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GST and Its Implications on Peri-Urban Economic Activity: A Case Study in Chevella Municipal Area in Ranga Reddy District of Telangana

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Abstract

The introduction of the Goods and Services Tax (GST) in India represents one of the most significant indirect tax reforms aimed at simplifying the complex tax structure and creating a unified national market. Implemented on 1 July 2017, GST replaced multiple indirect taxes such as excise duty, service tax, value added tax, and entry tax thereby reducing the cascading effect of taxation and improving transparency in the tax system. Micro, Small and Medium Enterprises (MSMEs), which form the backbone of the Indian economy, play a vital role in employment generation, industrial production, and regional economic development. The implementation of GST has significantly influenced the operational environment of MSMEs by altering taxation procedures, compliance requirements and cost structures.

The present study examines the history and structural changes of GST and analyzes its implications on peri-urban economic activity by studying the impact on MSMEs with special reference to the Chevella Municipal Area of Ranga Reddy District in Telangana, India. The study is based on both primary and secondary data. Primary data were collected through field surveys and interactions with MSME owners operating in retail trade, services, and small manufacturing units in the study area. Secondary data were obtained from government reports, research articles, and official publications related to GST and MSME development.

The analysis focuses on the impact of GST on sales, revenue, profit margins, tax compliance, compliance expenditure, input expenditure and managerial expenditure of MSMEs. The findings indicate that GST has improved transparency in business transactions and facilitated market integration by removing interstate trade barriers. At the same time, the study observes that small enterprises initially faced challenges related to digital compliance, accounting procedures, and increased administrative costs. However, with growing awareness and adaptation to the new taxation framework, many MSMEs have gradually adjusted to the GST system.

The study concludes that while GST has introduced certain compliance challenges for MSMEs, it has also created opportunities for improved market access, better tax transparency, and long-term business growth. Strengthening awareness programs, simplifying compliance procedures, and improving digital infrastructure can further enhance the effectiveness of GST for MSMEs in semi-urban areas such as Chevella.

I. Introduction

i. Concept, Origin, Mechanism and Dynamics of GST

The Goods and Services Tax (GST) is one of the most significant tax reforms introduced in India to simplify the indirect taxation system. Before the implementation of GST, the Indian tax structure consisted of several indirect taxes imposed by both the central and state governments. These included central excise duty, service tax, value added tax (VAT), entry tax, luxury tax and entertainment tax. The presence of multiple taxes often created complexity in tax administration and resulted in cascading effects where tax was levied on tax. This increased the cost of production and ultimately affected the prices of goods and services.

The idea of introducing GST in India emerged as part of broader economic reforms aimed at modernizing the tax system. The objective was to integrate various indirect taxes into a unified framework and create a common national market. After several years of discussions and consultations between the central and state governments, the Goods and Services Tax was implemented on 1 July 2017 following the 101st Constitutional Amendment Act of 2016. GST replaced many existing indirect taxes and established a destination-based taxation system.

GST is a value-added tax levied on the supply of goods and services. Under this system, tax is collected at each stage of production and distribution, while businesses are allowed to claim input tax credit for taxes paid on earlier transactions. This mechanism eliminates the cascading effect of taxation and ensures that the final tax burden is borne by the end consumer. The GST system in India follows a dual model consisting of Central GST (CGST), State GST (SGST) and Integrated GST (IGST) for inter-state transactions.

Since its implementation, GST has undergone several changes aimed at simplifying compliance and improving efficiency in tax administration. The tax structure includes multiple slabs such as 0 percent, 5 percent, 12 percent, 18 percent and 28 percent, depending on the nature of goods and services. The government has also introduced reforms such as the composition scheme for small taxpayers, e-invoicing, and digital return filing through the GST Network portal. These reforms are intended to enhance transparency and streamline tax administration across the country.

