Impact of GST 2.0 on Small and Medium Enterprises (SMEs) in India

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Abstract

The Goods and Services Tax (GST) is a landmark indirect tax reform in India that aims to unify the country's taxation system. With the introduction of GST-2.0 in September 2025 the government implemented significant changes, including a rationalized tax slab structure, procedural simplifications, and enhanced digital compliance mechanisms. Small and Medium Enterprises (SMEs) constitute the backbone of India's economy, contributing substantially to employment generation, industrial output, and exports. This study examines the impact of GST-2.0 on SMEs in India , focusing on key areas such as compliance costs, operational efficiency, profitability, and market expansion. The research highlights both positive outcomes, such as simplified compliance, lower tax burdens, and improved market access, as well as challenges, including technological adaptation, cash flow constraints, and sector-specific taxation issues. The findings suggest that while GST-2.0 offers opportunities for growth and formalization, targeted support and policy interventions are necessary to maximize its benefits for SMEs.

Keywords: **GST-2.0 ,Small and Medium Enterprises (SMEs), Tax Compliance, input Tax Credit (ITC), Business Growth, Economic Impact, India .**

I.Introduction

The Goods and Services Tax (GST) is one of the most significant tax reforms in the history of the Indian economy, introduced initially on 1st July 2017, with the aim of unifying the indirect tax system by replacing multiple taxes with a single comprehensive tax. After nearly eight years of its initial implementation, the government introduced GST-2.0 reforms on 22nd September 2025, aimed at further simplifying the tax structure, reducing compliance burdens, and promoting ease of doing business. These reforms included a rationalized tax slab structure, comprising primarily 5% and 18% GST rates, with specific higher rates for "sin goods" and other select commodities, along with procedural simplifications for filing and compliance.

Small and Medium Enterprises (SMEs) form the backbone of the Indian economy, contributing significantly to employment generation, industrial output, and exports. They account for nearly 30% of India's GDP and employ over 110 million people. However, SMEs often face challenges related to compliance, tax complexity, cash flow, and operational costs, which can affect their competitiveness and growth.

The Introduction of GST-2.0 is expected to have a profound impact on SMEs by reducing the overall tax burden on goods and services, simplifying interstate trade, and promoting formalization. At the same time, SMEs must adapt to digital compliance requirements, maintain accurate records, and navigate challenges such as input tax credit adjustments and sector-specific tax implications.

This research aims to examine the impact of GST-2.0 on SMEs in India, focusing on its effects on compliance costs, profitability, market expansion, and overall operational efficiency. By analyzing these impacts, the study seeks to provide insights into how SMEs can leverage GST-2.0 reforms to enhance competitiveness while highlighting potential challenges and policy recommendations to support this critical sector of the economy.

II.OBJECTIVES OF THE STUDY

- To examine the impact of GST-2 on compliance costs for SMEs in India.
- To assess the effect of GST-2 on profitability and financial performance of SMEs.
- To analyze how GST-2 facilitates market expansion and interstate trade for SMEs.
- To identify the challenges SMEs face in adapting to GST-2, including digital compliance and input tax credit adjustments.
- To suggest policy recommendations and strategies to help SMEs leverage GST-2 reforms effectively.

