International Research Journal of Social Sciences ISSN 2319–3565
Vol. 15(3), 30-34, July (2026) Int. Res. J. Social Sci.

Review Paper

Sectoral Impact of GST Reforms on MSMEs in India: A Pre-Post Analysis

Shobharani H.[1] and Sumangala G.M.[2*]
[1]Department of Commerce, PG Centre, Kuvempu University, Kadur, Karnataka, India
[2]KLE Society's G H College, Haveri, Karnataka, India
sumangalagm261@gmail.com

Available online at: www.isca.in, www.isca.me
Received 11th April 2026, revised 4th May 2026, accepted 16th June 2026

Abstract

One of the significant changes in the system of the Indian taxation was the introduction of the Goods and Services Tax (GST) in July 2017 as an idea of substituting several taxes with a single tax system, easing the taxes compliance, and enhancing the efficiency of the economy. Micro, Small and Medium Enterprises (MSMEs) are important in the Indian economy because they contribute well to the Gross Domestic Product (GDP), provide employment opportunities, export, and industrial production. Given the economic role of MSMEs, this paper discusses the effects of the GST reforms on the performance of the MSME sector. The research takes a pre- and post-GST analysis framework between 2012-13 and 2023-24. It is founded on secondary sources of data known to be trustworthy like the government sources like the Ministry of MSME, GST portal statistics, the Ministry of Statistics and Programme Implementation (MOSPI), and Economic Survey reports. The analysis uses the descriptive statistics, regression analysis, Pearson correlation, and independent sample t -tests to analyse the relationship between the GST reforms and the key performance indicators of the MSMEs. The results indicate that GST reforms does not show a statistically significant effect on the contribution of MSME to GDP; there is however an observable improvement in export performance, creation of jobs, and the industrial production in the post-GST period. Another indication of the study is a higher degree of formalization of enterprises based on the higher GST registrations that are believed to lead to better tax compliance and competitiveness of MSMEs in India.

Keywords: GST, MSMEs, Performance, Export Growth, Employment Generation, Tax Reforms, Industrial Production.

Introduction

Goods and services tax (GST) is one of the significant tax reforms in the Indian history of fiscal System. GST eliminated most of these indirect taxes including service tax, excise duty, and value added tax in favour of one comprehensive and destination-based tax structure. The primary goals of GST were to abolish the cascading effect, offer clear, single national market, streamline compliance process and enhance effectiveness of taxation management.

GST also implemented a technology-based compliance space of e-invoicing, filing of returns and input tax credit. As much as these structural changes were an attempt to enhance visibility and flow of operations, they also required businesses to reorient themselves to a new statutory regime.

The Micro, Small and Medium Enterprises (MSMEs) are universally recognized as the pillar of economy in India. This industry contributes almost 30 per cent of the national aggregate production, about 45 per cent of the export trade, and is the main source of livelihoods in various geographical locations. In addition to these indicators, MSMEs play a key role in promoting industrial resourcefulness and fair development of the regions. Thus, the tax restructurings such as the GST, that are systematic, are bound to have a radical influence on this high-stakes industry.

MSMEs have both opportunities and challenges created by the implementation of GST. On the one hand, GST has eased the system of taxation and enhanced the interstate trade by eliminating several indirect taxes. Conversely, the digital compliance process and filing system first created difficulties to small companies with fewer technological assets. The GST has also been a two-sided reform to the MSME sector and comes with growth opportunities as well as structural challenges. On the one hand, it has simplified the indirect tax structure and opened up the national market by consolidating the fragmented indirect taxes.

However, MSMEs have been a two-sided reform of GST. It made it easier because of the many old and confusing taxes which it substituted with one system and hence sell across states is easy. Nevertheless, the transition towards online filing was a challenge to the small companies who did not have the appropriate computers, software, or tech-savvy to follow the trend.

Gap in Research and the Purpose of the research: Despite the presence of a few studies that review the macroeconomic impacts of GST, there is the paucity of empirical studies that show the sectoral impacts of GST on the MSMEs through the statistical approaches and pre- and post-tests. The current study will fill this gap by examining the MSME performance indicators prior to and after the GST implementation using a quantitative approach.

Review of Literature: Varalakshmi and Naik[1]analysed the perceived implication of GST on small business firms in India. The researchers found that the induction of GST has made the indirect taxation system in India to be simplified. The researchers further arrived at a conclusion that introduction of GST has posed a challenge and a business opportunity to small business enterprise in India.

Shivani[2] examined the effects of GST on the Micro, Small and Medium Enterprises in India. The study indicates that GST has made the taxation system more straightforward and has minimized cascading effects thus making the market more accessible. Meanwhile, regulatory compliance and working capital requirements had risen, thus presenting operations challenges.

Sangamnavar[3] has examined the effect of GST on SMEs in India. The study argues that GST has enhanced trade and interstate trading in India. Simultaneously, taxation, digital filing and refunds have been problematic.

