



GST CHALLENGES FOR SMALL BUSINESSES: A STUDY

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ABSTRACT:

The implementation of Goods and Services Tax (GST) in India on 1st July, 2017 marked its one of the most impactful tax changes in the history of indirect taxes in India. GST was supposed to be the pivotal tax reforms subsuming all the cascading tax effects, a single tax framework to make compliance easier and create a common national tax market from the hodgepodge of state and central taxes. The desired goals have been successfully obtained at macro level as the collection of gross GST has hit an all-time high of ₹22.08 lakh crore in 2024–25, but the ground level- experience has been rather difficult for small and micro enterprises. This research is a thorough study of the problems with GST for small businesses in India. The results show that, on average, the compliance cost for small businesses is equivalent to 2.2 per cent of their annual sales and amounts to about ₹88,000 per annum, which is regressive and burden on the smallest of the small businesses. More than 80 per cent of surveyed SMEs say GST is complicated, and 68 per cent of SMEs are facing the problem of delayed ITC refunds, which are leading to significant liquidity issues. The paper ends with specific policy prescriptions such as (i) rationalisation of rates (ii) making return filing simpler (iii) extending the scope of the Composition Scheme (iv) providing some specific supports to the felicitous information technology for micro enterprises. The study comes at a time when India's GST framework has been moving towards being inclusive and MSME friendly.

KEYWORDS:

GOODS AND SERVICES TAX (GST), SMALL BUSINESSES, MSMES, COMPLIANCE BURDEN, INPUT TAX CREDIT (ITC), COMPOSITION SCHEME, TAX REFORMS, DIGITAL COMPLIANCE, CASH FLOW, INVERTED DUTY STRUCTURE, INDIRECT TAXATION, INDIA.

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1. INTRODUCTION

The transition to the Goods and Services Tax (GST) on the 1st of July, 2017 marked a watershed moment in the fiscal discussions of the government of India. This historic reform initiated by Constitution (One Hundred and First Amendment) Act, 2016, abolished the complex multiple stage tax system of over seventeen central and state taxes such as Value Added Tax (VAT), Central Excise Duty, Service Tax, Central Sales Tax, entry tax and others, and introduced a single tax, based on consumption, which has multiple taxation points (Guna, C., 2021). Interstates were covered under dual structure of Central GST (CGST) and State GST (SGST), and IGST, which was introduced with the aim of removing the cascading 'tax on tax' effect and thus facilitate seamless movement to form a vast single national market (Srivastava, A., 2026). The overall macroeconomic performance of the GST has been very positive. Since implementation, revenue collections have seen a more than double increase—from around ₹922.83 billion per

month in 2017 to ₹2,100 billion in April 2024 (Pandit, S., 2017). During the financial year 2024–25, the gross collection at fast collection measure, GST landed its highest-ever at ₹22.08 lakh crore with a year-on-year growth of 9.4 per cent and average monthly collection of ₹1.84 lakh crore (Tyagi, A., 2019). The effectiveness of transportation has increased by more than 33 per cent due to the abolition of border checkpoints and the abolition of inter-state entry taxes (Chouhan, V., 2017). The register base has expanded at a phenomenal rate with registered MSMEs in FY 2017–18 being about 5 lakh, increasing to around 1.5 crore till December 2024.

Benefits of GST however have not been enjoyed equally. GST has been a double edged sword to India's MSMEs of approximately 63 Million collectively contributing close to 30 per cent of India's GDP and employing more than 110 Million people (Maddileti, S., 2026). The unified tax system has created opportunities to access interstate markets and

formally organized credit, however the compliance system of GST has cost a considerable amount for small businesses(Sharma, P., 2026). This technology-driven compliance system, which requires businesses to mechanize the return filing process, digitalise maintenance of records, etc., has imposed a disproportionate burden on those with below adequate digital skills, infrastructure and financial resources(Zu, Y., 2018). The five-tier rate structure with slabs of 0% and 5%, 12%, 18% and 28% as well as special rates for precious metal and compensation cess on few items has added complexities of classification. Designers of textiles have to get different GST registrations for each state where they need to operate and be treated as separate entity and have other related record keeping requirements(Mongia, R., 2025). But for restaurants and food vendors, when a single menu item sits on both sides of several slabs, they are thrown into an ambiguous situation(Siddiq, I., 2017). Countless manufacturers across industries like pharmaceuticals and automobiles face the challenge of an inverted duty structure (IDS), a state of affairs that leaves working capital stuck in claimable refunds(Shabnam, M., 2025).