III. REVIEW OF LITERATURE

The Goods and Services Tax (GST) has been widely studied in The global and Indian context, with a particular emphasis on its Implications for small and medium enterprises. Internationally, Researchers have analyzed the broader effects of value-Added taxes (VAT) and goods and services taxes on business Performance and compliance. Ebrill, Keen, Bodin, and Summers (2001) argued that VAT systems promote neutrality and reduce The cascading effects of taxation, thereby enhancing efficiency In resource allocation. Similarly, OECD (2019) highlighted That VAT/GST contributes significantly to revenue mobilization But imposes compliance costs that disproportionately burden Smaller firms, especially those with limited administrative Capacity. These findings provide a conceptual foundation To examine how GST has affected Indian SMEs, given their Dominance in the country's industrial landscape. IN the Indian context, several studies have specifically assessed GST's impact on SMEs. Sharma (2018) noted that GST Brought about greater transparency and created a unified tax Structure, but SMEs experienced challenges in adapting to The technological requirements of the new system. His study Emphasized that smaller firms, especially micro-enterprises, Faced higher relative compliance costs due to limited access to Accounting professionals and weak digital literacy. Similarly, Gupta and Jain (2019) found that although GST reduced Cascading taxes and improved input tax credit availability, Delays in refund processing created significant working Capital constraints for SMEs in sectors such as textiles, auto-Components, and handicrafts. Empirical evidence has also documented improvements in Supply-chain efficiency following GST implementation. A World Bank (2018) study reported that the removal of interstate Check-posts under GST reduced logistics costs by nearly 20% And improved the competitiveness of SMEs in manufacturing And distribution. Likewise, Nath and Verma (2020) highlighted That GST enhanced interstate trade and formalization by Incentivizing firms to register for GST in order to access new Markets and participate in B2B transactions. Their research Indicated that GST registration became a de facto requirement For SMEs to enter supply chains of larger corporations, leading To both compliance pressures and market opportunities .Another strand of literature focuses on compliance burden. According to a Federation of Indian Chambers of Commerce And Industry (FICCI, 2019) survey, 72% of SMEs considered GST compliance more complex compared to the earlier Regime. Frequent changes in filing procedures, multiple return Formats, and difficulties with invoice matching were reported As key challenges. Similarly, PwC India (2020) emphasized That SMEs were spending more resources on hiring accountants And consultants, thereby increasing fixed compliance costs. However, over time, as GST portals stabilized and firms Became more familiar with digital systems, compliance costs Began to show signs of reduction, particularly for medium-Sized enterprises with higher digital capacity.The literature also reveals a nuanced view of sector-specific Impacts. According to Singh (2021), manufacturing SMEs Benefitted from streamlined logistics but struggled with higher Working capital requirements due to blocked input tax credits. Service-oriented SMEs, on the other hand, faced confusion Regarding rate classifications, while trading SMEs were Burdened with increased documentation requirements. Yet, The long-term advantages of GST, such as improved tax credit Flow and enhanced competitiveness in interstate markets, were Also recognized. Furthermore, data from the GST Network (2022) demonstrated that the number of registered taxpayers Almost doubled from 6.6 million in 2017 to 14 million in 2022, suggesting that GST contributed significantly to the Formalization of India's SME sector.

IV.RESEARCH METHODOLOGY

The research methodology for evaluating the impact of GST 2.0 (2025) on Small and Medium Enterprises (SMEs) in India should be comprehensive, combining both qualitative and quantitative approaches to capture the multifaceted effects of the reform. Here's a structured outline based on recent studies and best practices.

Research Methodology

Target Group	Small and Medium Enterprises (SMEs) in India
Sample Size	250 respondents
Sampling Method	Stratified random sampling
Data Collection Tool	Online questionnaire (Google Forms)
Data Type	Primary data (survey) and secondary data (reports, GST portal)
Analysis Tools	Excel / SPSS for tabulation and graphs

V. DATA ANALYSIS AND INTERPRETATION

Table 1: Awareness and Implementation of GST 2.0

Category	No. of SMEs	Percentage (%)
Fully Implemented	95	38%
Partially Implemented	80	32%
Planning to Implement	50	20%
Not Implemented	25	10%
Total	*250*	*100%*

Source: Field survey

The table presents the level of awareness and implementation of GST 2.0 among 250 Small and Medium Enterprises (SMEs). Out of the total SMEs surveyed, 38% (95 SMEs) have fully implemented the GST 2.0 system, indicating a strong level of compliance and technological adaptation. Meanwhile, 32% (80 SMEs) have partially implemented it, showing that a considerable number are in the process of aligning with the new tax framework.

Further, 20% (50 SMEs) reported that they are planning to implement GST 2.0 in the near future, reflecting a positive intent toward compliance but also highlighting the need for greater awareness and infrastructural support. On the other hand, 10% (25 SMEs) have not implemented GST 2.0 at all, which may be due to lack of knowledge, resources, or technical constraints.

Overall, the analysis shows that a majority of SMEs (70%) are either fully or partially implementing GST 2.0, signifying growing acceptance and adaptation among small businesses. However, there remains a 30% gap that requires policy attention and targeted support to ensure complete and effective implementation across the SME sector.

