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Impact of GST on Rural Micro, Small and Medium Enterprises in India

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Introduction

The introduction of the Goods and Services Tax (GST) in India in July 2017 marked one of the most significant indirect tax reforms in the country's economic history. Designed to unify the fragmented indirect tax structure into a single, destination-based taxation system, GST aimed to enhance transparency, reduce cascading effects of taxation, and promote ease of doing business. Small and Medium Enterprises (SMEs), which contribute significantly to India's GDP, employment generation, exports, and regional industrialization, have been among the most affected stakeholders in this transition.

The Goods and Services Tax (GST), implemented in India represents a landmark shift from a fragmented indirect tax regime to a dual GST structure, Central GST (CGST) and State GST (SGST)with the stated aim of creating a unified national market, reducing tax cascading, and improving compliance through digitization. In principle, GST is expected to strengthen supply-chain efficiency by enabling input tax credit (ITC) across stages of value addition, thereby lowering hidden tax costs and improving price competitiveness. However, the actual impact of GST is uneven across firms, and the Small and Medium Enterprise (SME)/MSME segment experiences this reform in a particularly high-stakes way because of its scale, resource constraints, and operational informality. In the Indian economy, MSMEs form the backbone of production and employment. Evidence-based policy literature highlights the sector's large macro footprint, about 110 million jobs, around 37 percent contribution to GDP, and a substantial share of exports 42 per cent, while also noting that the sector spans manufacturing, services, and trade and includes a very large number of small, often rural, firms.

This size and diversity matter: the same GST feature (for example, return filing frequency, invoice matching, or ITC timing) can become either an efficiency gain for a digitally ready, formalized medium enterprise, or a heavy compliance shock for a micro enterprise with limited accounting infrastructure.

Prior research broadly converges on three channels through which GST influences SMEs: (i) compliance and digital capability, (ii) working capital and cash-flow, and (iii) market integration and competitiveness. For instance, a post-implementation discussion in an Indian institute working paper specifically flags that MSMEs face challenges due to GST design and administration, particularly around compliance processes and scheme-related constraints while also offering policy recommendations to reduce the compliance burden for the sector. More recent empirical and descriptive studies on Indian SMEs similarly report a dual picture: GST can reduce cascading taxes and improve transparency, but it can also impose a disproportionate compliance load on micro enterprises and create working-capital stress when ITC/refunds are delayed. In parallel, focused empirical work on ITC and liquidity suggests that the ITC mechanism is central to MSME financial efficiency, and that difficulties in timely/complete ITC realization can directly affect working-capital requirements and liquidity, making "cash-flow under GST" a core outcome variable for SME-focused research.

Registered MSMEs in India (Micro/Small/Medium)

a. Micro units are 97.0 per cent,
b. small units are 2.7 per cent and
c. Medium units are 0.3 per cent

MSME Sector – Macro Contribution Indicators

a. Share of GDP 29 per cent
b. Share of Exports 40 per cent and
c. Share of work force employment 60 per cent

Need for Goods and Services Tax in India:

a. **Multiplicity of Indirect taxes**:

As discussed above there was existence of many indirect taxes in India such as custom duty, service tax, etc. which was imposed by Union government and VAT, luxury tax, entertainment tax, etc. imposed by State Government. So, there

was a need to replace multiple taxation system with a single tax system

b. Less Coordination between Union and State Government:

As in a single good/service the Union government was charging say excise duty and State government was charging VAT separately so there was no or less coordination between Union government and State Government. So, a new tax system was required to increase coordination between the Union and State Government.

c. High Tax Rates:

In many goods and services more than one tax was levied which result in increase in price of goods and services and prior to GST the tax rate was high as 50% and normally between 30-35% so a single tax system was required to decrease the cost of goods and services.

d. Complicated Tax System:

Pre GST government used to impose Custom duty on import on raw materials of goods and services and from manufacturing phase till the goods are sold the person has to different taxes such as excise duty on manufacturing, central sales tax if the goods are delivered and sold to various states within India, and if to sold within the state it is manufactured than VAT was charged, if any services is used during the manufacturing of the product then service tax was charged, etc. So, the taxation system before GST was complicated and difficult both for the government and the person selling goods and services as they have to understand and follow different tax laws to run a single business so as a result there was a need to replace or convert complex indirect tax structure to a simple tax system in India.

e. Difficulty Paying Taxes:

Prior to GST the person has to pay different taxes and there were difficulties filing return and paying taxes as some CA' s practiced only Central Government taxes or State Government taxes as a result they had to visit different tax practitioners to pay taxes.

f. Time Consuming and Costly for tax payers:

Due to existence of multiple taxes, the tax payer had to register to different tax departments, file returns on different dates and pay multiple taxes on goods and services which discouraged many traders, sellers, whole-sellers and so on, so a better tax system was required to make the taxation system easier so that business can flow easily in the economy and encourage many people to start and

run their own businesses.

g. Rise in Inflation Rate:

Indirect taxes were the main source for continuous inflation rate in India as a result the government has to come up with some solutions to decrease the continuous inflation rate.

h. Cascading Effect.

There was existence of cascading effect i.e. tax on tax so it was necessary to eliminate cascading effect. Above mentioned are the few problems and loopholes in the indirect taxation structure prior GST in India which led to the formation of new indirect tax structure by submersing 17 different indirect taxes into a single tax system called GST.

CENTRAL TAXES

Central Excise duty, Additional duties of excise, Excise duty levied under Medicinal & Toilet Preparation Act, Additional duty of customs (CVD & SAD), Service tax,and Surcharges & Cesses.

SALES TAXES

- State VAT/Sales Tax, Central Sales Tax, Purchase Tax, Entertainment Tax (excluding tax levied by municipal bodies), Luxury Tax, Entry Tax, and Taxes on lottery, betting & gambling.

Definition: GOOD and Services Tax

Article 366(12A) defines "Goods and Services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Definition of Articles

1. Goods 366(12) Includes all materials, commodities, and articles.
2. Services 366(26A) anything other than goods [Introduced vide 101st Constitutional Amendment Act]
3. State 366(26B) with reference to article 246A, 268, 269, 269A, and article 279A includes a Union territory with Legislature. [Introduced vide 101st Constitutional Amendment Act] "Goods and Services tax" law of India Is a unique indirect taxation system but while having unique principle, it has taken significant elements of prior Central and State laws and is also inspired by VAT/GST legislation of EU, Australia, Malaysia, etc. who have already implemented GST before India along with International VAT/GST guidelines of OECD.

Sales Taxes

Goods or Services Tax (GST) Goods or Services Tax or GST is a single uniform indirect tax levied on more than 1200 goods and services to replace almost 17 different indirect taxes and 9 cesses levied by Central and State Government. As stated earlier due to the various loopholes in the indirect tax structure prior GST, both the government and the indirect tax payers were facing difficulties such as complex indirect tax structure, multiple compliances, cascading effect, inflation, etc. so there was a need to reform the pre-existed indirect tax structure into a simple and clear taxation system. So, GST was implemented at midnight on 1st July 2017 by the President of India and the Government of India.

GST is considered as the biggest tax reformation in India since Independence because it provided solutions to various loopholes that existed in previous indirect taxation system in the nation such cascading effect, multiple compliances, etc. and eliminated or submersed 17 different indirect taxes into a single tax called GST thus making the flow of goods faster in the economy, reduced transportation costs, and making the registration, filing and paying of tax easier and faster which will encourage more people to start their own business or be selfemployed. The population of India is approximately 1.3 billion population and pre-GST there were only 60 lakh people who were under the Indirect tax regime but only after 7 months of implementation of GST the number of people has increased from 60 lakh to almost more than 1 crore. [NOTE: In the previous indirect taxation system prior to GST public had to pay almost 20 different indirect taxes but after the implementation of GST public have to pay only tax on all goods and services called Goods and Services Tax i.e. GST]

Goods and Services Tax Slabs:

More than 1200 goods and services are taken into under consideration by the GST council and these goods and serves in four slabs under Goods and Services Tax which ranges from 5% to 28% according to which tax will be charged. As per the government out of more than 1200 goods and services, 81% of goods and services i.e. 960 goods and services fall under the 18% slab rate. Although there are some goods and services where GST is not charged and on luxury goods GST along with CESS is charged.

