Comparative Analysis of MSME Growth and Financial Efficiency Post-GST Implementation

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Abstract

This study investigates the impact of the Goods and Services Tax (GST) on the growth and performance of Micro, Small, and Medium Enterprises (MSMEs) in India, following its implementation on July 1, 2017. By employing a comparative analysis approach, the research examines key performance indicators such as revenue growth, profitability, compliance costs, and market access before and after GST implementation. The findings reveal that while GST has streamlined the tax structure and improved market access for many MSMEs, it has also posed significant challenges, including increased compliance burdens and a steep learning curve for adaptation. The study highlights the varied responses of MSMEs to GST, identifying both success stories and areas of struggle. Ultimately, this research contributes to a deeper understanding of the transformative effects of GST on MSMEs, offering valuable insights for policymakers and stakeholders aiming to enhance the sector's resilience and growth in a post-GST landscape.

Keywords: -Taxation, Goods and Services Tax (GST), Medium, Small, and Micro Enterprises (MSMEs)

Introduction

After Goods and Services Tax was introduced in India on 1st July 2017, it was one of the greatest tax reforms in Indian history. GST has replaced many indirect taxes charged by governments (central and state), aiming to create a uniform tax structure and promote ease of doing business. However, the execution of this tax has also had a huge impact on the MSMEs region in India (Dhillon et al., 2022).

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in the economic landscape of India, contributing significantly to employment generation, innovation, and overall economic growth. Comprising over 63 million units, MSMEs account for approximately 30% of India's Gross Domestic Product (GDP) and are instrumental in fostering entrepreneurship and regional development. However, despite their importance, MSMEs have historically faced numerous challenges, including limited access to finance, regulatory hurdles, and a complex tax structure.

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked a significant shift in India's taxation framework, aimed at simplifying the tax regime and promoting ease of doing business. GST replaced a myriad of indirect taxes with a unified tax structure, intending to enhance compliance, reduce tax evasion, and improve the overall business environment. While the GST framework was designed to benefit businesses, its implementation has raised questions regarding its actual impact on MSMEs, which often operate with limited resources and face unique operational challenges.

This study aims to conduct a comparative analysis of MSME growth and performance before and after the implementation of GST. By examining key performance indicators such as revenue growth, profitability, compliance costs, and market access, this research seeks to provide a comprehensive understanding of how GST has influenced the operational landscape for MSMEs. Furthermore, it will explore the challenges and opportunities that have emerged in the post-GST era, shedding light on the varying degrees of adaptation and resilience exhibited by MSMEs across different sectors.

Understanding the implications of GST on MSMEs is crucial for policymakers, industry stakeholders, and researchers alike, as it can inform future tax reforms and support initiatives aimed at enhancing the competitiveness and sustainability of this vital sector. Through this analysis, the study aspires to contribute valuable insights into the ongoing discourse surrounding GST and its role in shaping the future of MSMEs in India.

According to many economists and scholars, it was a noble step towards transformation and transparency in businesses. It has been embraced as a solution to the longstanding challenge of integrating the national market, aiming to streamline business operations, bolster financial resources and manage the fiscal deficit. This approach ultimately fuels economic growth (Jayalakshmi & Venkateswarlu, 2018).This critical assessment aims to evaluate the GST impact on the MSME in Delhi NCR. This assessment will analyze the challenges faced by MSMEs during the transition to GST, the impact of GST on their operations and competitiveness and the measures taken by the government to mitigate the negative impact of GST on MSMEs (Meena & Sodani, 2018).

Review of Literature

Mehta (2023) examined the post-implementation outcomes of GST on MSMEs operating in urban business clusters, including Delhi NCR. The study found that improved digital infrastructure and access to tax professionals enabled faster adaptation to GST compliance, although micro enterprises continued to face cost pressures.

Khan and Jain (2022) analyzed the impact of GST on working capital management of MSMEs in India. Their findings revealed that delays in input tax credit (ITC) refunds significantly affected liquidity, particularly for manufacturing and export-oriented MSMEs.

