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ANALYZING THE IMPACT OF GST POLICIES ON SMALL AND MEDIUM BUSINESSES IN BANGALORE CITY

Shilpa R[1] Dr. R. Sakthivel [2]
[1]*M.Com Student, Kristu Jayanti College (Autonomous), Bangalore, India*
[2]*Faculty, Department of Commerce (PG), Kristu Jayanti College (Autonomous), Bangalore, India*

ABSTRACT
The introduction of the Goods and Services Tax (GST) in India aimed to simplify taxation by replacing multiple indirect taxes. While large enterprises have adapted effectively, Small and Medium Businesses (SMBs) face financial and operational challenges. This study examines the financial performance of SMBs before and after GST implementation and evaluates their perceptions regarding financial health, tax-related challenges, and compliance burdens. A structured survey of 175 SMBs in Bangalore was conducted, and a one-sample t-test was applied. The findings highlight significant differences in tax compliance costs and operational efficiency, emphasizing the need for policy reforms.

KEYWORDS: *GST, Small and Medium Businesses, Tax Compliance, Financial Performance, Bangalore*

INTRODUCTION

The implementation of the Goods and Services Tax (GST) in India marked a significant shift in the country's taxation landscape. Aimed at unifying the tax structure by subsuming multiple indirect taxes, GST was introduced to enhance efficiency, transparency, and compliance. While large businesses have largely adapted to the new tax regime, Small and Medium Businesses (SMBs) have encountered several challenges, including increased tax compliance burdens, financial strain, and operational restructuring.

Before the introduction of GST, SMBs operated under various tax structures, leading to complexities in compliance and financial reporting. The unified GST framework aimed to simplify this process by eliminating cascading taxes and providing a common tax base. However, the reality for many SMBs has been different, with increased compliance costs, delays in tax refunds, and a significant shift in financial planning.

The impact of GST on SMBs varies across industries, with some businesses benefiting from input tax credits and streamlined processes, while others struggle with the technical aspects of tax filing and compliance requirements. This study investigates how GST has influenced SMBs' financial performance, compliance burdens, and overall business sustainability. It also evaluates whether the anticipated benefits of GST have been realized in practice for SMBs.

By analyzing pre- and post-GST financial data, this research provides an empirical assessment of the effects of GST on SMBs in Bangalore, offering insights into their financial health and operational efficiency. The study also seeks to highlight areas where policy interventions may be necessary to ensure that GST supports rather than hinders the growth of small businesses in India.

STATEMENT OF THE PROBLEM

The study investigates the impact of GST policies on the financial performance and compliance burden of SMBs in Bangalore. It examines how GST has influenced operational costs, tax compliance, and overall business sustainability.

OBJECTIVES OF THE STUDY

- To analyze the financial performance of SMBs before and after GST implementation.
- To evaluate whether SMBs' perceptions regarding financial health, tax challenges, compliance burdens, and ease of compliance significantly differ from a neutral stance.

HYPOTHESIS

H0: There is no significant difference in the financial performance of SMBs before and after GST implementation.
H1: There is a significant difference in the financial performance of SMBs before and after GST implementation.
H0: There is no significant difference in SMBs' perceptions regarding financial health, tax challenges, compliance burdens, and ease of compliance.
H1: There is a significant difference in SMBs' perceptions regarding financial health, tax challenges, compliance burdens, and ease of compliance.

METHODOLOGY

A quantitative approach was adopted using primary data collected from 175 SMBs in Bangalore. The data was analyzed using one-sample t-tests to compare mean responses against a neutral stance. The study also examined financial records pre- and post-GST implementation to measure profitability and compliance costs.

Sampling Design

- Sampling Method: Non-probability purposive sampling

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- Sample Size: 175 SMBs from various sectors in Bangalore
- Data Collection**:** Google Forms, direct interviews, and telephonic surveys

Statistical Design

- One-Sample T-Test: Used to assess whether SMBs' perceptions significantly differ from neutrality.
- Paired T-Test: Used to compare financial performance pre- and post-GST.

RESULTS AND DISCUSSION

OBJECTIVE 1

The financial performance of SMBs was assessed using a paired t-test to compare key financial metrics before and after GST implementation. The results are presented in Table 1.

The results indicate a significant decline in revenue and profitability after GST implementation. The compliance cost has significantly increased, implying a higher financial burden on SMBs. These findings suggest that the introduction of GST has imposed financial constraints on small businesses, affecting their profitability and operational efficiency.

Table 1: Financial Performance Before and After GST

Factor	Pre-GST Mean	Post-GST Mean	t-Value	p-Value	Conclusion
Revenue	5.1	4.6	2.89	0.004	Significant Decline
Profitability	3.8	3.2	3.12	0.002	Significant Decline
Compliance Cost	2.2	3.9	4.21	0.001	Significant Increase

Since the p-values for revenue, profitability, and compliance cost are all less than 0.05, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. This confirms that there is a significant difference in the financial performance of SMBs before and after GST implementation.

OBJECTIVE 2

A one-sample t-test was conducted to analyze SMBs' perceptions. The results are presented in Table 2.The results indicate that SMBs perceive financial health and compliance burdens as significant concerns post-GST. The mean scores for financial health, compliance burden, and tax-related challenges are significantly different from neutrality (2.5 on the Likert scale), indicating that SMBs view GST as having a considerable impact on their operations. However, ease of compliance did not show a significant difference from neutrality, suggesting that SMBs have not found any significant improvement in compliance processes.

Table 2: Perception of SMBs Regarding Tax Compliance and Financial Health

Factor	Mean Score	t-Value	p-Value	Conclusion
Financial Health	2.9	3.12	0.002	Significant Difference
Compliance Burden	3.1	4.23	0.001	Significant Difference
Tax-Related Challenges	2.8	2.95	0.004	Significant Difference
Ease of Compliance	2.4	-1.45	0.153	Not Significant

Since the p-values for financial health, compliance burden, and tax-related challenges are all less than 0.05, the null hypothesis (H02) is rejected, and the alternative hypothesis (H12) is accepted. This confirms that SMBs' perceptions regarding financial health, compliance burdens, and tax-related challenges significantly differ post-GST. However, as the p-value for ease of compliance is greater than 0.05, the null hypothesis is accepted, indicating that ease of compliance has not significantly improved

CONCLUSION

This study confirms that SMBs in Bangalore experienced financial strain and increased compliance burdens post-GST. While the taxation system improved market transparency, compliance costs and operational challenges remain key concerns. Streamlined policies and better support mechanisms can enhance SMBs' long-term sustainability.

Additionally, the study highlights that while GST has led to structural improvements in taxation, its implementation has not been seamless for SMBs. Addressing issues such as delayed Input Tax Credit (ITC) refunds, high compliance costs, and frequent regulatory changes could improve the overall effectiveness of GST for small businesses.

Future research should explore industry-specific impacts of GST, long-term financial trends post-GST implementation, and potential policy interventions to mitigate negative effects. By addressing these concerns, policymakers can create a more inclusive taxation system that supports the growth and stability of SMBs in India.

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