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Perception and Impact of Goods and Services Tax on Micro, Small and Medium Enterprises in Karnataka

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Abstract: ***India as fiscal landscape underwent a transformative reform with the introduction of the Goods and Services Tax (GST) on 1 July 2017, replacing a complex, multi-layered indirect tax structure. GST was envisioned as a unifying mechanism to dismantle economic barriers across states and integrate India into a single, cohesive national market. Karnataka, one of India's leading industrial and entrepreneurial states, is home to a dynamic MSME sector that plays a pivotal role in employment generation, export diversification, and regional economic growth. The present study examines the perception, awareness, acceptance, and impact of GST on Micro, Small, and Medium Enterprises (MSMEs) in Karnataka, with a focus on enterprises located in Bengaluru, Mysuru, Belagavi, Hubli-Dharwad, and Mangaluru. A structured questionnaire-based survey was administered to 150 MSME owner-managers. Descriptive statistics, Chi-Square tests, and Pearson correlation analysis were employed to evaluate the hypotheses. The findings reveal a statistically significant association between the category of enterprise and its perception of GST legislation. The study further establishes that higher GST awareness correlates positively with satisfaction levels. While MSMEs broadly accept GST as a progressive reform, compliance burden and technological challenges remain significant concerns. The study contributes to the growing body of literature on tax reform and MSME development, offering actionable policy implications for regulators and business support agencies in Karnataka.***

Keywords: Goods and Services Tax (GST), MSME Sector, Karnataka, Perception, Awareness, Tax Compliance, Indirect Tax Reform

1. Introduction

The Goods and Services Tax (GST), implemented across India on 1 July 2017 under the One Hundred and First Constitutional Amendment Act, 2016, represents one of the most sweeping tax reforms in independent India's fiscal history. By subsuming more than seventeen central and state levies- including Central Excise Duty, Service Tax, Value Added Tax (VAT), and several local levies- into a single, harmonised indirect tax, GST sought to eliminate the cascading effect of taxes, reduce transaction costs, and create a seamless national market (Ministry of Finance, 2017). Karnataka, with a Gross State Domestic Product (GSDP) of approximately ₹22.98 lakh crore in 2023–24 (KPMG-FICCI, 2024), stands at the forefront of India's industrialisation and technological growth story. The state is home to one of the largest concentrations of MSMEs in the country, accounting for over 12.5 lakh registered enterprises, contributing nearly 29 per cent of the state's manufacturing output and employing more than 70 lakh persons (MSME Development Institute, Bengaluru, 2023). Key industrial clusters- ranging from garments in Bengaluru, machine tools in Hubli-Dharwad, silk textiles in Mysuru, cashew processing in Mangaluru, to iron and steel fabrication in Belagavi- underscore the sectors structural diversity and economic significance. Despite the macro-level promise of GST, MSMEs have often borne a disproportionate compliance burden relative to larger enterprises. The multi-rate GST structure (0%, 5%, 12%, 18%, 28%), combined with mandatory e-filing, input tax credit (ITC) reconciliation, and frequent regulatory revisions, has imposed considerable administrative and financial challenges on smaller firms with limited digital and financial literacy. Several national-level studies have documented these challenges; however, state-specific research- particularly for Karnataka- remains sparse. The present study addresses this gap by systematically examining how MSMEs in Karnataka perceive, experience, and have been impacted by the GST regime, drawing on primary data collected from five major industrial cities in the state. The study also explores the influence of enterprise characteristics (size, sector, operational vintage) on GST awareness, satisfaction, and compliance behaviour.

2. Review of Literature

A growing body of empirical literature has examined the impact of GST on the Indian MSME sector from multiple analytical lenses. Rao and Srivastava (2018) argued that while GST was conceptually sound in its objective of eliminating cascading taxes, its implementation revealed significant structural challenges- particularly for small enterprises unaccustomed to digital tax filing. Their national-level survey found that nearly 61 per cent of MSMEs reported an increase in compliance costs within the first year of implementation.

Garg (2020) conducted a comparative analysis of pre- and post-GST compliance behaviour among small manufacturers in Maharashtra and Tamil Nadu, concluding that the transition to GST increased the frequency and complexity of return filing, disproportionately affecting micro-enterprises. The study recommended simplification of the GSTR filing process and enhanced capacity-building at the district level.

