

## Examining Small Business Owners' Psychology, Understanding and Perception of GST: An Empirical Study

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### Abstract

**Purpose** - Investigating the realities of financial and managerial accounting in a select number of small businesses is the goal of this essay. The purpose of this study is to learn more about small company owners' perceptions and knowledge of the Goods and Services Tax (GST). From the owner's viewpoint, it is specifically investigated what financial data is gathered, how it is used or not to make business choices, and assesses the success of the small business owners, as well as the part the accountant plays in the process.

**Methodology/approach** - This exploratory investigation is grounded in a phenomenological paradigm. The owners of 10 small business owners participated in semi-structured interviews with the goal of better understanding organizational behavior as opposed to theory and textbook practice.

**Findings** - The in-depth examination found a very limited comprehension of accounting information and issues with the financial literacy of these small business owners, and the qualitative data confirmed earlier studies in other nations. The main method for evaluating company success was an informal evaluation, such as how much cash was in the bank since accounting reports were not often made or utilized. Although some company owners sought out more comprehensive business guidance, accountants were engaged for tax services.

**Originality/value** - It becomes clearer why there could be a discrepancy between the language of textbooks and the reality of accounting practice in small business owners. The implication of this is that small business owners' financial management practices need to be better described in accounting textbooks.

**Keywords** - Financial Information, Accountants, Small Business Owners, GST, Small Business

### 1. INTRODUCTION

Entrepreneurs and managers who run small enterprises are referred to as small business owners. Small enterprises are often distinguished by their local focus, constrained resources, and diminutive size. Small businesses that operate in a variety of industries, such as retail, manufacturing, services, and hospitality, may be among them, as well as sole proprietorships, partnerships, and corporations. Small company owners are in charge of running all parts of their companies, including the money, the operations, the marketing, and the clientele. They struggle with a variety of issues, including competitiveness, regulatory compliance, capital availability, and staff management. It is crucial for policymakers, academics, and practitioners who want to promote small enterprises' growth and development to comprehend their requirements, views, and actions (Moore, 2023). Small-business owners are those who own and run these types of businesses. They are company owners who took the initiative to launch and manage their own companies, often with little funding and assistance. The standard definition of a small firm employs less than 500 people; however, the definition may vary based on the sector and the area (Singh & Kohli). Small business owners are in charge of running all areas of their companies, including marketing, operations, human resources, and financing. They take a hands-on approach to running their enterprises and are often engaged in day-to-day activities. Small company operators encounter a variety of difficulties, such as changing market circumstances, competition, and access to financing (Nandal et al., 2021). Despite the difficulties, small company owners are vital to the economy because they foster employment growth, stimulate innovation, and support their communities. Policymakers, researchers, and practitioners must comprehend their requirements, habits, and views to promote their growth and development since their success is crucial for the growth and development of the economy (Srivastava & Joshi 2021). In India, a value-added tax known as the GST is imposed on the delivery of products and services. It is a

comprehensive, multi-stage tax that is meant to take the place of all indirect taxes that the federal and state governments now apply on goods and services. Small companies are significantly impacted by GST since they must efficiently manage their finances and adhere to all applicable tax rules and regulations (Belle Isle et al., 2022). Due to the potential impact on their compliance behavior and attitude toward the tax system, small company owners must understand and perceive the GST. The capacity of small company owners to manage their tax liabilities, make educated choices, and get access to government assistance programs might be impacted by their knowledge of GST. Their view of the GST might also influence how inclined they are to abide by the tax regulations and how satisfied they are with the whole tax system (Javanmardi et al., 2020). GST mandates that they keep proper records, submit returns, and pay taxes on time; some small business owners may see these requirements as a hardship. Others can see the GST as a chance to improve their business processes, lessen their compliance load, and gain access to new markets. To create effective policies and programs to assist small business owners in managing their tax responsibilities and fostering their growth and development, policymakers and tax authorities may benefit from understanding how small business owners feel about the GST (Curtis, 2020). Small business owners' perceptions of the GST might differ in India based on some variables, including their knowledge of the tax, their experience with adhering to the tax regulations, and how their company is run. Due to the GST's requirements for maintaining proper records, filing returns, and timely tax payments, some small company owners may see these requirements as a hardship. If they lack the required resources or experience, they may find the compliance process to be time-consuming and difficult (Deshmukh et al., 2022). Some small business owners may see the GST as a chance to improve operational efficiency, lessen the cost of compliance, and gain access to new markets. They could believe that GST would level the playing field for companies and make doing business in India (Vitala et al., 2021). Small business owners' attitudes about the GST may have a big influence on how compliant they are and how eager they are to interact with the tax system. Policymakers and tax officials must comprehend how small company owners feel about the GST to handle any issues or difficulties they may have in following the law. This might enhance the development of small business owners in India and encourage voluntary compliance (Varimani, 2023).

