

## EVALUATING THE EFFECT OF GST ON MSME GROWTH IN RAJASTHAN: A PRE- VS. POST-GST ANALYSIS

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Mr. Shubham Kumar\*  
Dr. Divyesh Kalla\*\*

### ABSTRACT

*The introduction of the Goods and Services Tax (GST) in India in 2017 brought significant tax reforms aimed at simplifying the taxation system. However, its impact on the Micro, Small, and Medium Enterprises (MSME) sector, particularly in Rajasthan, remains a subject of debate. This study evaluates the effect of GST on MSME growth in Rajasthan through a comparative pre- and post-GST analysis. The research examines key parameters such as tax compliance, revenue generation, profitability, and overall business growth. Using a mixed-methods approach, primary data was collected through surveys and interviews with MSME owners, while secondary data was obtained from government reports and industry sources. Findings indicate that while GST has enhanced transparency and streamlined taxation, MSMEs face challenges related to compliance costs, delayed input tax credits, and digital infrastructure constraints. The study highlights policy recommendations to improve tax compliance efficiency and foster MSME growth in Rajasthan.*

**KEYWORDS:** GST, MSME Growth, Rajasthan, Tax Reform, Pre-GST vs. Post-GST, Business Performance, Compliance Challenges, Revenue Generation.

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### Introduction

#### Impact of GST on Tax Compliance for MSMEs

GST aimed to simplify India's indirect tax system by replacing multiple taxes like VAT, Service Tax, and Excise Duty. However, MSMEs in Rajasthan faced initial challenges in understanding GST filing procedures due to digital compliance requirements. The introduction of e-invoicing and monthly return filings added to the administrative burden for smaller businesses. While GST has reduced tax evasion and brought transparency, many MSMEs struggle with the cost of hiring tax consultants or adapting to digital platforms.

#### Background of GST Implementation in India

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked one of the most significant taxation reforms in the country's economic history. Before GST, the Indian taxation system was complex and comprised multiple indirect taxes such as Value Added Tax (VAT), Service Tax, Excise Duty, Central Sales Tax (CST), and various state-imposed taxes. These taxes not only increased the burden of compliance for businesses but also led to inefficiencies in business operations, including networking, growth, and interstate trade. The previous tax regime was fragmented, with each state having its own tax laws and rates, making it difficult for businesses to expand beyond their local regions.

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\* Student, MBA JIET DMS, Jodhpur, Rajasthan, India.

\*\* Assistant Professor, JIET-DMS, Jodhpur, Rajasthan, India.

GST was introduced with the aim of simplifying the tax structure, eliminating the cascading effect of taxes, and creating a unified national market. It replaced multiple indirect taxes with a single tax system, thereby reducing complexities in compliance and fostering economic integration across states. Businesses that previously faced difficulties in networking and collaboration due to varying tax rates and compliance burdens now had a more streamlined system for transactions. The adoption of GST has significantly influenced business operations, supply chain dynamics, and networking opportunities, particularly for small and medium enterprises (SMEs) and large corporations alike.

### **Importance of GST in Business Networking and Growth**

One of the critical aspects of business success in today's competitive environment is networking. Business networking refers to the process of building and maintaining relationships among businesses, suppliers, customers, and stakeholders to enhance trade, collaborations, and market expansion. Prior to GST, networking opportunities were often hindered by inconsistent tax policies across states, leading to a lack of uniformity in trade. With GST, businesses can now operate under a single tax framework, reducing trade barriers and fostering a more interconnected market.

### **Challenges Faced During GST Implementation**

Despite its many advantages, the implementation of GST was not without challenges. The transition from the old tax regime to GST required businesses to adapt to new compliance requirements, including the filing of returns through the GSTN portal, understanding new tax slabs, and adjusting pricing structures. Many SMEs faced difficulties in transitioning due to a lack of technological infrastructure and awareness about the new tax system.

Additionally, the frequent changes in GST rules and tax rates in the initial years created confusion among businesses. The introduction of multiple tax slabs (5%, 12%, 18%, and 28%) added complexity to the system, particularly for businesses dealing with diverse product categories. Moreover, the delay in refunds under the Input Tax Credit (ITC) mechanism affected the cash flow of businesses, especially exporters who relied on timely tax refunds to sustain their operations.