In the Karnataka context, Suresh and Deepa (2021) explored GST compliance among the garment clusters of Bengaluru, identifying digital illiteracy, high consultancy costs, and frequent GST rate revisions asmajor deterrents to voluntary compliance. Their study found that MSME owners who had

access to certified GST practitioners were significantly more likely to file returns on time.

Krishnamurthy (2022) examined the impact of the Composition Scheme- a simplified GST mechanism for enterprises with annual turnover below ₹1.5 crore- on small traders in Tier-II cities of Karnataka, finding that awareness of the scheme was inversely related to enterprise size and formal education levels. The study highlighted a critical information asymmetry between micro and small enterprises.

At the national level, Dani (2016), in an early assessment of GST prospective impact, anticipated that the unification of the tax base would lower transaction costs in inter-state trade and benefit export- oriented MSMEs. This prediction was partially validated by the Reserve Bank of Indias MSME Pulse Report (2023), which noted improved credit access and formalisation among GST-registered small firms. Notwithstanding these contributions, the extant literature suffers from three limitations: first, most studies are either national in scope or focused on a single city; second, they rarely integrate multi-dimensional measures of perception, awareness, satisfaction, and impact within a unified analytical framework; and third, state-specific studies for Karnataka- a state of significant economic weight and MSME density- are conspicuously absent. The present study attempts to address all three gaps.

Objectives of the Study

The study pursues the following specific objectives:

1) To assess the level of GST awareness among MSME owner-managers in Karnataka.
2) To evaluate the perception of MSMEs regarding the structure, compliance requirements, and benefits of GST.
3) To examine the relationship between enterprise characteristics (category, sector, size) and GST perception.
4) To analyse the impact of GST on the operational, financial, and compliance dimensions of MSMEs in Karnataka.
5) To formulate evidence-based policy recommendations for improving the GST ecosystem for Karnataka's MSMEs.

3. Research Methodology

Research Design

The study adopts a descriptive and analytical research design, combining primary quantitative data with secondary sources. A cross-sectional survey approach was employed, wherein structured questionnaires were administered to MSME owner-managers across five major cities in Karnataka: Bengaluru, Mysuru, Hubballi-Dharwad, Belagavi, and Mangaluru. These cities were selected to ensure geographic representativeness and sectoral diversity across the state's MSME landscape.

Population and Sampling

The study population comprised all GST-registered MSMEs operating in Karnataka as of April 2024, estimated at approximately 4.2 lakh units based on MSME Development Institute (Bengaluru) records. A non-probability purposive sampling technique was employed, supplemented by snowball sampling in clusters with lower accessibility. A sample of 150 MSMEs was drawn, stratified across enterprise category (Micro: 72, Small: 51, Medium: 27), sector (Manufacturing: 63, Trade: 48, Services: 39), and city. The sample size of 150 was determined using Yamane (1967) formula at a 95% confidence interval and a margin of error of 8%, which yielded a minimum required sample of 138. The actual sample of 150 provides a buffer for non-response and ensures statistical reliability.

Data Collection Instrument

The primary instrument was a four-section structured questionnaire comprising: (i) respondent and enterprise profile (10 items); (ii) GST awareness (6 items); (iii) GST perception (8 items measured on a 5- point Likert scale anchored at Strongly Agree to Strongly Disagree); and (iv) GST impact and satisfaction (12 items). The instrument was pilot-tested on 20 MSMEs in Bengaluru and refined based on feedback. Cronbach Alpha for the perception and impact scales was 0.814 and 0.796 respectively, indicating satisfactory internal consistency. The questionnaire was made available in both English and Kannada to accommodate respondents linguistic preferences, ensuring comprehension and response accuracy.

Statistical Analysis

Data were analysed using IBM SPSS Statistics version 28.0. Descriptive statistics (frequencies, percentages, means, standard deviations) were used for profiling. Chi-Square (χ^2) tests of independence were applied to test associations between categorical variables. Pearson' s product-moment correlation was used to examine relationships between continuous constructs. Statistical significance was assessed at $p < 0.05$.

