

Moderate Progress, Missed Opportunities: Evaluating the Effects of India's Tax Regime on MSME Growth

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Purpose -The purpose of the study here has been lacking in literature observed when the MSMEs and their growth and development are investigated about the tax structures in India. The income tax structure in India has been modified in the past few years and it has led to causing several different impacts on businesses.

Design/Methodology/Approach – Using a quantitative approach for investigation, a thorough primary data collection method has been administered. A structured questionnaire has been designed from the existing studies and modified based on the requirements of the current study. A total of 250 MSMEs have been considered for data analysis.

Findings - The overall analysis of the growth of MSMEs under the current tax regime shows relatively moderate progress, with strategic planning and working capital efficiency standing out as key strengths. However, quality management and investment financing are the areas that show a lack of impact requiring targeted interventions from the stakeholders in the form of policy reforms and initiatives design. With appropriate policy adjustments, MSMEs' overall growth and contribution to the economy can be significantly enhanced under the current tax regime.

Originality - The study is a novel attempt to understand the impact of each of these individual structures as well as the essential economic factors in the past years to be able to draw a comparison of its impact on the MSMEs.

Keywords: MSMEs; Growth; Performance; Tax; India

Introduction

"Micro, Small and Medium enterprises" is an area of great interest for many researchers. This is due to the sector's growing significance in giving a significant portion of the population a means of subsistence. The increasing need for employment has proven too much for both public and private sector organizations to handle. As a result, millions of unemployed individuals find respite from entrepreneurship. Even when compared to bigger organizations, MSMEs are very productive and are particularly prevalent in developing nations (Agyapong, 2010). However, for a variety of reasons, not all of these businesses have been successful. Given its restricted access to official sources of funding, credit is essential to enhancing the growth and development of the MSME Sector, especially the Micro and Small Enterprise (MSE) Sector, according to India's Twelfth Five Year Plan. Approximately 45–55 percent of formal MSMEs (or 11–17 million) in developing countries worldwide do not have access to formal institutional financing, according to research conducted by the International Finance Corporation (IFC) and McKinsey & Company. In developing markets, "65-72 percent" of all MSMEs (or around "240-315 million") do not have access to finance, making the credit gap much larger when micro and informal units are taken into consideration. As borrowers, MSMEs have certain qualities that set them apart from bigger organizations or individual borrowers. The Indian government has appropriately acknowledged this, and as a result, several programs have been launched to target the industry. The MSME sector has been added to the list of "Priority Sector Advances" for banks to promote a more focused flow of funding to the industry. To encourage small, tiny, cottage, and village enterprises, the central government established District Enterprises Centers (DICs) at the state level in 1978. Additionally, the DICs collect records of MSME units that have registered with them, which aids in learning more and monitoring the industry. The scale of MSMEs makes it extremely challenging

to keep up with industry advances. However, less than 10% of all MSMEs were registered with DICs, according to the most recent MSME Census, which was conducted in 2005–06. In India, MSMEs play a crucial role in the economy by creating a significant amount of jobs and revenue. However, it is important to recognize the role that the nation's tax systems and other pertinent economic elements play in the growth and development of these MSMEs while looking at their journey and development. In the last several years, India's income tax system has undergone changes that have had a variety of effects on businesses. In recent years, India's economic situation has changed significantly as a growing nation. Although scholars have focused on them, there aren't many studies that combine these factors in the case of MSMEs. This demonstrates the necessity of doing a comparative examination of the circumstances affecting MSMEs to address the difficulties facing the sector's development. The study would offer a thorough examination of how tax structure affects each of the crucial metrics of MSMEs' performance and growth. The study can determine which areas require strengthening in the future and show the extent of the influence it has had on each tax system. The research might offer specific recommendations for how to improve the breadth of tax structures and the situation of MSMEs. In general, the research can focus on expanding each of the two sections, which include details on tax laws and pertinent economic variables and how they affect the expansion and performance of MSMEs.

The tax structures that have been applied to MSMEs over the past ten years and the effect that these structures have had on their performance and growth are the two main topics that the research will be able to explore overall. The government provides subsidies to MSMEs through a variety of programs that significantly aid in their growth. The analysis can assist in identifying areas where additional schemes and higher subsidies may be introduced concerning the tax regimes. In addition to helping MSMEs, the research would also assist in identifying the different policies that the government may create and implement to support the expansion and advancement of the whole economy. India is still in its early stages of development, and the expansion of MSMEs may significantly aid in its future successes. Thus, this study would aid in the procedure and offer a comprehensive summary of how tax regimes affect MSMEs.

