

The Impact of GST on Medium Enterprises

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Abstract

The introduction of the Goods and Services Tax (GST) in India marked a significant reform in the nation's indirect taxation system, aiming to simplify tax structures, enhance transparency, and promote economic growth. This study examines the impact of GST on medium-priced enterprises, focusing on operational efficiency, compliance requirements, pricing strategies, and overall profitability. Medium-priced enterprises, which cater to a broad customer base, have experienced both opportunities and challenges under the GST regime. While the unified tax system has reduced the cascading effect of taxes and improved ease of doing business, it has also increased the need for robust accounting systems and timely compliance. The research highlights that, although initial adaptation posed hurdles, many enterprises have gradually benefitted from better supply chain management, reduced tax burden on inter-state trade, and enhanced competitiveness. However, challenges remain in the areas of frequent policy changes, technical glitches in GST filing, and working capital constraints. The findings suggest that strategic adaptation and digital readiness are key for medium-priced enterprises to fully leverage the advantages of GST.

1. Introduction

The Goods and Services Tax (GST), implemented in India on July 1, 2017, is a comprehensive indirect tax reform aimed at creating a unified national market. By replacing multiple state and central taxes with a single system, GST has transformed the way businesses operate, especially medium-priced enterprises that cater to a wide range of consumers. These enterprises have experienced significant changes in pricing, supply chain management, and tax compliance. While GST has simplified taxation and reduced the cascading effect of taxes, it has also brought challenges in adapting to digital filing systems and meeting frequent compliance deadlines. Understanding its impact is crucial for assessing the overall growth, Profitability, and competitiveness of medium-priced enterprises in the Indian market.

Statement of problem

The introduction of the Goods and Services Tax (GST) was intended to simplify India's indirect taxation system and promote a more transparent and efficient business environment. However, for medium-priced enterprises, the transition to GST has not been without challenges. These businesses face difficulties in adapting to new compliance requirements, understanding frequent policy changes, and

managing technical issues in GST filing systems. Additionally, the shift has impacted pricing strategies, working capital flow, and supply chain operations. While GST offers potential benefits such as reduced tax burden and easier interstate trade, the extent to which these advantages outweigh the operational and financial challenges remains unclear. This study seeks to analyze the actual impact of GST on medium-priced enterprises, focusing on both the opportunities and the obstacles they encounter under the new tax regime.

Scope of the study

This study focuses on analyzing the impact of the Goods and Services Tax (GST) on medium-priced enterprises in India. It examines changes in tax compliance, pricing strategies, supply chain management, and overall business performance after the implementation of GST. The research considers both the positive outcomes, such as reduced cascading taxes and improved interstate trade, and the challenges, including compliance complexity and working capital constraints. The scope is limited to medium-priced enterprises operating in selected sectors, providing insights into their adaptation strategies and competitiveness under the GST regime. The findings aim to help policymakers, business owners, and stakeholders understand the real implications of GST and identify areas for further improvement.

Review of literature

Several studies have been conducted to evaluate the impact of GST on different segments of the Indian economy, including small, medium, and large enterprises.

Bahl and Bird (2018), GST has streamlined India's indirect tax system by integrating multiple taxes into a unified structure, reducing inefficiencies and tax cascading.

Sharma (2019) highlighted that while GST has improved transparency and interstate trade, medium-sized businesses faced initial difficulties in adapting to the digital filing process and managing compliance requirements.

Kumar and Rao (2020) found that GST implementation enhanced supply chain efficiency but increased the cost of maintaining skilled accountants and upgraded software systems.

Singh and Gupta (2021) reported that medium-priced enterprises benefitted from reduced overall tax liability but experienced liquidity issues due to delays in input tax credit refunds.

Patel (2022) emphasized that the frequency of amendments and technical glitches in the GST Network (GSTN) portal created operational challenges for enterprises during the initial years. Collectively, the literature suggests that GST has brought both opportunities and obstacles for medium-priced enterprises, and its ultimate impact depends on the sector's ability to adapt to the new compliance framework and leverage digital tools effectively.

Objectives

1. To Check the effect of GST on sales and profits.
2. To Identify challenges faced under GST.

Research methodology

This study adopts a descriptive research design to analyze the impact of GST on medium-priced enterprises in India. Both primary and secondary data sources are used. **Primary data** is collected through structured questionnaires and interviews with owners, managers, and accountants of medium-priced enterprises from selected sectors such as manufacturing, retail, and services. A purposive sampling method is applied to select 50 enterprises from different regions to ensure a balanced representation. **Secondary data** is obtained from government reports, GST council publications, academic journals, and industry analyses. Data is analyzed using percentage analysis, comparative study, and graphical representation to identify patterns, challenges, and benefits experienced under the GST regime. The methodology is designed to provide a clear understanding of the operational, financial, and strategic changes that have occurred in medium-priced enterprises post-GST implementation.