## 2. RELATED WORKS

Woodward & Tan (2015) evaluated the compliance attitudes or behavior of small company owners (SBOs) by concentrating on their tax attitudes toward New Zealand's GST system. The findings support Adams and Webley's work and provide some evidence of mental accounting. Not all SBOs thought the GST system was logically straightforward to grasp. The findings also show that tax penalties and tax audits are important to SBOs. According to the Chouhan et al., (2017), small company owners are not well-informed about the GST and its regulations. Responses from those who would be impacted by the application of GST were obtained for the objective from a chosen group of people. The results showed that the GST Law could be the one that is utilized the most. Training and the availability of computer software are the primary areas that need to be targeted. Asmuni et al., (2017) investigated the crucial elements that have influenced how well-liked GST is among local business groups. Three variables awareness, comprehension, and attitude were used. The findings showed that all independent variables' mean scores are in the moderate range. Understanding is not significant; however, awareness and attitude were shown to have a substantial influence on the degree of acceptability of GST within the business sector. After three years after the implementation of the GST, Gupta & Meher (2021) analyzed how MSMEs' owners and managers feel about it in terms of their expectations and misunderstandings. The core data for the research was gathered utilizing a questionnaire with a random sample methodology and a five-point Likert scale. Javanmardi et al., (2023) focused on the process of sustainable development, emphasizing the ways that GST explains the reasons for and sources of uncertainty in this process. It is highlighted that international cooperation is essential for addressing sustainability issues and that sustainability cannot be accomplished without deliberate human participation. These flaws eventually result in conflicts of values, disparate perceptions of risk, and barriers to global cooperation and consensus. The paper concludes by explaining how uncertainty weakens outcome prediction and results in partial understanding and grey knowledge. Othman et al., (2020) offer a thorough explanation of how to avoid GST fraud for sustainable companies. The findings produced a GST prevention model for long-term success. The results demonstrate that to maintain a steady stream of revenue for the government, preventative methods must be put in place. Macro-

and micro-level measurements are identified as two crucial elements in the research to assist preventative interventions. Shin et al., (2023) investigated users' general satisfaction with using social networking sites (SNS) in combination with their fan page viewing behaviors. Using people's impressions gained through using SNS's smaller components, we looked at overall satisfaction with SNS use. According to research results, the perceived utility of a company's fan page is substantially correlated with uncertainty reduction measures. Kotishwar, (2020) looked at how retailers perceived the efficacy, awareness, and issues with the GST. The research used discriminant analysis to examine perception and discovered that the perception is very high with the GST since it makes the tax more straightforward, clear, and easy to understand. The SEM was designed to gauge how well-informed merchants were about the value of the GST, and the outcome shows that there was an improvement in revenue growth after its adoption. The daily tasks of updating the GST while filling it are being experienced by the shops. The suitable material has been chosen with the necessary care and deliberation. Understandings from the heavily cited literature have been analyzed and presented topically. The research's findings make it evident how the GST would affect prospects for small and medium-sized enterprises, international experiences, and existing difficulties faced by such enterprises in India. One of the key conclusions is that the effects of the GST on MSMEs in different sectors will differ from those in politically sensitive industries in each state. This assessment serves as a starting point for more study and aids policymakers and MSME owners in making defensible choices (Guna & Anuradha 2021). A qualitative research methodology was utilized by Oluka, (2021), which included interviewing a sample of 20 small company owners. The result found that small company owners are substantially less likely to comply with tax laws due to complexity, corruption, and the expense of doing so. As an advantage, it was observed that one of the key criteria for determining whether a small firm is eligible to earn government contracts is tax compliance.