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the Indian economy. They contribute significantly to employment generation, industrial output and exports. The introduction of GST has had a considerable impact on the MSME sector by altering the taxation framework under which these enterprises operate. While GST has improved transparency and created opportunities for business expansion, it has also increased compliance requirements for small enterprises. Therefore, it becomes important to study the implications of GST on local economic activity.

ii. Objectives of the Study

1. To examine the concept, history and structural changes of the Goods and Services Tax in India.
2. To analyse the overall implications of GST on Micro, Small and Medium Enterprises.
3. To evaluate the impact of GST on MSMEs operating in the Chevella Municipal Area of Ranga Reddy District.
4. To identify the opportunities and challenges experienced by MSMEs after the implementation of GST.

iii. Hypotheses

1. GST has significantly influenced the operational environment of MSMEs in India.
2. GST has improved transparency and tax compliance among business enterprises.
3. The implementation of GST has both positive and negative implications for MSMEs in the Chevella Municipal Area.

iv. Methodology

The present study is based on both primary and secondary data sources. Primary data were collected through field surveys, personal interviews and structured questionnaires administered to selected MSME owners operating in the Chevella Municipal Area of Ranga Reddy District. The sample includes enterprises engaged in retail trade, service activities and small-scale manufacturing.

Secondary data were collected from government publications, GST council reports, research journals, books and official statistics related to taxation reforms and MSME development in India. The collected information was analysed using descriptive analytical methods in order to understand the impact of GST on the operational environment of MSMEs.

The study focuses particularly on changes in business practices, tax compliance procedures, cost structures and market opportunities for MSMEs after the implementation of GST. The Chevella Municipal Area was selected as the study area to understand the implications of GST on the economic activity in the peri-urban region.

II. Review of Literature

The introduction of the Goods and Services Tax (GST) in India has attracted considerable attention from researchers, economists and policy analysts. Several studies have examined its impact on the economy, particularly on the Micro, Small and Medium Enterprises (MSME) sector. These studies highlight both the opportunities and challenges created by the GST regime for small businesses.

Early discussions on GST emphasized its role in simplifying the indirect tax system and promoting economic efficiency. According to Kelkar (2009), GST was expected to eliminate the cascading effect of taxes and create a unified national market, thereby improving productivity and economic growth. Similarly, Ahluwalia (2013) argued that GST would enhance transparency in the taxation system and reduce compliance costs in the long run. These early perspectives viewed GST as a structural reform that could significantly modernize India's tax administration.

Several empirical studies have examined the economic implications of GST after its implementation. Mohan and Prasad (2018) observed that GST has simplified the indirect tax structure by integrating multiple taxes into a single system. The authors noted that the availability of input tax credit under GST has reduced the tax burden on businesses and improved supply chain efficiency. However, they also pointed out that the transition to a digital tax administration system posed challenges for small enterprises that lacked technological resources.

The impact of GST on MSMEs has been widely discussed in academic literature. Sharma (2021) found that GST has increased transparency and accountability in business operations by requiring proper documentation and invoice-based transactions. The study highlighted that while GST has improved formalization of the economy, many small enterprises initially struggled with compliance requirements such as online registration, return filing and maintenance of digital records.

Similarly, Kumar and Sharma (2022) examined the effects of GST on small businesses and concluded that GST has created both positive and negative outcomes for MSMEs. On the positive side, the reform has facilitated interstate trade and expanded market opportunities for small firms. On the negative side, compliance costs and frequent changes in GST rules have created uncertainty among entrepreneurs.

Another important contribution is provided by Rao and Patel (2019), who studied the effect of GST on small and medium enterprises in India. Their research revealed that GST has improved the tax compliance culture among businesses and reduced tax evasion

through digital monitoring systems. However, the authors also observed that the increased administrative burden of filing multiple returns and maintaining electronic records created difficulties for micro and small enterprises.

The Reserve Bank of India (2023) in its report on the MSME sector emphasized that GST has encouraged the formalization of small businesses by integrating them into the formal tax system. The report also noted that access to input tax credit and the removal of interstate tax barriers have improved business opportunities for MSMEs.

