

## The Role of Simplified GST Rates in Enhancing MSME Policy Effectiveness

**Mukesh Kumar Yadav**

Research Scholar, TMIMT Teerthanker Mahaveer University, Moradabad-India

Email: [Camukeshyadav28@gmail.com](mailto:Camukeshyadav28@gmail.com)

**Dr. Mohit Rastogi**

Associate Professor

Associate Professor-Management TMIMT, Teerthanker Mahaveer University, Moradabad-India

Email: [mohit.management@tmu.ac.in](mailto:mohit.management@tmu.ac.in)

### Abstract

The simplification of GST rates under the GST 2.0 reform has played a pivotal role in enhancing the competitiveness of MSMEs in India. By reducing the number of tax slabs and aligning input and output rates, the reform has lowered the cost of compliance and minimized tax-related distortions. MSMEs, which often operate with limited financial and administrative resources, benefit significantly from a clearer and more predictable tax structure. Lower GST on essential inputs and consumer goods reduces production costs and boosts demand, allowing MSMEs to price their products more competitively. Additionally, streamlined input tax credit mechanisms improve liquidity and working capital management, enabling faster reinvestment and scaling. The simplified regime also encourages formalization, helping MSMEs access institutional credit, government incentives, and broader markets. Overall, the rationalized GST framework fosters a more business-friendly environment, empowering MSMEs to grow sustainably and compete more effectively in both domestic and global markets.

Keywords: -Taxation, Goods and Services Tax (GST), GST Rates, Medium, Small, and Micro Enterprises (MSMEs)

### Introduction

After Goods and Services Tax was introduced in India on 1<sup>st</sup> July 2017, it was one of the greatest tax reforms in Indian history. GST has replaced many indirect taxes charged by governments (central and state), aiming to create a uniform tax structure and promote ease of doing business. However, the execution of this tax has also had a huge impact on the MSMEs region in India (Dhillon et al., 2022).

The Micro, Small, and Medium Enterprises (MSME) sector is a cornerstone of India's economy, contributing significantly to employment, exports, and GDP. However, MSMEs often face structural challenges such as limited access to finance, high compliance costs, and market competition. The introduction of the Goods and Services Tax (GST) in 2017 aimed to unify India's indirect tax system, but its complex multi-slab structure initially posed difficulties for smaller businesses. Recognizing these challenges, the government introduced the GST 2.0 reform in 2025, simplifying the tax regime by reducing the number of slabs and streamlining compliance procedures.

Simplified GST rates have had a transformative impact on MSMEs by lowering tax burdens and improving operational efficiency. The reduction in GST on essential goods and services has helped MSMEs cut input costs, while the correction of inverted duty structures has improved cash flow through better input tax credit utilization. These changes have enabled MSMEs to price their products more competitively, expand their market reach, and reinvest in business growth. Moreover, the simplification of compliance processes—such as automated returns and pre-filled forms—has reduced administrative overhead, allowing MSMEs to focus on innovation and productivity.

This research aims to explore how the simplified GST structure has enhanced the competitiveness of MSMEs across various sectors. It will analyse financial performance indicators, compliance behaviour, and market expansion trends post-reform. By examining both quantitative data and qualitative insights, the study seeks to provide a comprehensive understanding of the GST 2.0 impact and offer policy recommendations to further strengthen the MSME ecosystem in India.

### Review of Literature

The researcher has sourced more than 85 papers from online libraries like EBSCO, Google Scholar, and other sources. Also, an extensive literature review was conducted to identify studies that explicitly addressed or highlighted linkages between GST, its implications on different business entities, and MSME in Delhi NCR region. The search process

utilized sodhganga and Google Scholar databases to find relevant articles. The literature searches on databases specifically focused on identifying original peer-reviewed research studies that examined linkages between GST, its implications on different business entities. Opinion pieces, magazine articles or conceptual papers were excluded. The researcher has used keywords like "GST", "MSME", "Tax rates", "Tax compliances", "Indirect tax", "Tax impact", "cost", "Delhi", "Delhi NCR region" and "tax jurisdiction". Based on the above keywords, the researcher has chosen 85 papers for the study, the details are provided in the references section.

Verifying GST compliance is crucial because It contributes significantly to governments' revenue bases, particularly in developing countries and it affects companies of all kinds, including micro, small & medium-sized firms (Alm, 2012). MSMEs are key forces for fiscal success in a number of countries, contributing to the creation of jobs and the reduction of poverty (Sanusi et al., 2017). It is estimated that India has roughly 63 million MSME units, with microbusinesses making up 99.4% of this market (Soni, 2020). Micro-enterprises-defined as those with an annual profit of up to US\$ 662,715 at exchange rates as of 2020, make up the bulk of sectors in India (Rastogi, 2020; Rajshekhar- 2017; Vij et. al., 2017).

