

GST 2.0 Reforms Rapid Growth to MSME's Sector in Indian Economy

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Abstract - This study examines the transformative potential of GST 2.0 and Micro, Small, and Medium Enterprises (MSMEs) in transforming the Indian economy. As the backbone of India's industrial and services sectors, MSMEs play a vital role in providing employment, driving exports, and contributing to the Nation's GDP. Concurrently, the implementation of GST 2.0 is a proposed improvement of the initial Goods and Services Tax regime, aiming to enhance tax compliance, streamline procedures, and foster a common national market.

The research study examines how the formal inclusion of MSMEs in the tax system under GST 2.0 can contribute to greater transparency, improved access to finance, and enhanced competitiveness. It also explores issues of compliance cost, digitalisation, and regulatory consciousness as faced by MSMEs. Based on a combination of qualitative observations and quantitative inputs, the project aims to assess the combined impact of GST reforms and MSME expansion on economic growth, employment generation, and sustainable development. The study concluded with policy suggestions to enhance MSME support systems and maximise GST 2.0 implementation towards sustainable and equitable economic development.

Key words: -Tax reforms, Entrepreneurship, Indirect taxation, Economic development, Business sustainability

INTRODUCTION:

The word tax has been derived from the Latin word, "TAX" which means touch sharply (or) change tax is a part of persons earning or a part of a company's profit to the government. In other words, some portion of an individual's earnings (or) company profit is given to the government which is used by government for the welfare of the general public individuals (or) corporates who pay to the government they are called tax payers.

GST is known as Goods Service Tax. GST is the most important tax reforms in Indian history introduced in (1 July 2017) It is one of the indirect taxes which has replaced many indirect taxes in India. India such as exercise duty VAT, service tax etc. GST is the single domestic indirect tax law for the entire Indian economy.

The MSME's sector: A vital Engine of Growth

MSMEs are the backbone of the Indian economy contributing significantly to employment generation, innovation and economic growth. According to the ministry of MSMEs, there are over 63 million MSMEs in India, contributing approximately 30% to the country's GDP and accounting for nearly 45% of exports. The sector employs over 110 million people, making it the second-largest employer after agricultural.

Access to finance: limited access to credit and high rates hinder their growth and expansion

Technological adoption: lack of awareness and resources limit the adoption of modern technologies, affecting productivity and competitiveness.

Compliance burden: complex regulatory requirements and compliance procedures increase operational costs and divert resources

Infrastructure Deficiencies: Inadequate infrastructure, including power, transportation, and logistics, affects efficiency and competitiveness.

GST challenges for MSME's

While GST aimed to simplify the tax regime, MSME's have faced several challenges in its implementation:

Compliance complexity: The multi-layered GST structure, with different tax rates and compliance requirements, has proven complex for many MSME's especially those with limited resources and expertise.

Input Tax Credit (ITC) Issues: difficulties in claiming ITC, due to issues such as mismatched invoices and delayed payments, have increased the cost of doing business for MSME's

Working capital constraints: The requirement to pay GST on sales before receiving payment from customer has created working capital constraints for MSME's.

Reserve charge mechanism (RCM): The RCM, which requires registered buyers to pay GST on purchase from unregistered suppliers, has discouraged transactions with smaller, unregistered businesses.

GST 2.0 Reforms: Potential Benefits for MSME'S

GST 2.0 reforms aim to address the challenges faced by MSME's and streamline the GST system. Some of the key reforms under consideration include:

Simplified compliance: Reducing the number of GST returns, simplifying the returns filing process, and providing user-friendly online tools can significantly reduce the compliance burden for MSME's

Improved ITC Mechanism: streamlining the ITC process, ensuring timely and accurate matching of invoices, and allowing provisional ITC claims can improve cash flow and reduce costs for MSME's.

E – invoicing for smaller Businesses: Expanding the e-invoicing system to include smaller businesses can improve transparency, reduce fraud, and facilitate ITC reconciliation.

Dispute Resolution Mechanism: Establishing a robust and efficient dispute resolution mechanism, including alternative dispute resolution (ADR) methods, can help MSME's resolve tax-related disputes quickly and cost-effectively.

Technology Integration: promoting the adoption of technology, such as cloud computing and mobile applications, can help automate their GST compliance process and improve efficiency.

GST Rate rationalization: rationalizing GST rates and reducing the number of tax slabs can simplify the system and reduce classification-related disputes.