The following research questions will be addressed through the study here –

RQ1: Are the performance of the MSMEs similar to the changing economic landscape in India occurring in the past few years?

RQ2: Do these economic factors including the tax regimes affect the growth of these MSMEs differently?

The review of the literature conducted here is discussed in the next section.

Background

Everyone is aware of the importance of taxes in the corporate world. Variations in the current tax system in any nation can have a range of implications for a business (Alkurdi & Mardini, 2020). The tax laws that are put into place in any economy have a significant influence on how rapidly a nation develops and expands. The advantages and disadvantages of tax systems in India have been carefully considered (Chadda, 2021; Sharma, 2022; Turina, 2020). Understanding how different tax regimes affect Medium-Sized and Micro Enterprises (MSMEs) is crucial given the large number of MSMEs in the country. MSMEs are categorized into three different tiers of manufacturing and service-related firms (Chatterjee et al., 2023). Businesses classified as micro businesses have yearly revenues of no more than 5 crore Indian rupees and an investment of no more than 1 crore Indian rupees. Tiny enterprises make up the second group; according to their operating definition, they must generate little more than 50 crore Indian rupees in revenue annually and invest no more than 10 crore Indian rupees (Fauzi & Sheng, 2022). Lastly, there is the medium-sized business category, which excludes companies with a yearly turnover of 250 crore Indian rupees and investments above 50 crore Indian rupees.

There were more than 63 million MSMEs in the country in 2016 alone. Additionally, studies show that MSMEs' loan growth in 2022 was 13%, which was twice as high as the previous year (Saritha, 2022). MSMEs are vital to the Indian economy and account for a sizable portion of employment and revenue.

However, it's crucial to acknowledge how the country's tax laws and other relevant economic factors have contributed to the creation and development of these MSMEs while learning more about their history (Patel & Tripathi, 2022). India's income tax system has changed recently, which has affected businesses in many ways. The economy has also undergone substantial transformation, contributing to the nation's expansion. According to the material on the Ministry of MSME's website (2019), State Governments are primarily responsible for the "promotion and development of MSMEs." However, via some programs, the Central Government supports the State Governments' efforts. To support the State Government "in their efforts to encourage entrepreneurship, employment, and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario," the Ministry of MSME is responsible for providing further support. "Small & Medium Enterprises (SME) Division" and "Agro & Rural Industry (ARI) Division" are the two divisions of the "Ministry of MSME." The SME Division is responsible for the three "national level entrepreneurship development/training organizations" as well as "the work, inter-alia, of administration, vigilance and administrative supervision of the National Small Industries Corporation (NSIC) Ltd." In addition, the Division oversees the execution of programs related to "Performance and Credit Rating and Assistance to Training Institution," among other things. The responsibility of creating and overseeing the "Results-Frame Document (RFD)" has also been given to the "SME Division." The two statutory bodies—the Mahatma Gandhi Institute for Rural Industrialization (MGIRI), the Coir Board, and the Khadi and Village Industries Commission (KVIC)—are administered by the ARI Division. Additionally, the "Prime Minister's Employment Generation Programme (PMEGP)" is implemented by it.

Micro, Small, and Medium-Sized Enterprises (MSME) are the economic and social growth engine of the world. However, managing a business also means navigating the complexities of income tax (Rinaldi et al., 2022). While paying taxes is a responsibility, minimizing your tax liability allows you to retain valuable resources and fuel your business's growth. This comprehensive guide explores the key tax-saving strategies available to MSMEs in 2024 (Shailendra, 2024). In a nation like India, which has a large number of people but limited capital, it is important to identify and support businesses, especially MSMEs, which require only modest investments but have a huge and important impact on the economy because they create a lot of jobs, maintain economic growth, boost exports, and aid in the industrialization of rural and underdeveloped areas, which helps to balance regional imbalances and ensure a more equitable distribution of wealth and income (Sahoo & Swain, 2020). Generally speaking, MSMEs are divided into two groups: manufacturing and service businesses, which produce items and provide services, respectively. Micro, small, and medium-sized businesses are additional divisions of these two industries.