Despite these advantages, several studies have pointed out that the transition to GST has not been smooth for all enterprises. Joshi (2020) highlighted that small traders and service providers often face challenges related to technological literacy and accounting practices required for GST compliance. The study suggested that training and awareness programs are necessary to help MSMEs adapt to the new tax regime.

Overall, the literature indicates that GST has brought significant structural changes to the taxation environment in India. While the reform has improved transparency, market integration and tax efficiency, it has also created compliance challenges for MSMEs. Most existing studies focus on the national or state-level impact of GST, while limited research has been conducted at the local level. Therefore, the present study attempts to examine the implications of GST on MSMEs in the Chevella Municipal Area of Rangareddy District, thereby contributing to the understanding of GST's impact at the grassroots level.

III. GST Mechanism and MSEs in India

1. GST Structure and MSME Tax Environment in India

The Goods and Services Tax (GST) introduced in India on 1 July 2017 transformed the indirect taxation system by replacing multiple taxes such as excise duty, VAT, service tax and entry tax. The reform aimed to create a single unified market to reduce cascading taxation and improve compliance through digital systems.

MSMEs represent a crucial sector in the Indian economy. According to the Ministry of MSME, the sector contributes nearly 30% to India’s GDP, 45% of manufacturing output, and about 48% of exports. Therefore, GST reforms directly influence the operational environment of MSMEs across the country.

GST has impacted MSMEs mainly in the areas of Tax compliance, Input tax credit availability, Market expansion across states, Digitalization of accounting systems and Compliance expenditure.To understand these changes, it is important to examine GST trends and tax rates relevant to MSME sectors in India.

2.GST Structure in India Since Implementation

The following table gives the GST Structure in India Since Implementation.

Table 1: GST Structure in India Since Implementation

Year	GST Structure	Description
2017	0%, 5%, 12%, 18%, 28%	Initial multi-tier GST structure introduced
2018–2022	Rationalisation of rates	Many goods moved from 28% to 18%
2023–2024	Further simplification	Reduced complexity in several sectors
2025	Proposed GST 2.0 structure	Focus on 5% and 18% as dominant slabs

Source: *Compiled from: Ministry of Finance – GST Council Reports, Government of India Economic Survey (s), Reserve Bank of India – MSME Sector Reports.*

The table-1 shows that the GST system has undergone continuous rationalisation since its introduction. Initially, the multi-slab structure created confusion for businesses, particularly MSMEs with limited accounting resources.

Over time, the GST Council simplified the system by reducing high tax slabs and shifting many products into the 18% category. This rationalisation has improved tax predictability and reduced compliance complexities for MSMEs.

For small businesses, particularly manufacturers and traders, the gradual simplification of tax slabs has improved cost planning and pricing strategies.

3.GST Rates on Major MSME-Related Products in India

Table 2: GST Rates on Major MSME-Related Products in India

Product / Sector	GST Rate 2017	Rate Change (2018–2024)	Latest Rate
Packaged food products	12%	Reduced	5%
Fertilizers	12%	Minor rationalisation	5–12%
Restaurant services	18%	Reduced	5%
Mobile phones	12%	Increased	18%
Footwear	18%	Rationalised	12–18%
Construction materials	28%	Reduced	18%

Product / Sector	GST Rate 2017	Rate Change (2018–2024)	Latest Rate
Consumer appliances	28%	Reduced	18%
Agricultural produce	0%	No change	0%
Gold and jewellery	3%	Stable	3%
Tobacco products	28% + cess	Increased	40%

Source: *Compiled from: GST Council Notifications, Ministry of Finance – Indirect Tax Statistics Government of India Budget Documents*

The table-2 indicates a clear policy trend in GST reforms. The government has reduced tax rates on essential and MSME-related products, particularly food items, agricultural inputs and restaurant services.