Singh and Verma (2021) studied GST-driven tax governance reforms and observed that technology-enabled compliance improved transparency and reduced tax evasion. However, the study noted that MSMEs with limited digital literacy struggled to meet compliance requirements.

Arora and Bansal (2021) examined GST compliance behavior among MSMEs in North India and concluded that simplified return filing systems and the composition scheme encouraged voluntary compliance among small traders and service providers.

Mukherjee (2020) assessed the impact of GST on the cost structure of MSMEs and found that although the removal of cascading taxes reduced long-term costs, short-term compliance and transition costs remained high for micro enterprises.

Rastogi (2020) explored challenges faced by MSMEs in adopting GST and identified inadequate digital infrastructure and limited technical knowledge as major barriers, particularly in semi-urban areas of Delhi NCR.

Soni (2020) provided a comprehensive analysis of the MSME sector in India, highlighting that micro enterprises account for nearly 99.4% of total MSMEs and are disproportionately affected by GST compliance costs.

Sharma and Agarwal (2019) studied MSMEs in the Delhi NCR region and reported that GST increased business formalization but also raised operational expenses due to mandatory digital accounting systems and professional consultancy fees.

Dasgupta (2019) examined GST awareness levels among MSME owners and found that insufficient training led to heavy reliance on tax consultants, increasing compliance-related financial burdens.

Kumar and Gupta (2018) investigated GST's impact on manufacturing and trading MSMEs and found that uniform tax rates improved supply chain efficiency, but liquidity issues emerged due to delayed ITC processing.

Vij, Bansal, and Sharma (2017) analyzed indirect tax reforms in India and observed that GST enhanced tax transparency and reduced tax cascading, though frequent return filing posed challenges for micro and small enterprises.

Rajshekhar (2017) studied the transition from the pre-GST tax regime and found that MSMEs faced significant initial difficulties related to registration, invoice matching, and compliance understanding.

Sanusi, Hassan, and Zakaria (2017) emphasized the role of MSMEs in economic development and poverty reduction, noting that complex tax compliance systems often constrain MSME growth in developing economies.

Alm (2012) examined tax compliance behavior in developing countries and concluded that simplified indirect tax systems are essential for improving compliance and expanding government revenue without disproportionately burdening small businesses.

Theoretical Framework

The present study is grounded in established economic and management theories that explain the relationship between taxation systems, compliance behavior, and business performance of Micro, Small and Medium

Enterprises (MSMEs). The framework integrates **Tax Compliance Theory**, **Ability-to-Pay Theory**, **Cost–Benefit Theory**, and **Institutional Theory** to examine the impact of Goods and Services Tax (GST) on MSMEs in the Delhi NCR region.

1. Tax Compliance Theory

Tax Compliance Theory explains why taxpayers choose to comply or not comply with tax regulations. According to Alm (2012), compliance behavior is influenced by factors such as tax complexity, compliance costs, awareness, and enforcement mechanisms. In the context of GST, MSMEs' compliance is affected by return filing frequency, digital requirements, and understanding of tax provisions. Higher compliance complexity increases administrative burden, particularly for micro enterprises.

Relevance to the Study:

This theory supports analyzing GST compliance requirements (registration, return filing, ITC claims) and their impact on MSMEs' operational efficiency.

2. Ability-to-Pay Theory

The Ability-to-Pay Theory states that taxation should be levied based on the taxpayer's capacity to bear the tax burden. MSMEs, especially micro enterprises, possess limited financial and managerial resources. Uniform GST rates and compliance costs may disproportionately affect smaller firms compared to larger enterprises.

Relevance to the Study:

This theory helps examine whether GST tax rates and compliance structures are equitable for MSMEs of varying sizes in Delhi NCR.

3. Cost–Benefit Theory

Cost–Benefit Theory suggests that economic agents evaluate decisions by comparing expected benefits against incurred costs. For MSMEs, GST adoption involves costs such as accounting software, professional fees, and time spent on compliance, while benefits include input tax credit, market formalization, and supply chain efficiency.