Tax reform is a methodical way to reduce fiscal imbalance and provide a stable environment that will allow the economy to thrive and run smoothly. Tax laws have a big impact on innovation, trade mechanism harmonization and rationalization, and investment, all of which increase revenue (Ahmad et al., 1991; Dyreng et al., 2020; Gale & Samwick, 2017). Businesses in the public or private sectors might help a tax policy or system accomplish its goals (De Paepe & Dickinson, 2014; Dom & Miller, 2018). The establishment, growth, and operation of a firm are impacted by tax improvements brought about by improved business tax design. Business investment choices and tactics are influenced by tax laws (Hassett & Hubbard, 2002; Higgins et al., 2015). They facilitated the introduction of new technology to modernize corporate processes, helped reduce business taxes, and cleared the path for companies to grow internationally (Guziejewska et al., 2014; Masso et al., 2013).

Companies may improve economic growth and efficiency by performing better (Hines, 2017). This is because businesses directly contribute to the economy by offering valued goods and services (Jones-Smith et al., 2020). Since they make up 90% of global firms, micro, small, and medium-sized enterprises (MSMEs) are in a crucial position among these businesses. In terms of higher sales, earnings, and productivity, they have greater room for expansion than big units (McKenzie & Woodruff, 2017). Seven out of ten jobs are produced by them, making them the greatest employer in the world (Harvie, 2015).

The implementation of the Goods and Services Tax (GST) system in India would increase compliance expenses and force most of them to pay taxes online for the first time. These shrewd tactics allowed them to maintain operating margins at organized player ranges and charge competitive prices for goods and services during the past few decades (Nayyar & Singh, 2018). The effects of the GST have caused several vagaries. Tens of thousands of unorganized MSMEs would be swiftly thrown into the tax web as a result of manufacturers receiving a reduction of 20 lakhs from 1.5 crores under the GST exemption barrier. Additionally, tax compliance would be enhanced by the digital transaction trails produced by dual authentication of invoices under GST (Shukla & Kumar, 2019).

Research on MSMEs has spread as a result of the industry's global development. Due to their limited economies of scale, MSMEs are the most receptive to changes, especially those pertaining to national taxes (Ocheni, 2015). Following tax reform, various effects have been seen in the MSME sector in several nations. Isle & Freudenberg (2017) conducted an empirical study to confirm that business enterprises, especially small businesses in Australia, saw an improvement in cash flow following tax reform. Due to changes in U.S. tax rates, Bhalla et al., (2023) found that enterprises' tax burden increased about their revenue loss. The entrepreneurial endeavours of small businesses have demonstrated a sensitive impact on tax revisions in terms of producing and exploiting tax benefits (Cullen & Gordon, 2006).

Following tax system improvements, Malaysian and New Zealand businesses encountered difficulties with compliance (Buchan et al., 2013; Ramli et al., 2015). The effects of other tax amendments on MSME trade, compliance behavior, and costs were assessed (Sinha 2022; Inasius, 2019; Matarirano et al., 2019). Regarding the impact of tax regime reform on corporate performance, the government, academic economists, and policymakers are at a stalemate in the fiscal policy discussion. Policymakers' attention has recently turned from generating income to improving corporate performance, which in turn affects economic growth (Hines, 2017). For many years, small and medium-sized businesses (SMEs) have been regarded as the main engine of economic growth in India. The fact that there are currently almost 3 million SMEs in India, which account for 42% of all exports and roughly 50% of industrial production, is also intrusive (Gherghina et al., 2020). The industry is praising the government for implementing the Goods and Services Tax (GST) Bill, which had been long overdue because of political impasses. Since all GST compliance procedures—registration, payments, refunds, and returns—will now be completed exclusively online, SMEs don't have to worry about dealing with department officers to complete those procedures, which could be a hassle in the current tax system (Sahoo & Swain, 2020).

