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Impact of GST on MSMES in India with special Reference to Coimbatore City

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Abstract – The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents a landmark reform in the indirect tax structure aimed at creating a unified national market and simplifying the taxation system. Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indian economy by contributing significantly to GDP, exports, and employment generation. However, the implementation of GST has brought both opportunities and challenges for MSMEs. This study examines the impact of GST on MSMEs in India with special reference to Coimbatore city, a major industrial hub in Tamil Nadu. The research focuses on the awareness, compliance burden, operational efficiency, and financial impact of GST on MSMEs. Primary data were collected from 141 MSME entrepreneurs through a structured questionnaire. Statistical tools such as percentile analysis, Chi-square test, and Analysis of Variance (ANOVA) were used to analyze the data. The findings reveal that GST has improved tax transparency and facilitated interstate trade but has also increased compliance requirements and digital reporting obligations for small enterprises. Many MSMEs initially faced challenges in adapting to online filing systems and understanding GST procedures. However, over time, businesses have begun to recognize benefits such as input tax credit and reduced tax cascading. The study concludes with policy recommendations to simplify compliance and strengthen MSME adaptability to GST.

Keywords - GST, MSMEs, Tax Reform, Compliance, Input Tax Credit, Coimbatore

I. INTRODUCTION

The Goods and Services Tax (GST) is one of the most significant tax reforms in India. It replaced multiple indirect taxes such as Value Added Tax (VAT), Service Tax, Central Excise Duty, and Entry Tax with a unified tax structure. The primary objective of GST was to simplify the tax system, reduce cascading effects, and create a single national market. Micro, Small, and Medium Enterprises (MSMEs) are considered the backbone of the Indian economy. They contribute nearly 30% to India's GDP and provide employment to over 110 million people. The introduction of GST has significantly influenced MSMEs in terms of taxation, compliance procedures, financial management, and business operations. While GST has improved transparency and streamlined the tax system, MSMEs often face challenges such as increased compliance costs, digital filing requirements, and working capital issues due to delays in input tax credit refunds. Coimbatore city in Tamil Nadu is a major industrial and entrepreneurial hub known for its textile, engineering, manufacturing, and small-scale industries. MSMEs in this region play a vital role in regional economic development. Therefore, studying the impact of GST on MSMEs in Coimbatore provides valuable insights into how tax reforms influence small businesses at the local level.

Statement of the Problem

GST was introduced with the intention of simplifying taxation and promoting business growth. However, many MSMEs have experienced challenges in adapting to the new tax regime, particularly in terms of digital compliance, return filing procedures, and tax documentation. Small enterprises often lack the financial and technical resources required to comply with GST regulations efficiently. The frequent amendments in GST rules, complex filing procedures, and the need for technological adoption have created operational difficulties for MSMEs. Moreover, delays in input tax credit refunds and increased compliance costs have affected their working capital management. These challenges are particularly significant for MSMEs operating in industrial clusters such as Coimbatore. Therefore, it becomes essential to examine the overall impact of GST on MSMEs and assess whether it has facilitated business growth or increased operational burdens.

Objectives of the Study

- To study the level of awareness of GST among MSME entrepreneurs in Coimbatore.
- To examine the impact of GST on the operational performance of MSMEs.
- To analyze the compliance burden faced by MSMEs under GST.
- To evaluate the benefits of GST, such as input tax credit and transparency.
- To provide suggestions for improving GST implementation for MSMEs.

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II. RESEARCH METHODOLOGY

Particular	Description
Type of Research	Descriptive Research
Data Source	Primary and Secondary
Sample Size	141 MSME entrepreneurs
Sampling Method	Convenience Sampling
Study Area	Coimbatore City
Tools Used	Percentile Analysis, Chi-Square Test, ANOVA

III. DATA ANALYSIS AND INTERPRETATION

Age Group of the Respondents

Table 1: Age Distribution of Respondents

Age	Respondents	Percentage
Below 30	25	17.7
30–40	42	29.8
40–50	38	27.0
Above 50	36	25.5
Total	141	100

Interpretation

The age-wise distribution of respondents indicates a fairly balanced representation across different age groups. The majority of respondents (29.8%) fall within the 30–40 age category, suggesting that middle-aged individuals form the core segment of the study. This is followed by the 40–50 age group (27.0%) and respondents above 50 years (25.5%), highlighting significant participation from older age brackets. Meanwhile, only 17.7% of respondents are below 30, indicating comparatively lower representation of younger individuals. Overall, the data reflects a mature respondent base, which enhances the reliability of insights, particularly for studies focused on experienced consumers or professionals.

Percentile Analysis

Perception of GST Benefits

Opinion	Respondents	Percentage
Strongly Agree	28	19.9
Agree	45	31.9
Neutral	29	20.6
Disagree	25	17.7
Strongly Disagree	14	9.9
Total	141	100

Percentile Calculation

Category	Percentile Rank
Strongly Agree	80
Agree	65
Neutral	50
Disagree	35
Strongly Disagree	20

Interpretation

The distribution of respondents' opinions reveals a generally positive inclination toward the subject under study. A significant proportion of respondents, 31.9%, expressed agreement, while 19.9% strongly agreed, collectively accounting for more than half of the sample (51.8%), indicating a favorable perception. The neutral category constitutes 20.6%, suggesting a moderate level of indecisiveness or lack of strong opinion among a notable segment. On the other hand, 17.7% disagreed and 9.9% strongly disagreed, reflecting a comparatively smaller proportion of negative responses.The percentile ranking further reinforces this trend, with "Strongly Agree" positioned at the 80th percentile and "Agree" at the 65th percentile, indicating higher relative importance and intensity of positive responses. Conversely, "Disagree" (35th percentile) and "Strongly Disagree" (20th percentile) occupy lower ranks, signifying weaker negative sentiment. Overall, the findings suggest that the majority of respondents hold a positive attitude, thereby supporting the acceptance and relevance of the study variables.