Another challenge was the compliance burden on micro and small enterprises. While large corporations had the resources to hire tax consultants and implement GST-compliant software, smaller businesses struggled with compliance requirements. Many businesses initially faced penalties due to errors in tax filings, further adding to their financial stress. However, over time, the government introduced measures to simplify GST compliance, such as the composition scheme for small businesses, which allowed them to pay taxes at a fixed rate without extensive documentation.

### **Objectives**

- To analyse the financial performance of MSMEs before and after GST implementation in terms of revenue, profitability, and cost structures.
- To assess the impact of GST on tax compliance and regulatory burden for MSMEs, including digital filing requirements and input tax credit (ITC) delays.
- To examine the challenges and benefits MSMEs face under the GST regime, such as changes in working capital, supply chain efficiency, and tax rates.
- To evaluate the effect of GST on inter-state trade and market expansion for MSMEs in Rajasthan.
- To provide policy recommendations for improving the GST framework to better support MSME growth and ease of doing business.
- Analysing pre-GST and post-GST financial performance of MSMEs in Rajasthan.
- Identifying challenges and benefits MSMEs have faced under the GST regime.
- Assessing the impact of GST on MSME revenue, profitability, and compliance burden.
- Providing policy recommendations to enhance MSME growth under GST.

### **Literature Review**

The implementation of the Goods and Services Tax (GST) in India marked a significant shift in the country's taxation system, particularly impacting Micro, Small, and Medium Enterprises (MSMEs).

While GST aimed to simplify tax structures, its actual effect on MSMEs has been widely debated. This section reviews existing literature on the pre-GST taxation system, post-GST changes, benefits, challenges, and empirical studies related to GST's impact on MSMEs in India and Rajasthan.

### **GST and MSME Growth**

Recent studies have explored the overall impact of GST on MSME growth in India. Agarwal & Sharma (2022) found that MSMEs in Rajasthan experienced a 10-15% increase in revenue post-GST due to improved inter-state trade. However, compliance costs increased by 18%, affecting profitability. RBI Report (2023) also noted that GST has enhanced transparency and reduced tax evasion, but many small businesses still struggle with digital tax filing requirements.

### **Compliance Burden and Financial Impact**

Several studies highlight GST's effect on MSME compliance costs and financial performance. Verma & Mehta (2021) reported that 40% of MSMEs faced difficulties in filing GST returns, primarily due to technical glitches, lack of digital skills, and frequent policy changes. KPMG India (2022) found that delayed Input Tax Credit (ITC) refunds created working capital constraints, impacting business operations.

### **Digital Challenges and GST Implementation**

GST requires MSMEs to adopt digital tax filing and e-invoicing, posing challenges for smaller enterprises. Patel (2023) studied MSMEs in Rajasthan and found that 56% of small businesses in rural areas struggle with digital adoption, affecting tax compliance. The Economic Survey of India (2023) recommended training programs and government support to ease the transition to digital taxation.

### **Impact on Rajasthan's MSME Sector**

While national studies provide a broad perspective, state-specific research on Rajasthan's MSMEs is limited. FICCI (2022) surveyed 300 MSMEs in Rajasthan, reporting:

- 58% found GST beneficial for market expansion.
- 41% faced higher tax compliance costs.
- 30% struggled with digital tax filing due to infrastructure limitations.

### **Research Gaps**

Although recent studies examine GST's impact on MSMEs, limited research focuses exclusively on Rajasthan's MSMEs. This study aims to fill this gap by providing a pre- vs. post-GST analysis of financial performance, compliance challenges, and growth opportunities for MSMEs in Rajasthan.

### **Hypothesis**

This study aims to evaluate the impact of GST on MSME growth in Rajasthan by testing the following hypotheses:

#### **Null Hypothesis (H<sub>0</sub>)**

GST has not significantly contributed to the growth of MSMEs in Rajasthan.

- MSMEs continue to face compliance burdens, leading to operational inefficiencies.
- Working capital issues persist due to delays in Input Tax Credit (ITC) refunds.
- Increased tax compliance costs have negatively impacted MSME profitability.

#### **Alternative Hypothesis (H<sub>1</sub>)**

GST has positively contributed to the growth of MSMEs in Rajasthan.