2. STATEMENT OF THE PROBLEM

GST was designed to be a technology-enabled, taxpayer-friendly reform but its actual implementation has created various problems, which are especially problematic for small and micro businesses. The main issue that this research seeks to identify is the centrifugal issue, which can be stated as:

Several inter-related sub-problems motivate this inquiry:

1. **Compliance Cost Burden:** The average annual compliance cost of GST for a small business of around ₹88,000 per year, or 2.2 per cent of the turnover is regressive. Micro enterprises tend to have a higher proportion of costs to their turnover as small and medium enterprises. The ratios for chartered accountants and tax consultants' professional fees account for 35 to 40 per cent of compliance costs, followed by in-house staff time at 25 to 30 per cent, and software at 15 to 20 per cent.
2. **Digital Infrastructure Gaps:** GST is essentially technology driven and mandates that the businessmen file returns online at GSTN platform. A large fraction of Indian MSME's are at very low levels of digitalization, however. Studies show that more than half of MSMEs use mobile hotspot as their main internet source and that many run a hybrid bookkeeping system (spreadsheets, bookkeeping software and informal digital bookkeeping methods). The lack of skilled staff and this digital unreadiness significantly exacerbates compliance burden.
3. **Input Tax Credit (ITC) Delays and Mismatches:** It is the ITC mechanism that is at the core of the GST mechanism and supposed to promote "zero" taxation over the life cycle of goods or services,

and for this, it is imperative for the supplier and recipient to precisely match the invoices. There are many instances of mismatch of ITC due to the difference between the filing of suppliers and the procedural errors on the GSTN portal and technical glitches. Research indicates that nearly 68 per cent of SMEs suffer from delayed refinance of ITCs, which compels SMEs to face a liquidity crunch.

4. **Inverted Duty Structure:** There are several industries (such as the textile industry, pharmaceutical industry, and agricultural allied processing industry) in which the tax rate on input or raw materials is more than the tax rate on output or finished goods. This Inverted Duty Structure (IDS) is leading to the build-up of ITC that manufacturers are unable to claim against the output tax liability, thereby immobilising balance sheet in a bunch of sluggish refunds. This can be a crippling issue for MSMEs as they heavily depend on a continuous cash flow and access to lesser credit.
5. **Complexity of Rate Classification:** The 5-tier rate structure (required to achieve different social and revenue goals) introduces important classification uncertainties. Rates of tax may vary if sweets and savouries are similar or related and a flavouring is added to a food item which may result in a higher slab being applied; tax experts would be needed to avoid potential issues of litigation, penalties or compliance failures on the part of small business operators.
6. **Frequent Regulatory Amendments:** Since 2017, amendments have been made to the rates, exemptions, return and procedure requirements by the GST council, that is held periodically to review the GST regime. It is an ongoing operation challenge for small companies with scarce legal and accounting abilities to follow all these changes and ensure compliance.

One is left wondering whether the existing letter and spirit of the arrangements for payment of GST are responsible for furthering the growth and formalization of India's small business sector or if changes are needed in the system, be they structural or procedural, which would ease compliance burden and make for an equitable arrangement.

3. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

In this study, a descriptive and analytical research design is utilised. Since the challenges to GST have multiple and diverse dimensions, an approach of qualitative-cum-quantitative is undertaken. The research uses secondary data sources to look at the nature, dimensions, and impacts of GST compliance issues and combines synthesised quantitative estimates from empirical

research to give a holistic overview.