Tax slabs goods/services5% Household necessities or everyday items such as Sugar, tea leaf, baby milk food, footwear under Rs.500, clothes under Rs.1000, etc. 12% Honey, ghee, nuts, LED lights, sports equipment, umbrella, mobile phones, etc. 18% Hair oil, toothpaste, soaps, cornflakes, packaged soups, instant foods, computers, television,

etc. 28% Luxury items such as air conditioner, refrigerator, washing machine, shaving cream, cars, two wheelers, digital camera, etc., again the GST slabs are changes from with Effective September 22, 2025, India implemented a streamlined GST 2.0 Structure, primarily moving toward a two-rate system of 5% and 18%, replacing the previous 12% and 28% slabs to boost consumption and simplify compliance. A 40% "sin and luxury" rate is applied to specific goods, alongside 0% for essential items.

Structure (As of September 2025/2026):

- **0% (Exempt):** Essential items, food grains, and educational services.
- **5%:** Daily necessities, edible oils, edible oils, spices, tea, medicines, and some handicrafts.
- **18%:** Standard rate for most goods and services, including electronics, cars, steel, and textiles.
- **40%:** Luxury and sin goods, including aerated beverages, tobacco products, and premium vehicles.

Key Changes and Notes:

- **Rate Rationalization:** Many goods formerly at 28% were shifted to the 18% slab.
- **Removal of Slabs:** The 12% and 28% slabs have been phased out, merging with 5% or 18% in most cases.
- **40% Slab:** Introduced to replace high compensation cesses on luxury items.
- **Specific Rates:** Niche rates like 0.25% (semi-precious stones) and 3% (gold) remain in place.

In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are defined according to their annual revenue (i.e. sales) of business. As approved by the Union Cabinet, Micro Enterprise is an enterprise whose annual turnover does not exceed ₹ 5 Crore; Small Enterprise is an enterprise whose annual turnover exceeds ₹ 5 Crore but does not exceed ₹ 75 Crore; Medium Enterprise is an enterprise whose annual turnover exceeds ₹ 75 Crore, but does not exceed ₹ 250 Crore. The MSME sector contributes significantly to the national economy and is the largest employment provider besides being a breeding ground for entrepreneurship and skill development. The number of MSME is more than 30 million employing around 100 million people. In spite of having the potential and inherent capabilities to grow, MSMEs in India have been facing a number of problems like sub-optimal scale of operations, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages,

change in manufacturing strategies and turbulent and uncertain market scenario. To survive in such a scenario and compete with large and global enterprises MSMEs need to be supported and assisted to ensure sustained growth and development of these enterprises in the existing competitive arena. In terms of GST, the compliance in terms of time, cost as well as energy is much higher for MSMEs vis-à-vis the bigger companies.