In India, the production, sale, and consumption of products and services are subject to the Goods and Services Tax (GST), a comprehensive indirect tax sometimes known as a consumption tax. In the Central Hall of Parliament, the President of India and the Government of India implemented the One Hundred and First Amendments to the Constitution of India, launching the tax at midnight on July 1, 2017. Since it has absorbed practically all indirect taxes imposed on goods and services by the federal and state governments, the GST is regarded as the largest and most significant economic reform since independence (Ahmad, 2021). It was put into effect to create a "one nation, one tax" economy in India and a more straightforward and uniform tax system for the whole country (Deshmukh et al., 2022). Since MSME businesses manufacture items and provide services, the introduction of the items and Services Tax (GST) has had a direct effect on the MSME sector. The GST is a single indirect tax that is applied to all commodities and services. The introduction of the Goods and Services Tax (GST) has completely altered the tax structure, with certain industries benefiting while others have suffered (Majumder et al., 2021).

It was implemented to establish a more simple and consistent tax structure for the entire nation as well as a "one nation, one tax" economy in India. The MSME sector has been directly impacted by the implementation of the Goods and Services Tax (GST) as these companies create goods and offer services. All goods and services are subject to the GST, a single indirect tax (Law et al., 2021). Some industries have benefited while others have suffered as a result of the Goods and Services Tax's (GST) radical change to the tax system. Improved financial documentation can boost an MSME's capacity to

get funding and inspire trust among interested parties. Businesses throughout the world have been greatly impacted by the COVID-19 epidemic, and Indian MSMEs are no exception (Guna & Anuradha, 2021). Understanding and successfully managing tax accounting has become essential for these businesses' survival and expansion in the face of economic difficulties. Ensuring tax compliance is one of the main advantages of tax accounting for MSMEs. To fulfill tax duties and stay out of trouble with the law, accurate financial reporting and recordkeeping are crucial. The benefits of tax accounting in encouraging compliance have been highlighted in many studies (Bird, 2008). According to research, appropriate tax accounting procedures can raise the possibility that MSMEs will pay their taxes and decrease the possibility of tax evasion (Pomeranz, 2015). The deadlines for MSMEs to file income tax returns and pay taxes have been extended by the Indian government. For MSMEs that have postponed submitting their income tax returns or making their tax payments, the Indian government has eliminated late fines and penalties. It is easy and simple for MSMEs to file their income tax forms online.

For MSMEs, tax optimization is yet another essential component of tax accounting. MSMEs can lawfully optimize their tax obligations and find areas for tax savings by examining their financial data and activities. It draws attention to how tax accounting may lessen firms' tax obligations, freeing up funds for expansion and investment (Clausing, 2016). In MSMEs, efficient tax accounting also supports overall financial management. It makes improved resource allocation, budgeting, and financial planning possible. Strong tax accounting procedures help MSMEs make better financial decisions, which enhances their financial performance and sustainability, according to studies by Chen et al. (2010).

In this study, the detailed investigation of the MSME's performance and growth under the current tax regime in India is investigated below.

Research Methodology

The geographical scope of the study is extended to the state of Haryana. It is one of the primary states in the northern part of India where MSMEs play a prominent role in driving employment. Both primary and secondary sources of data have been used to fulfil the objectives.

The use of secondary data has been done extensively to design the research instrument i.e., a structured questionnaire. The majority of the questions are continuous with a 5-point Likert-type scale consideration. There are three major sections considered in the survey instrument. In the first section, 12 items are provided that enquire about the performance parameters of the MSMEs. It is followed by 13 items that enquire about the growth aspects of the MSMEs.

Further, using secondary data sources from journal articles, books, government reports, and online websites, the details of Indian MSMEs located in Haryana is gathered.

In a multi-stage sampling method, the study first conducts division of clusters based on MSMEs listed by the government of India. Using stratified random sampling, the state based on MSME listing has been divided into 14 parts – Ambala, Gurugram, Palwal, Kurukshetra, Panipat, Rohtak, Rewari, Sonipat, Karnal, Hisar, Kaithal, Faridabad, Fatehabad and Sirsa as given in Table 1. This is where the majority of the MSMEs are found to be located. In the second stage after strata selection, a random number generator is utilised to select the final MSMEs from each of the strata that are used for final data collection.