### **3. EXPERIMENTAL PROCEDURE**

A mixed-methods approach will be used in this research to acquire in-depth information on how small company owners perceive and view the GST. Through surveys given to a representative sample of local small business owners in the target area, quantitative data will be gathered. The poll will ask them questions about their awareness of the GST, how it affects their company operations, and how they view its advantages and difficulties. To acquire a better understanding of the experiences and tactics of a subgroup of survey respondents, qualitative data will be gathered via in-depth interviews.

#### **3.1 Data Analysis**

Inferential tests and descriptive analysis, as well as other statistical methods, will be used to study the quantitative data to find patterns, trends, and relationships. To identify important themes and viewpoints about GST, the qualitative interview data will be transcribed, categorized, and thematically evaluated.

#### **3.2 Methodology**

Management and the commercial environment are too complex to lend to theorizing by definite law. To comprehend behavior from the perspective of the participant, a phenomenological paradigm is used. The formation of knowledge of the participant's reality is made possible by the details of the situation. To comprehend people's activities, it is essential to investigate the subjective meanings motivating these.

As it is understood and often used in the setting of small businesses, such thinking is gradually being accepted in accounting research. The line between the firm and the owner is sometimes blurry in small businesses since what happens there often reflects the owner's abilities and capacities as well as their views and beliefs. This applies to many other domains, not only accounting procedures. Semi-structured interviews were utilized to gather qualitative information from the owners of 10 small businesses throughout four months for this exploratory project. All participants were chosen at random from respondents who stated on their returned questionnaire that they would be prepared to participate further in the current research even if they had all previously taken part in a survey on related topics. To examine what financial information was recorded, who was engaged in the development of reports, and how that information was utilized, interviewees were given samples of hypothetical accounting reports. Interviews provided a rare chance to examine the many viewpoints on the subject and allowed for the acquisition of a fresh slant on the owner's methods for maintaining financial records, their methods for assessing company success, and their methods for using their accountant's services. Essentially, they made it possible to expand on the textbook view of accounting. The one-hour interviews were

held at the owner's designated location, were tape-recorded, transcribed, and then given back to the interviewee for verification as a true and accurate record of the interview. Analyzing data might instead be a fluid process of making meaning of the information. The transcriptions were analyzed for common themes and linkages between them were classified as part of the analytical method, which was somewhat intuitive. Keywords were located with the use of a computer-aided qualitative data analysis software application, which subsequently categorized the text into themes for sorting. In terms of how each respondent reported what transpired in their firm, similarities and contrasts were discovered. As a result, the data was analyzed concerning wider contexts and the meanings that the data's identified problems' owners ascribed to them.

#### 4. RESULTS

To develop policies, educational activities, and support programs, it is essential to comprehend how owner demographics relate to GST awareness and perception. A comparison of demographics is shown in Figures 1, 2, and 3. With the knowledge gathered from this study, officials will be able to create rules and policies that are specifically tailored to the demands of various demographic groups. Based on the demographics of small company owners, tax authorities may create instructional programs that address their knowledge gaps and issues. To provide effective support for all small business owners, small business support groups may improve their assistance programs by taking into account the particular needs of certain demographic categories.

##### 4.1 Expected Outcomes

The results of this survey will provide important light on how small company owners see and comprehend the GST. The study is anticipated to provide light on how small businesses view the effect of the GST on operations and finances as well as their degree of understanding and grasp of the tax. The survey will also provide insight into the difficulties small company owners have in adhering to GST requirements. The study will also document their recommendations for enhancing the GST system and its application.