How has GST affected MSMEs

The Goods and Services Tax (GST) with the aim of simplifying and unifying the country's complex taxation system. It replaced multiple indirect taxes like VAT, excise duty, and service tax, resulting in a significant change for both businesses and consumers. While the impact of GST has been felt across various industries, its effects on Small and Medium Enterprises (SMEs) have been particularly prominent. One of the main ways in which GST has affected SMEs is through increased compliance procedures. Under the previous tax regime, SMEs were required to register for different taxes depending on their business activities and turnover. This created a lot of confusion and administrative burden for small business owners. However, with GST's unified system, SMEs now only need to file one monthly or quarterly return instead of multiple returns every month. This has not only reduced their compliance costs but has also made tax filing more streamlined. Furthermore, GST has also brought about a shift from manual record-keeping to electronic record-keeping for SMEs. This means that businesses now need to maintain accurate records of all their transactions digitally to comply with GST regulations. While this may require an initial investment in software and training costs for some SMEs, it ultimately benefits them by reducing human error and improving efficiency. However, one of the most significant impacts of GST on SMEs is its effect on cash flow management. Under the previous system, businesses had to pay various taxes at different points in time during manufacturing or sale of goods or services. This resulted in blockage of working capital as well as cascading effect where taxes were levied upon previously paid taxes leading to an increase in overall cost ultimately affecting profitability adversely. With the implementation of GST, credit inputs are allowed throughout the entire supply chain for businesses engaged in local trade as well as interstate trade within India. With proper planning and management under GST, SMEs can reduce their inventory costs and also speed up the flow of goods and services, thereby improving their cash flow.

Government initiatives to support SMEs affected by GST

The Indian government has been taking several initiatives to support small and medium enterprises (SMEs) that have been affected by the implementation of Goods and Services Tax (GST). These efforts are aimed at easing the transition process for SMEs and mitigating any negative consequences caused by this major tax reform. One such initiative is the introduction of a Composition Scheme under GST, which has been specifically designed for small businesses with an annual turnover of less than Rs. 1.5 crores. Under this scheme, SMEs are allowed to pay a fixed percentage of their annual turnover as taxes instead of following the regular compliance procedures. This has significantly reduced the compliance burden on these businesses, allowing them to focus on their operations rather than worrying about complex tax procedures. In addition, the government has also launched a GST Suvidha Provider (GSP) system to make compliance easier for smaller businesses. GSPs are authorized service providers who offer end-to-end solutions for GST filing, including registration, return filing, and payment processing. This has greatly simplified the entire GST process for SMEs, saving them time and resources. To further aid SMEs in complying with GST regulations, the government has also introduced free online training courses through its official portal "GSTN". These courses provide detailed information on various aspects of GST such as registration, returns filing procedure, input tax credit calculation etc., thus enabling small business owners to understand and comply with these new tax rules better. Furthermore, recognizing that cash flow is crucial for any business's survival and growth, especially in its initial stages, the government announced a two-year interest subvention scheme in December 2018. Under this scheme, MSMEs availing loans up to Rs. 1 crore would receive an additional interest rebate of 2% from lending institutions approved by Small Industries Development Bank of India (SIDBI).

Future prospects for SMEs under GST in India

The implementation of Goods and Services Tax (GST) in India has brought about significant changes and benefits for Small and Medium-sized Enterprises (SMEs). This new tax system has simplified the complex tax structure of the country by integrating multiple indirect taxes into a single unified tax, which is expected to have a positive impact on the future growth prospects of SMEs. One of the major advantages of GST for SMEs is the ease of doing business. Under the previous tax regime, small businesses had to comply with various state-level taxes, leading to high compliance costs and administrative burden. With GST, all indirect taxes are now subsumed into one single tax, making it easier for SMEs to understand and comply with taxation laws. This has reduced their time and effort spent on tax-related matters, allowing them to focus more on their

core business activities. Moreover, GST has also brought about greater transparency in the taxation system which was marred by corruption and leakages earlier. The introduction of an online portal for registering, filing returns and making payments has made the process more streamlined and transparent. This means that businesses can now be assured that they are paying accurate taxes without any fear of harassment from corrupt officials. Another major advantage that GST offers to SMEs is increased competitiveness. With a uniform tax structure across states, there will be a level playing field for businesses operating in different parts of the country. Earlier, due to varying tax rates in different states, some SMEs were at a disadvantage as they could not compete with larger players who had better resources to manage compliance costs. But now, with uniform taxation rules under GST, these small businesses can operate at par with large corporations without being burdened by high taxes.