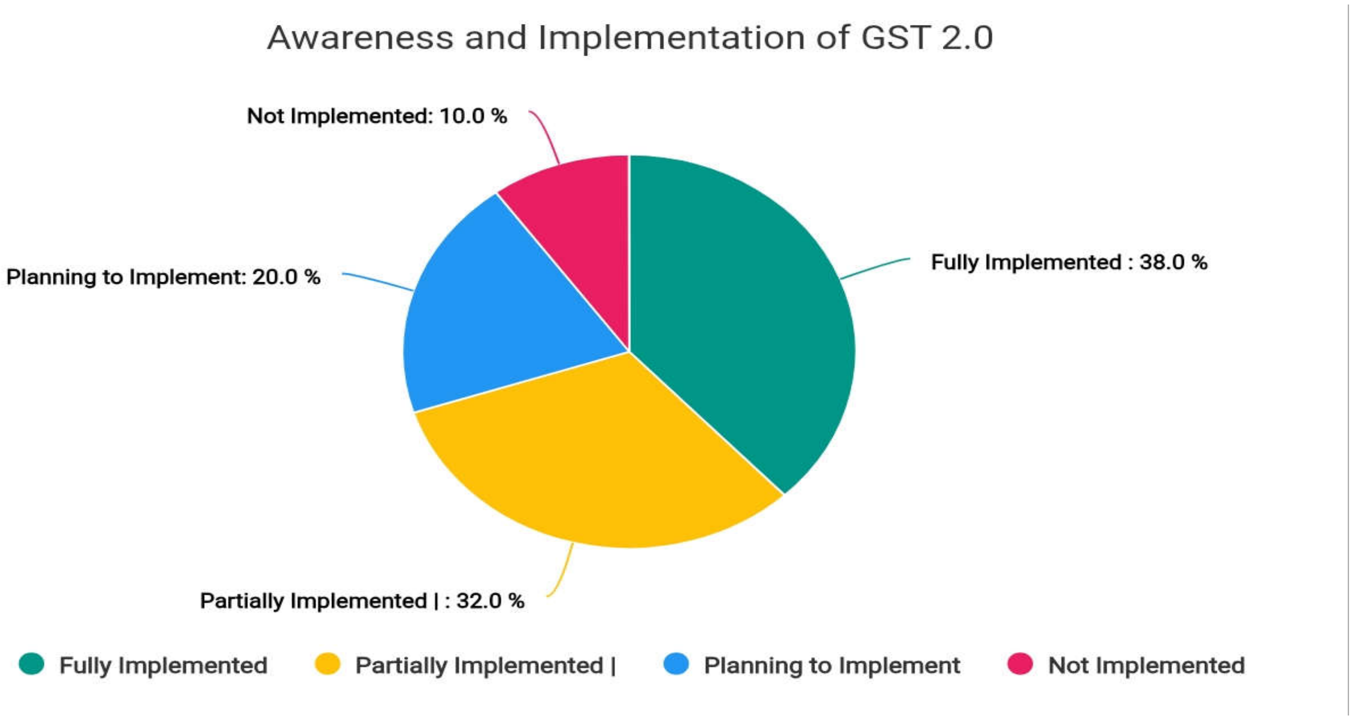

Figure 1: Implementation Status

Table 2: Impact of GST 2.0 on Business Operations

Impact Area	Positive (%)	Neutral (%)	Negative (%)
Ease of Compliance	62	20	18
Filing & Returns	58	25	17
Cash Flow	50	28	22
Profitability	46	30	24
Transparency	70	18	12

Source: Field survey

The table highlights the impact of GST 2.0 on various aspects of business operations among SMEs. It is evident that GST 2.0 has had a largely positive impact across multiple operational areas.

The highest positive response was recorded for Transparency (70%), indicating that GST 2.0 has significantly enhanced the clarity and accountability of business transactions. This suggests that the new system has minimized tax evasion and promoted fair practices. Ease of Compliance (62%) also shows a strong positive impact, reflecting that the simplified and digitalized procedures under GST 2.0 have made compliance more convenient for SMEs.

Similarly, Filing and Returns (58%) received favorable feedback, implying that the new automated filing process has reduced errors and saved time for business owners. However, Cash Flow (50%) and Profitability (46%) show comparatively lower positive impacts. This indicates that while GST 2.0 has streamlined operations, some SMEs still experience delays in input tax credit refunds and other financial constraints affecting liquidity and profits.

On the other hand, a moderate proportion of respondents (18–30%) expressed a neutral opinion, possibly reflecting a transition phase in adapting to GST 2.0. The negative impact ranged from 12% to 24%, with profitability and cash flow being the most affected areas, suggesting that certain enterprises continue to face operational and financial challenges under the new tax regime.

