



A Study on the Difficulties Encountered by Small Enterprises in India under the GST Regime.

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ABSTRACT

The present study examines the compliance burdens and adoption challenges of the Goods and Services Tax (GST) among small businesses in India from legal and socio-economic perspectives. The research identifies that although GST was introduced as a comprehensive indirect tax reform aimed at simplifying the taxation system and enhancing transparency, its implementation has imposed significant compliance challenges on small-scale enterprises. The study highlights that frequent return filing, technical glitches in the GST portal, and complex documentation requirements constitute major compliance burdens. Furthermore, issues related to ERP/software adoption, administrative complexities, financial constraints, and lack of awareness significantly hinder the effective implementation of GST among small businesses. The findings indicate that proprietorship firms are the most affected due to limited resources and lack of technical expertise. The study also reveals a gap between policy design and ground-level execution, particularly in terms of digital infrastructure and taxpayer support systems. From a socio-economic standpoint, these challenges impact the operational efficiency and financial stability of small enterprises, thereby affecting their contribution to economic growth. The study concludes that there is an urgent need for simplification of GST procedures, strengthening of technological infrastructure, and capacity-building initiatives to ensure inclusive and effective tax compliance. Research underscores the importance of aligning legal frameworks with practical realities to achieve the objectives of the GST regime.

Keywords: GST Compliance, Small Businesses, Taxation Challenges, India

1. Introduction

India had rolled out the Goods and Services Tax (GST) on July 1, 2017 which was an initiative to create a unified system of taxes across the country. GST was introduced in India to replace the complex, multi-layered and fragmented indirect tax structure that existed earlier where there were several levels of taxation under the central government and state governments. Although GST has been hailed as a radical leap toward simplifying taxation and improving ease of doing business, its implementation had several challenges, especially for small businesses. Small businesses are inarguably the backbone of India's economy driving employment generation and economic growth. But their relatively small size and informal structure render them especially vulnerable to changes in the regulatory environment.

For small companies, the transition to GST featured multiple obstacles, including:

- The compliance burden, Small businesses often do not have dedicated teams for accounting and compliance. Filing multiple returns and keeping extensive records was an administrative nightmare.



- **Technological Readiness** The roll out of GST required the use of technology for invoice generation, return filing and tax payment. Many small businesses did not have the infrastructure or expertise to adopt digital systems, making compliance very painful.
- **Cost Implications**, complying with GST requirements often involved additional costs for small businesses such as expenses on software purchases or customization, hiring professionals to comply with tax regulations and training of employees.
- **Cash Flow Impact**, the transition to GST changed the cash flow equations for small businesses, particularly those working on thin margins. Input tax credit refunds were delayed and uncertainty prevails as to the taxable obligations which had bad effect on their financial planning and liquidity management.
- **Interstate Transactions**: GST complicated matters for small businesses that trade across state lines in terms of registration, compliance and calculation. The varying taxes across the states added an additional level of complexity to the mix.
- **GST Induction Awareness and Education**, before the induction of GST → respective roles, responsibilities, aims & objectives – As GST had significant implications on small businesses with inadequate knowledge by firms about it and lack of know-how regarding indirect taxation. This lack of awareness had only added to their difficulties in adjusting to the new regime.
- **Transition Issues**, during the transition from previous tax system to GST regime was not smooth for smaller businesses as there were issues related to treatment of existing stock; valuation of goods and services; adjustment of input tax credits, etc.

2. About GST in SMES

Impact on Tier 2 and 3 businesses: Majority of the country's employment comes from the small and medium-sized enterprises. It is imperative to know about the obstacles they are facing among the GST implementation while maintaining their existence and grow up.

Compliance Burden: GST is a way more complicated compliance structure as compared to previous ones with returns, record-keeping, and tax slab adherence. Many small businesses are unable to find the necessary resources and experienced staff needed to appropriately comply with these requirements.

Economic Burden: Small businesses had to change their accounting systems, use new software and change how they manage cash flow when GST was introduced. Adapting to these changes typically demands investment in technology and training, which places a burden on the financial capabilities of small businesses.

Competitive Disadvantage: SMEs may be at a competitive inequality relative to larger organizations that have the scale and resources to adapt to GST requirements with ease. Their market competitiveness goes into jeopardy because of this disparity.