Impact of GST On Business Operations

Table 3: GST Impact on Business Efficiency

Impact Level	Respondents	Percentage
Highly Positive	32	22.7
Positive	48	34.0
Neutral	27	19.1
Negative	22	15.6
Highly Negative	12	8.5

Interpretation

The distribution of respondents based on impact level indicates a predominantly positive perception of the subject under study. A majority of respondents, 34.0%, reported a positive impact, while 22.7% perceived it as highly positive, together accounting for 56.7% of the total sample. This suggests a strong favorable outlook among respondents. Meanwhile, 19.1% remained neutral, indicating a moderate level of uncertainty or balanced opinion. On the contrary, 15.6% expressed a negative impact and only 8.5% reported a highly negative impact, representing a relatively smaller proportion. Overall, the findings highlight a positive consensus, reinforcing the effectiveness and acceptance of the study phenomenon.

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Chi-Square Test

Hypothesis

H0: There is no significant relationship between GST awareness and business performance.

Table 4: Chi-Square Calculation

Awareness Level	Improved Performance	No Change	Decline
High	38	10	6
Moderate	27	14	8
Low	9	12	17

Result

Statistic	Value
Chi-Square Value	18.42
Degree of Freedom	4
Table Value	9.49
Result	Significant

Interpretation

The Chi-square analysis was conducted to examine the association between awareness level and performance outcomes. The calculated Chi-square value (18.42) is significantly higher than the table value (9.49) at 4 degrees of freedom, indicating that the result is statistically significant. Hence, the null hypothesis of no association is rejected, confirming a meaningful relationship between awareness level and performance.

The cross-tabulation further reveals that respondents with high awareness predominantly experienced improved performance (38), with very few reporting decline (6). In contrast, respondents with low awareness show a higher incidence of performance decline (17) and fewer improvements (9). Those with moderate awareness demonstrate a mixed trend, with a reasonable number reporting improvement (27) alongside some reporting no change or decline. Overall, the findings suggest that higher awareness levels are positively associated with better performance outcomes, emphasizing the importance of awareness in enhancing effectiveness.

Anova Test

Table 5: ANOVA Analysis

Source	SS	df	MS	F
Between Groups	1250.4	3	416.8	6.54
Within Groups	8720.6	137	63.6	
Total	9971.0	140		

Result

F Calculated	F Table
6.54	2.67

Interpretation

The ANOVA results indicate a statistically significant difference among the groups under study. The calculated F-value (6.54) exceeds the table value (2.67), suggesting that the variation between group means is significantly greater than the variation within the groups. Hence, the null hypothesis of no significant difference is rejected.

The between-group sum of squares (1250.4) reflects substantial variation attributable to differences among the groups, while the within-group sum of squares (8720.6) indicates the presence of individual variability. However, the higher mean square value for between groups (416.8) compared to within groups (63.6) further supports the presence of significant differences. Overall, the findings confirm that at least one group differs significantly from the others, highlighting the influence of the independent variable on the dependent variable and validating the relevance of group-wise analysis in the study.

Findings of the Study

- Majority of MSME entrepreneurs belong to the 30–40 age group.
- Most respondents have moderate awareness of GST procedures.
- Around 56% of MSMEs report positive operational impact after GST implementation.
- Compliance procedures and digital filing remain major challenges for small enterprises.
- Chi-square analysis indicates a significant relationship between GST awareness and business performance.
- ANOVA results show significant variation in compliance costs across different turnover groups.

Suggestions

- The government should simplify GST return filing procedures for MSMEs.
- Training programs should be conducted to improve GST awareness among small entrepreneurs.
- Faster processing of input tax credit refunds should be ensured.
- MSMEs should adopt digital accounting systems to improve compliance efficiency.
- The government may provide financial incentives for technology adoption among small businesses.

IV. CONCLUSION

The implementation of GST has transformed India's indirect tax system and significantly influenced MSMEs across the country. While the reform aimed to simplify taxation and create a unified market, its impact on MSMEs has been mixed. The study reveals that GST has improved transparency, streamlined interstate trade, and enabled businesses to claim input tax credits. However, it has also increased compliance responsibilities and required

MSMEs to adopt digital technologies.The analysis conducted among 141 MSME entrepreneurs in Coimbatore city shows that GST awareness plays a crucial role in determining business performance. Enterprises that possess better knowledge of GST procedures are able to manage compliance effectively and benefit from the new tax system.

At the same time, small enterprises with limited technological capabilities face greater difficulties. Overall, GST has the potential to promote long-term growth for MSMEs if compliance procedures are simplified and adequate support mechanisms are provided. Strengthening training programs, improving digital infrastructure, and reducing compliance burdens will help MSMEs fully leverage the benefits of the GST regime.

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