3.2 DATA SOURCES

The study has been based entirely on secondary data obtained from the sources under its category:

- **Government Publications:** Press releases from the Ministry of Finance, reports, the proceedings of the Consultation under the GST Council, press releases by the Central Board of Indirect Taxes and Customs (CBIC) and the Press Information Bureau (PIB).
- **Academic Journals and Research Papers:** Articles on the effect of GST on MSMEs and small businesses in India as published in various international journals such as SSRN, IJRTI, JETIR throughout the pan India along with articles in Tamil Nadu, Rajasthan, Karnataka state etc.
- **Industry Reports and Surveys:** GST@8 report by Deloitte based on the survey of 963 business leaders; reports on the financing of MSMEs by SIDBI; MSME Digital Index conducted by PayNearby; and inverted duty structure studies conducted by NIPFP.
- **Institutional Publications:** Details and insights on compliance experiences of SMEs from Zoho Books, Bajaj Finserv and industry platforms.
- **News Articles and Expert Commentary:** Analysis from ACCA Global, The Industry Outlook, Binary Semantics and the Tax Query portals with practitioner and policy outlook respectively.

3.3 SCOPE OF THE STUDY

The study centres on the role of the Micro Small Medium Enterprises (MSMEs) in the context of the GST regime in India particularly on the Micro and Small Businesses which are the most challenged in the context. The time period is from the introducing of GST in July 2017 till last available data for FY 2024–25. The Sectoral Coverage is wider and covers many sectors of small businesses such as manufacturing, trading, services, food processing, textiles and even e-commerce, to reflect the variety of such experiences under the GST regime.

TABLE 1: THE COMPOSITION OF COMPLIANCE COSTS REVEALS IMPORTANT STRUCTURAL INSIGHTS

Component	Share of Total Compliance Cost
Professional fees (CA/Tax Consultants)	35–40%
Internal staff time (filing, reconciliation, notices)	25–30%
Technology and software expenses	15–20%
Training and capacity building	5–10%
Miscellaneous (travel, printing, etc.)	5–8%

This is an important discovery about these costs which are regressive. The compliance cost of a micro enterprise (as defined as a firm whose annual turnover is less than ₹5 crore) is higher in comparison to the annual turnover of

3.4 ANALYTICAL FRAMEWORK

The analysis is organised around the following thematic dimensions:

1. Compliance cost burden and its components
2. Digital adoption challenges and technology infrastructure gaps
3. Input Tax Credit mechanism: design, functioning, and failure points
4. Cash flow and working capital disruptions
5. Rate structure complexity and classification disputes
6. Inverted duty structure and its impact on manufacturers
7. Composition Scheme: eligibility, benefits, and limitations
8. Policy implications and reform recommendations

Multiple empirical studies inform the quantitative data nodes that fed into synthesizing for consolidated estimates, and case studies and expert commentaries are used for the qualitative node to inform the context of the data. If different figures are reported in individual studies, weighted averages are given; for ranges, mention of the range is given.

4. RESULTS AND DISCUSSION

4.1 COMPLIANCE COST BURDEN: QUANTITATIVE EVIDENCE

Table empirical evidence on compliance costs generally shows that the compliance costs of the GST (individually and collectively) for small businesses is large. Based on an average estimate from pan-India and state estimates, there is an annual average GST compliance cost of about ₹ 88,000, or 2.2 per cent of the annual turnover, for small businesses. This figure is similar to the studies which were conducted in Tamil Nadu (Vishnuhadevi and Hima Bindu, 2022), Rajasthan (Bhayani, 2024), Karnataka (Peenya Industrial Area study) and Pan India survey (Bhalla et al., 2023; Hussain and Riyaz, 2025; Goel and Sharma, 2025).

the firm. This is because the compliance activities have a relatively fixed cost nature: the filing, reconciling fee, the advisory fee will be more or less the same in the case of a micro enterprise with annual turnover of ₹40 lakh as

compared to the small enterprise with annual turnover of ₹5 crore; but the costs of compliance will be a much larger proportion of the small enterprise's turnover as compared to the micro enterprise's turnover. It's a general and basic problem with the existing GST compliance regime – this regressive burden. However, time burden is also very important. In a recent study, it has been revealed that micro enterprises take about 28.6 hours a month on GST related activities like filing, checking of invoices and replying to tax notices etc. Small businesses use about 21.4 hours a month and medium businesses spent about 15.7 hours a month. Compliance activities are an important time commitment, eroding nearly one full-time equivalent person-week of work per month in a micro enterprise (3 – 5 people).

