



ASSESSING THE EFFECT OF GOODS AND SERVICES TAX (GST) ON THE COMPETITIVENESS AND SUSTAINABILITY OF MSMEs IN INDIA

Dr. S.Kokilavizhi

Assistant Professor in B.Com Finance, NGM College, Pollachi

Article DOI: <https://doi.org/10.36713/epra28635>
DOI No: 10.36713/epra28635

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are a vital component of the Indian economy, contributing significantly to employment generation, industrial production, exports, and inclusive economic growth. The implementation of the Goods and Services Tax (GST) on 1 July 2017 marked a major reform in India's indirect tax system, replacing multiple central and state taxes with a unified tax structure. GST was introduced to simplify tax administration, promote transparency, reduce tax cascading, and create a common national market. While the reform has provided several advantages, such as improved input tax credit mechanisms, easier interstate trade, and greater formalization of businesses, it has also posed challenges for MSMEs in terms of compliance costs, digital adaptation, working capital management, and frequent regulatory changes.

This study assesses the effect of GST on the competitiveness and sustainability of MSMEs in India. It examines how GST has influenced business efficiency, market competitiveness, financial performance, operational continuity, and long-term growth prospects of MSMEs. The study also identifies the key challenges encountered by MSMEs under the GST regime and explores measures to enhance their resilience and competitiveness. The findings are expected to provide valuable insights for policymakers, researchers, and MSME stakeholders in developing strategies that support sustainable growth while maximizing the benefits of GST reforms.

KEYWORDS: Goods and Services Tax (GST), MSMEs, Competitiveness, Business Sustainability, Tax Compliance, Business Formalization.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in India's economic development. They contribute substantially to the country's Gross Domestic Product (GDP), industrial output, exports, innovation, and employment generation. MSMEs also promote balanced regional development by encouraging entrepreneurship in both urban and rural areas. Despite their significant contribution, many MSMEs face persistent challenges such as limited access to finance, technological constraints, infrastructure deficiencies, and increasing regulatory requirements, all of which influence their long-term sustainability and competitiveness.

For MSMEs, GST has created opportunities through streamlined taxation, improved input tax credit, and easier interstate business operations. At the same time, the transition has brought challenges such as increased compliance requirements, dependence on digital systems, delays in input tax credit refunds, and additional administrative costs, particularly for smaller enterprises.

Competitiveness refers to the ability of MSMEs to improve productivity, reduce operational costs, enhance product quality, and compete effectively in domestic and international markets. Sustainability refers to the ability of these enterprises to maintain stable financial performance, adapt to regulatory and market changes, and achieve long-term business growth. GST has

the potential to influence both these dimensions by reshaping the business environment in which MSMEs operate. Against this background, this study aims to assess the effect of GST on the competitiveness and sustainability of MSMEs in India. It examines the benefits and challenges arising from GST implementation and evaluates its impact on business performance, operational efficiency, financial stability, and long-term growth. The study also provides recommendations to strengthen the capacity of MSMEs to thrive under the GST regime, thereby contributing to India's broader economic development and sustainable industrial growth.

OBJECTIVES

- To assess the effect of the Goods and Services Tax (GST) on the competitiveness of MSMEs in India.
- To examine the impact of GST on the sustainability and long-term growth of MSMEs.
- To identify the benefits and challenges faced by MSMEs in complying with the GST regime.

SIGNIFICANCE OF THE STUDY

This study is significant as it evaluates the effect of GST on the competitiveness and sustainability of MSMEs in India. It provides insights into how GST has influenced business performance, operational efficiency, financial stability, market



access, and long-term growth. The findings will help identify the opportunities created by GST, such as improved input tax credit, enhanced transparency, and wider market integration, as well as the challenges relating to compliance costs, digital adoption, and working capital management. The study will be valuable to policymakers by offering evidence-based recommendations for simplifying GST procedures and strengthening support for MSMEs. It will also assist MSME owners and managers in understanding the implications of GST and adopting appropriate strategies to improve their competitiveness and ensure sustainable business growth. Furthermore, the research will contribute to the existing body of literature on GST and MSME development, providing a useful reference for researchers, academicians, and students interested in taxation, entrepreneurship, and economic policy.

