

A Study of the Impacts of GST on Selected Service Sector Micro, Small and Medium Enterprises in Gujarat

Ramesh Prajapati*

Abstract

The study explores how Gujarat's service sector MSME units are affected by GST. Direct and indirect taxes are the main sources of income for the Indian government; the latter has undergone substantial reform over time. An important turning point in India's tax system was the implementation of the Goods and Services Tax (GST), which replaced a complex system of state and central levies with a single, cohesive framework. Beginning in 1986, the first efforts towards GST reform were followed by the submission of the Constitution Amendment Bill in 2011 and the recommendations of the Kelkar Task Force's in 2000. The Constitution (122nd Amendment) Bill of 2014 was passed in spite of early opposition, opening the door for the implementation of GST on 1 July, 2017. Three parts make up the GST system, which is organised around the idea of "One Nation, One Tax": The Central GST (CGST), State GST (SGST), and Integrated GST (IGST). Goods and services are subject to the tax, which is divided into four tax slabs: 5%, 12%, 18%, and 28%. Certain goods, such as those relating to gold and diamonds, are subject to lower taxes, while some necessities are exempted. For luxury and demerit goods, there is a compensating cess. The Union Finance Minister and members from each state and Union Territory make up the GST Council, which is crucial in determining tax rates, exemptions, and compliance procedures. Micro, Small, and Medium-Sized Enterprises (MSMEs) have benefited greatly from the new tax regime's simplified compliance requirements, which include composition levy schemes, threshold exemptions, and quarterly GST return files. GST regulations must be followed by service sector MSMEs having a turnover of at least Rs. 20 lakhs (Rs. 10 lakhs for special category states). This paper examines the historical evolution of GST in India, its structural framework, and the economic impact on businesses, particularly MSMEs. By

analysing the benefits and challenges associated with GST implementation, this study aims to provide insights into its role in promoting economic integration and simplifying tax compliance.

Keywords: Goods & Service Tax, Indirect Taxes, MSME, GST Council, Service Sector

Introduction

The service sector, also known as India's tertiary sector, is the fastest-growing and most significant contributor to the country's GDP. It includes industries such as IT, banking, finance, consulting, healthcare, and education. The sector saw rapid expansion post-1990s economic reforms, attracting substantial foreign investment and creating large-scale employment. In FY23, nearly half of the 8.12 million new jobs were created in IT, banking, and finance. With the growing role of technology and skilled labour, India's service sector continues to drive economic growth, accounting for 57% of the total Gross Value Added (GVA) in FY24.

Gujarat's service sector has also seen remarkable growth, supported by industrial expansion and initiatives like GIFT City. The state's Gross State Domestic Product (GSDP) reached ₹22.61 lakh crore (US\$275.78 billion) in FY23, contributing 8.6% to India's GDP. The implementation of the Goods and Services Tax (GST) in 2017 streamlined the tax system by replacing multiple indirect taxes with a unified structure. GST is categorised into CGST, SGST, and IGST, and applies to all goods and services transactions across states, enhancing tax compliance and reducing complexities for businesses.

* Student, MBA – Finance, Sardar Vallabhbhai Global University, Ahmedabad, Gujarat, India.
Email: rameshprajapati490156@gmail

The GST has had both positive and negative effects on Micro, Small, and Medium-Sized Enterprises (MSMEs) in the service industry. Benefits include easier company registration, electronic billing, and greater market penetration due to fewer interstate restrictions. Higher exemption limits and composition schemes that lessen compliance obligations are also advantageous to MSMEs. There are still obstacles to overcome, though, like the need for multi-state registrations, the need to file returns frequently, and liquidity problems brought on by electronic compliance regulations. Even though GST has increased efficiency and transparency, MSMEs still need assistance adapting to its benefits.

Overall, the GST implementation has led to a more structured taxation system, benefiting businesses in the long run. Despite initial challenges, the service sector, particularly MSMEs, has seen operational improvements and increased market access. Continuous government support and digital advancements will further enhance the sector's growth and simplify compliance for small businesses.

Literature Review

The implementation of GST in 2017 replaced multiple indirect taxes with a unified system, aiming to simplify compliance and promote transparency. While it offers benefits like reduced tax complexity and enhanced digitalisation, MSMEs—especially in the service sector—have faced challenges such as increased compliance costs and limited technological readiness. Studies highlight gaps in GST awareness among small business owners and note rising operational costs post-implementation. Despite initial hurdles, GST holds the long-term potential to boost MSME competitiveness and formalisation. Region-specific studies, like in Gujarat, are crucial to understand local impacts.

