

Impact of GST on Small Businesses and Digital Economy

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Abstract: *The implementation of Goods and Services Tax (GST) in India has significantly impacted the operations of small businesses and the broader digital economy. Aimed at simplifying the tax structure, GST replaced a complex web of indirect taxes, leading to greater transparency and uniformity across the country. This research explores the challenges and opportunities that small businesses have encountered post-GST, focusing on its impact on operations, cash flow, compliance, and digital adoption.*

Small businesses initially faced challenges in adapting to the new GST framework, including a higher compliance burden, cash flow issues due to advance tax payments, and difficulties in implementing digital invoicing systems. Many businesses, especially in rural areas, struggled with the digital transition required for GST filings. Additionally, the multi-tiered tax structure and delayed Input Tax Credit (ITC) refunds created operational complexities for small traders.

However, GST has also opened up several opportunities for small businesses. The simplification of tax filing, seamless inter-state trade, and the availability of ITC have significantly reduced production costs and expanded market reach. The digital economy has seen substantial growth as businesses, particularly e-commerce and service-based industries, have leveraged the GST framework to scale operations. Moreover, GST has formalized small businesses, enabling easier access to financial credit and government schemes.

This paper also highlights the evolving role of the digital economy under GST, where businesses are increasingly adopting digital payment systems, online marketplaces, and accounting software to enhance efficiency. The study concludes with recommendations for policy improvements to ease the compliance burden on small businesses, such as simplified filing processes and quicker ITC refunds, thereby fostering growth and innovation in the digital economy.

Keywords: GST, small businesses, digital economy, compliance, cash flow, ITC, e-commerce, policy recommendations