REVIEW OF LITERATURE

OECD (2021) reported that tax simplification and digital tax administration can improve business productivity and competitiveness when accompanied by adequate institutional support, digital infrastructure, and taxpayer awareness. The report stressed that small businesses require continuous capacity-building initiatives to fully benefit from tax reforms.

Rao (2020) found that GST has positively influenced the competitiveness of registered MSMEs by reducing tax duplication and enabling smoother interstate business operations. However, the study emphasized that frequent amendments to GST rules and compliance requirements created uncertainty, particularly for micro enterprises.

Sharma and Singh (2019) examined the impact of GST on MSME financial performance and reported that while the Input Tax Credit (ITC) mechanism reduced the overall tax burden, delays in tax refunds and higher working capital requirements adversely affected the liquidity of many MSMEs.

RESEARCH GAP

Although numerous studies have examined the impact of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs) in India, most have focused on specific aspects such as tax compliance, implementation challenges, input tax credit, working capital management, digital adoption, and business formalization. Limited research has comprehensively investigated the combined effect of GST on both the competitiveness and sustainability of MSMEs. Moreover, many existing studies were conducted during the initial years of GST implementation, emphasizing transitional issues rather than its long-term implications. There is also a lack of sector-specific and region-specific empirical evidence that reflects the diverse nature of MSMEs in India. Therefore, a comprehensive assessment of how GST influences the competitiveness, operational efficiency, financial stability, and long-term sustainability of MSMEs is needed. This study aims to address this research gap by providing an integrated analysis of the impact of GST on the competitiveness and sustainability of MSMEs in India, thereby offering valuable insights for policymakers, researchers, and MSME stakeholders.

The Role of GST in Promoting Business Formalization and Market Competitiveness among MSMEs

The Goods and Services Tax (GST) has played a significant role in promoting business formalization and enhancing the market competitiveness of Micro, Small, and Medium Enterprises (MSMEs) in India. By encouraging businesses to register under the GST framework, the tax system has brought many informal enterprises into the formal economy, improving transparency, accountability, and regulatory compliance. Formalization enables MSMEs to access institutional finance, participate in government procurement, and establish stronger business relationships with larger firms. Additionally, the Input Tax Credit (ITC) mechanism reduces the overall tax burden and lowers production costs, allowing MSMEs to offer competitively priced products and services. The removal of interstate tax barriers has also expanded market access, enabling businesses to operate more efficiently across India. Although compliance costs and digital requirements remain challenges, GST has strengthened the competitiveness of MSMEs by creating a more transparent, integrated, and business-friendly environment.

The Impact of GST on the Sustainability and Long-Term Growth of MSMEs

- ❖ **Simplification of the Tax System** – GST replaced multiple indirect taxes with a single tax structure, reducing complexity and improving the ease of doing business.
- ❖ **Reduction in Cascading Effect of Taxes** – The Input Tax Credit (ITC) mechanism prevents double taxation, lowering production costs and improving profitability.
- ❖ **Improved Market Access** – The removal of interstate tax barriers enables MSMEs to expand their customer base across India.
- ❖ **Business Formalization** – GST encourages unregistered businesses to become part of the formal economy, improving transparency and credibility.
- ❖ **Enhanced Competitiveness** – Lower tax costs and streamlined logistics help MSMEs compete effectively in domestic and international markets.
- ❖ **Digital Transformation** – Online GST registration, return filing, and e-invoicing have accelerated the adoption of digital technologies among MSMEs.
- ❖ **Better Access to Finance** – Formal GST records improve financial transparency, making it easier for MSMEs to obtain bank loans and institutional credit.
- ❖ **Integration into Supply Chains** – GST registration enables MSMEs to become suppliers to large companies that prefer GST-compliant vendors.
- ❖ **Increased Tax Compliance** – A standardized tax system promotes accountability and improves overall business governance.
- ❖ **Employment Generation** – Sustainable MSME growth under GST can contribute to higher employment opportunities and economic development.