Relevance to the Study:

This theory explains MSMEs' perception of GST, assessing whether benefits outweigh compliance and transition costs.

4. Institutional Theory

Institutional Theory emphasizes the role of formal rules, regulations, and institutional support in shaping organizational behavior. GST represents a major institutional reform aiming at tax uniformity and transparency. MSMEs' adaptation depends on regulatory support, digital infrastructure, training programs, and government facilitation.

Relevance to the Study:

This theory justifies examining institutional factors such as government support, digital infrastructure, and awareness initiatives influencing GST adoption among MSMEs.

Conceptual Model of the Study

Based on the above theories, the study proposes that **GST-related factors** influence **MSME performance outcomes**, with compliance capability acting as a mediating mechanism.

Independent Variables

- GST Tax Rates
- GST Compliance Requirements
- Input Tax Credit (ITC) Mechanism
- Digital Filing & Technological Readiness

Mediating Variables

- GST Awareness

- Compliance Cost
- Digital Literacy

Dependent Variables

- Operational Efficiency
- Cost Structure
- Cash Flow Management
- Business Performance & Sustainability

Framework Explanation

GST implementation affects MSMEs through compliance complexity and cost structures. Adequate awareness, digital readiness, and institutional support can reduce negative impacts and enhance operational efficiency and sustainability.

Figure 1: Conceptual Model of GST Impact on MSMES
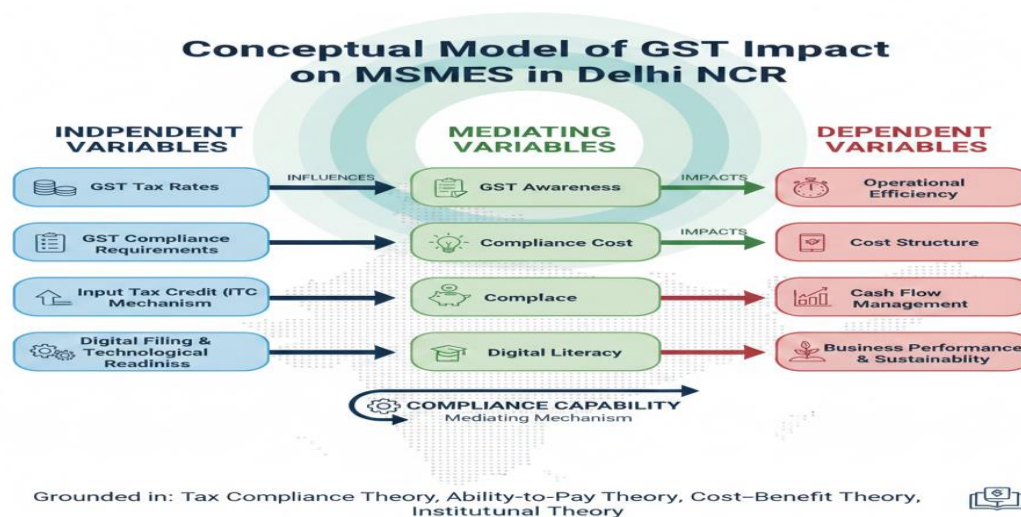
Research Questions

The analysis of prior research conducted reveals significant evidence when conducting a literature review on the "GST and MSME Growth Trajectories: Post- Implementation Trends in Delhi NCR," the research questions should aim to explore the various dimensions of how GST affects micro, small, and medium enterprises in this specific geographical context. Here are some potential research questions that could guide the review:

1. What is the overall impact of GST on the financial efficiency and financial performance of MSMEs in the Delhi NCR region?

2. What are the differential benefits of GST on various sectors, including the trading, manufacturing, and service sectors, within the MSME category in the Delhi NCR region?

3. How effective are government policies and support measures, such as the Composition Scheme, relaxed filing rules, and awareness programs, in facilitating the transition to GST for MSMEs and mitigating any negative impacts?

4. How does GST impact the financial aid and grants by the Indian Government to MSMEs?

The research gaps section elaborates further on these unexplored aspects that provide promising avenues for future research. Advancing work in these directions can provide system-wide perspectives to discuss the impact of GST implementation.