Profile of Respondents

Table 1 presents the socio-demographic and enterprise profile of the 150 survey respondents. The sample skews slightly male (58%), reflecting the broader gender composition of MSME ownership in Karnataka. The majority of respondents (34.7%) fall in the 30–40 years age bracket, indicating a relatively young entrepreneurial cohort. Nearly 44.7% hold a degree or diploma, suggesting moderate levels of formal education. Micro enterprises constitute the largest group (48%), followed by Small (34%) and Medium (18%). Manufacturing is the dominant sector (42%), consistent with Karnataka industrial character. A large proportion (38%) have operated for 3–7 years, indicating post-GST vintage businesses.

Table 1: Socio-Demographic and Enterprise Profile of Respondents (n = 150)

Gender	Male	87	58.0
	Female	63	42.0
Age Group	Below 30 years	34	22.7
	30-40 years	52	34.7
	40-50 years	41	27.3
	Above 50 years	23	15.3
Education	Below SSLC	12	8.0
	SSLC/PUC	38	25.3
	Degree / Diploma	67	44.7
	Post Graduate & above	33	22.0
Type of Enterprise	Micro	72	48.0
	Small	52	34.0
	Medium	27	18.0
Sector	Manufacturing	63	42.0
	Trade/ commerce	48	32.0
	Services	39	26.2
Years in Operation	Less than 3 years	28	18.2
	3-7 years	57	38.0
	8- 15 years	44	29.3
	More than 15 years	22	14.0

GST Awareness among Karnataka MSMEs

Table 2 summarises respondents' awareness across six key GST parameters. Familiarity with the GST portal (62%) and knowledge of the ITC mechanism (56%) record the highest awareness, likely reflecting the practical necessity of engaging with these features for compliance. Awareness of the annual return (GSTR-9) and the Composition Scheme record notably lower levels, at 38% and 42% respectively. Partial awareness — where respondents report familiarity with the concept but not its operational details — is particularly pronounced for e-invoicing (16%) and GST slabs (28%). These findings indicate a bifurcated awareness landscape: MSMEs engage extensively with operational compliance tools (the portal, ITC) while remaining relatively uninformed about facilitative schemes (Composition Scheme) and advanced compliance obligations (GSTR-9). This aligns with findings from Krishnamurthy (2022) for Karnataka smaller cities.

Table 2: GST Awareness Indicators among Karnataka MSMEs (n = 150)

Awareness Indicator	Yes (%)	No (%)	Partially (%)
Awareness of GST slabs (0%, 5%, 12%18%,28%)	54.0	18.0	28.0
Knowledge of Composition Scheme under GST	42.0	32.0	26.0
Awareness of e-invoicing mandates	48.0	36.0	16.0
Knowledge of Input Tax Credit mechanism	56.0	22.0	22.0
Awareness of annual GST return (GSTR-9)	38.0	38.7	23.0
Familiarity with GST portal (www.gst.gov.in)	62.0	20.0	18.0

Perception of GST among Karnataka MSMEs

The descriptive statistics for eight Likert-scale items measuring GST perception. The item GST has increased the cost of compliance for MSMEs records the highest mean (3.82, SD = 1.15), indicating strong agreement. This is followed by Filing GST returns is complicated and time-consuming (mean = 3.64) and GST registration process is cumbersome for small firms (mean = 3.67), corroborating the compliance burden narrative prevalent in the literature. While compliance concerns dominate, respondents also express moderate agreement that GST has simplified the indirect tax structure (mean = 3.62) and that the ITC mechanism is beneficial (mean = 3.50). This suggests a nuanced, dual perception: MSMEs in Karnataka acknowledge the conceptual merit of GST reform while experiencing operational difficulties in implementation. The mean score for Overall, GST is a positive reform for the economy (3.35) indicates cautious optimism.