(Kanimozhi, 2023) GST in India consolidates central and state taxes into a single system, enabling a single national market. Its benefits MSMEs, which contribute 28.90% of GDP. Despite benefits like higher exemption limits and simpler compliances, MSMEs face challenges like technological obsolescence, competition, funding difficulties, and unclear tax rules. Understanding GST's impact is crucial for MSMEs' success.

(Khaitan & Trivedi, 2023) GST addresses the cascading effect and allows sellers and service providers to claim input tax credits. GST has both positive and negative effects on MSMEs, including improved compliance, reduced logistical overheads, and increased working capital. However, it also introduces challenges such as the absence of tax differentiation for luxury items and services.

(Singh & Singh, 2022) The study examines how GST has been extensively studied for its impact on India's MSME sector, which is predicted to become one of the world's leading economies with a GDP of \$5 trillion by 2025. Despite criticisms, the sector is a significant contributor to the Indian economy, contributing significantly to employment, and exports as well as providing better services.

(Deepa et al., 2019) A study in Sivaganga District, Tamil Nadu, involving 158 MSME entrepreneurs, revealed that GST's impact on the Indian MSME sector is both positive and negative. GST, a tax on the supply of products and services, is mandatory for anyone offering these goods and services. The study aims to help MSME entrepreneurs overcome the negative impacts of GST implementation. The study focuses on the growth, trends, problems, and prospects of Micro and Small Enterprises in Sivaganga district, Tamil Nadu.

Objective of the Study

- To Study the Impact of GST on Selected Service Sector MSMEs.
- To Analyse the Different Challenges & Opportunities for Selected Service Sector MSMEs After Implementation of GST.

Research Gap

The Goods & Services Tax implemented in the recent years, has significantly affected all sectors in India, especially the service sector. To fill the study gap, bring forth new insights on rising pressure on the Tax administration and its stakeholders in MSMEs service sector in Ahmedabad. The present research has been taken to bridge this gap and to discover the views of stakeholders of service sector MSMEs concerning GST.

Research Methodology

The research adopts a descriptive research design to analyse the impact of GST on selected service-sector MSMEs, particularly in Ahmedabad. The study uses convenience sampling, selecting 50 enterprises based on availability and timing. The sampling unit comprises Ahmedabad-based service-sector MSME enterprises. Data collection involves both primary and secondary sources—primary data is gathered through a structured questionnaire, while secondary data are sourced from 15 research papers, company booklets, company websites, the GSTN portal, and MSME portals.

Need for the Study

The implementation of GST has had a profound impact on MSMEs within Gujarat’s service sector. MSMEs play a crucial role in India’s economic framework, contributing approximately 50% of industrial output and 42% of total exports. While GST has introduced numerous advantages, it has also posed significant challenges for these businesses. This study is essential in assessing the implications of GST on compliance requirements, taxation structure, operational expenditures, and market expansion within the service sector MSMEs.

The research seeks to evaluate the awareness levels and adaptability of MSME owners concerning GST regulations, including compliance obligations, threshold exemptions, and taxation norms. A considerable number of MSMEs face difficulties in navigating GST procedures, leading to challenges in tax filing, regulatory compliance, and cash-flow management. Additionally, the frequent modifications in GST rates create operational uncertainties for businesses. Thus, a comprehensive analysis of GST’s impact on business performance, cost structures, and revenue generation is imperative.

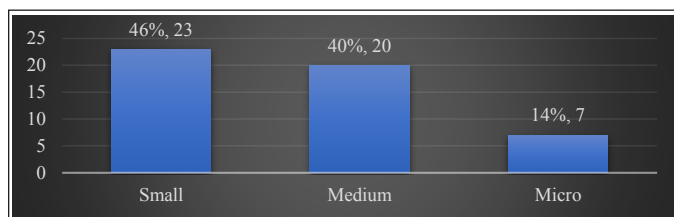
Moreover, Gujarat, recognised as a key hub for service sector enterprises, has undergone substantial economic transformations following GST implementation. Examining the effect of GST policies on business growth,

tax efficiency, and compliance burden in this region will offer valuable insights. The study’s findings will serve as a strategic resource for policymakers, business leaders, and industry stakeholders, facilitating informed decision-making to enhance tax compliance and the long-term sustainability of service-sector MSMEs.

