

GOODS AND SERVICES TAX (GST) AND ITS IMPACT ON SMALL BUSINESSES IN INDIA

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Abstract

The Goods and Services Tax (GST) in India marked a significant reform in the country's indirect taxation system. Implemented on 1 July 2017, GST replaced multiple indirect taxes with a unified tax structure aimed at simplifying taxation, improving transparency, and promoting economic growth. Small businesses, which form a major part of the Indian economy, have experienced both opportunities and challenges due to this reform. The impact of GST on small businesses in India with special focus on compliance requirements, tax administration, operational efficiency, and financial performance. GST has contributed to greater transparency, reduced cascading effects of taxes, and improved interstate trade by creating a common national market. Digital tax filing and input tax credit mechanisms have encouraged formalization of businesses and better record maintenance. However, many small enterprises have faced difficulties related to technological adaptation, increased compliance costs, frequent policy changes, and lack of awareness regarding GST procedures. Rural and micro-level businesses particularly encountered challenges in maintaining digital records and filing regular returns.

Keywords Goods and Services Tax (GST), Small Businesses, Tax Reform, Indian Economy

Introduction

The taxation system plays an important role in the economic development of a country by generating revenue for the government and regulating commercial activities. In India, the indirect tax structure before 2017 was highly complex, consisting of multiple taxes such as Value Added Tax (VAT), Service Tax, Excise Duty, Central Sales Tax, and Entry Tax. The existence of different tax systems created confusion, increased compliance burdens, and resulted in the cascading effect of taxes. To address these issues and establish a unified taxation framework, the Government of India introduced the Goods and Services Tax (GST) on 1 July 2017. The Goods and Services Tax (GST) is considered one of the most significant economic reforms in India's taxation history. GST is a destination-based indirect tax levied on the supply of goods and services. It was implemented with the objective of simplifying the tax system, eliminating multiple indirect taxes, ensuring transparency, and promoting ease of doing business. By integrating various central and state taxes into a single structure, GST aimed to create a common national market and improve economic efficiency. Small businesses are an essential component of the Indian economy. They contribute significantly to employment generation, industrial production, exports, and overall economic growth. However, these

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businesses often operate with limited financial resources, inadequate technological infrastructure, and less professional tax management. The implementation of GST brought major changes in the functioning of small enterprises, particularly in areas such as tax compliance, accounting practices, digital filing, and financial reporting. While some businesses benefited from simplified taxation and input tax credit facilities, others faced challenges due to frequent return filing, increased documentation requirements, and technological complexities. GST has also encouraged the digitalization and formalization of small businesses by making online registration, invoicing, and return filing compulsory in many cases. This shift has improved transparency and accountability in business transactions. At the same time, many small traders and rural enterprises experienced difficulties adapting to digital systems because of limited technical knowledge and inadequate internet access. The compliance burden and cost of hiring tax professionals further affected the financial stability of some small businesses. The impact of GST on small businesses in India by analyzing both its positive and negative effects. The study focuses on how GST has influenced business operations, taxation procedures, financial management, and market competitiveness among small enterprises. It also evaluates government measures introduced to support small taxpayers under the GST regime. Through this analysis, the paper seeks to understand whether GST has successfully achieved its objective of creating a simpler and more efficient tax system for small businesses in India.

Evolution of the Indian Taxation System

The taxation system in India has undergone significant transformation from ancient times to the modern digital era. Taxes have always been an important source of revenue for governments to maintain administration, defense, public welfare, and economic development. Over the years, India's tax structure evolved from traditional forms of taxation to a more organized and comprehensive framework aimed at promoting economic stability and growth. In ancient India, taxation was primarily based on agricultural production, trade, and property. Historical texts such as the *Arthashastra* written by Kautilya discussed systematic methods of revenue collection and financial administration. During the Maurya and Gupta periods, taxes were imposed on land, irrigation, trade, and professional activities. The primary objective of taxation during this time was to support the functioning of the kingdom and maintain public infrastructure.

During the medieval period, especially under the Mughal Empire, the taxation system became more structured. Land revenue was the major source of income for the rulers. Systems such as *Zabt* and *Jagirdari* were introduced to assess and collect taxes from agricultural lands. However, heavy taxation often created economic pressure on farmers and small traders.

The modern taxation system in India developed significantly during British rule. The British administration introduced various direct and indirect taxes to increase colonial revenue. The Income Tax Act was first introduced in 1860 by James Wilson to meet the financial requirements of the British government after the Revolt of 1857. Over time, customs duties, excise duties, and sales taxes became important components of the taxation framework.

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However, the tax system during colonial rule was mainly designed to serve British economic interests rather than Indian development.

After independence in 1947, India adopted a planned economic model, and taxation became a major tool for economic development and social welfare. The government introduced several reforms to increase public revenue and reduce economic inequality. Both direct taxes, such as income tax and corporate tax, and indirect taxes, such as excise duty and sales tax, were expanded. The tax structure, however, became increasingly complex because different taxes were imposed by the central and state governments independently.

In the post-liberalization period after 1991, India introduced major economic reforms to modernize the taxation system and encourage investment and industrial growth. The government simplified tax rates, reduced customs duties, and introduced Value Added Tax (VAT) to replace the traditional sales tax system in many states. Service Tax was also introduced in 1994 to tax the growing service sector of the economy. These reforms aimed to improve tax efficiency and broaden the tax base.

