



A Study on Impacts of GST on Small Business in Tamil Nadu

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Abstract

The introduction of the Goods and Services Tax (GST) in India was intended to simplify the indirect tax system, but its impact has not been uniform across all sectors. Small businesses in Tamil Nadu face a mismatch between GST's intended benefits and the practical challenges of compliance. This paper studies the issue from the perspective of small enterprises, focusing on how GST has influenced their operational costs and tax compliance. The aim is to evaluate both the challenges and advantages of GST for small businesses. Using secondary data review, government policy analysis, and existing literature, the research highlights that GST has increased compliance burdens and working capital constraints. The study concludes that supportive policy measures and capacity-building are essential for small businesses to adapt and benefit fully under the GST regime.

Keywords: GST, Small Businesses, Tamil Nadu, Compliance, Operational Costs, Challenges, Policy Analysis, Working Capital, etc.

1. Introduction

Small businesses are the backbone of Tamil Nadu's economy, contributing significantly to employment and regional development. The introduction of GST was intended to simplify the tax structure and eliminate the cascading effect of multiple taxes. However, for small enterprises, the transition to GST has been challenging. Many business owners, especially in rural areas, faced difficulties in adapting to the new system due to limited digital literacy and inadequate technological infrastructure. The mandatory GST registration for businesses with turnover exceeding ₹20 lakh (₹10 lakh for special category states) has added to their compliance burden. Small enterprises now spend more time and resources on record-keeping, filing returns, and understanding complex GST provisions. Consequently, many have experienced increased operational costs and disruptions in their regular business processes.

Despite these challenges, GST has brought certain benefits to small businesses in Tamil Nadu. The input tax credit mechanism allows businesses to offset taxes paid on inputs, potentially reducing overall tax liability. Additionally, the GST regime promotes transparency, reduces tax evasion, and creates a level playing field for enterprises of all sizes. The government's Composition Scheme provides relief to small taxpayers through a simplified tax structure with lower compliance requirements. GST has also facilitated easier inter-state trade by eliminating multiple state-level taxes, enabling small businesses to expand their market reach

beyond local boundaries. Furthermore, compliance with GST encourages better accounting practices and organized record-keeping. These measures collectively aim to strengthen small businesses, enhance their growth potential, and contribute to a more robust economy.

2. Statement of the Problem

The primary issue addressed in this study is the impact of the Goods and Services Tax (GST) on the operational efficiency, financial performance, and sustainability of small businesses in Tamil Nadu. Small enterprises play a vital role in the state's economy by contributing to employment, regional development, and production of goods and services. Although GST was introduced to simplify taxation, reduce cascading taxes, and create a unified market, many small business owners face challenges in compliance, digital record-keeping, and timely filing of returns, leading to increased operational costs and administrative burdens. Limited digital literacy and inadequate infrastructure in rural areas further complicate adaptation to the new system. This problem was chosen because GST has had a direct and widespread impact on daily business operations.

3. Review of the Literature

S. Vishnuhadevi & D. Hima Bindu (2022), "Compliance Costs of GST for Small Business Enterprises in Tamil Nadu"^[1]. This working paper from Madras School of Economics estimates the compliance costs of GST for small enterprises in

Tamil Nadu. It quantifies both monetary and time-related expenses of filing returns and maintaining digital records. Findings show compliance is disproportionately costlier for smaller firms compared to medium firms, making GST regressive in nature. The study recommends simplified return procedures and cost-effective accounting tools to reduce burden.

J. Hena Esther Rani & G. Kalpana, "Goods and Services Tax: A Study on Small Business Entities Taxpayers in Chennai" (2024) ^[2]. This conference paper analyses GST's impact on small businesses in Chennai, Tamil Nadu. It notes that while GST reduced the cascading effect of taxes and promoted uniformity, compliance posed serious challenges for smaller traders unfamiliar with digital tools. ITC delays and mandatory online filing were cited as major hurdles. The paper suggests more awareness and training initiatives for traders.