Impacts on MSME's growth

The successful implementation of GST 2.0 reforms can have a significant positive impact on the growth of the MSME sector:

Reduced compliance costs: simplified compliance procedures and reduced paperwork can lower operational costs and free up resources for core business activities.

Improved cash flow: streamlined ITC mechanisms and faster refunds can improve cash flow and reduce working capital constraints.

Enhanced Competitiveness: Reduced tax burdens and improved efficiency can enhance the competitiveness of MSME's in both domestic and international markets.

Increased Formalization: simplified GST procedures and incentives can encourage more MSME's to register under GST, leading to greater formalization of the sector.

Job creation: Increased growth and Expansion of MSME's can lead to greater job creation and contribute to overall economic development.

Challenges and consideration

While GST 2.0 reforms hold significant promise, their successful implementation requires careful consideration of the following challenges:

Technology Adoption: Many MSME'S lack the resources and expertise to adopt new technologies required for GST compliance. The Government needs to provide training and support to them transition to the new system.

Awareness and Education: many MSME'S are not fully aware of the benefits of GST and the changes introduced by GST 2.0 reforms. the governments need to conduct awareness campaign and provide education programs to ensure that MSME's are well informed.

Infrastructure Deficiencies: Inadequate infrastructure, such as internet connectivity and power supply, can hinder the adoption of technology and compliance with requirements. The governments need s to address these infrastructure gaps to facilitate the smooth implementation of GST 2.0 reforms.

Coordination and communication: Effective coordination and communication between the government, tax authorities, and MSME's stake holders are essentials for the successful implementation of GST 2.0 Reforms.

Tax is charge on value addition at each level on GST. The produce pay to taxes on raw material and alter manufacturing, value of the produce is added then the produce is sold to wholesaler who after packing add value on the produce. GST is charged on these value additions. Which is the sum of money added at stage to reach the ultimate sale to the customer. There are three stages of GST collection namely CGST and SGST, IGST.

Transaction	New regime	Old regime	Impact
Sales within state	CGST + SGST	VAT/ central exercise service tax	Revenue will be equally transferred to both central and state government
Sales to another state	IGST	Central state tax Exercise service tax	The central will be share the IGST revenue based on the destination of goods.

As per the article 279A (2) of the constitution the GST council shall consist of the following members:

- a. The union finance minister.
- b. The union minster of state in charge of revenue (or) finance.
- c. The minster in charge of finance (or)taxation or any other minster nominated by each state government.
- d. Nay person nominated by the government of the state company hers is a proclamation of emergency under article 356 of constitution of India.

After the lot of problems (like high percentage of GST rates) faced by an MSMEs on GST return the central government has introduced a new GST reform. On the taxes collecting both state and central government. The goods service tax (GST 2.0) reforms were introduced on September 2025 to represent turning point of step into reshaping India's taxation system to better to serve the aspiration of the Indians. By making changes in the taxation structures and reducing the rates for key industries these reforms are designed to create environment for the entrepreneurship and job creation.

MSME's are essential for the Indians socio-economic advancement. it serves as a foundation for the Indian economy. In the year of 2024, approximately 203.9 million jobs opportunities are being generated by 39 million MSME's contributing 36% to the GDP. the MSME's sector has been essential in promoting innovations and technological advancement in areas of where large companies may not excel. They quickly meet market needs work as an integral part of the supply chain for bigger companies by acting as suppliers of components, services, and raw materials to support industrial ecosystem.

Table 1: Definition of MSMEs's

Category of Enterprises	Investment limit (in plant and machinery) 1 st July 2020	Turn over limit 1 st July 2020	Investment limit (in plant and machinery) As per union budget 2025-26	Turn over limit As per union budget 2025-26
Micro Enterprises	1 crore	5 crores	2.5 crores	10 crores
Small Enterprises	10 crores	50 crores	25 crores	100 crores
Medium Enterprises	50 crores	250 crores	125 crores	500 crores

The above table represents the classification of MSME's in India according to their investments in plant and machinery and annual turnover. To accommodate expansion and scaling the limit was altered in union budget 2025-26. The new investments and turnovers restrictions are subsequently higher than the prior ones, which were effective as of July 2020. The main goal of these reforms includes enhancing access to government support and making this sector more formal.

Literature Review:

Saurabh suman (2017) conducted a study on GST implementation by MSME's and inquired into the problems associated with GST in this paper. concluded that issues will be resolved over time and the GST will be favourable in long run to all Business owners.