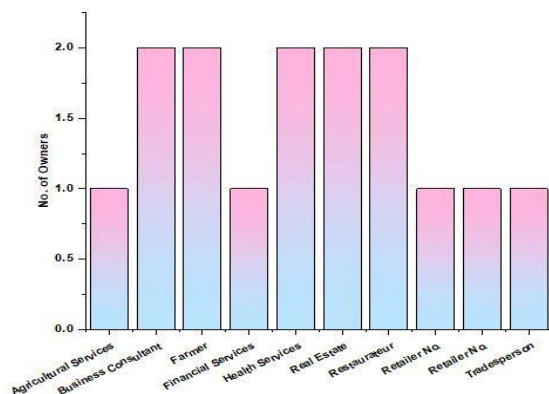


Figure 1: Comparison of various owners in Demographic information

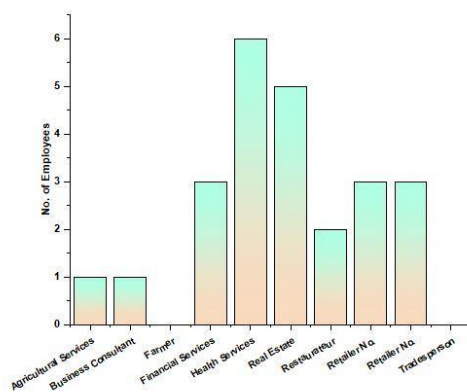
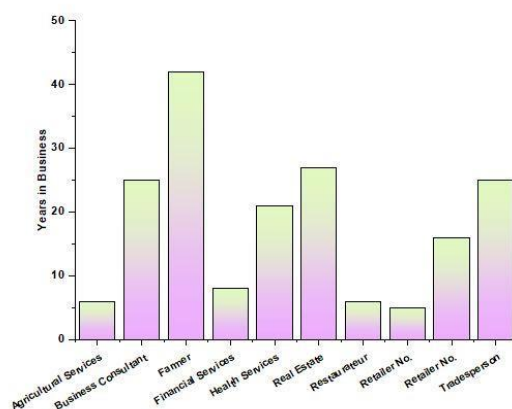


Figure 2: Comparison of various employees' Demographic information



**Figure 3: Comparison of various Years in business (Demographic information)**

The ten small businesses, which were all situated in rural Victoria and covered a variety of industries, ranged in size from five to 27 years old (see Table 1 for demographic information). Although four businesses had a private company structure, their activities were not substantial enough for them to be categorized as "reporting entities". All were exempt from producing accounting reports, and the only situation in which the company's financial performance needed to be disclosed was taxes.

**Table 1: Demographic information**

	Ownership structure	Gender	No. of owners	No. of employees	Years in business
Agricultural Services Provider	Private company	M	1	1	6
Health Services Provider	Private company	M	2	6	21
Real Estate Agent	Partnership	M	2	5	27
Restaurateur	Trust	M	2	2	6
Retailer No. 1	Sole trader	M	1	3	5
Retailer No. 2	Private company	F	1	3	16
Tradesperson	Trust	M	1	0	25
Business Consultant	Trust	F	2	1	25
Farmer	Partnership	M	2	0	42
Financial Services	Private company	M	1	3	8

#### 4.2 Discussion

The analysis will identify any possible areas for improvement in tax education and support services while also examining the consequences of small company owners' comprehension and perception of the GST. It will also go into the policy implications and suggestions to improve GST compliance and ease difficulties experienced by small enterprises.

Poor accounting systems may also be a contributing cause to the demise of small businesses, as can poor managerial abilities. The majority of small business owners are not required to declare financial activities, other than for tax purposes. A lot of small businesses have improved their recording systems and hired accountants as a consequence of the GST's impact on the frequency and intensity of reporting to the ATO. Despite this, it is unclear how much financial information is used for purposes other than ensuring tax compliance. Therefore, the goal of this research was to determine whether or not financial data utilized to generate tax returns was also used to guide company choices. While earlier studies have examined the connection between the utilization of

financial reports and business performance, the focus of this research was to examine the reality of what occurs when financial information is recorded and used and contrast it with what textbooks recommend should occur. The goal was to learn about the context of these practices via interviews with the owners of 10 small businesses who provided in-depth descriptions of their financial recording and reporting processes. Standard accounting reports were not generally utilized, however, those rare instances where they were quite recent. This runs counter to the widely held belief that accounting reports are valuable, but it is consistent with earlier research that has questioned the utility of such reports for small businesses that are not required to report to outside parties.