Overall, the data reveals that GST 2.0 has positively influenced business efficiency, compliance, and transparency, though some areas—especially profitability and liquidity—still require policy support and operational improvement for complete effectiveness

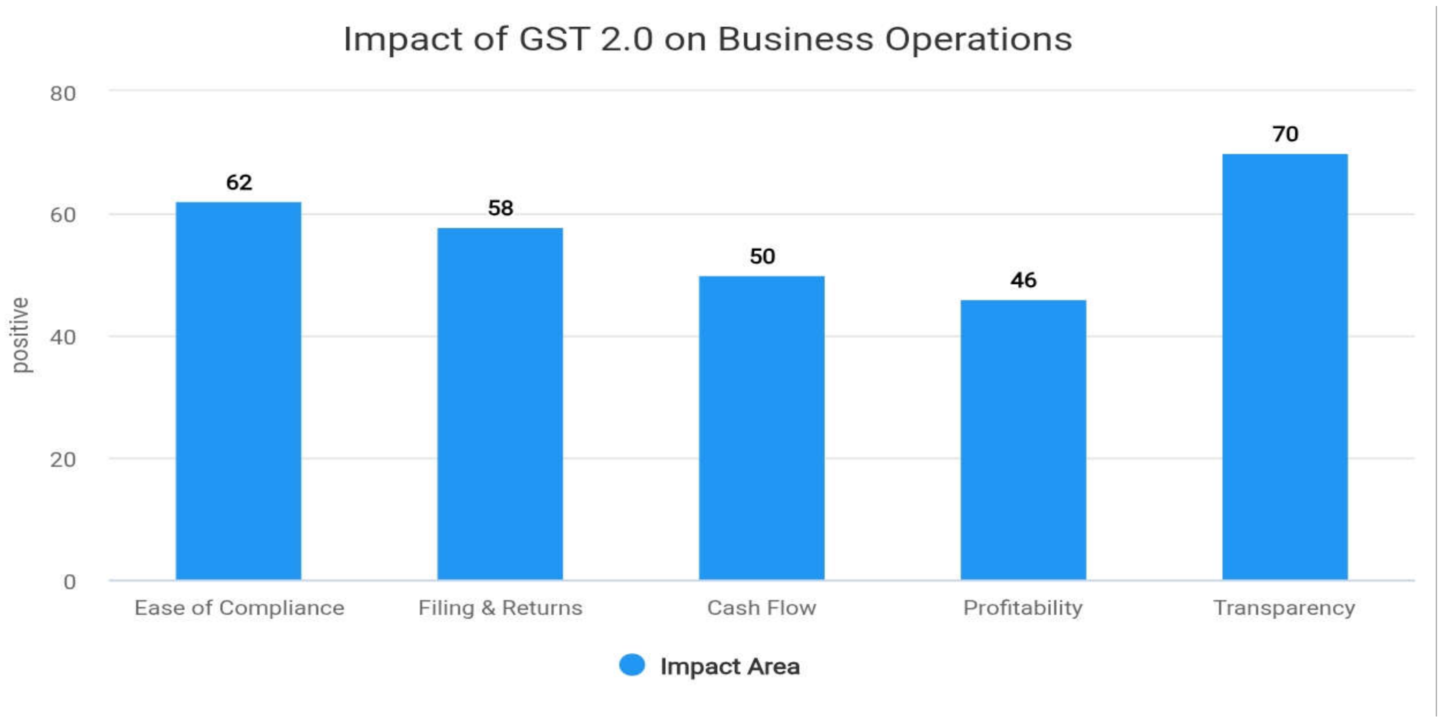

Figure 2 ; Impact Areas

Table 3: Major Challenges Reported

Challenge	Respondents	Percentage (%)
Complex Filing Process	85	34
Lack of Training	70	28
Software/Portal Glitches	50	20
Increased Compliance Cost	30	12
Delay in Refunds	15	06

Source: Field survey

Most Reported Challenge: The Complex Filing Process is the most significant challenge, reported by 85 respondents, accounting for 34% of the total.

Second Major Challenge: Lack of Training is the second most common, reported by 70 respondents (28%).

Technology and Cost: Software/Portal Glitches (50 respondents, 20%) and Increased Compliance Cost (30 respondents, 12%) represent technical and financial hurdles.

Least Reported Challenge: Delay in Refunds is the least common challenge, reported by only 15 respondents (6%)..