Dr. Ankitha (2018) examined into the challenges that MSME's are facing, as well as their feedback on GST and how business owners are managing their companies one year after GST implementation.

Vidit Mohan and Salman Ali (2018) present a multi-dimensional understanding of the of the differences between the excepted and current GST regime's effect on MSME's and the related tax compliance.

Singh (2018) GST and its impact on MSME's in Rajasthan. study found that the GST has resulted in ana increase in compliance costs for MSME's. it also found that there has been a decline in the number of MSME's due to the implementation of GST.

R. Khanna in (2018) the critical assessment will provide insights into the challenges and opportunities created by GST for this assessment will be useful for policy makers, MSME's owners and other stack holders to know the impact of GST on MSME's area and Devine appropriate policies development of the sector.

Meena & sodani (2018) This assessment will analyse the challenges faced by MSME's during the transition to GST, the impact of GST on their operations and competitiveness and the measures taken by the government to mitigate the negative impact of GST on MSME's.

Objectives:

1. To study the challenges of GST faced by MSMSE's in Indian economy.
2. To grab the impact of GST 2.O on Indian economy.
3. To find out effects of GST 2.O on various sectors of Indian economy.

Hypothesis:

Objective 1: To study the challenges of GST faced by MSMSE's in Indian economy.

H (0): There is no significant impact of GST implementation on the growth and significance of MSME's in Indian economy.

H (1): GST implementation has significant impact on the performance and growth of MSME's in Indian economy.

Objective 2: To grasp the impact of GST 2.O on Indian economy.

H (0): The implementation of GST 2.O has positive impact on the efficiency and growth of the Indian economy.

H (1): The implementation of GST 2.0 has no significant impact on the efficiency and growth of the Indian economy.

Objective 3: To find out effects of GST 2.0 on various sectors of Indian economy.

H (0): GST 2.0 has no significant effect on the performance of all the sectors of Indian economy.

H (1): GST 2.0 has a significant effect on the performance of various sectors in the Indian economy.

Research Methodology:

The study utilizes both primary secondary data sources: -

Primary Data:

- Structured questionnaire surveys conducted among MSME's owners, accountant and tax professionals.
- Interviews with industry experts, GST consultants and governments officials related to MSME's policy.

Secondary data:

- Articles, Journals and conference proceedings related to GST reforms and MSME's performance.
- Data from annual reports, Economic surveys, and NITI Aayog policy document.

Research Design:

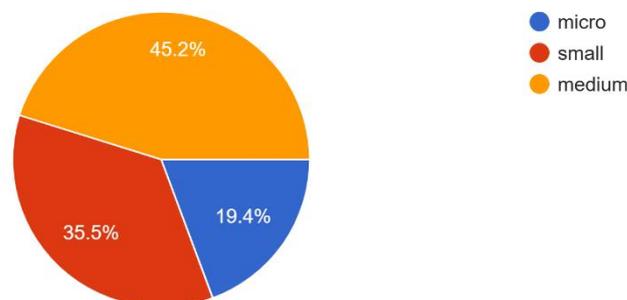
The study adopts the analytical research design to examine the impact of GST 2.0 reforms on the growth and performance of the micro, small and medium enterprises (MSME's) sector in India. the research focuses on understanding how policy reforms under 2.0 influence taxation efficiency, ease of compliance, operational costs, competitiveness among MSMSE's.

Data Analysis:

1. Type of enterprises

Type of enterprise	No of enterprises Enrolled
Micro Enterprises	06
Small Enterprises	11
Medium Enterprises	15

Type of Enterprise
 31 responses



Key Insights

- Medium Enterprises from the largest segment ,representing nearly half of the sample (45.2%).
- Small Enterprises are the second most common , accounting for over one -third (35.5%)
- Micro Enterprises are the sleast represented ,with less than one fifth of the responses (19.4%).

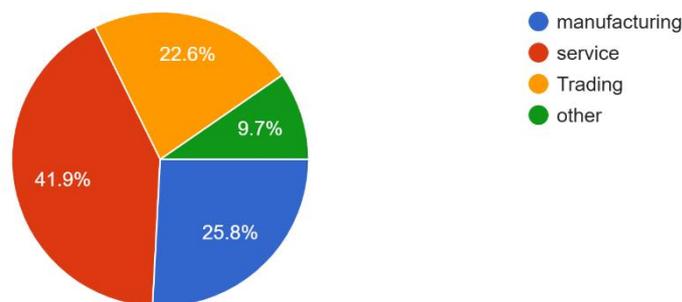
Interpretation:

This distribution suggest a respondent pool skewed towards larger scale operations , with medium enterprises dominating. It may reflect the nature of the survey population possibly more established business or those with greater resources and work flow .