A normal GST-registered taxpayer needs to submit ~25 returns annually which include GSTR-1 (outward supply information) and GSTR-3B (summary return with payment) returns and annual return (GSTR-9). If a business is registered in more than one state, the requirement seems to double that number. However, most micro-enterprises with no allocated accounting and finance staff can not effectively and accurately complete this burden of administration.

4.2 DIGITAL INFRASTRUCTURE GAPS AND TECHNOLOGY CHALLENGES

GST was to be a technology-based tax system whereby the registration forms, returns filed, matching of invoices, deciding on the refunds to be availed, etc. will be through the use of the GSTN (GST Network) portal. This design takes for granted a certain degree of maturity in the digital landscape which a vast majority of MSMEs in India haven't yet become. Notably, the MSME Digital Index by PayNearby revealed that more than half of MSMEs are using mobile hotspots for their internet connection needs for daily operations. A large number of micro and small enterprises have a mix of bookkeeping methods including spreadsheets, desktop accounting applications (like Tally), and personal ways for digitizing bookkeeping (like through WhatsApp-shared papers). This disjointed and sometimes inapproachable digital infrastructure has caused structural hurdles in enforcing GST.

RESEARCH ON GST AND MSMEs CONSISTENTLY IDENTIFIES THREE INTER-RELATED DIGITAL CHALLENGES:

- **Digital Unreadiness:** Many of the small business owners, especially in semi-urban and rural regions are not digitally literate enough to explore the portal of GSTN themselves. More than 80 percent of the SMEs surveyed find granting to GST compliances to be daunting and claim many of them have to hire a chartered accountant or tax specialist to help them with filing, which further adds to the compliance costs.
- **Lack of Skilled Staff:** Generally, a small business won't have the budget for the need for a dedicated tax or accounting employee. Owners, partners,

managers and/or employees (other than those trained for GST) will need to allocate their own time to ensure that GST compliance activities are carried out. Mismatches, penalties and notices are due to the lack of knowledge.

- **GSTN Portal Technical Issues:** No real glitch has been truly encountered on the GSTN portal to date, though there has been some technical difficulty from time to time, especially during peak numbers of filings, such as approaching the returns due date. Errors such as system downtime, failed invoices and ITC mismatch reduce the trustworthiness in the compliance system and will disproportionately impact small business without the ability to use a dedicated IT solution to support or proactively monitor their portals.

The e-Invoicing mandate by the government will become an extra burden on businesses which have lesser turnover, and the process will continue to be rolled out gradually. Although e-invoicing can give a boost to data quality and will prevent ITC frauds, implementation requires investments in accounting software and training employees to use e-invoicing. For micro enterprises, it can be scarce for others to find the funds for such an investment.

4.3 INPUT TAX CREDIT: THE CENTRAL CHALLENGE

The Input Tax Credit (ITC) is the keystone of the provision to prevent cascading effect in the GST regime, where a business can avail credit from the GST paid on the inputs and pay the output GST, and credit on the output will be adjusted from the credit of the input. This mechanism, in theory, is able to lower the effective tax rate on suppliers in the value chain. In practice, its administration has brought with it extreme problems for the small business. In ITC, a claim of ITC by the buyer is subject to a matching principle, meaning that the supplier needs to file the outward supply return (GSTR-1) to the correct and timely ITC claim by the buyer. A supplier who does not file, files a wrongly filed ITC claim, under-reports their supply etc. makes it impossible for the buyer to claim the ITC even though he paid the supplier GST. The fact that the required compliances may be sourced from compliance-uncompliant suppliers means compliant buyers are being punished for non-compliant suppliers, which has the potential to become a serious issue when dealing with supply chains that include small or informal suppliers.

Around 68 per cent of SMEs in India have complained of delayed ITC refunds causing their cash flow a massive problem. The scale of problem is evident due to a sharp rise of delayed payments complaints from MSME Samadhaan portal from 2.8 lakh in 2018 to 4.2 Lakh in 2023. The presence of unpaid/withheld ITC can thus cause two negative impacts on small businesses:

- **Cash Flow Disruption:** If the ITC block is not done, then the business will not be able to claim

credit against its output tax obligation and has to pay GST from working capital. This is a direct and immediate cash out for any small business that is trying to squeeze every penny where they can for their wages, inventory purchases and operation costs.