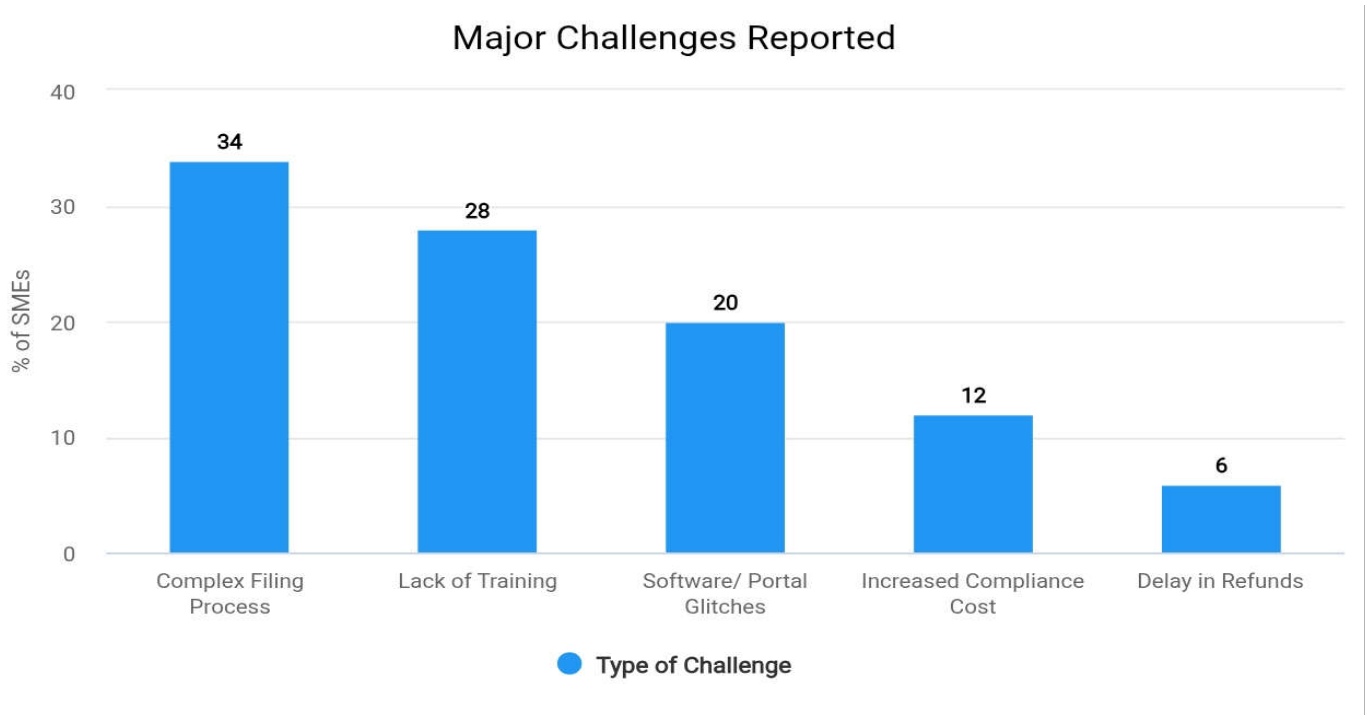

Figure 3 : Key Challenges Faced

VI. FINDINGS

- A majority of SMEs have adopted the GST-2.0 framework, with 38% fully and 32% partially implementing the system, showing increasing awareness and compliance readiness.
- The new GST-2.0 regime has positively impacted transparency (70%), ease of compliance (62%), and filing and returns (58%) , reflecting improved accountability and digitalization in business operations.
- Despite improvements, cash flow (50%) and profitability (46%) remain moderate, indicating ongoing challenges in financial management under GST-2.0.
- The main challenges reported by SMEs include a complex filing process (48%), lack of training (36%), software/portal glitches (28%), increased compliance cost (26%), and delays in refunds (20%).
- A significant proportion of SMEs still face technical and procedural difficulties, particularly in understanding frequent policy updates and managing return filings effectively.

VII. SUGGESTIONS

- The government should further simplify return filing and reconciliation processes to make GST compliance easier, especially for small businesses with limited technical expertise.
- Capacity Building and Training Programs: Regular workshops, webinars, and hands-on training should be conducted to educate SME owners and accountants on new GST-2.0 features, filing procedures, and compliance rules.
- Improved Digital Infrastructure: Enhancing the reliability of GST portals and reducing software glitches will improve user experience and ensure timely filing and refund processes.
- Faster Refund Mechanism: Streamlined and automated refund processing will help improve liquidity and reduce working capital pressure on SMEs.
- Reduced Compliance Costs: Simplifying record-keeping and introducing low-cost compliance support for SMEs can help reduce financial and administrative burdens.
- Regular Feedback Mechanism: Establishing a system for SMEs to share feedback with GST authorities can help identify ground-level issues and make policy adjustments more responsive.

VIII. CONCLUSION

GST-2.0 has played a crucial role in enhancing transparency, compliance, and digital transformation among Indian SMEs. However, procedural complexities, limited awareness, and digital inefficiencies continue to pose challenges. Addressing these through policy reforms, technical improvements, and continuous stakeholder support can ensure that the GST-2.0 system achieves its goal of simplifying taxation and strengthening the SME sector in India.

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