2. Nature of Business

Nature of Business	No of business Enrolled
Manufacturing	08
Service	14
Trading	07
Others	03

Nature of Business
 31 responses



Key Insights

- Service-based enterprises dominate the dataset, comprising nearly 42% of responses.
- Manufacturing and Trading businesses together account for almost 48.4%, indicating a strong presence of product-oriented operations.
- The Other category, though minimal at 9.7%, may include hybrid or niche business models not captured by the main categories.

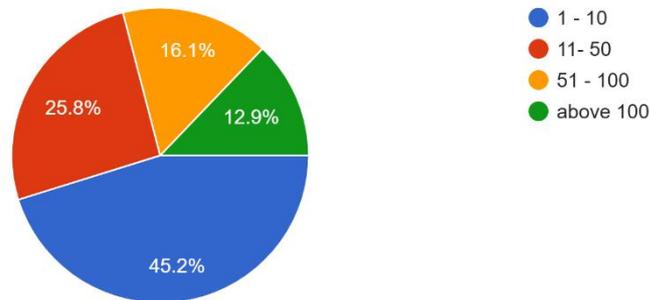
Interpretation

This distribution suggests a respondent pool with a strong inclination toward service-oriented models, possibly reflecting trends in urban entrepreneurship, digital services, or consultancy. The presence of manufacturing and trading also indicates a balanced mix of production and commerce.

3.Number of employees

Number of employees	No of companies
1-10	14
11-50	04
51-100	08
Above-100	05

Number of Employees
 31 responses



Key Insights

- Nearly half of the respondents (45.2%) operate with 1-10 employees, indicating a strong presence of micro -scale Enterprises.
- Small to mid-size businesses (11-100) employees’ makeup 41.9% reflecting moderate operational capacity.
- Only 12.9% of businesses have more than 100 employees, suggesting limited representing of large-scale enterprises.

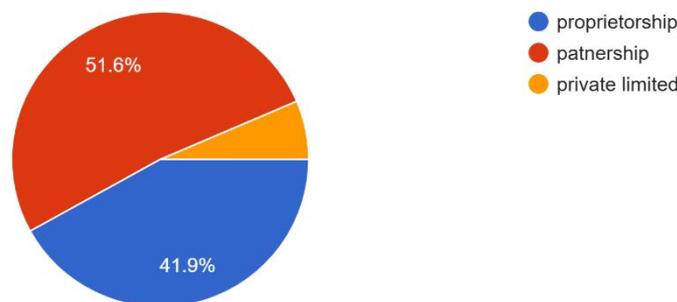
Interpretation

This distribution highlights a predominantly small-scale business ecosystem, possibly characterized by lean teams, localized operations, or early-stage ventures. It aligns with broader trends in Entrepreneurship and MSME’s development, especially in emerging markets.

4. Ownership types

Ownership type	No of organizations
Proprietorship	12
Partnership	17
Private limited	02

Ownership Type
 31 responses



Key Insights

- Parnership dominate the sample, accounting for over half (51.6%) of the businesses.
- Proprietorships are also signifant, comprising 41.9%, indicating a strong presence of individually owned enterprises.

- Private limited companies are relatively rare in this dataset, with only 6.5% representation

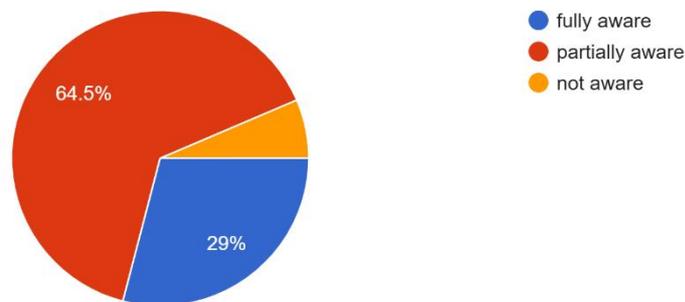
Interpretation

This ownership profile suggests a preference for collaborative or informal structures (partnerships and proprietorships), possibly due to ease of setup, lower compliance burdens, or trust-based operations. The limited presence of private limited firms may reflect barriers such as regulatory complexity or scale requirements.