Harishekar, L., *et al.* GST and its impact on small and medium scale enterprises – Peenya Industrial Area, Karnataka. (2021) ^[3]. Studies in Business and Economics, although focused on Karnataka, Harishekar *et al.* provide relevant insights for Tamil Nadu MSMEs. Their study in the Peenya Industrial Area highlighted that SMEs initially faced difficulties in documentation, digital compliance, and managing cash flows due to delayed ITC. However, long-term benefits included improved opportunities for interstate trade. The authors also stressed the importance of professional accounting support in reducing compliance burden.

Pavithra, S., & Kannan, B. (2024). Impact of composition scheme in new GST regime in Tamil Nadu. South India Journal of Social Sciences, 22(4) ^[4]. Pavithra and Kannan analyzed the Composition Scheme under GST in Tamil Nadu. Their study concluded that the scheme simplified taxation for very small taxpayers but excluded businesses requiring interstate trade benefits, leading some to opt out. The study suggested revising turnover thresholds and providing greater flexibility to ensure the scheme's effectiveness.

4. Research Gap of the Study

Although GST has been widely studied in India, very limited research focuses specifically on its impact on small businesses in Tamil Nadu. Most studies are restricted to certain districts and do not capture state-wide variations. The sector-wise effects on manufacturing, retail, and services remain underexplored. Existing research highlights compliance burdens and ITC delays but rarely examines their long-term impact on business sustainability. Much of the literature is also based on the early years of GST, leaving a gap in updated evidence. Another gap is the lack of comparison between urban and rural small businesses, where access to digital tools and compliance support may differ greatly. Therefore, a comprehensive and recent study is required to understand the real challenges and opportunities for small businesses in Tamil Nadu under GST.

5. Objectives of the Study

- i). To identify the reasons for examining the impact of GST on small businesses in Tamil Nadu.
- ii). To analyse the trends in GST implementation and its effects on small enterprises.
- iii). To examine the operational and financial impact of GST on small businesses.
- iv). To evaluate the awareness and compliance levels of small business owners regarding GST.
- v). To suggest measures for improving GST compliance and

minimizing its adverse effects on small businesses.

6. Methodology

This research examines the impacts of GST on small businesses in Tamil Nadu using both doctrinal and empirical methods. Doctrinal research analyzes literature, GST policies, government notifications, reports, and secondary data to study compliance, financial effects, and operational challenges. Empirical research collects primary data from 100 small business owners through questionnaires and interviews to assess their awareness, adaptability, and experiences under GST. Data sources include journals, newspapers, government reports, and online resources. Statistical tools like the percentage and average methods are applied to interpret the data. Conducted over 5 months, the study provides insights into both theoretical perspectives and practical impacts of GST on small businesses.

7. Significance of the Study

The present study on the impacts of GST on small businesses in Tamil Nadu is significant as it highlights the financial, operational, and compliance challenges faced by entrepreneurs, while also reflecting their adaptability and awareness of the tax system. For the government, the findings provide valuable inputs for simplifying procedures, reducing compliance burdens, and designing sector-specific measures to support small enterprises. For researchers, the study offers both primary and secondary data that can serve as a reliable foundation for future academic work on taxation, business sustainability, and economic reforms. Thus, the research holds academic as well as practical importance, as it assists policymakers, scholars, and small business owners in improving GST implementation and fostering the growth of small businesses in Tamil Nadu.

8. Hypothesis of the Study

H1: GST has a significant impact on the compliance burden of small businesses in Tamil Nadu.

H2: Awareness and understanding of GST laws significantly affect the adaptability and sustainability of small businesses in Tamil Nadu.

9. Limitation of the Study

The study on the impacts of GST on small businesses in Tamil Nadu has certain limitations. The sample size and coverage of selected districts may not fully represent all small businesses in the state, which is a notable drawback. The field investigation, conducted through surveys and interviews, may involve response bias and affect the reliability of some findings. The limited duration of the study restricts analysis of long-term effects of GST implementation. Secondary sources such as reports and journals were sometimes outdated or incomplete. The study mainly focused on compliance burden, tax filing challenges, and profitability, while other indirect impacts were not examined in detail. Differences among sectors such as retail, manufacturing, and services were not fully analyzed, which may affect the generalization of findings. Despite these limitations, the research provides valuable insights into the challenges faced by small businesses under GST in Tamil Nadu.