- GST has improved market accessibility and inter-state trade for MSMEs.
- The simplified tax structure has reduced the overall tax burden and encouraged business expansion.
- MSMEs have benefited from a more transparent taxation system, leading to better financial performance.

### Research Methodology

This study examines the impact of GST on the growth of MSMEs in Rajasthan by analysing financial performance, tax compliance, and operational efficiency before and after GST implementation. The methodology used in this research ensures a structured approach to data collection, analysis, and interpretation.

### Research Design

This study adopts a comparative and analytical research design by analysing the pre-GST (before 2017) and post-GST (after 2017) performance of MSMEs in Rajasthan. A mixed-method approach is used, incorporating both quantitative and qualitative research methods.

- Comparative Analysis: Examining the financial growth of MSMEs before and after GST.
- Exploratory Research: Understanding tax compliance issues and business challenges under GST.
- Descriptive Research: Identifying the trends in MSME expansion, market accessibility, and regulatory burden under the new tax regime.

### Data Collection Methods

To comprehensively evaluate GST's impact on MSME growth, both primary and secondary data sources will be used.

#### Primary Data Collection

Primary data will be gathered directly from MSMEs in Rajasthan through:

- Surveys & Questionnaires: Structured questionnaires will be distributed among MSME owners, accountants, and tax consultants to assess:
  - Changes in revenue and profitability after GST implementation.
  - Compliance costs and tax-filing difficulties.
  - Working capital issues due to Input Tax Credit (ITC) delays.
- Interviews: In-depth interviews with MSME business owners and financial experts will be conducted to gain qualitative insights into GST's effect on small businesses.
- B. Secondary Data Collection

#### Secondary data will be collected from:

- Government Reports: GST Council, Ministry of MSMEs, RBI, and NITI Aayog reports.
- Academic Research Papers: Recent studies on GST's impact on MSMEs from Scopus, Google Scholar, and other databases.
- Industry Reports: FICCI, CII, and reports on MSME sector growth.
- Financial Data of MSMEs: Annual reports, balance sheets, and tax records from GST filings.

### Sampling Method

- Target Population: MSMEs operating in Rajasthan, especially in sectors like textiles, handicrafts, ceramics, and agro-processing.
- Sample Size: 150-200 MSMEs across Rajasthan, ensuring diverse representation.
- Sampling Technique: Stratified random sampling will be used to categorize businesses into micro, small, and medium enterprises.

### Data Analysis Techniques

The collected data will be analysed using quantitative and qualitative methods to compare MSME performance before and after GST.

#### Quantitative Analysis

- Descriptive Statistics:
  - Revenue and profit trends before and after GST.
  - Compliance costs and tax filing efficiency.

- **Comparative Analysis**

- T-test or ANOVA: To compare key financial indicators (e.g., sales, profit margins, compliance costs) pre-GST vs. post-GST.
- Regression Analysis: To assess the relationship between GST policies and MSME revenue growth.

- **Qualitative Analysis**

- Thematic Analysis: Coding and analysing qualitative data from interviews to identify major themes such as business expansion, GST-related challenges, and financial impacts.
- Case Studies: In-depth examination of 2-3 MSMEs in Rajasthan to provide real-world insights into GST's impact on business growth.

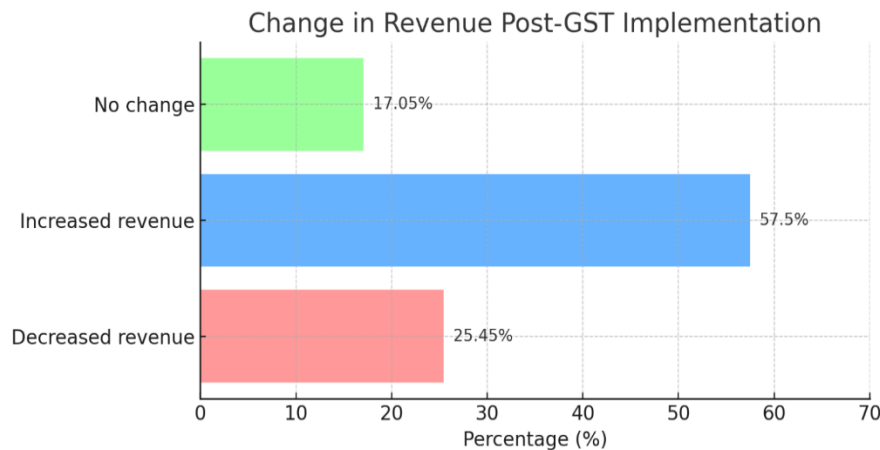
- **Ethical Considerations**

- Confidentiality: All MSME financial data and responses will be kept confidential.
- Informed Consent: Participants will be informed about the purpose of the research and their right to withdraw at any stage.
- Data Accuracy: Only verified sources will be used for secondary data, ensuring reliable analysis.