5. How aware are you of the new GST 2.0 Reforms?

Aware of new GST 2.0	No.of companies
Fully aware	09
Partially aware	21
Not aware	01

How aware are you of the new GST 2.0 reforms
 31 responses



Key Insights

- About two-thirds (64.5%) of respondents have only a partial understanding of GST 2.0 reforms. This indicates that while awareness efforts may have reached many people, in-depth knowledge is still lacking.
- Only 29% of respondents are fully aware of the new reforms. This shows a need for more comprehensive information dissemination through workshops, seminars, or government outreach programs.
- A small group (6.5%) are not aware at all. This is positive, suggesting that awareness campaigns have reached almost everyone to some degree, though clarity and depth of understanding remain issues.

Interpretation

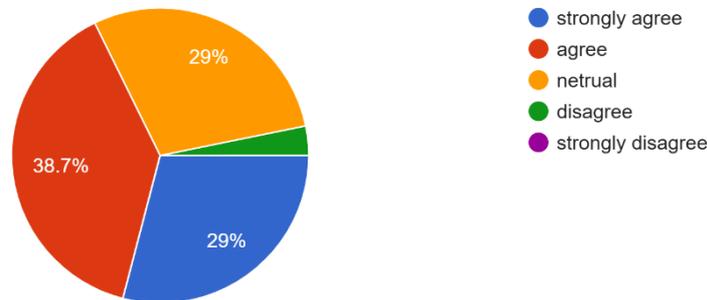
The GST 2.0 reforms are widely recognized, most respondents possess only a surface-level understanding. The data highlights a clear knowledge gap that needs to be bridged through targeted awareness initiatives to ensure smoother implementation and compliance among business, particularly MSME's.

6. Do you think GST 2.0 reforms are simpler than the earlier GST system?

GST 2.0 is simpler than GST	Number of companies
Strongly agree	09
Agree	13
Neutral	08
Disagree	01
Strongly disagree	00

Do you think the GST 2.0 reforms are simpler than the earlier GST system

31 responses



Key Insights

- About 67.7% of respondents agree or strongly agree that GST 2.0 is simpler than the previous GST system. This indicates a generally positive perception of the reforms among participants.
- Around 29% of respondents are neutral they neither agree nor disagree. this could suggest limited direct experience with GST 2.0 or uncertainty about its practical benefits.
- Only 3.3% of respondents disagree with the statement, and none strongly disagree. this show very little negative sentiment, reinforcing that most participants find GST 2.0 at least somewhat improved in terms of simplicity.
- GST reforms are well received with businesses likely finding the new system easier to comply with. However, the notable neutral segment highlights the need for further awareness and hands on guidance to help all stakeholders fully appreciate and utilize the simplified features.

Interpretation:

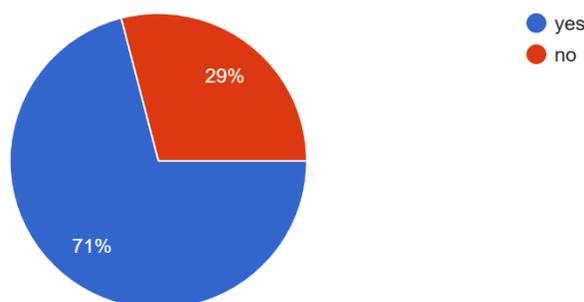
The data reflects a positive reception of the GST 2.0 reforms, as most respondents view the new system as simpler and more user friendly compared to the earlier version. the minimal disagreement suggests that the reforms have structure, though continued education and out reach may help convert neutral respondents into confident supporters.

7. Have you attended any government or industry training program related to GST 2.0?

Government awarness programs attended	Number of companies
Yes	21
No	10

Have you attended any government or industry training program related to GST 2.0

31 responses



Key Insights

- A strong 71% of respondents have attended training program related to GST 2.0 showing that the majority are actively engaging with official or industry led awareness initiatives.
- High attendance rate suggests that government and industry efforts to educate business on gst 2.0 reforms are largely successful in reaching their intended audience.
- 29% of respondents have not participated in any such training .this highlights that a segment of stakeholder may still lack direct exposure to structured information about GST 2.0 possibly affecting their understanding or compliance readiness .