These reductions have benefited MSMEs involved in food processing, agriculture supply chains and retail trade, as lower taxes stimulate consumer demand and increase sales.

At the same time, taxes on luxury goods and harmful products such as tobacco have increased. This policy approach reflects the government's objective of encouraging production and consumption of essential goods while discouraging harmful products.

4.GST Composition Scheme for MSMEs in India

Table 3: GST Composition Scheme for MSMEs in India

Category	GST Rate under Composition
Manufacturers	1%
Traders	1%
Restaurants (non-alcohol)	5%
Service providers	6%

Eligibility Limit: *₹1.5 crore annual turnover.*

Source: *Compiled from: GST Council Notifications, Ministry of MSME Annual Reports Central Board of Indirect Taxes and Customs (CBIC)*

As per the Table-3 it is clear that, the GST Composition Scheme is designed specifically to reduce the compliance burden on small enterprises. Under this scheme, businesses pay tax at a fixed percentage of turnover instead of standard GST rates.

For example, a trader with a turnover of ₹50 lakh would pay only 1% GST under the scheme, significantly lower than normal GST rates.

This scheme is particularly beneficial for small traders, retailers and restaurants in semi-urban areas such as Chevella. However, businesses under this scheme cannot claim input tax credit and cannot engage in interstate trade, which may restrict expansion.

IV. MSMEs in Chevella Municipal Area

The Chevella Municipal Area in Ranga Reddy District represents a growing semi-urban economic center with a mix of manufacturing, trading and service sector enterprises. Most businesses fall under the micro and small enterprise category, reflecting the typical MSME structure of semi-urban India.

The following tables present selected MSME enterprises operating in the Chevella region.

1.Manufacturing Sector MSMEs in Chevella

Table 4: Manufacturing Sector MSMEs in Chevella

No	Enterprise Name	Activity	Year	2022 Turnover (₹ lakh)	2023	2024
1	Pavan Roto Packs Industries	Plastic packaging	2010	240	260	295
2	Vaishali Food Suppliers Pvt Ltd	Food processing	2015	140	170	195
3	Avyukth Agro Foods Pvt Ltd	Agro processing	2024	–	–	35
4	Sri Dhathri Industries	Engineering works	2012	90	100	110
5	Brick Manufacturing Units	Construction materials	2005	60	70	85

Source: Primary Data & *MSME Development Institute Hyderabad – District Industrial Profile, Telangana State Pollution Control Board Industry List, Telangana Industries & Commerce Department*

As per the Table 4, the manufacturing sector in Chevella mainly consists of small-scale production units related to packaging, food processing, construction materials and engineering works.

The turnover data shows gradual growth from 2022 to 2024, indicating increasing market demand. The availability of input tax credit under GST has helped manufacturing enterprises reduce production costs and maintain competitive pricing.

However, smaller units such as brick manufacturing clusters often face challenges related to compliance procedures and digital record keeping.

2.Trading Sector MSMEs in Chevella

Table 5: Trading Sector MSMEs in Chevella

No	Enterprise Name	Activity	Year	2022	2023	2024
1	Green Connect Properties Pvt Ltd	Real estate trading	2020	180	210	260
2	Sri Aarudhraa Farms Pvt Ltd	Agricultural trading	2018	110	150	170
3	Smart Farms Pvt Ltd	Agribusiness trading	2017	95	110	120
4	Chevella Vegetable Market Traders Association	Wholesale trading	2000	350	420	480
5	Chevella Agro Inputs Dealers	Seeds and fertilizers	2010	80	95	105

Source: Primary Data & *Udyam Registration Portal – Ministry of MSME, District Industries Centre (DIC), Ranga Reddy, Telangana Socio-Economic Outlook Reports*

Table 5 shows that the trading sector plays a dominant role in the Chevella economy, particularly in agricultural produce and wholesale vegetable markets.
Turnover growth between 2022 and 2024 reflects increasing demand from nearby urban markets such as Hyderabad. GST has helped these businesses by removing interstate tax barriers, allowing traders to supply goods to larger markets.