Table 1 – Total Registered MSMEs in Districts of Haryana

District Name	Total Udyog Aadhaar	Micro	Small	Medium
Ambala	6147	5142	980	25
Faridabad	19917	14317	5313	287
Fatehabad	3921	3607	311	3
Gurugram	17752	12339	5035	378
Hisar	6622	5754	844	24
Kaithal	6915	6355	541	19

Karnal	10522	8573	1865	84
Kurukshetra	4215	3553	640	22
Palwal	2062	1642	392	28
Panipat	14211	12207	1900	104
Rewari	3103	2532	540	31
Rohtak	4063	3259	753	51
Sirsa	5747	5130	601	16
Sonipat	8075	5853	2057	165

Source: Collected from Websites of MSMEs located in Haryana

A total of 250 MSMEs have been considered for data collection.

Data Analysis

There are a total of five parameters that consist of the final performance measurement of the MSMEs. In order to identify how each of these parameters works in the current tax regime, the structured questionnaire included 12 items. 11 items are suggested to fall under each of the five parameters while the 12th item measures the chances as agreed by the respondents to increase the performance levels of the MSMEs in the current tax regime.

These items are analyzed using PCA where varimax rotation is applied. This is done to extract the underlying factors which have eigenvalues of more than 1. The considered factor loading for acceptance under the parameters is 0.4 as mentioned by (Hair et al., 2006) to be appropriate for a sample size of more than 200. Along with PCA, the KMO, and Bartlett's tests are also conducted to determine the sampling adequacy. As the questionnaire is designed by considering items from different sources in the literature, this method would help to confirm the factors and the sampling adequacy to move further into the process of analysis.

The PCA shows that there are five factors underlying the 11 items and all the factor loadings are above 0.4, thereby fulfilling the necessary conditions. These factors include –

1. Profitability – With two items this factor measures the chances of gaining better profitability margins under the current tax regime.
2. Value-added productivity – The productivity levels and their enhancement under the current tax regime are investigated using three items in the questionnaire.
3. Growth in cash flow – The cashflows become efficient with the current tax regime being applied in two items.
4. Revenue – The performance of the revenue generated by the MSMEs in comparison to the previous tax regimes is calculated using two items.
5. Market share – The increase in market share as a result of the current tax regime is investigated using two items.

Table 2 – Descriptive -Growth Total									
	N	Mean	Median	SD	Minimum	Maximum			
Profitability	250	3.00	3.00	1.098	1.00	5.00			
Value added productivity	250	2.97	3.33	0.985	1.33	4.67			
Growth in cash flow	250	2.85	2.75	0.898	1.50	4.50			
Revenue	250	2.95	3.50	0.962	1.50	4.50			
Market share	250	2.95	3.00	0.962	1.50	4.50			
Performance of MSMEs in the Current Tax Regime	250	2.94	3.20	0.893	1.57	4.23			
Source: Researcher's own calculation									

Table 2 shows the overall mean score analysis shows that the highest mean score among the corresponding factors is that of profitability which according to the respondents has performed the best during the current tax regime. It is followed by value-added productivity. The growth in cash flow is found to be the least out of all the factors. The combined performance score for the MSMEs in the current tax regime stands at 2.94. It would be interesting to compare with the growth aspects and see which stands at a better position.

To understand the growth of MSMEs for the current tax regime a similar path is followed for analysis as in the previous section. The growth element of MSMEs is calculated using a total of 12 items that measure different aspects of the growth of MMSMEs

There are six elements generated from the PCA conducted where all the factor loadings are more than 0.4. These factors are as given in Table 3.

Table 3 - List of Factors of Performance

Factors	Description
Quality Management	With three factors this variable enquires about the enhancement of the quality of the provisions by the MSMEs
Strategic Planning	This factor shows the agreement level with the tax regime providing a strategic advantage to the MSMEs with two items
Employment Growth	One item in the scale corresponds to the growth of employment through the current tax regime provision
Share of Working Capital	The factor here is estimated using one item which corresponds to the better utilization of the working capital
Percentage of Sales on Credit	It refers to understanding the increase in the percentage of sales on credit due to the facilitation of a tax regime using one item
Share of Investments Financed	Three items correspond to the growth of MSMEs using the share of investments financed by the current tax regime.

