

A Comparative Study on the Effect of GST on MSME Growth and Financial Companies In India

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Abstract: *The introduction of the Goods and Services Tax (GST) in 2017 marked a significant reform in the Indian taxation system. GST replaced multiple indirect taxes levied by central and state governments and introduced a unified tax structure aimed at simplifying the tax regime, improving transparency, and creating a common national market. The reform has had a considerable impact on various sectors of the Indian economy, particularly Micro, Small and Medium Enterprises (MSMEs) and financial companies. MSMEs play a crucial role in economic development by contributing significantly to employment generation, industrial production, and exports. At the same time, financial institutions, including Non-Banking Financial Companies (NBFCs), play an important role in supporting MSME growth by providing credit and financial services. Therefore, understanding the effect of GST on both MSMEs and financial companies is essential for evaluating the broader economic impact of the reform.*

The main objective of this study is to compare the pre-GST and post-GST performance of MSMEs and financial companies in terms of profitability, compliance, and operational efficiency. The study also aims to evaluate the challenges and opportunities created by GST for MSMEs and financial institutions in India. The research adopts a descriptive and analytical research design and primarily relies on secondary data collected from annual reports, financial databases such as PROWESS and CMIE, government publications, and relevant academic literature. The period of study includes both pre-GST and post-GST years in order to assess the changes in business performance after the implementation of the new tax system.

Various statistical tools such as descriptive statistics, correlation analysis, and regression analysis were used to analyse the data. The analysis was conducted using the Statistical Package for Social Sciences (SPSS). The results indicate that GST has improved tax transparency, increased compliance levels, and enhanced operational efficiency among businesses. Financial companies also benefited from improved documentation and financial reporting, which facilitated better credit assessment and lending decisions. However, the study also identifies certain challenges faced by MSMEs, including increased compliance costs, digital filing requirements, and working capital constraints during the transition period. Despite these challenges, the overall findings suggest that GST has contributed positively to the formalisation and growth of businesses in the long run. The study concludes that with appropriate policy support and simplified compliance mechanisms, GST can further strengthen MSME development and improve the performance of financial companies in India..

Keywords: MSME, GST, NBFC, Government, Challenges