Interpretation :

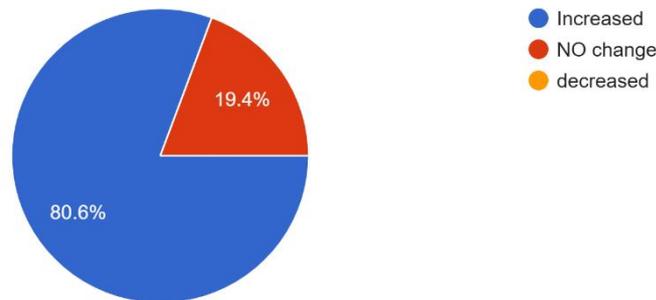
The data indicates that most respondents have actively engaged in GST 2.0 training programs, demonstrating strong interest and responsiveness towards the reforms. Nevertheless ,the nearly one third who have not attended training highlights a need for broader outreach and inclusion, ensuring that all businesses, regardless of size or resources, are adequately informed about the new GST system .

8. Has GST 2.0 affected your Business turnover?

Has GST 2.0 Affected your business turnover	Number of companies
Increased	26
Nochange	05
Decreased	00

Has GST 2.0 affected your business turnover

31 responses



- 80.6% of respondents reported that their business turnover increased after the implementation of GST2. O. This indicates that GST 2.0 has a largely positive impact on business performance, possibly through simplified tax processes and improved compliance benefits.
- 19.4% of respondents indicated no changes in turnover. This group likely represents businesses that ere already optimized or less affected by taxation structures.

Interpretation:

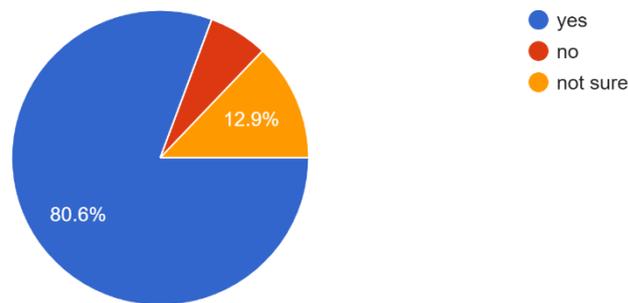
The data clearly highlights that GST 2.0 reforms have been beneficial for most MSME’s, leading to higher turnovers, possibly due to:

- Streamlined input tax credit mechanisms.
- Reduced cascading tax effect.
- Enhanced transparency and formalization of business transactions.

9.Has GST 2.O improved your access to finance or bank loans?

Has GST 2.O improved your access to finance or bank loans	Number of companies
Yes	25
No	05
Not sure	01

Has GST 2.0 improved your access to finance or bank loans
 31 responses



- A large majority 80.6% of respondents stated that GST 2.O has improved their access to finance or bank loans. this suggest that GST 2.O reforms have contributed enhanced financial inclusion and better credit availability.
- Only 6.5% indicated no improvement, implying that very few businesses faced barriers in accessing finance even after GST 2. O implementation.
- About 12.9%of respondents were not sure about the impact, possibly reflecting a lack of awareness of how GST data influences credit evaluation or access to formal system.

INTERPRETATION:

- The findings strongly indicate that GST2.O has facilitated financial transparency and credibility for businesses, particularly MSME’s by providing digitized transaction records and verifiable turnover data.
- The high positive response also reflects that GST2.O reforms have strengthened the formalization of the economy, bridging gaps between taxation system and financial institution.
- The small portion of uncertain or negative response underscores the need for greater financial literacy and awareness among smaller business owners to leverages GST records for credit access.

CONCLUSION:

The study aims to highlights how GST 2. O reforms contribute to tax implications digital integration, and business growth in the MSME’s sector, there by supporting India boarder goal of economic transformation and inclusive development. GST 2.O reforms have the potential to be a game -changer for the MSME’S sector in India. By simplifying compliance, reducing tax burdens, and improving access to credit, these reforms can foster rapid growth, enhance competitiveness, and promote greater formalization of the sector. However, successful implementation requires careful consideration of the challenges and proactive measures to address them. By providing training and support, conducting awareness campaigns, addressing infrastructure deficiencies and fostering effective coordination and communications, the government can ensure that MSME’s are well-equipped to benefit from GST2.O reforms and contribute to the overall growth and development of the Indian economy. the reforms will not only streamline the tax regime but also empower MSME’S to thrive in a competitive global market, driving innovation, employment and economic prosperity.

SUGGESTION:

Disaggregate the MSME's sector by size (micro, small, medium), by sub-sector (manufacturing, services, trade) and by state/ region to capture different economy.

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