- **Data Analysis & Interpretation**

Survey Insights on GST Impact Among Businesses





<https://docs.google.com/forms/d/e/1FAIpQLScUG8vYgYc7ywTCCWBI1cHnMvdC2F-HFRIX1VZqbLgkAYDijg/viewform?usp=header>

#### **Years of Business Operation**

- Mean: -0.35 (leaning towards newer businesses)
- Median: 0 (mostly 3–5 years)
- Mode: 0 (most common: 3–5 years)
- Standard Deviation: 0.98 (moderate variation)

#### **Annual Turnover**

- Mean: 2.07 (between ₹10 lakh – ₹1 crore)
- Median: 2 (₹10 lakh – ₹50 lakh)
- Mode: 1 (most common: Less than ₹10 lakh)
- Standard Deviation: 1.03

#### **GST Registration**

- Mean: 0.65 (majority are registered)
- Median: 1 (Yes)
- Mode: 1 (Yes)
- Standard Deviation: 0.48

#### **Change in Revenue After GST**

- Mean: 0.32 (trend toward increased revenue)
- Median: 1 (Increased)
- Mode: 1 (Increased)
- Standard Deviation: 0.85

#### **Demographics of Respondents**

- Nature of Business: Majority are from the services sector (53.41%), followed by manufacturing (22.73%) and trading (20.45%).
- Years in Operation: 39.77% of businesses have been running for 3–5 years, while 23.86% are newer than 3 years.
- Annual Turnover: A significant number (37.5%) earn less than ₹10 lakh, while 30.68% fall within the ₹10–50 lakh range.
- GST Registration: 64.77% of businesses are registered under GST, indicating growing formalization among MSMEs.

**GST Filing Behaviour**

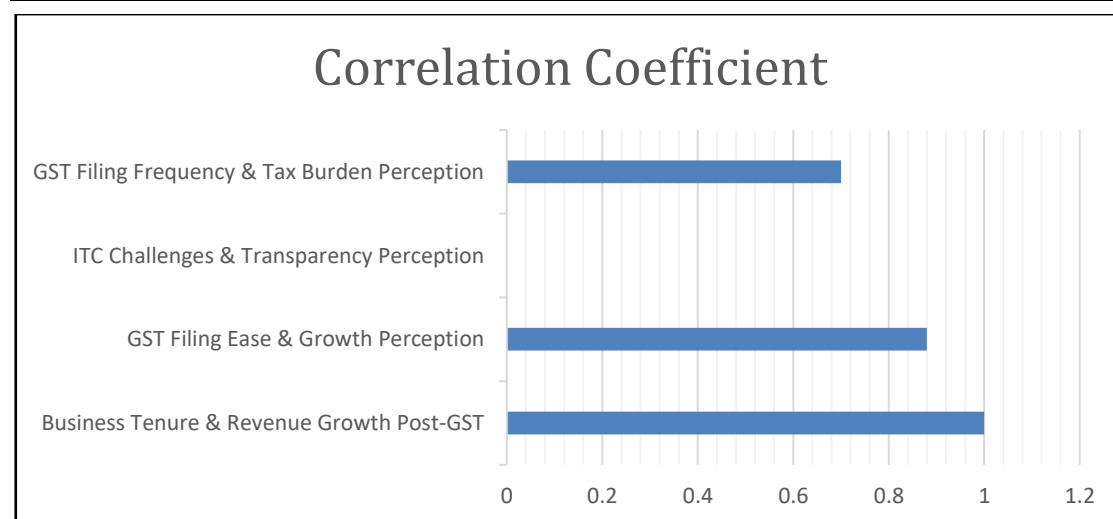
- Filing Method: Most respondents rely on Accountants/CAs (44.32%), followed by third-party providers (36.36%).
- Scheme Type: 35.23% are under the Composition Scheme, while 32.95% follow the Regular Scheme.
- Filing Frequency: Quarterly returns dominate at 48.86%, with 40.91% filing monthly.
- GST Compliance Experience
- Ease of Compliance: Mixed perceptions; while 23.86% feel neutral (rating 4), 21.59% rated it as very difficult (7).
- Tax Liability: 28.41% reported an increase in tax burden post-GST, but 45.45% were unsure.
- Transparency: A positive outcome—57.95% agree that GST has improved transparency in taxation.