Ahlawat[4] is a statistical examination of the effect of GST on the Indian economy. The study shows that GST has enhanced efficiency in the process of taxation, expansion of the taxpayer base, and formalisation of economic activity.

Priyanka and Singh[5]engaged in the process of the analysis of the GST implementation and its economic impact in India. The authors gathered secondary data and came up with the conclusion that with the GST introduction, the Indian taxation system has become easy and transparent. Another set of conclusions made by the researchers is that GST introduction has introduced challenges and opportunities to small enterprises in India.

The article by Kumar and Kumar[6] analyses the effect of GST on different Small and Medium Enterprises (SMEs) in India. By gathering primary and secondary data, the researchers have concluded that introduction of GST has made SMEs more compliant and expensive to operate as a result of digital filing and accounting requirement. The GST has however also brought transparency and efficiency in the inter-state trade. The researchers came to the conclusion that the introduction of GST has offered opportunities and challenges to the SMEs in India.

Sharma and Sharma[7]examined the effects of GST on Indian SMEs, paying attention to such problems as compliance, working capital, and digitalisation. The study has found that GST has enhanced transparency and supply chain integration but on the other hand, working capital and technology adoption have been problematic.

Patil and Kulkarni[8] reviewed GST reforms and found that GST improved transparency and tax compliance among MSMEs while increasing compliance requirements.
Desai and Mehta[9]examined GST impact on small businesses and concluded that GST has improved formalisation but posed technological challenges.

Kulkarni and Joshi[10] analysed GST reforms and observed that GST has contributed to improved market integration and formalisation of MSMEs, though compliance challenges persist.

Objectives of the Study: The study aims to analyse the contribution of MSMEs to GDP before and after GST implementation. It also examines the export performance of MSMEs in the post-GST period, analyses employment trends in the MSME sector, studies formalisation of MSMEs through GST registrations and examines changes in industrial production using the Index of Industrial Production (IIP).

Hypotheses: i. H_{01}: GST reforms have no significant impact on MSME contribution to GDP. ii. H_{02}: GST reforms have no significant impact on MSME export share. iii. H_{03}: GST reforms have no significant impact on MSME employment. iv. H_{04}: There is no significant difference in industrial production between pre-GST and post-GST periods.

Methodology

The research is founded on the secondary data collected through the credible source of government statistics like the Ministry of MSME, GST Portal statistics, the Ministry of Statistical and Programme Implementation (MoSPI), and the Economic Survey reports. The study period is 2012-13 to 2023-24, which allows comparing the pre-GST and post-GST years. Descriptive Statistics are used to examine the trends in the MSME indicators. Regression analysis is applied to study the reduction or increase of critical outcomes due to the introduction of GST namely GDP contribution, export share and employment. Pearson correlation analysis is used to analyze the association between the growth of MSME and the rising level of formal GST registrations. Independent samples t-test was utilized in order to statistically compare the levels that were achieved in industrial production in the pre-GST years and after the introduction of GST to prove whether the changes that were observed were significant.

Results and Discussion

MSME economic indicators in India of 2012-13 to 2023-24 indicate significant changes in the contribution to GDP, export share and creation of employment. In 2012-13 and 2013-14, the MSMEs contributed to the GDP at a comparatively high level of

37.54% and 2014-15, and it decreased, which was the indication of the structural changes within the economy and the possible reclassification of the GDP components. The export share of MSMEs shows a broadly rising pattern of 42.4% in 2012-13 to a high of 49.7% in 2019-20, which indicates the rising role of MSMEs in the Indian export industry although slight variations are witnessed in the subsequent years because of the international economic situation and the effects of the COVID-19 pandemic.

At the same time, the overall employment creation in the MSME sector is increasing steadily with a rising trend as the employment creation in the sector has gone up to approximately 12 crores in the recent years compared to 10.1 crore in 2012-13, which indicates that the sector has contributed a lot to job creation and livelihood support. In spite of the short-term drop in 2020-21, caused by pandemic-related interruptions, the employment regained its position in subsequent years.

On the whole, the data demonstrate that the contribution of MSME to GDP has stagnated, but the sector remains to increase its contribution to exports and job creation, which confirms its relevance as one of the elements of inclusive economic growth in India[11].

Table-1: MSME Economic Indicators in India (2012–2023).

Year	GDP Contribution (%)	Export Share (%)	Employment (Crore)
2012–13	37.54	42.4	10.1
2013–14	37.54	42.4	10.4
2014–15	30.27	43.0	10.7
2015–16	30.50	43.7	10.9
2016–17	31.80	45.0	11.1
2017–18	29.70	45.4	11.4
2018–19	30.50	48.1	11.8
2019–20	30.50	49.7	12.0
2020–21	27.30	49.4	11.6
2021–22	29.60	45.0	12.2
2022–23	30.10	43.6	12.7*
2023-24	30.10	45.73	12.06

*Note: Employment figures can vary based on the data source (e.g., Udyam registration vs. ASUSE surveys). The 12.06 crore figure for 2023–24 is based on the latest ASUSE 2023-24 report.