### **Research Questions**

The analysis of prior research conducted reveals significant evidence when conducting a literature review on the "GST and MSME Growth Trajectories: Post- Implementation Trends in Delhi NCR," the research questions should aim to explore the various dimensions of how GST affects micro, small, and medium enterprises in this specific geographical context. Here are some potential research questions that could guide the review:

1. What is the overall impact of GST on the financial efficiency and financial performance of MSMEs in the Delhi NCR region?
2. What are the differential benefits of GST on various sectors, including the trading, manufacturing, and service sectors, within the MSME category in the Delhi NCR region?
3. How effective are government policies and support measures, such as the Composition Scheme, relaxed filing rules, and awareness programs, in facilitating the transition to GST for MSMEs and mitigating any negative impacts?
4. How does GST impact the financial aid and grants by the Indian Government to MSMEs?

The research gaps section elaborates further on these unexplored aspects that provide promising avenues for future research. Advancing work in these directions can provide system-wide perspectives to discuss the impact of GST implementation.

### **Objectives of Study**

The systematic analysis of research literature above culminates in the following study objectives. The objectives of a study for a literature review on the "GST and MSME Growth Trajectories: Post- Implementation Trends in Delhi NCR" should be to systematically examine and synthesize existing research findings, identify patterns, and draw conclusions about the effects of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs) in this specific region. Here are some potential objectives that such a study might aim to achieve:

#### **To Analyse the Impact of GST Rate Simplification on MSME Policy Effectiveness:**

The objective focuses on understanding how the reduction and rationalization of GST rates influence the cost dynamics of MSMEs. By examining changes in input costs, production expenses, and tax liabilities, the study aims to determine whether simplified rates have led to measurable improvements in cost efficiency. This analysis is crucial for identifying whether MSMEs can produce goods and services more economically in post-reform.

#### **To Assess the Effect of GST Reforms on MSME Financial Efficiency:**

This objective explores how simplified GST rates affect the pricing strategies of MSMEs. With lower tax burdens,

MSMEs may be able to offer more competitive prices, which can enhance their market share and customer base. The study will evaluate whether these pricing advantages have translated into increased sales, better brand positioning, and improved competitiveness in both domestic and export markets.

**Examine the Role of GST in Improving MSME Policy Effectiveness:**

This objective investigates the financial implications of GST simplification on MSMEs' liquidity. The correction of inverted duty structures and streamlined input tax credit (ITC) processes are expected to reduce delays in tax refunds and free up working capital. The study will assess how these changes impact day-to-day operations, investment capacity, and financial resilience of MSMEs.

**Evaluate the Influence of Simplified GST Compliance on MSME Formalization:**

These objectives investigate easier compliance procedures such as automated returns, reduced documentation, and simplified registration encourage MSMEs to enter the formal economy. Formalization not only improves transparency but also enables MSMEs to access institutional credit, government incentives, and larger markets. The study will analyze trends in registration and compliance behavior post-GST reform.

The objectives of this study are designed to provide a comprehensive understanding of how simplified GST rates under the GST 2.0 reform have influenced the competitiveness of MSMEs in India. By examining cost structures, pricing strategies, financial health, compliance behavior, and sectoral performance, the research aims to uncover both the direct and indirect benefits of tax simplification. These insights will be valuable for policymakers, industry stakeholders, and MSME leaders seeking to optimize the impact of GST reforms and foster inclusive economic growth.

**Comparative Analysis - Role of Simplified GST Rates**

1. Ease of Compliance vs. Complex Tax Structures

Simplified GST rates significantly reduce the compliance burden for MSMEs by streamlining tax filing and minimizing the need for specialized tax knowledge. In contrast, complex tax structures with multiple slabs and frequent changes often overwhelm small businesses, diverting their focus from core operations to administrative tasks.

2. Cost Efficiency vs. Hidden Costs

A simplified GST regime helps MSMEs manage costs better by making input tax credit mechanisms more accessible and reducing the chances of tax misclassification. On the other hand, complicated tax systems can lead to blocked credits and increased operational expenses due to errors or the need for external consultants.

