but not a detailed analysis of small hotels, homestays, travel agencies, tour operators, or destination-specific tourism clusters (Singh, 2024).

This means that issues crucial to tourism—such as seasonal demand, bundled-service pricing, online travel platforms, and destination-level competitiveness—are not yet well documented in the GST–MSME literature.

Conclusion

Research shows GST has generally improved transparency, market integration, and longrun growth prospects for Indian MSMEs, while significantly increasing compliance complexity and digital demands. However, there is a clear research gap on tourism-focused MSMEs: existing evidence cannot fully explain GST's specific impact on small tourism businesses. For a literature review centred on tourism, it would be necessary to search explicitly for GST studies on hotels, travel, and hospitality MSMEs, or to use broader tourism taxation and GST sectoral analyses as proxies.

Accelerating digital adoption across the MSME ecosystem, driving formalisation to improve access to finance and resilience and investing in capability development to strengthen competitiveness are essential to strengthen MSMEs in the Indian Tourism Sector in the coming decade.

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