- **Increased Cost of Capital:** Businesses will have to rely on informal lending or the non-banking financial companies and pay high interest rates to get the working capital, due to effect of blocked ITC. Some of the added costs for interest diminish already slim margins.

Since there is no provision for changing the filed returns to rectify error, it further complicate the ITC reconciliation.

After a return is filed, some mistakes can't be corrected and effective accuracy is essential. In small enterprises with limited accountancy mechanisms, getting the right amount of accuracy this time around is often a continuous struggle.

4.4 INVERTED DUTY STRUCTURE AND WORKING CAPITAL LOCK-IN

Inverted Duty Structure (IDS) occurs when the GST rates on raw material or component or intermediate goods are higher, compared to those on the finished products. This will lead to an overall buildup of ITC benefits which are not utilised against them while paying the output taxes, so that they can claim periodically from the government the benefits of ITC in the form of refund.

TABLE 2: SEVERAL SECTORS PROMINENTLY AFFECTED BY IDS INCLUDE

Sector	Input GST Rate	Output (Finished Good) GST Rate	Impact
Pharmaceuticals (APIs vs medicines)	18%	5% / 0%	Severe ITC accumulation
Automobile spare parts (SME suppliers)	18%	12% (tractors)	Working capital strain
Textiles (fabric inputs)	12%	5% (finished garments <₹1000)	Refund dependency
Agricultural processing	12-18%	0-5%	Liquidity crunch
Construction materials	18-28%	12%	ITC lock-in

If a work cycle of funds to pay out inventories has been interrupted by a pending ITC refund, then it will directly affect the operational capacity of the MSMEs, as they do not have any other means of credit. No ability to run normal production processes, timely payments to suppliers, and funding of working capital needs in everyday operations leads to a vicious and self-perpetuating financial cycle - likely with short-term consequences that may be difficult to reverse. The government has taken measures to compensate for a refund on the GST in no-detain sentences, but the process of refund is complicated, with documentation requirements and delay.

4.5 RATE STRUCTURE COMPLEXITY AND CLASSIFICATION DISPUTES

India's GST regime runs on five rates: 0%, 5%, 12%, 18% and 28% with some special rates for gold and diamonds, in addition there is compensation cess on certain items. This is a structure that seeks to balance the need for revenues, social equity and economic efficiency goals, but generates complexities around classification, especially for smaller businesses. When there is doubt about the correct rate for a product/service, classification disputes occur. It is of course difficult in reality, as in the following recorded examples:

- The difference in taxation in the food industry lies in the fact that sweets are taxed at 5% whereas savouries are taxed at 12%. Flavours added to a food product as a garnish may result in the food

product falling into a higher rate slab and making it unclear to restaurants and food processors which rate is applicable.

- Textiles: For textiles, ready-made garments whose cost is less than ₹1,000 are charged 5% and above ₹1,000 are charged at 12%. Manufacturers and retailers should continually watch this selling price, particularly during sales and discount sales.
- Within construction, the more recent shift in rates of the 'works contracts' depending on the nature of the contract creates ongoing legal uncertainty in addition to the treatment of land and built-up property under the GST.

Misclassification is a serious matter for small businesses. When rates are not applied correctly, it results in underpayment with interest payment at 18% per annum on the shortpaid tax, in addition to the general penalty provisions that can act as a financial penalty, and which would be equal to the tax short-payment. Late fee in payment of GSTR-3B is ₹50 per day (CGST at 25% + SGST at 25%). If there is no return for any day, then it attracts ₹20 per day. Some of the penalties are capped, while interest on the taxes accrues until they are paid and legal action is possible for consistent under payments. However, the frequent rate changes by GST council to classify tax rates are giving an element of dynamism to the questions on classification. The Council has been altering rates on a variety of items and services since 2017, and has the need to update compliance on a steady pace. This is easily

controlled in big companies who have dedicated tax teams. But keeping up to date with rate changes is a real challenge if you are a small trader or manufacturer and have to wait for an outside accountant to come in once every GDE.