Data Analysis and Interpretation

What Type of Enterprise Do You Have?

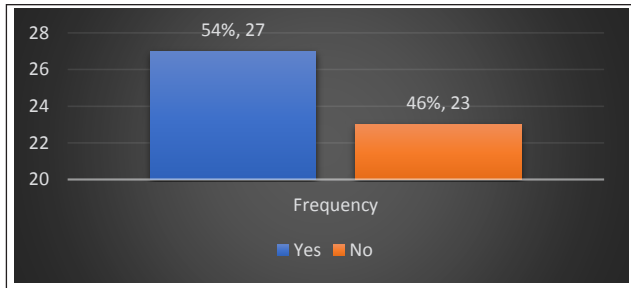
Particulars	Frequency	In %
Small	23	46%
Medium	20	40%
Micro	7	14%
Total	50	100



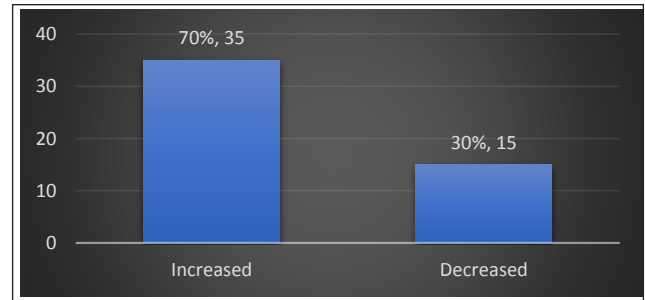
Out of 50 respondents, the respondents of Small Enterprises owners are i.e., 23 (46%), while Medium Enterprises owners are i.e., 20 (40%) and Micro Enterprises owners respondents are i.e., 7 (14%). This indicates that the majority of respondents operate Small Enterprises, followed by Medium Enterprises, with Micro Enterprises being the least represented among the respondents.

Has GST Registration Simplified the Process of Doing Business for Service Sector MSMEs in Gujarat?

Particulars	Frequency	In %
Yes	27	54%
No	23	46%
Total	50	100%



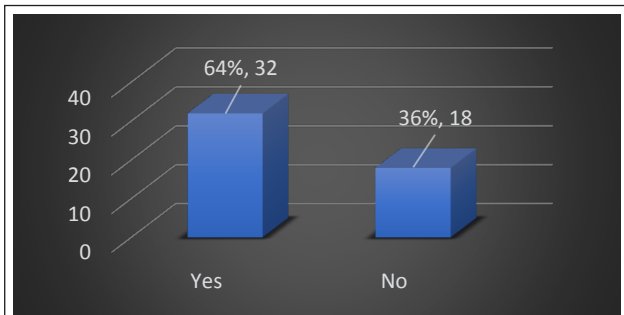
Out of 50 respondents, 27 respondents answered “Yes” about the GST registration is simplified the process of doing service business in Gujarat, while 23 respondents are answered “No” about the GST registration is simplified the process of doing service business in Gujarat. The 54% respondents are happy with the GST registration but the 46% respondents are not happy with GST registration.



Out of 50 respondents, 35 respondents reported Cost of Business are increasing after implementation of GST, while 15 respondents reported Cost of Business are decreasing after implementation of GST. However, the majority of respondents experienced an increase in business cost under GST.

Has GST Affected Your Monthly Sales Turnover?

Particulars	Frequency	In %
Yes	32	64%
No	18	36%
Total	50	100%



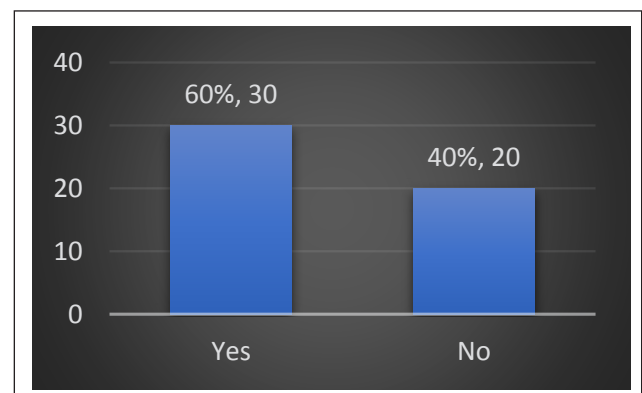
Out of 50 respondents, 32 respondents reported Monthly Sales Turnover are affected after implementation of GST, while 18 respondents reported Monthly Sales Turnover are not affected after implementation of GST. However, the majority of respondents are having issues of Sales Turnover with GST.