Objectives of Study

The systematic analysis of research literature above culminates in the following study objectives. The objectives of a study for a literature review on the "GST and MSME Growth Trajectories: Post- Implementation Trends in Delhi NCR" should be to systematically examine and synthesize existing research findings, identify patterns, and draw conclusions about the effects of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs) in this specific region. Here are some potential objectives that such a study might aim to achieve:

Assess the Financial Efficiency: To evaluate the overall impact of GST on the Financial efficiency and performance of MSMEs in the Delhi NCR region.

Access the Sector-Specific Benefits: To investigate the differential impact of GST across various sectors like trading sector, manufacturing sector and service sector within the MSME category in the Delhi NCR region.

Explore Policy Effectiveness: To explore the effectiveness of government policies and support measures like Composition Scheme, relaxed filing rules, and awareness programs aimed at facilitating the transition to GST for MSMEs and mitigating any negative impacts.

Evaluate the Impact of Financial Aid: To evaluate the impact of the financial aid and grants by the Indian Government to MSMEs.

By setting clear objectives, the literature review can be more focused and effective in contributing to the understanding of GST's impact on MSMEs in the Delhi NCR region, and in providing valuable insights for stakeholders, including business owners, policymakers, and researchers.

Comparative Analysis

1. Revenue Growth

Pre-GST: Prior to GST, MSMEs faced a fragmented tax structure, leading to varying tax rates and compliance burdens. Revenue growth was often stunted due to these complexities and market inefficiencies.

Post-GST: Post-GST implementation, many MSMEs reported improved revenue growth as a result of streamlined tax processes and enhanced market access. The unified tax structure facilitated better pricing strategies and reduced tax evasion, contributing to increased sales.

2. Profitability

Pre-GST: Profit margins for MSMEs were adversely affected by the cascading effect of taxes and high compliance costs associated with multiple indirect taxes.

Post-GST: The simplification of the tax regime under GST has led to improved profitability for several MSMEs. By reducing the overall tax burden and compliance costs, many enterprises have been able to retain a larger share of their revenue, thus enhancing their profit margins.

3. Compliance Costs

Pre-GST: MSMEs faced significant compliance costs due to the need to navigate a complex web of state and central taxes, leading to inefficiencies and increased operational costs.

Post-GST: Although GST introduced new compliance requirements, many MSMEs reported a reduction in overall compliance costs due to the elimination of multiple tax filings. However, the initial adaptation phase posed challenges, particularly for smaller enterprises lacking technological resources.

4. Market Access and Competitiveness

Pre-GST: Limited market access and regional disparities in tax rates hindered the competitiveness of MSMEs, restricting their ability to expand beyond local markets.

Post-GST: The implementation of GST has enhanced market access for MSMEs by creating a level playing field across states. This has enabled MSMEs to expand their operations and reach new customers, fostering greater competition and innovation.

However, over time, the GST framework has also provided certain reliefs and benefits that have the potential to reduce the overall tax burden for MSMEs in the Delhi NCR region. The input tax credit mechanism allows MSMEs to offset the tax paid on inputs against their output tax liability, which can lead to significant savings and improved cash flow. Additionally, the unified tax structure under GST has eliminated the cascading effect of taxes, thereby reducing the overall tax incidence on goods and services.

Figure 2: Comparative Analysis of MSME Performance Pre and Post GST

Research Methodology

The study focuses on MSME units operating in the state of Delhi. Total 150 MSME units operating in the region of Delhi have been selected for the purpose of study and GST related information about these units has been collected from the qualified CAs/CSs/CMAs who are in practice and handling GST related work of these units. The study employs a mixed-methods approach, utilizing both quantitative and qualitative data. Primary data has been collected using a stratified sampling process. To make the sample more representative, 25 micros, 25 small, and 25 medium enterprises were chosen from a total selected sample of 75 MSME units. The quantitative research is conducted and survey method based on the questionnaire was used to attain the objectives of the study and to address the research problem. Secondary data related to MSME units required for this research has been gathered from the various research papers, articles, thesis, magazines and Government publications.