3. Market Competitiveness vs. Pricing Challenges

With predictable and uniform tax rates, MSMEs can price their products more competitively, improving their position in the market. However, when faced with multiple GST slabs, small businesses often struggle with inconsistent pricing strategies, which can erode their competitiveness against larger, better-resourced firms.

4. Formalization and Growth vs. Informality and Stagnation

Simplified GST encourages MSMEs to enter the formal economy, unlocking access to institutional credit, government incentives, and growth opportunities. In contrast, a complex tax environment may deter small businesses from registering under GST, keeping them informal and limiting their scalability and long-term prospects.

5. Transparency and Trust vs. Tax Avoidance Risks

A simplified tax structure fosters transparency in financial transactions, which enhances trust among stakeholders including customers, suppliers, and lenders. Conversely, complicated tax regimes may inadvertently promote underreporting or avoidance due to confusion or lack of awareness, undermining the credibility and sustainability of MSMEs.

Simplified GST rates play a pivotal role in empowering MSMEs by reducing compliance complexities, lowering

operational costs, and enabling more competitive pricing. They encourage formalization, which opens doors to financial and institutional support, and foster transparency that builds trust across the value chain. In contrast, a complex GST structure can hinder MSME growth by creating barriers to compliance, increasing costs, and discouraging formal participation. Therefore, a streamlined and MSME-friendly GST framework is essential for enhancing their competitiveness and driving inclusive economic growth.

**Figure 1: Conceptual Framework of Simplified GST Impact on MSMEs**



**Research Methodology**

The study focuses on MSME units operating in the state of Delhi. Total 150 MSME units operating in the region of Delhi have been selected for the purpose of study and GST related information about these units has been collected from the qualified CAs/CSs/CMAs who are in practice and handling GST related work of these units. The study employs a mixed-methods approach, utilizing both quantitative and qualitative data. Primary data has been collected using a stratified sampling process. To make the sample more representative, 40 micros, 20 small, and 20 medium enterprises were chosen from a total selected sample of 80 MSME units. The quantitative research is conducted and survey method based on the questionnaire was used to attain the objectives of the study and to address the research problem. Secondary data related to MSME units required for this research has been gathered from the various research papers, articles, thesis, magazines and Government publications.

**Discussion and Data Analysis**

In India, Medium, Small, and Micro Enterprises (MSMEs) play a crucial role in the economic development of the country. The above stated objectives have been studied by analyzing and interpreting the empirical testing of various important factors related to the above objective by using chi square test. The perceptions of GST practitioners like Chartered Accountants, Company Secretaries and Cost Accountants in practice who are handling outsourced work of MSME in Delhi were obtained on five point Likert’s scale. These observations were then plotted on excel sheet to enable the application of chi square test on the data.

**Table 1: Perception of MSMEs on Simplified GST Impact**

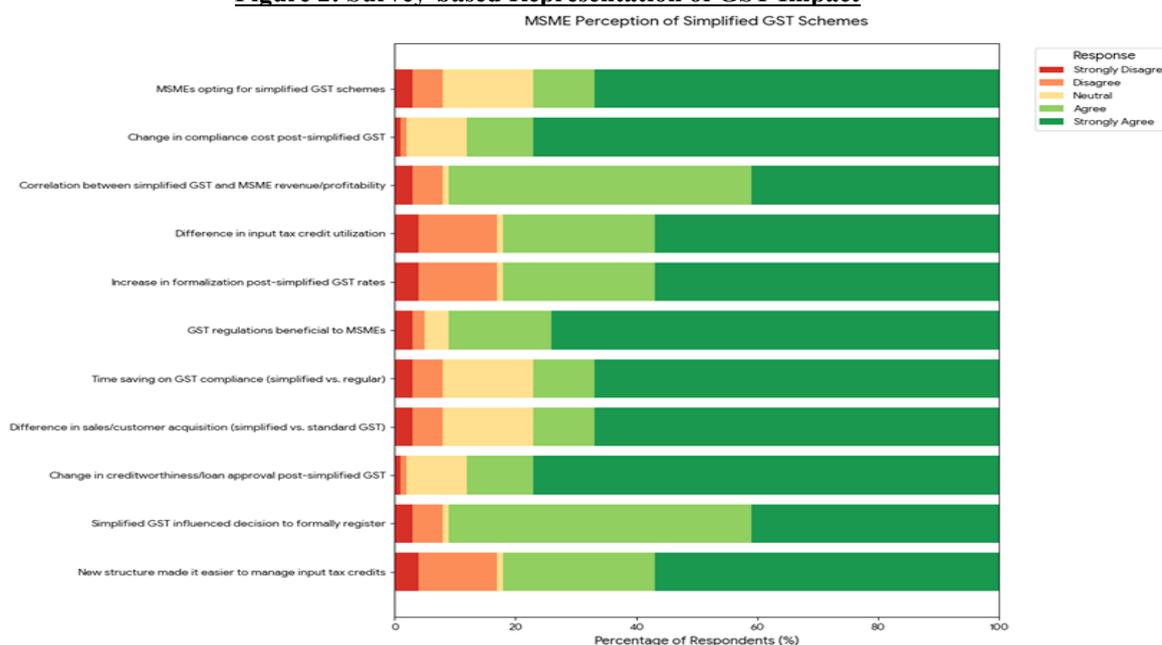
Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
What percentage of MSMEs have opted for simplified GST schemes (e.g., Composition Scheme) compared to regular GST filing?	3%	5%	15%	10%	67%
Has the compliance cost (e.g., accounting, filing, consultancy) changed for MSMEs before and after simplified GST implementation?	1%	1%	10%	11%	77%