Has the Cost of Doing Business for Your Organisation Increased or Decreased After GST Implementation?

Particulars	Frequency	In %
Increased	35	70%
Decreased	15	30%
Total	50	100%

Do You Agree that GST is Necessary for the Country’s Growth?

Particulars	Frequency	In %
Yes	30	60%
No	20	40%
Total	50	100%



Out of 50 respondents, 33 respondents feel that the implementation of GST in India, especially in Gujarat, is necessary for the overall development of Indirect Taxation System and the Country’s Growth, while 20 respondents are feels that the GST implementation is not necessary for Country’s growth and overall development. Additionally, 40% of respondents feels without GST taxation system in Service Sector would grow.

Ho: There is no significant Difference in the awareness of GST threshold and GST Compliance between Male & Female.

H1: There is significant Difference in the awareness of GST threshold and GST Compliance between Male & Female.

Ranks				
	Gender	N	Mean Rank	Sum of Ranks
Awareness of GST Threshold	1.00	33	25.88	854.00
	2.00	17	24.76	421.00
	Total	50		
Awareness of GST Compliance for Service Sector MSMEs	1.00	33	25.83	852.50
	2.00	17	24.85	422.50
	Total	50		

Test Statistics ^a		
	Awareness of GST Threshold	Awareness of GST Compliance for Service Sector MSMEs
Mann-Whitney U	268.000	269.500
Wilcoxon W	421.000	422.500
Z	-.296	-.279
Asymp. Sig. (2-tailed)	.768	.780

a. Grouping Variable: Gender.

As the above Table shows, the Z-values are -0.296 and -0.279, with corresponding significance values (p-values) of 0.768 and 0.780 respectively. These values are well above the standard significance level of 0.05. Since $p > 0.05$, the Null Hypotheses are not rejected, and the Alternative Hypotheses are rejected, indicating that gender does not have a statistically significant effect on awareness of the GST threshold, and awareness of GST compliance for service sector MSMEs. This suggests that male and female respondents have similar levels of awareness regarding these GST-related aspects.

Ho: There is no significant Difference in the effect of GST among Groups with Different level of Monthly Sales Turnover & Cost of Doing Business.

H1: There is significant Difference in the effect of GST among Groups with Different level of Monthly Sales Turnover & Cost of Doing Business.

ANOVA						
		Sum of Square	df	Mean Square	F	Sig.
Effect of Monthly Sales Turnover	Between Groups	.288	3	.096	.393	.759
	Within Groups	11.232	46	.244		
	Total	11.520	49			
Cost of Doing Business After GST Implementation	Between Groups	.737	3	.246	1.158	.336
	Within Groups	9.763	46	.212		
	Total	10.500	49			

As the table shows, the F-values are 0.393 for the effect of monthly sales turnover and 1.158 for the Cost of Doing Business after GST implementation. The corresponding significance values (p-values) are 0.759 and 0.336, both of which are well above the standard significance level of 0.05. Since $p > 0.05$, the Null Hypotheses are not rejected, and the alternative Hypotheses are rejected, indicating that Monthly Sales turnover does not have a statistically significant effect on the perceived effect of GST, and the cost of doing business after GST implementation.

Findings

The study indicates that most service sector businesses operate under an 18% GST rate, with certain special

category services taxed at 28%. However, many MSME owners lack sufficient knowledge about GST compliance, threshold exemptions, and taxation regulations, leading to operational difficulties post-GST implementation. Despite these challenges, 54% of MSME owners prefer conducting business in Gujarat, citing a simplified GST registration process, availability of resources, and strong government support.

The research findings also highlight that 64% of MSME owners have experienced a significant impact on their monthly sales turnover due to GST, while 70% report an increase in business costs since its implementation. Additionally, frequent changes in GST rates have posed challenges for business management, making it difficult

for MSMEs to adapt and plan their financial strategies effectively.

Despite these challenges, most MSME owners remain committed to timely GST return filing, ensuring regulatory compliance. Notably, 60% of respondents believe that GST is essential for the country's economic growth and the long-term sustainability of service-sector MSMEs. This underscores the importance of continuous support and policy refinement to help businesses adapt smoothly to the GST framework

Conclusion and Suggestions

India's service sector, which contributes over 50% of the country's GDP, has experienced significant growth, attracting foreign investment and employment opportunities. However, the introduction of GST has had both positive and negative impacts on MSMEs in Gujarat's service sector. While GST has simplified the taxation framework, eliminated tax cascading, and enhanced economic integration, it has also led to higher operational costs, fluctuations in sales turnover, and increased compliance complexities for MSMEs.