MSME – Discussion and Analysis

In India, Medium, Small, and Micro Enterprises (MSMEs) play a crucial role in the economic development of the country. The above stated objectives have been studied by analyzing and interpreting the empirical testing of various important factors related to the above objective by using chi square test. The perceptions of GST practitioners like Chartered Accountants, Company Secretaries and Cost Accountants in practice who are handling outsourced work of MSME in Delhi were obtained on five point Likert's scale. These observations were then plotted on excel sheet to enable the application of chi square test on the data.

Table 1: Perceptions of GST Practitioners on GST Impact on MSMEs

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Majority of MSMEs outsource GST-related work to professional firms (CA/CS/CMA) instead of handling it in-house	3%	5%	15%	10%	67%
Implementation costs have increased due to the introduction of GST	1%	1%	10%	11%	77%
Compliance costs have increased due to the introduction of GST	3%	5%	1%	50%	41%
Recruitment and training costs have increased due to the introduction of	4%	13%	1%	25%	57%
IT costs (including GST software) have increased due to the introduction of GST	4%	13%	1%	25%	57%
GST regulations are beneficial to MSMEs in general	3%	2%	4%	17%	74%
Online compliance procedures (registration, payments, refunds, returns) under GST provide relief for MSMEs	3%	5%	15%	10%	67%
GST has replaced multiple tax regime	3%	5%	9%	26%	57%
GST has helped MSME to get sectorial benefits from government	4%	5%	1%	23%	67%

Table 2: Regression Analysis of GST Impact on MSME Financial Efficiency

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std Error	
Regression Model	0.922 [a]	0.844	0.841	0.541	
ANOVA [b]					
Model		Sum of Square	df	Mean Square	F	Sig
Regression Analysis	Regression	144.069	1	144.069	492.262	0.000 [b]
	Residual	28.681	98	0.293		
	Total	172.75	99			

The data presented is the result of a regression analysis examining the relationship between various variables and their impact on Financial Efficiency and growth of MSME concerning Goods and Services Tax (GST). The independent variables in the model can explain around 83.4 percent of the variance in the impact of GST on the company's growth and Financial efficiency, according to the R Square value of 0.844. It is clear from the Adjusted R Square value of 0.8341, which is extremely near to R Square, that the model fits the data accurately without being over fit. Moving on to the ANOVA table, it shows the breakdown of the variation in the

dependent variable (effect of GST on the company's operations) into regression and residual components. The F-value of the total regression model is 492.262, and it has a corresponding p-value of 0.000, which is much lower than the significance threshold of 0.05. This indicates that the model has a high degree of statistical significance. The conclusion says result of regression analysis indicate that there is a substantial and significant link between variables (financial efficiency, Sector Specific benefits, Policies effectiveness and Financial Aid) and growth of MSME post GST Implementation.

Conclusion

In conclusion, the implementation of the Goods and Services Tax (GST) has introduced a complex regulatory environment that presents significant compliance challenges for Medium, Small, and Micro Enterprises (MSMEs) in the Delhi NCR region. The analysis of the responses from GST practitioners regarding the impact of GST on MSME units in Delhi reveals several critical insights. A significant majority of practitioners agree that many MSMEs tend to outsource their GST-related work to professional firms rather than managing it in-house, indicating a reliance on external expertise.

Furthermore, the data highlights a consensus that both implementation and compliance costs have increased since the introduction of GST, which may pose challenges for MSMEs in managing their financial resources. Additionally, the rise in recruitment, training, and IT costs underscores the additional burden placed on these enterprises to adapt to the new tax regime. Despite these challenges, a notable portion of respondents acknowledges the benefits of online compliance procedures, which are perceived as a substantial relief for MSMEs. Overall, the findings suggest that while GST has introduced complexities and increased costs for MSMEs, it has also prompted a shift towards digital compliance, which could enhance operational efficiency in the long run. The statistical significance of these responses further emphasizes the importance of understanding the multifaceted impact of GST on the MSME sector

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