Supply Chain Disruptions GST leads to certain changes into the dynamics of supply chain such as invoicing requirement, and input tax credit mechanism, interstate transactions etc. Some small businesses operating in supply chains may experience disruptions and inefficiencies that affect their operations.



Policy Utility: For policymakers, it is important to identify GST-related challenges faced by small businesses and address them accordingly. This study provides insights that can potentially contribute to policy interventions by suggesting simplified procedures for compliance, extending financial help, as well as encouraging technology adoption in small businesses.

Economic Growth: Contributing to economic growth, job creation and poverty reduction. By addressing the GST implementation issues, a more conducive environment can be created for small business growth which can contribute to overall economic development objectives.

Theoretical implication

Taxation Theory: The research provides valuable lessons on the micro-economic consequences of a value-added tax (VAT) regime such as GST in an Indian economy. This will illustrate the empirical consequences that different taxation policies hold for small businesses, which can confirm or challenge existing theoretical frameworks found in the literature on the economics of taxation.

Transaction Cost Economics: The economics of business cost organizations is that firms incur costs when conducting transactions. The implications of a study can provide insights into changing transaction costs for small traders under the impact of GST costs on businesses, including compliance costs, administrative burdens and information acquisition costs. These changes add to transaction cost theory by exploring the impact of institutional change on firm behaviour.

Agency Theory: Agency theory looks at the relationships between principals (e.g. business owners) and agents (e.g. managers or government regulators). The research can show how the operation of GST change the agency relation among small business owners and government regulators. It could show conflicts of interest, information asymmetries, and ways to reduce agency problems in regard with tax compliance.

Institutions Theory: Institutional theory focuses on the impact of institutional environments and their impact on organizational behaviour.

GST implementation provides a unique opportunity for the study to identify how this reform shapes institutional pressure on small businesses — regulatory compliance, normative expectations, and cognitive legitimacy. Studying these dynamics means contributing to the development of institutional theory, which investigates the consequences of structural transformations on organizational behaviour.

Resource Dependence Theory: Outside resources needed for use and survival on organizations. For example, the study can explore how GST Implementation impacts small businesses' resource dependence on financial resources, technology infrastructure and regulatory expertise. It can highlight business strategies adopted by small enterprises to cope up with resource dependencies owing to GST pitfalls.

Dynamic Capabilities Theory Dynamic capabilities theory expresses how firms, take advantage of the capability to adjust to changing surroundings. This study is capable to research the effect of GST Implementation on dynamic capabilities which is compared through small businesses innovative, learning and resource reconfiguration abilities. It can also possibly find out the



reasons which either positively influence or negatively affects the adaptive capacity of small enterprises in the face of GST challenges.

Legitimacy Theory Legality theory assumes that organizations want to maintain legitimacy by conforming to social norms and expectations. The research can also investigate to what extent the execution of GST may change what or how stakeholders, such as suppliers, customers and regulators, perceive small businesses as legitimate. It might disclose tactics adopted by small enterprises to cope with legitimacy threats triggered by GST challenges.

Recent trends of GST:

Simplified Compliance Provisions — In response to small-business feedback that GST compliance can be overly burdensome, a trend has developed in the direction of simplifying compliance provisions. The government has proposed quarterly (three-monthly) return filings for businesses with a turnover of up to a specified threshold limit, thus reducing compliance burden on small taxpayers.

Digital adoption and technological solutions: Small businesses are gradually adopting digital technologies and other software tools to automate GST compliance processes. This involves the usage of accounting software, GST compliance platforms and electronic invoicing systems that assist small enterprises in meeting their taxation requirements more conveniently.

Emphasis on Capacity Building and Training: There is a growing recognition that small businesses often lack sufficient understanding of GST regulations and compliance processes. Online training programs, workshops, and seminars are probably being organized by private entities, industry associations, and government agencies to help educate small businesses on how to be GST-compliant.

Access to finance (Working capital requirements and investments towards technology infrastructure for compliance in GST are other focuses) Among recent developments, one is being carried out by financial institutions and the government to ensure easier access to credit and financial assistance specifically for GST-related problems.

Policy Reforms and Stakeholder Consultations: The rule has been actively consulting with stakeholders, including small business associations and industry bodies, to gather feedback on the challenges of GST implementation while also exploring potential policy reforms. In the past few months, there have been the usual consultations and workshops on matters surrounding GST laws and regulations from small-business perspectives.