Despite these reforms, the indirect tax system remained fragmented because businesses had to comply with multiple taxes imposed by both central and state governments. This created issues such as tax cascading, lack of uniformity, and increased compliance burden. To solve these problems, the Government of India implemented the Goods and Services Tax (GST) on 1 July 2017. GST integrated several indirect taxes into a single unified tax system, creating a common national market and promoting transparency and ease of doing business.

The introduction of GST marked a new phase in the evolution of India's taxation system. It represented a shift toward digital taxation, simplified compliance procedures, and improved coordination between central and state governments. Today, India's taxation framework continues to evolve with the adoption of technology, e-governance, and policy reforms aimed at enhancing economic growth and financial transparency.

Structure and Components of GST

The Goods and Services Tax (GST) in India is a comprehensive indirect tax system designed to unify multiple taxes under a single framework. India follows a dual GST model in which both the Central Government and State Governments have the authority to levy and collect taxes on the supply of goods and services. The GST structure was introduced to ensure transparency, reduce tax evasion, and simplify the taxation process across the country.

GST is mainly divided into four major components: Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), Integrated Goods and Services Tax (IGST), and Union Territory Goods and Services Tax (UTGST). Each component has a specific role in the taxation system depending on the nature and location of the transaction.

Central Goods and Services Tax (CGST)

CGST refers to the tax levied by the Central Government on intra-state transactions of goods and services. Intra-state transactions are those transactions that take place within the same state. The revenue collected under CGST is received by the Central Government.

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For example, if a product is sold within Uttar Pradesh, both CGST and SGST are charged equally on the transaction value. If the GST rate is 18%, then 9% is collected as CGST and 9% as SGST.

The main objective of CGST is to provide revenue to the central administration while maintaining uniform taxation throughout the country. CGST replaced several central indirect taxes such as Central Excise Duty, Service Tax, and additional customs duties.

State Goods and Services Tax (SGST)

SGST is the tax imposed by the State Government on intra-state supplies of goods and services. It is charged along with CGST whenever a transaction occurs within the same state. The revenue generated through SGST belongs to the respective state government where the transaction takes place.

SGST replaced various state-level taxes such as Value Added Tax (VAT), entertainment tax, luxury tax, and entry tax. This system has helped states maintain a stable source of revenue while participating in the unified GST framework.

The introduction of SGST has improved coordination between central and state taxation authorities and reduced complexities in tax administration.

Integrated Goods and Services Tax (IGST)

IGST is charged on inter-state transactions of goods and services, meaning transactions that occur between two different states or between a state and a union territory. IGST is also applicable to imports and exports.

The Central Government collects IGST and later distributes the appropriate share to the destination state where the goods or services are consumed. This mechanism ensures smooth movement of goods across state borders without multiple taxation barriers.

For example, if a business in Delhi sells goods to a customer in Maharashtra, IGST will be charged on the transaction instead of CGST and SGST separately.

IGST plays a significant role in maintaining the concept of “One Nation, One Tax” by ensuring uniform tax treatment for interstate trade and commerce.

Union Territory Goods and Services Tax (UTGST)

UTGST is imposed on transactions that occur within Union Territories that do not have their own legislature. It functions similarly to SGST but applies specifically to Union Territories such as Chandigarh, Lakshadweep, Andaman and Nicobar Islands, Dadra and Nagar Haveli and Daman and Diu, and Ladakh.

In Union Territories, GST on intra-territory transactions is divided into CGST and UTGST instead of CGST and SGST. The revenue collected through UTGST is administered by the respective Union Territory authorities.

The introduction of UTGST ensured that Union Territories were also included effectively within the GST structure and benefited from a standardized taxation system.

The four components of GST namely CGST, SGST, IGST, and UTGST together form the foundation of India’s modern indirect taxation system. This structure helps maintain a balance between central and state financial powers while promoting transparency, simplified tax compliance, and smooth trade across the country. The GST framework has significantly

contributed to creating a unified national market and improving the efficiency of India's taxation administration.

Conclusion

The implementation of the Goods and Services Tax (GST) has brought a major transformation in the Indian taxation system by replacing multiple indirect taxes with a unified and transparent structure. GST was introduced with the objective of simplifying tax administration, reducing cascading effects of taxation, promoting ease of doing business, and creating a common national market. The reform has significantly influenced the functioning of businesses, especially small enterprises that form the backbone of the Indian economy. GST has provided several benefits to small businesses, including improved transparency, better tax management, simplified interstate trade, and availability of input tax credit. The introduction of online registration, digital return filing, and electronic invoicing has encouraged greater accountability and formalization within the business sector. GST has also helped reduce the burden of multiple taxes and has strengthened the overall taxation framework of the country. The implementation of GST created certain challenges for small businesses. Many enterprises faced difficulties related to complex compliance procedures, technological adaptation, frequent policy amendments, and increased operational costs. Small traders and rural businesses particularly experienced problems due to limited digital literacy and lack of proper financial infrastructure. Despite these challenges, government initiatives such as the Composition Scheme, simplified return systems, and awareness programs have helped reduce compliance burdens to some extent. The research concludes that GST is a significant economic reform that has modernized India's indirect taxation system and contributed to long-term economic growth. Although the transition process posed difficulties for small businesses, the overall impact of GST has been positive in promoting transparency, efficiency, and organized business operations. Continuous improvements in policy implementation, technological support, and taxpayer education are essential to ensure that small businesses can fully benefit from the GST framework and contribute effectively to India's economic development.

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