4.6 THE COMPOSITION SCHEME: RELIEF AND LIMITATIONS

To alleviate the compliance burden on small business, the GST framework also provides rules for introducing a Composition Scheme, where the eligible taxpayers can avail the benefits of paying the GST at a flat rate on their turnover instead of paying the regular slab rates and file returns quarterly instead of monthly. The scheme covers:

- Goods dealers and manufacturers: Annual turnover up to ₹1.5 crore
- Restaurants (not serving alcohol): Annual turnover up to ₹1.5 crore
- Service providers: Annual turnover up to ₹50 lakh

Currently, about 17.5 lakh taxpayers are registered under the Composition Scheme, which makes up a significant portion of the small business community. The scheme aims to bring about a major comfort of compliance by bringing the filing of returns down to four quarterly returns (GSTR-4) and one annual return (GSTR-9A).

The Composition Scheme has a number of drawbacks, however, which make it less desirable for some small businesses:

- **No ITC Entitlement:** Input Tax Credit is not be allowed on purchases by composition dealers. The scheme is therefore poor value for businesses that are high input tax content, as they will have to pay taxes on their purchases as costs, rather than off against their own taxes payable on supplies..
- **B2B Supply Restrictions:** The composition dealers will not be allowed to issue tax invoices and also will not be allowed to supply services to the business to be eligible to avail the benefit of ITC. This effectively prevents the third parties involved in composition trading from entering into the forms of B2B supply arrangements except in the form of final consumers or empty buyers.

- **Interstate Supply Restrictions:** The composition dealers can't even make supplies across states, and thereby severely curtails the expansion of markets that were to be provided by the consolidated national market due to GST.
- **Turnover Threshold:** The ₹1.5 crore limit, while covering many micro enterprises, misses out on many small businesses which have dipped into that row, but still do not have sufficient resources to perform regular GST compliance procedures.

4.7 MULTI-STATE OPERATIONS AND REGISTRATION COMPLEXITY

The need for businesses with inter-state operations such as service providers, E-commerce sellers, and manufacturers to register for GST in every state from which they supply to, where they have operations, or where the service is received - brings in a lot of complexities for small businesses. Prior to the introduction of GST, companies had to enroll for VAT registration in sales tax departments of all states while various tax laws were followed in various states made the business compliance complicated. GST has harmonised the rules across the country but the need for State registrations remains. If a designer of the Textile, hits the trade fair in various states, then he has to register his GSTIN for each and every state in which his business activities are happening. Every registration is an independent compliance requirement, with distinct returns filing schedule, record keeping and audit risk.

This is even more complicated for sellers of e-commerce. The nature of the e-commerce is different. This kind of business has to register for GST in all the states where the e-commerce business provides goods irrespective of its annual turnover. They are not covered by threshold exemptions/exemption under the Composition Scheme. This sets the compliance threshold for small ecommerce companies and individual sellers on marketplaces, many of whom are on low margins, with only small volumes.

4.8 STATISTICAL OVERVIEW OF GST'S IMPACT ON SMALL BUSINESSES

The table below consolidates main quantitative results of the major surveys and studies of GST compliance of small businesses in India.

TABLE 3: MAJOR SURVEYS AND STUDIES ON GST COMPLIANCE AMONG SMALL BUSINESSES IN INDIA

Indicator	Finding	Source / Year
SMEs finding GST compliance complex	Over 80%	Survey of MSMEs (2024)
SMEs reporting delayed ITC refunds	68%	Suganthiya MS survey (2024)
SMEs with higher operational expenses post-GST	58%	Empirical survey (2024)
Avg. annual compliance cost (small businesses)	₹88,000 (2.2% of turnover)	Synthesised multi-study (2024-25)
Hours/month spent on GST by micro enterprises	~28.6 hours	MSME Compliance Impact Study (2024)

