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Review Article

GST Compliance Challenges for Small Businesses in India

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ABSTRACT

The implementation of the Goods and Services Tax (GST) in India marked a significant reform in the indirect taxation system by integrating multiple taxes into a unified framework. While GST has simplified taxation in many ways, small businesses continue to face several compliance-related challenges. These challenges include technological barriers, complex return filing procedures, input tax credit mismatches, frequent changes in GST regulations, cash flow issues, and high compliance costs. The study examines the major GST compliance issues faced by small businesses and highlights the need for policy reforms and digital support systems. The article is based on secondary data collected from research papers, government notifications, and scholarly articles. The findings suggest that although GST has improved transparency and formalization of the economy, the compliance burden on small businesses remains significant.

Keywords: *GST; Small Businesses; Compliance Challenges; MSMEs; Taxation; India.*

Introduction

The Goods and Services Tax (GST) was introduced in India on 1 July 2017 with the objective of creating a unified indirect taxation system under the concept of "One Nation, One Tax." GST replaced several indirect taxes such as Value Added Tax (VAT), Service Tax, Excise Duty, and Entry Tax. The reform aimed to simplify tax administration, improve tax compliance, and enhance economic efficiency. However, the implementation of GST brought considerable compliance obligations for small businesses and Micro, Small, and Medium Enterprises (MSMEs), which form the backbone of the Indian economy.

Small businesses contribute significantly to employment generation and economic development. Despite their contribution, many of these enterprises struggle with GST compliance due to limited financial resources, inadequate technological knowledge, and frequent procedural changes. [1]. GST significantly increased compliance costs for small businesses due to accounting software expenses, professional consultation fees, and administrative requirements [2].

GST Compliance Challenges Faced by Small Businesses

Complexity of GST Procedures

One of the major challenges faced by small businesses is the complexity of GST procedures. GST requires businesses to maintain detailed digital records, generate tax invoices, reconcile returns, and file multiple returns periodically. Small businesses often lack trained personnel to manage these requirements effectively [3].

The GST system includes various forms such as GSTR-1, GSTR-3B, annual returns, and e-invoicing requirements. Frequent amendments in tax rates and filing rules further increase compliance difficulties. Small traders and retailers often find it difficult to interpret legal provisions and maintain accurate records.

Technological and Digital Literacy Issues

GST compliance is heavily dependent on digital platforms. Businesses are required to upload invoices, file returns online, and reconcile transactions through the GST portal. Many small businesses operating in semi-urban and rural areas face technological barriers due to poor internet connectivity and lack of digital literacy.

According to Srivastava et al. (2026), technical glitches and portal-related problems continue to affect GST implementation for small traders [5]. The dependence on online systems has increased operational difficulties for businesses that are not technologically advanced. Many small business owners rely on accountants or tax consultants, increasing their operational expenses.

High Compliance Costs

GST compliance has increased the financial burden on small businesses. Businesses need accounting software, trained staff, internet facilities, and professional tax consultants to ensure proper compliance [2].

For many small enterprises, the cost of hiring tax professionals and purchasing GST-compliant software reduces profitability. Compliance costs are proportionately higher for small businesses compared to large corporations because of their limited scale of operations.

Input Tax Credit (ITC) Mismatches

Input Tax Credit (ITC) is one of the key features of GST that allows businesses to claim credit for taxes paid on purchases. However, ITC claims are subject to proper invoice matching and timely filing by suppliers. Any mismatch in invoices or delay in filing returns may result in denial of ITC claims.

Recent GST reforms have tightened return filing systems and reduced flexibility in correcting errors. These changes create additional compliance pressure on small businesses that may lack sophisticated accounting systems.

Cash Flow Problems

Small businesses often face cash flow difficulties due to GST payment requirements. Businesses are required to pay GST at the time of invoice generation, even if payment from customers has not been received. Delays in refund processing and blocked ITC claims further affect working capital management.

Studies indicate that GST compliance can strain the financial capacity of small businesses, especially those operating with low profit margins [4].

Frequent Regulatory Changes

Frequent amendments in GST laws, notifications, and filing requirements create uncertainty among taxpayers. Small businesses find it difficult to stay updated with the latest rules and compliance procedures. Changes related to e-invoicing, return filing deadlines, ITC rules, and GST rates require continuous monitoring and adaptation.

Business associations and industry groups have repeatedly requested simplification of GST procedures to reduce litigation and compliance burdens. The Gujarat Chamber of Commerce and Industry also emphasized the need for simplified tax slabs and sector-specific guidance to improve compliance among MSMEs.

Impact of GST Compliance Challenges on Small Businesses

GST compliance challenges have affected the operational efficiency and financial stability of small businesses. Many businesses have experienced increased dependency on tax consultants and accounting professionals. The burden of documentation and compliance has diverted attention from core business activities.

Increased compliance costs and procedural complexities may discourage informal businesses from entering the formal economy. Small enterprises with limited technological capabilities face difficulties in maintaining digital records and timely filing returns. The overall burden may reduce competitiveness and profitability, particularly for businesses operating in rural and semi-urban areas.

However, GST has also brought certain benefits such as improved transparency, reduction in cascading taxes, and easier interstate trade. Businesses adopting digital accounting systems have gradually improved their compliance efficiency. Over time, GST may contribute to better tax governance and economic formalization if compliance procedures are simplified.

Suggestions and Recommendations

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To improve GST compliance among small businesses, the following measures may be considered:

Simplification of Return Filing

The government should simplify GST return filing procedures and reduce the number of returns required for small taxpayers.

Capacity Building and Training

Awareness programs and digital literacy initiatives should be conducted to help small business owners understand GST compliance requirements.

Technological Support

The GST portal should be improved to reduce technical glitches and provide user-friendly interfaces for taxpayers.

Reduction in Compliance Costs

Affordable accounting software and subsidized compliance support services should be provided to MSMEs.

Stable Regulatory Environment

Frequent changes in GST rules should be minimized to create certainty and ease of compliance.

Faster Refund Processing

Quick refund mechanisms and simplified ITC reconciliation procedures would improve cash flow management for small businesses.

Conclusion

GST is one of the most significant tax reforms in India's economic history. Although the reform has streamlined indirect taxation and increased transparency, small businesses continue to face considerable compliance challenges. Complex procedures, technological barriers, high compliance costs, ITC mismatches, and frequent regulatory changes have increased the compliance burden on MSMEs.

The success of GST depends not only on revenue collection but also on the ease with which taxpayers can comply with the law. Policymakers should focus on simplifying GST procedures, strengthening technological infrastructure, and supporting small businesses through training and awareness programs. A balanced approach that combines transparency with ease of compliance can help achieve the long-term objectives of GST while ensuring sustainable growth for small businesses in India.

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Conflict of Interest

None declared.

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