10. Result and Discussion

I. Doctrinal Research

Doctrinal research, also known as library-based research, involves the systematic study of existing literature, laws,

policies, government notifications, and reports to build a theoretical understanding of a subject. For this study, doctrinal research provides insights into the Goods and Services Tax (GST) framework, compliance requirements, tax burdens, and government support measures in Tamil Nadu, forming the foundation for empirical (non-doctrinal) research.

Historical Background

The introduction of GST in India on 1st July 2017 was a landmark reform in indirect taxation, replacing multiple state and central taxes like VAT, service tax, excise duty, and entry tax with a single, unified tax structure. Tamil Nadu, with its diverse industrial, commercial, and service sectors, experienced both opportunities and challenges under this new regime. Small businesses in the state, which previously dealt with simpler tax systems, had to adapt quickly to digital invoicing, regular GST return filings, and stricter compliance requirements. Initially, many faced difficulties due to limited digital literacy, lack of awareness, and understanding of GST procedures.

To support them, the government introduced measures such as the Composition Scheme for small taxpayers, simplified quarterly return filings, exemptions for businesses below specific turnover thresholds, and guidance through GST help centers and online portals. Despite these efforts, small enterprises still face challenges like delayed input tax credit refunds, cash flow pressures, and compliance costs. Overall, GST has modernized taxation, increased transparency, and formalized many small businesses, but the transition remains gradual, requiring ongoing support, awareness programs, and technology adoption to fully benefit small enterprises in Tamil Nadu.

Socio-Economic Conditions of Small Businesses in Tamil Nadu

Small businesses in Tamil Nadu encompass a wide range of enterprises, including micro-enterprises, family-run shops, service providers, small-scale manufacturers, and artisans. These businesses form the backbone of the state's economy, contributing significantly to employment, local markets, and rural-urban economic linkages. Most small businesses operate with limited capital, small workforce, and minimal technological infrastructure, which affects their ability to scale operations or absorb financial shocks. Income levels are often unstable due to market fluctuations, seasonal demand variations, competition from larger firms, and external factors such as inflation or fuel price changes. The COVID-19 pandemic and disruptions in supply chains have further exposed the vulnerabilities of these enterprises.

Education and digital literacy among small business owners play a critical role in compliance with modern taxation systems like GST. Many owners lack formal accounting knowledge and depend on local accountants or consultants for tax filing, invoicing, and maintaining records. This reliance increases operational costs and may lead to errors or penalties if documentation is incomplete. Access to financial resources is another major factor. While institutional credit through banks and microfinance institutions is available, small businesses often face difficulties in meeting collateral requirements, understanding credit procedures, or timely repayment. Limited access to technology—such as digital payment systems, online marketplaces, or business analytics tools—restricts their competitiveness and ability to reach wider markets.

Social and demographic factors also influence small business

operations. Women entrepreneurs, especially in rural areas, face additional challenges due to limited mobility, societal expectations, and reduced access to government schemes or training programs. Businesses run by marginalized communities may face systemic barriers in accessing capital, networks, and market opportunities, which can limit their growth potential. Family-run businesses may also experience decision-making bottlenecks and succession challenges, affecting long-term sustainability. Despite these challenges, many small businesses are gradually adopting digital tools, online marketing, and formalized accounting practices in response to GST and broader market pressures. The shift toward e-commerce, digital payments, and GST-compliant invoicing has also created opportunities for business modernization and increased market access.

Overall, small businesses in Tamil Nadu are in a transitional phase, balancing traditional practices with modern compliance and operational requirements. A thorough understanding of their socio-economic conditions—including financial stability, human capital, digital readiness, and social constraints—is essential to evaluate the real impacts of GST and formulate targeted support policies that enhance sustainability, productivity, and growth.