One owner had no idea that such complaints were even possible. People seemed to believe that these reports did not represent real company data because they were produced for the taxman, which implied that the numbers were purposefully kept low to lower the amount of money that would need to be paid. The next query resulted from the lack of trust in the accounting reports. The broad consensus, as well as findings from other sources, was that the cash in the bank balance was an accurate depiction of real performance. One owner went to great lengths to keep track of the daily money amount. However, money in the bank was generally the main concern, and those who regularly generated accounting reports or summarized their revenue and spending did so as well. All 10 business owners used an accountant to help them with tax report preparation, and they all said that this was the accountant's main responsibility, which supported earlier findings. Those that got greater support from their accountant in analyzing the success of their company valued and appreciated it. The owners' answers to the issue of whether financial data was utilized to assess the success of their business were ambiguous. Positive replies indicated that they examined the data more frequently than they used to, that they were more current in recording, and that each quarter they have a snapshot of how their firm was performing. Reports are for the tax department, they don't understand reports, and they are a nuisance, among other unfavorable comments. In essence, the owner's financial expertise and their connection with their accountant determined the value derived from the recording of financial information. Others have thought about the accountant's responsibility for small businesses' tax compliance. In this investigation, it was discovered that accountants were not assisting their clients in comprehending the performance of their organization by converting the information required to comply into a format that could be used internally. Owners lacking these abilities may find themselves in a situation where their accountant can only aid with tax compliance rather than assisting in the improvement of their client's financial management skills.

## 5. CONCLUSION

Although many small company owners are not obliged to make accounting reports and instead must just file an individual or business tax return, this is a major characteristic of accounting reports that are considered to be beneficial in making business choices. This is what motivates the gathering of financial data. The research has many repercussions. Although small business owners are not compelled to prepare accounting reports, those with better financial literacy abilities are more inclined to utilize accounting data. Although not a focus of this research, it would be ideal to determine if these organizations perform better as a consequence. However, it does imply that it would be advantageous to improve the business owners' financial literacy abilities. While small business owners can play a part in developing their financial literacy, their accountants should also be involved. The interviewees' remarks had a detrimental impact on accounting and the accounting profession. Accountants are capable of much more than just tax compliance. Additionally, for a minimal or reasonable fee, they need to provide their customers with a basic accounting analysis service. Because big firms must report to external stakeholders, they are the subject of the majority of accounting textbooks. Information in accounting reports is utilized by external decision-makers. This information is irrelevant for many small businesses without these external stakeholders. To help accounting students work more successfully with customers of this kind in the future, it is important to make them aware of the unique challenges and concerns that small businesses face as well as the importance that owners place on alternative financial information and how much of it they rely on. Of course, this research has some limits. However, these restrictions can serve as a starting point for more study. Only 10 small business owners were questioned, and in general, these owners had experience; they had been in business for five to 27 years. To improve the generalizability of the results, expanding the study to a bigger sample may be preferable. Nevertheless, the findings given here are comparable to those of previous studies

conducted in Australia or other comparable nations. The businesses operated in a variety of sectors, including retail, services, and farming, where there are various business drivers and performance expectations. The sustainability of small businesses depends on their ability to handle their finances. The majority of small business owners, however, are merely required to submit financial data for tax reasons and are not required to adhere to any particular accounting standards. Owners may be informed of the effects of their company's activities and prior decisions via financial information and accounting reports. Owners may utilize it to expand and develop their businesses, strengthening the economic and social impact of small businesses.

### **LIMITATIONS:**

The results of the research could only apply to the area or nation that is the subject of the inquiry. The generalizability of the findings may be impacted by the sample size and selection procedure. Responses from small company owners might be influenced by social desirability bias or recollection bias. The analysis does not take into consideration differences in how the GST is implemented across various sectors or businesses.

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