However, traders often report higher compliance costs due to GST return filing and accounting requirements.

3.Service Sector MSMEs in Chevella

Table 6: Service Sector MSMEs in Chevella

No	Enterprise	Activity	Year	2022	2023	2024
1	Usom IT Solutions Pvt Ltd	IT services	2019	45	55	65
2	PRR Chits Pvt Ltd	Financial services	2013	65	75	85
3	Refresh Infratech Pvt Ltd	Infrastructure services	2018	85	100	115
4	Patnam Reddy Hospital	Healthcare services	2010	320	360	390
5	Local Transport Services	Logistics	2008	100	120	135

Source: *Ministry of MSME – Annual Reports, Invest Telangana Policy Documents, Indian School of Business MSME Studies*

Table 6 indicates that the service sector in Chevella includes IT services, healthcare, logistics and financial services. These sectors have shown stable growth in turnover over the past three years.

GST has influenced the service sector mainly through digital invoicing and tax compliance systems. Businesses in IT and infrastructure services have adapted more easily to GST due to better digital literacy.

Healthcare services remain largely stable because many medical services are exempt or taxed at lower GST rates, which reduces the tax burden on hospitals and diagnostic centers.

4.Sectoral Summary of MSMEs in Chevella

Chevella represents a growing peri-urban economic center with MSMEs operating in manufacturing, trading and service sectors. The following table summarises sample enterprises.

Table-7: Sectoral Summary of MSMEs in Chevella

Sector	Sample Units	Average Turnover	Trend
Manufacturing	5	₹50–300 lakh	Moderate growth
Trading	5	₹70–500 lakh	High growth
Services	5	₹60–400 lakh	Stable growth

Source: Primary Data & District Industries Centre, Udyam Portal, Telangana Economic Reports

Table-7 shows that the Chevella MSME structure reflects the typical pattern of semi-urban economies in India. The trading sector dominates due to agricultural linkages, while manufacturing and service sectors are gradually expanding.

GST has played a mixed role in this transformation. On the positive side, it has improved market integration, transparency and input tax credit benefits. On the negative side, small enterprises initially faced challenges related to digital compliance and increased administrative costs.

Despite these challenges, the MSME sector in Chevella has gradually adapted to the GST system and continues to contribute significantly to the local economy.

IV. Conclusion

The Goods and Services Tax represents a major milestone in India's taxation reform process. By replacing multiple indirect taxes with a unified tax system, GST has simplified tax administration and created a common national market. The reform has improved transparency in business transactions and reduced the cascading effect of taxes.

For MSMEs, GST has brought both opportunities and challenges. On the positive side, it has improved market integration, facilitated input tax credit benefits and enhanced transparency in business operations. On the negative side, compliance requirements and digital procedures have increased the administrative burden for small enterprises.

The case study of the Chevella Municipal Area indicates that MSMEs initially faced difficulties in adapting to GST but are gradually adjusting to the new system. With improved awareness and institutional support, GST has the potential to contribute to the long-term growth and sustainability of MSMEs.

VI. Limitations of the Study

1. The study is limited to MSMEs operating in the Chevella Municipal Area of Ranga Reddy District.
2. The sample size of respondents is relatively small due to time and resource constraints.
3. The findings are based mainly on responses collected from selected enterprises and may not represent the entire MSME sector.

VII. Suggestions

1. Government agencies should organize training and awareness programs to help MSME owners understand GST procedures and digital filing systems.
2. Simplification of GST return filing and compliance procedures would reduce the administrative burden on small enterprises.
3. Improved access to digital infrastructure and professional accounting services can help MSMEs adapt more effectively to the GST system.

4. Policy makers should design supportive measures specifically targeted at strengthening the MSME sector under the GST regime.

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