Government Welfare Programmes for Small Businesses in Tamil Nadu under GST

The Government of India, in collaboration with the Tamil Nadu state government, has implemented several initiatives to support small businesses under GST, aiming to reduce compliance burdens, facilitate market access, and ensure financial stability. These measures are designed to simplify taxation, promote formalization, and provide technological and financial assistance to small enterprises.

- i). **GST Composition Scheme:** This scheme allows small businesses with turnover up to ₹2 crore (₹1.5 crore for special category states like Tamil Nadu) to pay a fixed percentage of their turnover as tax instead of regular GST rates. It significantly reduces compliance complexity, as businesses under this scheme file quarterly returns and are exempt from detailed invoice-level reporting.
- ii). **Input Tax Credit (ITC) Mechanism:** Small businesses can offset GST paid on purchases (inputs) against their output GST liability, reducing cascading taxes and lowering operational costs. Efficient utilization of ITC is crucial for managing cash flow and keeping product prices competitive.
- iii). **Simplified GST Return Filing (Form GSTR-4 & Sahaj, Sugam Forms):** Designed specifically for small taxpayers, these simplified returns reduce administrative burden by allowing quarterly filing and condensed reporting formats. This eases compliance for businesses with limited accounting infrastructure.
- iv). **Digital Platforms & GST Suvidha Providers (GSPs):** GSPs provide technical support to small businesses in invoice generation, return filing, reconciliation, and input tax credit tracking. By facilitating digital compliance, these platforms help business owners adapt to modern taxation requirements.
- v). **Exemptions and Threshold Limits:** Businesses with annual turnover below prescribed thresholds are either exempted from GST registration or subject to reduced tax liability, protecting micro and very small enterprises from unnecessary compliance burdens.
- vi). **State-Specific Support in Tamil Nadu:** The Tamil Nadu government has rolled out training programs,

workshops, awareness campaigns, and advisory services to educate small business owners on GST compliance, digital invoicing, and online reporting. Industry associations and chambers of commerce often collaborate to provide guidance and hands-on training.

Current Status of Small Business in Tamil Nadu under GST

Small businesses continue to play a crucial role in Tamil Nadu's economy, contributing significantly to trade, manufacturing, and services while providing employment across urban and rural areas. The introduction of GST has formalized many enterprises, improved market transparency, and reduced cascading taxes, creating a more streamlined taxation system. Small businesses vary from micro-enterprises, family-run shops, service providers, to small-scale manufacturers, and their performance is influenced by factors such as turnover, digital literacy, and access to finance.

The government has implemented several initiatives to support small businesses under GST. Programs such as the GST Composition Scheme, simplified return filing (Sahaj and Sugam forms), Input Tax Credit (ITC) mechanisms, and digital platforms like GST Suvidha Providers (GSPs) aim to reduce compliance burdens, improve financial management, and enhance market access. Despite these measures, many small businesses continue to face challenges, including frequent return filings, cash flow constraints due to delayed ITC refunds, difficulty in understanding GST rules, and reliance on professional accountants, which increases operational costs. Modernization efforts, including the adoption of digital invoicing, online tax portals, e-commerce integration, and GST awareness programs, are gradually helping small businesses adapt to the new tax environment. Industry associations and state initiatives also provide training

and advisory services to improve compliance and technological adoption.

Relevant Case Law

Case 1. Sharp Tanks and Structural Pvt. Ltd. v. Deputy Commissioner (GST Appeals) ^[5] Citation: 2025 (9) TMI 1149 Court: Madras High Court A small engineering firm challenged the rejection of its GST appeal as time-barred after the GST department uploaded a demand order on the portal without officially notifying it. Unaware of the order, the firm missed the appeal deadline. The Madras High Court held that mere online upload is not valid communication and that the limitation period starts only when the order is properly served. The Court stated that small businesses cannot be expected to monitor the portal constantly and that denying appeal rights violates natural justice. It directed the authorities to accept the appeal and emphasized the need for fair and transparent communication by tax officials. The judgment also highlighted the importance of protecting SMEs from being unfairly penalized due to technical or procedural errors.