GST-registered MSMEs (Dec 2024)	~1.5 crore	GSTN / PIB (2024)
Businesses reporting positive GST experience	85%	Deloitte GST@8 Report (2025)
Monthly returns filed by regular taxpayer	~25 per year	CBIC / Practice data (2024)
Gross GST collection FY 2024-25	₹22.08 lakh crore	PIB / Ministry of Finance (2025)
MSME contribution to India's GDP	~30%	MSME Ministry Report (2024)
MSME contribution to total employment	~62%	MSME Ministry Report (2024)
ITC fraud tracked in Telangana alone	₹3,000+ crore	Telangana Tax Authority (2024)

Data is provided for a complex picture. But this survey has been done with C-suite executives of relatively larger businesses, whereas the other survey (Deloitte GST@8) was done with respondents who have made their overall experience with GST a positive one. Research that is specifically geared towards micro and small businesses produces more alarming results, as in high rate of businesses that find it to be complex to comply (39%), that the time taken to get ITC is too long (36%) and that they have to bear higher operational costs due to compliance (35%). This gap stresses the need of consideration for the different experiences of larger SMEs and micro enterprises in the policy implementation process.

4.9 SECTORAL CASE STUDIES

Examining specific sectors illuminates the differential impact of GST challenges:

Textile Sector: The study conducted by Mansi D. Khatik (2025) on the selected textile companies like Vardhman and Raymond revealed that there is no significant difference in performance of the companies before and after GST. But this discovery may relate to; large, publicly listed companies in the textile industry that have a strong compliance structure in place. Small textile weavers and garment manufacturers, especially in cluster economies such as Surat, Tiruppur and Ludhiana, complain about the continued failure to distinguish between the different classification types, a working capital problem due to backward integration of duty rates, and challenges in documenting the appropriate classification type and ensuring they meet the requirements of larger buyers who rely on accurate ITC from their suppliers.

Pharmaceuticals: A case in point for the pharmaceutical industry is the inverse duty issues. Although the finished medicines including life saving products were brought into the 5% slab (or even 0%) of GST to render healthcare affordable, the APIs and intermediates have continued to attract 18% rate of GST. For MSMEs in domestic pharmaceutical industry, this leads to accrual of an indirect tax rollback (ITC) which if not refunded on time causes the financing of production. This results in a structural accumulation of ITC for domestic MSME pharmaceutical companies, which, if not timely refunded, affects financing of production.

Food Processing: This is a difficult issue for small food processors: the five rate system with similar products at

different rates. For a comparatively small-d job for all spices in general, a unit processing dried spices (12%) but also spice blends (18%) needs to have small accounting streams for each product line – or consolidation of the role if it is in the spices value stream and must remain in the same location.

5. CONCLUSION

Since the launch of the Goods and Services Tax regime in July 2017, it has undoubtedly successfully delivered many of its key aims and intentions. The tax revenue has doubled, a formalisation process for the small business sector has gained pace with the number of GST registered MSMEs rising from 5 lakh to 1.5 crore in seven years, entry taxes were abolished and check post delays in trade between states were lowered and the single national market dreamed by the reform has started materialising. It's a fair statement to say that the findings from the Deloitte GST@8 survey – that 85 per cent of business leaders report positive experience of GST – is due to real strides. In this study, however, it can be shown that the cost and benefit of the GST is not evenly spread. Small and micro businesses which make 30 per cent of the Gross Domestic Product and 62 per cent of employment are still facing inequalities related to compliance, cash flow disruption and disadvantages when it comes to structural disadvantage, which larger businesses can manage more easily. The reluctance to agree a compliance cost figure at 2.2 per cent of turnover, delayed ITC refunds for 68 per cent of SMEs, 28.6 hours of compliance effort for each micro enterprise's man per month, and the complete outsourcing of the compliance work to costly professionals are testament to the fact that the compliance architecture remains far from suitable to the smallest businesses in India.

With respect to the future, the new opportunities and challenges for SMSOs lie in the introduction of GST 2.0, which will require more detailed e-invoices, AI-powered enforcement of compliance, and data analytics in real time. Technologies can cut down the time and cost burden of GST compliance to a great deal, when used in the automation of compliance workflows. Getting to this potential necessitates commitment from the government to assisting the SMEs in adopting compatible digital systems, as well as a commitment to maintaining the balance of increased enforcement not to result in

disproportionate harassment of a compliant small business that has limited digital resources.

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