Is there a correlation between simplified GST adoption and MSME revenue growth or profitability?	3%	5%	1%	50%	41%
What is the difference in input tax credit utilization between MSMEs under simplified GST and those under regular GST?	4%	13%	1%	25%	57%
Has the rate of formalization (e.g., GST registration) among MSMEs increased post-introduction of simplified GST rates	4%	13%	1%	25%	57%
Are GST regulations beneficial to MSMEs in general?	3%	2%	4%	17%	74%
Is there some time saving on GST compliance by MSMEs under simplified vs. regular GST regime	3%	5%	15%	10%	67%

**Table 2: Additional Perceptions on GST Influence**

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Do sales volumes or customer acquisition rates differ between MSMEs using simplified GST and those using standard GST?	3%	5%	15%	10%	67%
Has the creditworthiness or loan approval rate changed for MSMEs after adopting simplified GST filing?	1%	1%	10%	11%	77%
Did simplified GST influence your decision to formally register your business under GST?	3%	5%	1%	50%	41%
Has new structure made it easier for MSME to manage input tax credits?	4%	13%	1%	25%	57%

**Figure 2: Survey-based Representation of GST Impact**



**Table 3: Regression Analysis Results**

Model Summary <sup>b</sup>						
Model		R	R Square	Adjusted R Square	Std Error	
Regression Model		0.912 <sup>a</sup>	0.834	0.831	0.541	
ANOVA <sup>b</sup>						
Model		Sum of Square	df	Mean Square	F	Sig
Regression Analysis	Regression	144.069	1	144.069	492.262	0.000 <sup>b</sup>
	Residual	28.681	98	0.293		
	Total	172.75	99			

The data presented is the result of a regression analysis examining the relationship between various variables and their impact on policy effectiveness of MSME concerning Goods and Services Tax (GST). The independent variables in the model can explain around 83.4 percent of the variance in the impact of GST on the company's operations, according to the R Square value of 0.834. It is clear from the Adjusted R Square value of 0.831, which is extremely near to R Square, that the model fits the data accurately without being over fit. Moving on to the ANOVA table, it shows the breakdown of the variation in the dependent variable (effect of GST on the company's operations) into regression and residual components. The F-value of the total regression model is 492.262, and it has a corresponding p-value of 0.000, which is much lower than the significance threshold of 0.05. This indicates that the model has a high degree of statistical significance. The conclusion says result of regression analysis indicate that there is a substantial and significant link between variables (financial efficiency, Sector Specific benefits, Policies effectiveness and Financial Aid) and growth of MSME post GST Implementation.

### Conclusion

In conclusion, Simplified GST rates have emerged as a strategic enabler for MSMEs, helping them overcome long-standing challenges related to tax compliance, cost management, and formalization. By reducing the complexity of tax filing and offering predictable tax liabilities, these simplified structures allow MSMEs to focus more on business growth and less on administrative burdens. This shift not only improves operational efficiency but also enhances their ability to compete with larger enterprises in both domestic and global markets.

Moreover, simplified GST frameworks encourage MSMEs to enter the formal economy, which opens access to institutional credit, government incentives, and broader market opportunities. The transparency and ease brought by simplified rates foster trust among stakeholders and improve financial discipline. In contrast, complex tax regimes often discourage participation and hinder scalability. Therefore, a continued focus on simplifying GST for MSMEs is essential to unlock their full potential and drive inclusive economic development.

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