- ❖ **Improved Operational Efficiency** – Standardized tax procedures and simplified logistics reduce administrative delays and operational costs.
- ❖ **Boost to Export Competitiveness** – GST refunds and zero-rated exports help reduce tax costs, making MSME products more competitive in international markets.
- ❖ **Support for Long-Term Business Growth** – Improved compliance, market integration, and operational efficiency create a stronger foundation for sustainable expansion.
- ❖ **Challenges to Sustainability** – Frequent GST return filing, compliance costs, digital literacy gaps, and delayed ITC refunds can affect cash flow and business continuity, particularly for micro enterprises.
- ❖ **Policy Support and Reforms** – Continuous simplification of GST procedures, faster refund processing, and capacity-building initiatives can further strengthen the long-term sustainability of MSMEs.

Effect of the Goods and Services Tax (GST) on the Competitiveness of MSMEs in India

The Goods and Services Tax (GST) has significantly influenced the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) in India by creating a more unified and transparent taxation system. The introduction of GST replaced multiple indirect taxes, reducing the cascading effect of taxation and simplifying tax compliance. The availability of the Input Tax Credit (ITC) mechanism has helped MSMEs lower production costs, improve pricing strategies, and enhance profitability. GST has also facilitated smoother interstate trade by eliminating state-level tax barriers, enabling MSMEs to access larger markets and expand their customer base. Furthermore, the digitalization of tax processes, including online registration, return filing, and e-invoicing, has encouraged MSMEs to adopt modern business practices, improving operational efficiency and transparency. Formalization under GST has enhanced the credibility of MSMEs, enabling them to access institutional finance, government procurement opportunities, and supply chains of large corporations. However, the competitiveness of many MSMEs continues to be affected by compliance costs, frequent changes in GST regulations, limited digital literacy, and working capital constraints arising from delays in input tax credit refunds. Despite these challenges, GST has strengthened the competitive environment by promoting efficiency, transparency, market integration, and better business governance. With continued policy support, simplified compliance procedures, and timely refund mechanisms, GST can further enhance the competitiveness and long-term growth prospects of MSMEs in India.

Acknowledgment: The Author sincerely acknowledges and expresses gratitude to the Management of NGM College, Pollachi, Tamil Nadu, for their generous financial assistance through SEED Money support for this research work.

REFERENCES

1. Ahmad, E., & Poddar, S. (2009). *Goods and Services Tax reforms and intergovernmental considerations in India*. Ministry of Finance, Government of India.
2. Economic Advisory Council to the Prime Minister. (2025). *Addressing structural challenges in Indian manufacturing: The "missing middle"*. Government of India.
3. Garg, R. (2018). Inverted duty structure under GST: Issues and challenges for the industry. *International Journal of Research in Economics and Social Sciences*, 8(3), 45–52.
4. Government of India. (2020). *The Micro, Small and Medium Enterprises Development Act, 2006 (Updated)*. Ministry of Micro, Small and Medium Enterprises.
5. ICRA Limited. (2022). *Indian textile industry: Navigating the input cost and tax landscape*. ICRA Limited.
6. India Ratings and Research. (2025). *India manufacturing: Productivity gains and wage growth trends (FY20–FY24)*. India Ratings and Research.
7. Ministry of Micro, Small and Medium Enterprises. (2024). *Annual Report 2023–24*. Government of India.
8. Mukherjee, S. (2020). *Goods and Services Tax (GST) in India: Background, present structure and future challenges*. National Institute of Public Finance and Policy.
9. Oxford Economics. (2025). *India economic outlook: Beyond GST – The need for structural reforms*. Oxford Economics.
10. Press Information Bureau. (2025). *Cabinet approves GST Council's recommendations for easing tax compliance and boosting economic growth*. Government of India.