Table 4 - Descriptive- Performance Total

	N	Mean	Median	SD	Minimum	Maximum
Quality Management	250	2.83	3.00	0.874	1.33	4.00
Strategic Planning	250	2.95	3.50	0.962	1.50	4.50
Employment Growth	250	2.90	3.00	1.138	1.00	5.00
Share of Working Capital	250	3.00	3.00	1.098	1.00	5.00
Percentage of Sales on Credit	250	2.90	3.00	1.138	1.00	5.00
Share of Investments Financed	250	2.85	3.00	0.898	1.50	4.00
Growth of MSMEs	250	2.91	3.07	0.898	1.44	4.08

Source: Researcher's own calculation

As given in Table 4, the above list of mean scores shows that the highest one is with respect to the share of working capital while the lowest score is at 2.83 for quality management enhancement. The overall growth of MSMEs is at a score of 2.91 which is lower than the mean score of performance of MSMEs which stands at 2.94.

Now, to understand the impact caused by these parameters on the overall satisfaction with the current tax regime, a multiple linear regression is conducted.

Table 5 - Model Fit Measures											
						Overall Model Test					
Model		R		R ²		Adjusted R ²		F	df1	df2	p
1		0.905		0.820		0.818		562	2	247	< .001

Table 6 - Model Coefficients – Perception about current tax regime beneficial to MSMEs							
Predictor		Estimate		SE		t	p
Intercept		-0.192		0.0975		-1.96	0.051
Performance of MSMEs		0.183		0.1181		1.55	0.123
Growth of MSMEs		0.879		0.1174		7.48	< .001
Source: Researcher's own calculation							

The model above shows a statistically significant undermining with the p-value being less than 0.05. The adjusted R² stands at a value of 0.818 which states that the perception about the current tax regime being as per the requirement of the MSMEs has fluctuated 81.8% with a unit change in the growth or performance levels of the MSMEs according to the respondents (Table 5). The in-depth analysis of each of the two factors above shows that it is only the growth aspect of MSMEs that determines the perception of the tax regime according to the MSMEs as the p-value for the performance parameter is more than 0.05 and stands at 0.123 (Table 6). The growth of MSMEs however significantly impacts the perception of the respondents of the tax regime being as per MSMEs. This result indicates that although the mean score for the performance of MSMEs during the tax regime is high, the impact is significant for that of growth only.

Discussion

The MSMEs in India are an integral part of the economy and generate a high level of income as well as employment. The role of MSME has been discussed extensively in the current literature exploring various aspects related to it. The MSMEs in India have been able to provide several benefits to the residents, especially to those belonging to rural areas. The opportunities for entrepreneurship through the various schemes related to MSMEs have helped in providing empowerment. The purpose of the study here has been lacking in literature observed when the MSMEs and their growth and development are investigated about the tax structures in India. The income tax structure in India has been modified in the past few years and it has led to causing a number of different impacts on businesses. The study here is motivated to understand the impact of each of these individual structures as well as the essential economic factors in the past years to be able to draw a comparison of its impact on the MSMEs.

As the factors are being established for the performance parameters, the mean score analysis is conducted in detail to highlight the areas where the majority of association can be generated. With the highest factor mean (3.00) and strong loadings on the PCA as well, it is the factor of **profitability** that emerges as the most positively impacted parameter. The respondents from the MSMEs show high agreement about the current tax regime supporting an environment for improved profitability margins. It highlights the tax policies having optimized cost structures or incentives that benefit MSMEs' in the current times. This finding is similar to studies like (Nuryanah et al., 2023; Resmi et al., 2021) in the literature suggesting that a set of streamlined tax regimes can encourage reinvestment and scalability in MSMEs to a great extent.

In the mean score investigation, the second-highest scoring factor is that of **value-added productivity** (2.97). This moderate scoring suggests that the agreement about the tax regime enhances productivity on a mid-level. Items such as the perceived enhancement of productivity levels and value-added contributions do show potential for contribution but require further improvements in the future. In the case of the factor associated with **revenue** (2.95), a moderate level of satisfaction is observed. This indicates that while businesses may be experiencing some improvement in revenue generation, the perceived scope for further enhancement remains significant.