The study highlights the urgent need for continuous education and support to help MSME owners better understand GST regulations, threshold exemptions, and procedural updates. A lack of GST awareness has created operational challenges, making it essential to introduce regular training programs, workshops, and enhanced GST training modules. Additionally, investing in GST-compliant accounting software can assist MSMEs in streamlining tax calculations, return filings, and record maintenance, thereby reducing compliance-related difficulties.

To further ease the transition, specialised consultancy services should be made available to help MSMEs navigate GST compliance challenges. Despite the initial hurdles, GST remains a crucial reform for India's economic growth, ensuring a structured and transparent tax system. By addressing the existing concerns and enhancing GST awareness, MSMEs can adapt more efficiently, leading to smoother operations, improved compliance, and long-term sustainability in the service sector.

References

- Singh, G., & Singh, R. (2022). GST and micro, small, and medium enterprises: A sustainability analysis. *International Journal of Research in Business Studies*, 7(2), 2455-2992.
- Kanimozhi, D. (2023). A study on impact of GST on MSME in India. *International Journal of Research Publication and Reviews*, 4(2), 859-864. Retrieved from www.ijrpr.com
- Saeeda, F. (2019). *Goods and services tax: Small scale business owners perspective in Nadiad district* (pp. 432-441).
- Makandar, N., & Mulla, N. (2018). Impact of GST: A sectoral analysis. *International Journal of Research in Management & Social Science*, 6(1), 5-14.
- Khaitan, S., & Trivedi, G. (2023). A study of impact of GST on micro, small and medium enterprises. *Jamshedpur Research Review - Multi-Disciplinary Research Journal*, 11(61), 82-86.
- Lichchavi, H., & Greeshma, M. (2021). GST and its impact on small and medium scale enterprises - A study of Peenya industrial area in Bangalore, Karnataka. *Studies in Business and Economics*, 16(1), 81-94.
- Joseph, D. J. K., & Jacob, R. (2018). Antecedents of tax compliance among MSME's under goods and service tax [GST] regime: A conceptual model. *International Journal of Social Science and Economic Research*, 1356-1371.
- Somani, K. (2018). GST: Impact of GST on micro small & medium enterprises. *Aayushi International Interdisciplinary Research Journal (AIIRJ)*, 133-135.
- Beemabai, K., & Krishnakumar, K. (2019). Impact of goods and service tax (GST) on MSMEs in India. *International Journal of Innovative Technology and Exploring Engineering*, 8(9S3), 1235-1240.
- Nathan, S. (2020, April). *GST impact on micro small and medium business*. Tax Bulletin of the Institute of Cost Accountants of India.
- Kumari, R. L. (2017). Impact of goods and service tax (GST) on Indian MSMEs. *International Journal of Research in Economics and Social Sciences*, 7(7), 334-348.
- Deepa, S., Geeta, T., Subramanian, S., & Sundar, T. (2019). Impact of GST on MSMEs. *International Journal of Recent Technology and Engineering (IJRTE)* (pp. 2277-3878).

- Dey, M. (2019). A study on GST and its impact on MSMEs in India. *International Journal of Research and Analytical Reviews (IJRAR)*, 6(2), 611-616. Retrieved from www.ijrar.org
- Gouda, B. (2020). Impact of goods and services tax (GST) on MSMEs. *International Journal of Research in Commerce and Management*, 11(5), 24-29. Retrieved from <http://ijrcm.org.in/>
- Services Sector Grew at 8.4 % (YoY) in FY 22. (n.d.). Retrieved from <https://pib.gov.in/PressReleasePage.aspx?PRID=1894897>
- Services Sector in India: Overview, Market Size, Growth, Companies...IBEF. (2022). India Brand Equity Foundation. Retrieved from <https://www.ibef.org/industry/services>
- Gujarat Budget Analysis 2023-24. (n.d.). PRS Legislative Research. Retrieved from <https://prsindia.org/budgets/states/gujarat-budget-analysis-2023-24>
- Goods & Services Tax (GST) | Home. (n.d.). Retrieved from <https://www.gst.gov.in/>
- Ministry of Micro, Small & Medium Enterprises. (2019). Retrieved from <https://msme.gov.in/>