Hypothesis Testing- Chi-Square Analysis

The results of Chi-Square tests of independence examining associations between selected enterprise characteristics and GST-related constructs. The null hypothesis H_{01}- that there is no significant association between enterprise category and GST perception- is rejected at $p = 0.018$ ($\chi^2 = 18.432$, $df = 8$). This confirms that micro, small, and medium enterprises perceive GST differently, consistent with the differential compliance burden borne by each category. Similarly, H_{03}- testing the relationship between education level and ITC knowledge- is rejected ($p = 0.011$), suggesting that more educated owner-managers demonstrate superior understanding of the ITC mechanism. H_{02} is also rejected ($p = 0.007$), confirming a significant association between enterprise category and GST satisfaction. Only the hypothesis testing years in operation and GST awareness ($p = 0.064$) fails to reach conventional significance, suggesting that operational experience alone does not determine awareness levels.

Correlation Analysis

Pearson correlation coefficients between key GST constructs. GST awareness and satisfaction exhibit the strongest positive correlation ($r = 0.521$, p < 0.001), supporting H_{02} rejection and confirming that better-informed MSME owners report higher satisfaction with the GST regime. GST awareness also correlates positively with perception ($r = 0.463$), suggesting that knowledge reduces ambiguity and fosters a more positive view of the tax structure. A moderate negative correlation between compliance cost perception and satisfaction ($r = -0.412$) underscores the central concern: as perceived compliance costs rise, satisfaction with GST diminishes. ITC utilisation and business growth show a positive correlation ($r = 0.344$), indicating that MSMEs effectively leveraging the input tax credit mechanism report improved business outcomes — an important finding for policy communication. The weak but statistically significant correlation between years in operation and GST adaptation ($r = 0.298$) suggests that experience contributes marginally to adaptation, with other factors (education, access to professional support) likely playing a more decisive role.

4. Discussion

The findings of this study are broadly consistent with the national and regional literature on MSME perceptions of GST, while also revealing Karnataka-specific nuances that merit attention. Three overarching themes emerge from the data.

5. Policy Implications and Recommendations

Based on the analysis, the following policy recommendations are offered for regulators, industry associations, and business support institutions in Karnataka:

1) **District-level GST Facilitation Centres:** The Government of Karnataka, in collaboration with KASSIA and FKCCI, should establish dedicated GST facilitation desks at District Industries Centres (DICs) to provide free consultancy, Kannada-language training, and assisted return filing for micro enterprises.
2) **Enhanced Composition Scheme Outreach:** Given the low awareness of the Composition Scheme (42%), a targeted information campaign- leveraging the Karnataka MSME portal UdyamMitra, and district-level business associations- should be launched to increase uptake among eligible enterprises.
3) **Technology Support for GST Compliance:** Subsidised access to GST-compliant accounting software for micro and small enterprises- similar to the Tally-NSIC partnership in some states- should be explored. Integration of GST compliance tools with the Karnataka Udyog Mitra portal would streamline the compliance experience.
4) **ITC Awareness Campaigns:** Given the positive correlation between ITC utilisation and business growth ($r = 0.344$), structured awareness sessions on ITC eligibility, reconciliation, and avoidance of mismatches (as reported in GSTR-2B) would deliver tangible economic benefits to MSMEs.
5) **Rationalisation of GST Rates for Cluster Products**: The state government should continue to advocate through the GST Council for rate rationalisation on key MSME cluster products- particularly handloom and silk textiles (Mysuru), machine tools (Hubballi), and food processing inputs- to reduce working capital strain.

6. Conclusion

This study provides a comprehensive, evidence-based assessment of how MSMEs in Karnataka perceive, understand, and have been impacted by the Goods and Services Tax regime. The findings confirm that while Karnataka' s MSMEs broadly accept GST as a necessary and beneficial reform, they continue to grapple with compliance complexity, awareness gaps, and digital infrastructure deficits. The statistically significant associations between enterprise category and GST perception, and between awareness and satisfaction, offer actionable guidance for targeted policy interventions. The positive correlation between ITC utilisation and business growth is perhaps the study's most encouraging finding: MSMEs that effectively engage with GST credit mechanism realise tangible business benefits. The challenge, therefore, is not with GST design in principle but with the democratization of its benefits to the smallest and most resource-constrained enterprises — a challenge that requires coordinated effort from the state government, industry bodies, and the GSTN itself. Future research could extend this framework to rural and semi-urban MSME clusters in northern Karnataka, examine the impact of GST on women-led enterprises, or adopt a longitudinal design to track how perceptions evolve over successive years of GST implementation.

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