Addressing the **Growth in cashflow** records, a comparatively lowest set of mean scores (2.85) is seen. This indicates challenges existing in the form of liquidity or financial flow under the current tax policies. Factors such as delayed tax refunds, complexities in cash management, or reduced access to working capital act as constraints in the smooth functioning of the MSMEs. It would be beneficial if these issues could significantly be altered and reduce the financial strain on MSMEs for better overall performance. In terms of **market share**, a similar mean score with revenue (2.95) is reported. Considering this score, the potential for market share explorations appears under-utilized. While some respondents do acknowledge the favorable environment for market share expansion under the current tax regime, a substantial proportion still holds a neutral or less optimistic standpoint in this regard. The results from this perspective indicate that while the current tax regime may provide foundational support, the conditions under the external market conditions, competition, or policy execution may cause a negative impact on the utilization of its full potential.

The overall performance indicator through the mean of MSMEs under the current tax regime (2.94) indicates a neutral to slightly positive perception among respondents. It suggests that while there exist positive takeaways from the introduction of several aspects of the new tax regime, such as profitability and value-added productivity, there are definitive areas especially related to cashflow management where the regime falls short of respondent expectations and requires further interventions.

For objective 3, a similar approach is taken for the 13 items used for measuring the growth of the MSMEs. The pattern includes conducting PCA with sampling adequacy followed by an in-detailed mean score analysis. The PCA using varimax rotation identified **six components** that represented different aspects of growth, each with adequate factor loadings (>0.4) and distinct focus areas.

Table 7 – List of Performance Factors

Factor	Description	Mean Score Evaluation
Quality Management	Includes three items measuring improvement in service quality and overall effectiveness under the tax regime.	Indicates moderate agreement on quality improvement, though it has the lowest overall mean (2.83) among the factors
Strategic Planning	Includes two items reflecting the tax regime's impact on enabling detailed and effective planning.	The highest mean score (2.95), highlights better utilization of tax reforms for strategic initiatives.
Employment Growth	A single item addressing improvements in employment opportunities.	The mean score of 2.90, reflects moderate growth in job creation facilitated by the tax policies.
Share of Working Capital	A single item measures better capital utilization under the tax regime.	Tied for the highest mean score (3.00), indicating positive responses in capital efficiency.
Percentage of Sales on Credit	A single item evaluating the increase in sales on credit, attributed to the tax reforms	Mean score of 2.90, demonstrating moderate satisfaction

Share of Investments Financed	Includes three items measuring the impact of tax reforms on financing investments.	Mean score of 2.85, showing moderate benefits but lower impact compared to other factors.
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Based on the above analysis of the mean scores, the overall growth of the MSMEs under the current tax regime is scored at **2.91** which is slightly below the MSME performance mean (2.94). It indicates the prevalence of a moderate level of growth under the current tax regime but a number of areas of improvement do exist. It is strategic planning and efficient use of working capital that shows evident benefits from the tax reforms. However, limited improvements in terms of quality management and financing investments show the need for focus on these areas for better chances of growth among the MSMEs.

The overall analysis of the growth of MSMEs under the current tax regime shows relatively moderate progress, with strategic planning and working capital efficiency standing out as key strengths. However, quality management and investment financing are the areas that show a lack of impact requiring targeted interventions from the stakeholders in the form of policy reforms and initiatives design. With appropriate policy adjustments, MSMEs' overall growth and contribution to the economy can be significantly enhanced under the current tax regime.

Conclusion

The role of MSMEs in the overall development of an emerging nation like India is quite critical. The provisions under MSMEs can help individuals develop entrepreneurial ventures and lead the way for empowering communities and regions. The studies related to MSMEs enquired about various issues that are seen to be repetitive and recurring. For instance, (Hendrawan et al., 2024) talked about digital transformations generating a set of challenges and opportunities for individuals. (Sultan & Sultan, 2020) talked about how the initiatives under MSMEs have led to women's empowerment along with leading an atmosphere of innovation and development (Dambiski Gomes de Carvalho et al., 2021). The MSME sector in India has been undergoing several reforms to provide its citizens with provisions for development in different areas.

The study here uses only MSME owners or highly involved employees for data collection. The inclusion of other stakeholders in the study could have generated an added perspective on the effectiveness of the current tax regime. This would allow further understanding and comparative analysis can also be done. The study reveals the significant role of only four demographic factors but others are not being considered for investigation. Moreover, the demographics here are mostly associated with the personal and professional details of the respondents, and in the future use of psychological understanding of each of the respondents associated with MSMEs can generate interesting results. Another interesting study could be understanding the role of technological interventions such as the use of social media in the process of generating better opportunities for MSMEs' growth and performance.

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