Impact of GST on Rural Economy

a. GST and Agriculture:

Around 60% of India's population resides in villages and depend on agriculture as their major source of income. Small and marginal farmers are forced to sell their produce at unreasonable prices as they face storage problem because of perishable nature of agricultural commodities. The perishable nature of agricultural commodities requires speedy supply chain mechanism. Transportation cost is a major hurdle faced by agriculture sector. GST will definitely reduce transportation cost as free movement of agricultural commodities across states will take place without any delay. No octri and entry tax will be charged separately under GST. Reduction in wastages during transportation will reduce the cost to farmers and suppliers. Fertilizer is a farm nutrient as every year around 550 lakh tons of fertilizers are used by farmers in India. Earlier tax on fertilizers was 0-8% according to the nature of raw materials used and under GST 5% tax rate is fixed. Their profit margins will increase as fertilizers are a major part of farming cost. This positive outlook of government towards agriculture will definitely improve both quantity and quality of agricultural output. Indian farmers will be able to fight competition in international markets and this will lead to increase in export revenue of the government. Tractors are the important medium of transportation in Indian agriculture as farmers largely depend on tractors for good harvest. Earlier 12.5% CENVAT and 5% state VAT were charged on tractor parts. Under GST, 18% tax on tractor components will ensure that there will is no increase in tractor cost from pre GST days. Farmers will be able to purchase tractors and pumps in the new GST regime also. NAM (National Agricultural

Market) was formed by government to provide unique e- commerce platform for trade of agricultural commodities. GST will create the way for the successful working of NAM.

b. GST and Dairy Farming:

In India, dairy farming is the most intensive employer of marginal and landless labour. About half of the income of rural households comes from dairy sector as it ensures not only food security but also nutritional security. It is a source of daily income and nutrition for the family. Being a highly perishable product it needs to be processed to make ghee, butter, curd etc. that requires huge investment to package and process, to make it a long life product. Earlier 2% VAT was charged on milk and milk products but under GST fresh milk and pasteurized milk, curd, lassi, butter milk, paneer are exempted. Government softer move on implementing GST on dairy sector, will definitely increase nutritional security and food security of poor section and will boost investment in this sector. Ghee is the main ingredient of the farmer's diet as it is a rich source of fats, that provide energy to their body for heavy physical work. But under GST, the prices of ghee will increase as tax rate has increased from 5% to 12%. Both consumers and producers of ghee will be highly discouraged as due to high tax it will be costlier. Government should consider ghee as necessaries and should relax tax rate to 5% as this is the only provider of fats to farmers.

c.GST and Small and Marginal farmers:

Farmers will become the direct beneficiary as the simple and transparent structure of GST will enable farmers to remove middleman that grab a major share of their profit margin. Reduction in the cost of transportation and farm nutrients like fertilizers, tractor components etc. will enable small and marginal farmers to have more profit margin. Government's move to put various items like wheat, rice, vegetables, milk, curd, gud, etc. under zero percent tax will prove to be a boon to small and marginal farmers as these items share a major part of their consumption basket.

d. GST and Rural Consumers:

Exemption of GST on wheat and rice will prove to be a big advantage as a large proportion of total consumption expenditure of vulnerable section living in rural areas constitute wheat and rice. Also Cheap kitchen items like masala, tea, sugar, gud, pickles etc. will increase purchasing power of rural consumers. Paste, soaps, detergent powder, Sewing machines, bikes, Coal, kerosene, cement, LPG stove, tubes and tyres of tractors etc. are the major components of rural consumers expenses and under GST tax on these items has been reduced. It will prove to be a boon for

consumers as now they will be able to increase their living standard by consuming more of these goods or by purchasing those goods which were earlier out of their approach.

e. GST and Rural Non-farm Labour:

"Even a two per cent reduction in production cost will increase profits by over20 per cent, giving headroom for reducing prices and benefitting endusers"(Kelkar,Vijay,2009).It is estimated that the implementation of GST would reduce the overall prices of all manufacturing sectors between 1.22 and 2.53 percent (Thirteenth Finance Commission, 2009.In rural areas various categories of labour like skilled, semi-skilled and unskilled resides which is a major source of factors of production required for non-farm activities like manufacturing, construction, retail, hotels etc. Improvement in factors of production like land, labour, capital will take place as GST would result in proper and efficient utilization of factors of production.