Result & discussion

1. To check the effects of GST on sales and profits:

- Initial Sales Decline - Many medium-priced enterprises saw a drop in sales immediately after GST due to confusion over pricing and changes in invoicing systems.
- Gradual Sales Recovery- Within 1-2 years, most enterprises experienced a recovery in sales as markets adapted to uniform tax rates and reduced interstate trade barriers.
- Profit Margin Pressure - in the early phase, profits were affected by higher compliance costs, software upgrades, and delays in input tax credit refunds.
- Reduced Tax Burden - Over time, GST reduced the cascading effect of taxes, lowering certain input costs and improving cost efficiency
- Sector-Specific Impact-The effect on sales and profits varied by sector with manufacturing and wholesale businesses benefiting more than small-scale retail,
- Role of Technology - Enterprises adopting GST-compliant software and digital systems early achieved better sales stability and profit growth.
- Long-Term Profit Improvement-Businesses with strong financial planning and efficient supply chains reported sustained growth in both sales and profits under GST

2. To identify challenges faced under GST:

- Frequent Amendments – Frequent changes in GST rules, rates, and filing systems created uncertainty and confusion among taxpayers.
- Technical Glitches in GST Portal – Users reported delays, downtime, and errors in the GST portal during return filing, especially near deadlines.
- Working Capital Issues – The input tax credit (ITC) refund process was often slow, causing a strain on business cash flow.
- High Compliance Costs – Small businesses faced increased costs for hiring accountants, purchasing GST software, and maintaining records.
- Classification and Rate Confusion – Ambiguity in the classification of goods/services and applicable GST rates led to disputes and misinterpretation.
- Inter-State Transaction Challenges – Businesses engaged in interstate supply faced additional registration and documentation burdens.

- Burden on Unregistered Vendors – Small suppliers below the GST threshold found it challenging to deal with buyers insisting on GST invoices.

Findings

The study found that the introduction of GST has simplified the indirect tax structure by replacing multiple state and central taxes with a single unified system. However, medium-priced enterprises initially struggled to adapt to the new digital compliance requirements, leading to delays and operational challenges. The uniform tax rates under GST reduced the cascading effect of taxes, improving cost efficiency for many businesses. Sales growth was slow in the early phase of implementation but gradually recovered as enterprises adjusted to the system. At the same time, compliance costs increased due to the need for skilled staff, GST-compliant software, and timely filing of returns. Delays in input tax credit refunds created working capital issues for several enterprises. Overall, the study revealed that businesses with better technological readiness and stronger financial stability were able to gain more benefits from GST compared to those less prepared.

Suggestions

Medium-priced enterprises should invest in proper GST-compliant accounting software and provide regular training to staff to ensure accurate and timely compliance. The government should work to simplify GST rules and reduce the frequency of changes to minimize confusion among businesses. Technical improvements to the GSTN portal are essential to prevent delays in return filing and reduce downtime. Authorities should expedite the process of input tax credit refunds to ease working capital constraints for enterprises. Businesses should strengthen their financial planning and adopt efficient supply chain practices to fully leverage GST benefits. Industry associations can play a greater role in spreading awareness and providing guidance on GST compliance. Collaboration between policymakers and business owners is necessary to address operational challenges and make GST more business-friendly.

Conclusion

The study concludes that the Goods and Services Tax has brought significant changes to the functioning of medium-priced enterprises in India. By unifying the indirect tax system, GST has reduced the cascading effect of taxes, improved transparency, and facilitated smoother interstate trade. However, the transition has not been without challenges, as enterprises faced initial difficulties in adapting to digital compliance, managing increased filing requirements, and dealing with working capital constraints due to delays in input tax credit refunds. Over time, businesses that invested in technology, trained their staff, and adopted efficient supply chain practices were able to gain substantial benefits from the new tax regime. While GST has the potential to boost sales, profitability, and competitiveness, its effectiveness depends largely on the adaptability and preparedness of enterprises. Continuous government support, simplification of procedures, and faster refund mechanisms will be crucial in ensuring that medium-priced enterprises can fully realize the advantages of GST.

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