Table-2: Regression Results for Impact of GST on MSME Indicators.

Dependent Variable	Coefficient (B)	R^2	p-value	Result
GDP Contribution	-3.292	0.284	0.091	Not Significant
Export Share	3.510	0.468	0.020	Significant
Employment	1.293	0.714	0.001	Highly Significant

The regression analysis of the effect of GST on the MSME indicators has mixed outcomes. The -3.292 coefficient with p-value of 0.091 shows GST does not make a statistically significant contribution to MSME contribution to GDP. The coefficient of export share (3.510) where the p-value equals 0.020 implies that GST has a strong positive effect on the MSME exports. In the same way, employment has the highest coefficient (1.293) with a high R 2 of 0.714 and a p-value of 0.001 which is very significant. Such results suggest that GST reforms are a major contributor to the growth of exports and employment in the MSME-based sector, but it is statistically not significant on the GDP contribution[11].

Table-3: Growth of MSME Formalisation and GST Compliance.

Year	MSME Units (Crore)	GST Registrations (Million)
2017–18	5.63	10.5
2018–19	5.93	11.8
2019–20	6.33	12.2
2020–21	6.35	12.8
2021–22	6.55	13.6
2022–23	6.78	14.4
2023-24	7.30	14.5

The 2017-18 to 2023-24 data on MSME formalisation and GST compliance indicates that the number of MSME units and GST registrations have been on a consistent rise. The total units of MSME grew to 7.30 crore in 2023-24 compared to 5.63 crore in 2017-18, and this shows the steady growth of this sector. Meanwhile, the number of GST registrations increased by 10.5 million to 14.5 million indicating better tax compliance and increased access of enterprises in to the formal tax system. The progressive trend of increase in GST registrations and increase of MSME units implies that GST has had a notable effect in motivating business formalization, transparency and regulatory compliance.

In general, the trend shows the intensification of the MSME ecosystem and the growth of the involvement of enterprises in the formal economy following the introduction of GST[11].

Table-4: Correlation between MSME Growth and GST Registrations.

Variables	Correlation (r)	p-value
MSME Units & GST Registrations	0.949	0.001

The correlation analysis indicates the presence of a very strong positive correlation (r = 0.949) between the units of the MSMEs and GST registrations. The p-value value of 0.001 means that the correlation is statistically very strong. This implies that the larger the MSMEs are, the higher the GST registrations, which is based on more formalization and tax compliance within the sector[11].

Table-5: Independent Samples t-Test for Industrial Production.

Period	Mean IIP	Std. Deviation
Pre-GST	107.63	4.49
Post-GST	121.60	5.21

t = -4.785 and p = 0.001.

The results of the independent samples t-test indicate that there was a significant growth in the industrial production following the implementation of GST. The average Index of Industrial Production (IIP) has grown by 107.63 in the pre-GST and 121.60 in the post-GST period, which means that industrial activity has been enhanced. The t = -4.785 with p-value0.001 is a confirmation that the difference is statistically very significant and therefore, indicates that GST reforms are related with an increase in industrial production[11].

Discussion: The results of the current research are in line with previously conducted studies on the effects of GST on MSMEs. Earlier studies[1–3] reported that GST improved interstate trade and reduced cascading tax effects, supporting the findings of the present study. The challenges faced by MSMEs during GST implementation are also consistent with studies[6,7], which highlighted issues related to compliance burden and technological adaptation among small businesses. Further, the increase in MSME turnover, employment rate, and GST registrations observed in this study indicates improved formalisation and market integration, which aligns with the findings of later studies[10], [12] that reported enhanced tax compliance and transparency after GST implementation. Overall, the findings suggest that GST reforms have positively influenced MSME exports, employment generation, and industrial production in the post-GST period.

Findings of the Study: The study finds that MSME contribution to the GDP was not fully impaired during the post-GST period. However, export performance and employment generation improved in the post-GST period. The study also indicates increased formalisation of MSMEs and a significant rise in industrial production.

Conclusion

Introduction of the GST has been a significant milestone to the Indian tax system. The current research mentions its affirmative ripple impacts on the MSME sector especially in causing exports and employment. The percentage of the GDP that the sector has is already stable, but the actual victory has been the shift to transparency and formal business conduct. To continue this trend, we ought to work on streamlining the technological element of taxation among the small business owners. Such basic measures as online education and specific funding can help them succeed under the GST model. Having a healthy MSME environment is not merely an objective; it is the driving force that will continue to make India grow and compete at the international level. To promote a fairer tax ecosystem, policies should introduce AI based 'compliance metrics' where tax payers with high accuracy are rewarded with quicker refund processing and reduced audit frequency. This intelligence-led approach not only controls tax evasion but also transforms GST from a static compliance burden into a dynamic instrument for economic strength and growth across India's competitive industrial sector.

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