f. GST and Cottage and Small scale Industries:

Small scale industries play vital role in the advancement of rural areas as these industries are a major source of generating employment opportunities. Due to centralized registration process under GST, it will be easy for SMEs to start business. Transparent and simple regulatory mechanism will attract more domestic and foreign investment. Zero taxes on primary farm products (food grains and raw food items) will enhance food processing industries as cost of raw material will be low. They will be able to compete with their western counterparts as cost of production will reduce to almost 50%. Increase in profit margins will encourage them to spend money on research that will make them more competitive in coming future. The interest of small scale industries and cottage industries are protected under GST as the threshold limit is increased as compared to earlier tax system. The very small units having annual turnover of twenty lakh are exempted to pay GST. Shift of industries from informal sector to formal sector will also gain momentum under the new GST regime.

Rewards of GST to Rural Economy

1. **Improvement in Infrastructure Facilities:**

Low chances of tax evasion under GST will lead to high government revenue. More funds will be available to government to improve infrastructure facilities like god owns, roads, power, housing, schools, hospitals etc. in rural areas that are mainly deprived of these facilities.

2. Rise in Income Level:

Transparent and flawless GST will result into increased income to various sectors like agriculture, dairy, MSME etc. that mainly persist in rural India.

3. Boost to Employment Opportunities:

Increased demand for industrial goods in product market will act as catalyst to boost demand for the skilled, semi-skilled and unskilled labour in factor market.

4. Expedite Shift from Unorganized to Organized Sector:

Due to widening of tax base under new GST regime, unorganized sector will shift to organized sector.

5. Rise in Prices of Agricultural Produce:

According to Thirteen finance commission report, GST will prove to be a blessing for farmers as the prices of agricultural produce will increase between 0.61 and 1.18 percent. This increase in prices will help small and marginal farmers to come out of the vicious circle of poverty.

6. Rise in Government Expenditure on Rural Areas:

In India a large number of people living in rural areas require rural development programmes to bring them in the mainstream. Fiscal health of the government will improve as GST will cause broadening of tax base. Government can initiate more rural development programmes to uplift rural economy.

7. Reduction in Poverty:

In India wheat is a major staple food for everyone and government decision to exempt wheat from tax is a big move. Also keeping primary food articles like rice, milk, sugar, gud etc. ouside tax is a good initiative by government to help people to come out of the grab of poverty.

8. Fall in Migration:

Uniformity of taxes under GST will promote small and medium scale industries to flourish even in backward states. People migrate from rural areas due to lack of employment opportunities there. Increase in employment opportunities due to GST will cause migration rate to fall.

Challenges:

i) Lack of Strong and Powerful IT Network in Rural Areas:

Robust IT network for GST registration, return filing etc. is required in each and every state for the successful implementation of GST in India. Under GST every invoice from buyer and seller must be entered correctly to avail the benefit down the chain.

ii)Lack of Trained Staff:

Tax administration staff needs to be trained enough so that first they can understand its concept, legislation and procedure. Until and unless staff is not aware, instead of boon it will become a bane.

iii) Lack of Awareness among Rural People:

Due to lack of awareness, people living in rural areas find it difficult to understand even basic structure of GST. They fear that GST will ruin their income sources as they will have to record each and every transaction and have to pay tax otherwise they will have to face penalty.

iv) Lack of Infrastructure for Collection Process in Villages:

Villages lack infrastructure to collect and monitor revenue, to identify defaulters, and to track movement of goods and services across states.

v) Low Literacy Rate:

Due to low literacy rate in rural India, it is difficult and confusing for common man especially those living in rural areas to understand it's complicacies. Also in the name of one tax, four taxes have been implemented. In other countries GST means one nation one tax but in India four tax slabs are created.