Case 2. Sunder and Company v. Union of India (2025) ^[6] Citation: W.P. No. 67890 of 2025, Court: Madras High Court In Sunder and Company v. Union of India (2001), the Supreme Court clarified that under the Land Acquisition Act, 1894, the term "compensation" includes solatium, the additional 30% given to landowners for compulsory acquisition of their land. The Court held that interest is payable on solatium from the date of possession until payment, overruling earlier judgments that denied interest on it. It emphasized that denying interest would defeat the protective purpose of the Act, which ensures fair compensation. The ruling brought clarity and uniformity to compensation law, strengthening the financial rights of landowners and reinforcing that compulsory acquisition should not result in undue loss.

II. Non Doctrinal Research

Table 1: GST have a significant impact on the compliance burden of small businesses in Tamil Nadu

Indicators	Has a Very High Impact	Has a Moderate Impact	Has a Low Impact	Has no Impact	Not Sure	Total
Male	10 (12.2)	9(11.0)	2(2.4)	2(2.4)	2(2.4)	25(30.5)
Female	23(28.0)	25(30.5)	3(3.7)	2(2.4)	4(4.9)	57(69.5)
Transgender	0(0.00)	0(0.00)	0(0.00)	0(0.00)	0(0.00)	0(0.00)
Total	33(40.2)	34(41.5)	5(6.1)	4(4.9)	6(7.3)	82(100)

Source: Primary Data

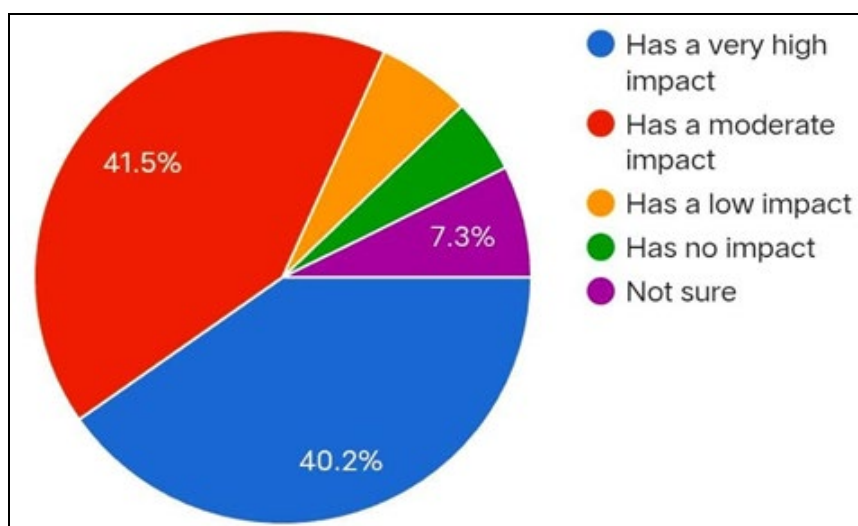


Table No.1 shows the respondents' opinions on the impact. Out of the total, 40.2 percentage stated it has a very high impact, 41.5 percentage felt it has a moderate impact, 6.1 percentage reported a low impact, 4.9 percentage indicated no impact, and 7.3 percentage were not sure.

Table 2: Awareness and understanding of GST laws significantly affect the adaptability and sustainability of small businesses in Tamil Nadu

Indicators	Yes, it has a very significant effect	Yes, it has a moderate effect	Yes, but it has a minor effect	No, it does not have any effect	Not sure	Total
Male	7(8.5)	11(13.4)	3(3.7)	3(3.7)	1(1.2)	25(30.5)
Female	17(20.7)	26(31.7)	10(12.2)	2(2.4)	2(2.4)	57(69.5)
Transgender	0(0.00)	0(0.00)	0(0.00)	0(0.00)	0(0.00)	0(0.00)
Total	24(29.3)	37(45.1)	13(15.9)	5(6.1)	3(3.7)	82(100)