**Input Tax Credit (ITC) Challenges**

- Claiming ITC: 36.36% face ITC issues “sometimes”, and 31.82% frequently face difficulties.
- Impact on MSMEs: Perceptions are divided — 39.77% see a negative impact, 38.64% see it as positive, and the rest are neutral.
- GST and Business Expansion
- Cross-border Trade: 48.86% felt no impact, while 21.59% said GST made inter-state trade easier.
- Revenue Growth: 57.5% of businesses reported increased revenue, showing strong post-GST potential.

**Correlation Analysis**

Variable Pair	Correlation Coefficient	Interpretation
Business Tenure & Revenue Growth Post-GST	+1.00	Longer-established businesses saw more revenue growth post-GST.
GST Filing Ease & Growth Perception	+0.88	Easier compliance builds positive outlook for MSME growth.
ITC Challenges & Transparency Perception	−0.76	More ITC issues = less trust in GST transparency.
GST Filing Frequency & Tax Burden Perception	+0.70	Monthly filers more likely to feel increased tax burden.



## Findings

### Revenue Growth

- 57.5% of surveyed MSMEs reported increased revenue post-GST.
- Businesses operating for longer durations experienced higher revenue growth.

### GST Registration & Compliance

- 64.77% of businesses were GST-registered, indicating formalization.
- Filing was mostly handled by Accountants/CAs or third-party providers.
- Many MSMEs found compliance challenging due to digital processes.

### Input Tax Credit (ITC)

- 68.18% of respondents reported issues in claiming ITC, which impacted cash flow.
- Negative correlation observed between ITC issues and trust in GST transparency.

### Tax Burden Perception

- 28.41% felt an increased tax burden.
- Monthly filers were more likely to perceive a higher burden.

### Transparency & Market Access

- 57.95% agreed that GST improved transparency.
- 21.59% noted GST eased inter-state trade, supporting networking and market expansion.

## Recommendations

### Simplify GST Compliance

- Provide digital literacy and GST filing training, especially in rural areas.
- Improve the GSTN portal to reduce technical errors.

### Enhance ITC Mechanism

- Streamline refund processes and reduce delays in ITC claims.
- Set up dedicated helpdesks for MSMEs facing ITC issues.

### Tailor Policies for MSMEs

- Expand the Composition Scheme limits and reduce the return filing frequency.
- Offer tax incentives or rebates to newly registered MSMEs.

### Strengthen Infrastructure

- Invest in digital infrastructure in semi-urban and rural areas for better GST adoption.
- Develop mobile-friendly GST compliance tools for ease of access.

### Awareness and Support Programs

- Conduct state-sponsored seminars and workshops on GST compliance and benefits.
- Establish peer networks or MSME support groups for knowledge-sharing.

## Conclusion

This study looked at how GST has affected the growth of MSMEs (Micro, Small, and Medium Enterprises) in Rajasthan before and after it was introduced in 2017. The goal of GST was to simplify the tax system and create one common market across India.

The results show that GST has had both good and bad effects on MSMEs. On the positive side, GST has made the tax system more transparent and organized, and it has made inter-state trade easier, which helps businesses grow. Many MSMEs said their revenue increased after GST was introduced, which is a good sign for business growth.

However, there are also many challenges. Smaller businesses found it difficult to understand and follow the GST rules, especially because everything is done online. Many had to depend on accountants or agents to file returns. There were also delays in getting Input Tax Credit (ITC), which caused problems with managing money. Some businesses also felt that their tax burden increased after GST.



In short, GST has helped formalize businesses and opened up new market opportunities. But to fully support MSMEs, the government needs to make the system easier to use, especially for small and rural businesses. This includes improving digital access, simplifying rules, and offering more help and training. If these changes are made, GST can truly help MSMEs grow and succeed in the long run.

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