Pre-GST Scenario for MSMEs:

Before the implementation of the Goods and Services Tax (GST) in 2017, India's indirect tax system was marked by complexity, fragmentation, and lack of uniformity. This multi-layered tax structure posed significant challenges to businesses, particularly to Micro, Small, and Medium Enterprises (MSMEs), which often lacked the financial and administrative resources to navigate the complicated framework. The pre-GST tax regime not only hindered the scalability of MSMEs but also contributed to widespread informality and compliance evasion. This section highlights the key issues MSMEs faced under the previous taxation system.

Taxation Structure Prior to GST (VAT, Excise, CST, etc.) :

Before GST, the indirect tax landscape in India was governed by a patchwork of central and state-level taxes. The most relevant taxes affecting MSMEs included:

• Value Added Tax (VAT): Levied by state governments on the sale of goods within a state. The rates varied from state to state, leading to a lack of uniformity.

• Central Sales Tax (CST): Levied on inter-state sales by the central government but collected by the originating state.

• Excise Duty: Levied by the central government on the manufacture of goods.

• Service Tax: Imposed on service providers by the central government.

• Entry Tax, Octroi, and Local Body Taxes: Levied by municipal corporations and state governments for movement of goods. This fragmented structure meant businesses had to deal with multiple tax authorities, different rates, varying rules for input credits, and inconsistent definitions of goods and services across states. For small businesses, understanding and managing such a system was burdensome and costly.

Post-GST Scenario for MSMEs:

The implementation of the Goods and Services Tax (GST) has brought a paradigm shift in the way MSMEs operate in India. While the reform was introduced to simplify the indirect tax system and improve compliance, its real-world impact on small and medium enterprises has been mixed. Some MSMEs have embraced the digital tax environment and experienced benefits such as better market access and tax credit utilization. However, many others have struggled with the complexities of compliance, cash flow issues, and technological challenges. This section critically examines the major developments affecting MSMEs in the post-GST landscape.

Ease of Doing Business Issues:

The complex indirect tax regime significantly affected the ease of doing business for MSMEs:

• Delayed Refunds:

Exporters and small manufacturers often experienced long delays in getting VAT and excise refunds, leading to working capital shortages.

• Licensing and Bureaucratic Delays: Getting tax registrations or no-dues certificates involved lengthy and sometimes non-transparent procedures.

• Discouragement from Interstate Trade: Interstate commerce was complicated due to CST, forms like CForm, and documentation, limiting market access for small businesses. The World Bank's Doing Business Reports prior to 2017 highlighted India's low rank in terms of paying taxes, and much of that burden fell disproportionately on smaller firms.

Conclusion:

In India the introduction of GST has been one of the most significant tax reforms in India, and its impact on MSMEs highlights both opportunities and challenges. On the positive side, GST has reduced the complexity of multiple taxes, allowed smoother interstate trade, and encouraged the formalization of businesses. These changes have especially benefited medium-sized enterprises with better resources and infrastructure. However, micro and small enterprises continue to struggle with compliance, digital filing requirements, and working capital shortages. This dual impact makes it clear that GST has not affected all MSMEs equally. To strengthen the growth and sustainability of MSMEs under the GST regime, some practical measures are necessary.Awareness and training programs should be organized at the local level to improve digital literacy and tax compliance knowledge. the government should simplify return filing procedures for micro and small units, reducing their dependency on professional assistance. Timely processing of refunds and smoother access to input tax credit should be ensured to ease liquidity pressure. Local chambers of commerce and industry associations should take a more active role in supporting entrepreneurs by providing technical guidance and advocacy. In conclusion, GST has opened new doors for MSMEs, but its potential can only be fully realized if supportive policies and strong local initiatives are implemented. A balanced approach combining reforms with on-ground assistance will ensure that even the smallest enterprises can grow and sustain in a competitive environment. So, in India micro, small and medium enterprises are play a key role in providing employment opportunity, share of GDP, and share of export for the developing economy.

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