Source: Primary Data

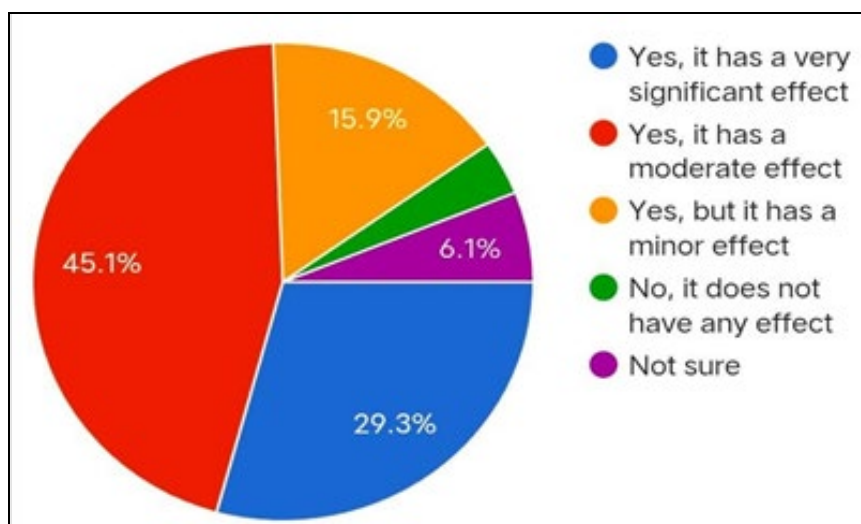


Table No. 2 shows the respondents' opinions on the extent of effect. Out of the total, 29.3 percentage stated it has a very significant effect, 45.1 percentage felt it has a moderate effect, 15.9 percentage reported it has a minor effect, 6.1 percentage stated it does not have any effect, and 3.7 percentage were not sure.

Testing of Hypothesis

Hypothesis 1: GST has a significant impact on the compliance burden of small businesses in Tamil Nadu. Under hypothesis. 1, Table no.2 shows the majority of the respondents 42.5 percentage indicating that GST significantly affects the compliance burden of small businesses in Tamil Nadu. Therefore hypothesis is accepted and this is null hypothesis.

Hypothesis 2: Awareness and understanding of GST laws significantly affect the adaptability and sustainability of small businesses in Tamil Nadu. Under hypothesis.2, Table no.3 shows the majority of the respondents 45.1 percentage of respondent has a moderate effect and 29.3 percentage has a very significant effect. Hence hypothesis is accepted and this is also null hypothesis.

11. Conclusion

The study concludes that the introduction of the Goods and Services Tax (GST) has significantly transformed Tamil Nadu's business environment, especially for small and medium enterprises (SMEs). By unifying various indirect taxes like VAT, excise duty, and service tax, GST has simplified taxation, enhanced transparency, and promoted formalization. It has facilitated smoother interstate trade, reduced cascading taxes, and encouraged digital invoicing and recordkeeping, thereby integrating small businesses into the formal economy. However, small businesses—particularly those in the micro and unorganized sectors—face challenges such as complex filing procedures, frequent return

submissions, and limited access to professional accounting support. Poor digital literacy and unstable internet connectivity in rural areas further increase compliance difficulties. Despite these hurdles, GST has expanded the tax base, improved revenue collection, and ensured greater accountability while creating a level playing field among businesses. It has also encouraged transparency in supply chains and the adoption of digital payment systems. To strengthen its impact, simplifying return filing processes, providing user-friendly digital platforms, and organizing regular training programmes for entrepreneurs are essential. Continuous policy refinement and technological assistance will help small businesses adapt effectively and achieve sustainable growth under the GST regime.

12. Suggestions

- Simplify GST filing and registration procedures to reduce the compliance burden on small business owners.
- Conduct regular awareness programmes and training sessions to educate entrepreneurs about GST rules and updates.
- Provide financial and technical assistance to help small businesses adopt digital accounting and filing systems.
- Strengthen digital infrastructure, especially in rural and semi-urban areas, to make GST compliance easier and faster.
- Establish district-level GST grievance redressal centres to handle refund delays and compliance-related issues efficiently.

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