GST Rate Rationalization: Another trend we note is periodic rationalization of GST rates to ease out the tax burden on small business houses. This entails lowering rates for specific products and services associated with small businesses and streamlining the tax framework to create a more business-friendly environment.

Impact of Cross Border Trade and E-commerce: The increasing cross-border trade and e-commerce will create a challenge specific to the compliance on GST for small scale businesses pursuing online trading. Recent trends are impacting small businesses in the digital economy, such as attempts to clarify regulations and streamline GST procedures for e-commerce sellers.



3. Review of literature

The Goods and Services Tax (GST) is a government reduces tax that is predicted with high expectations, which the Indian authorities will bring into power on January 1st. India is now the hub of world economy after Govindraje Nepak who took 9 hours and 18 minutes to foreign trade and resulted in the passage there of post-independence, the most destructive tax bill Rajya Sabha was passed by Goods Service Tax (GST) Bill. This article highlights the history, prospectus and challenges in implementing Goods and Services Tax(GST)in India. Paper examines wide and comprehensive discussion of offset mathematical in import tax credit, set-off services taxes and viewing of various taxes.

GST: opportunities and challenges for Indian msme.

Implement the Goods and Services Tax (GST) This paper aims to analyse the implications of GST on msme in India. This article covers the potential and challenges that Indian msme have encountered since the GST was enacted. The good and services tax (GST) is surely a long-term plan, but one thing that emerges from the literature assessment in general is that compliance costs have increased. Which could prove give rise to administrative headache and costs related to compliance. They will have all the benefits of GST, even though it would not be operationally feasible for MSME's to reset their business processes and systems as necessitated by compliances required by this law.

Awareness and impact of GST among small business owners

It tries to rationalize the views of 50 businesses, which were surveyed on their knowledge about GST getting implemented and that they believe this is a fair tax regime but could use some more effort. This study tried to understand the reality of GST and posit that it would no longer stop at mere complicated rates and that there would be a cascading effect on the price of goods. According to the survey respondents, there was general awareness and knowledge about how GST Act worked, along with it people were also aware of the product rates at which GST was being levied, but as small business owners they did not like the way rates were decided. Respondents agreed that the GST reduced corruption. The GST, however, would definitely speed up economic growth, the majority said.

GST Applicable On Services & Products. The cost of traded goods

and services includes the tax. Factors in GST: On the other side, GST application comes directly from taxpayers which increase or decrease the price of items. To investigate the extent to which taxpayers are willing to accept the GST rollout. Tax authorities' perceived acceptability level of GST to taxpayers. The objective of the study was to know taxpayers acceptance towards GST. The introduction of the goods and services tax (GST) as a means, but the rate of acceptability is quite high — lower than 50%. The reduction in the GST rate to 4% could be a promising initial measure aimed at ensuring high rates of acceptance for the GST through measures preventing damage that can arise from the introduction and implementation of the new tax structure. Only then the acceptance level of GST implementation will be increased and probably all consumers will be ready to contribute towards our nation.

Indian economy has developed really quick in a short span of time. The countries that form the basis of the implementation of GST in India. The tax system of an economy is the taxation



structure. The goods and services tax (GST) has been the single most important indirect tax reform since 1947. It will cover the manufacture, sales and use of goods and services. of tax and bring economic unity to the nation. over the history, objectives and impact of the proposed GST on different industries in Indian economy. The research also explored various GST options and benefits. Well, tax policy is one of the big drivers of a lot in an economy, it is the revenue source, and so you end up seeing that a lot of things are well — something that's good for efficiency might aid equity or vice versa. In perspectives of income distribution, a good taxing system should be in line with it and on the other hand, it should also strive to produce tax revenues for funding outflows of government on public services and infrastructure provision. The publication that this post is based on, GST and Its Versatility: The Case of Indian Micro, Small and Medium Enterprises MSMES. how the compliance procedures changed post-GST and whether or not overheads related to tax compliance increased post-GST.

The findings of the study are based on a sample group of 90 MSMEs comprising manufacturers, service providers and other types: GST has been beneficial to MSME; adequate facilitation measures have been provided for GST compliances; there has been an increase in overhead cost of tax compliance after introduction of GST; profits weren't seen as increased and network or server connectivity issues have impacted the VAT compliances. The last 7 years have seen Indian start-ups grow at an exponential pace. There were more start-ups from Government, which increased from 445 in 2016 to 86713 in 2022. help these start-ups as well as the MSME sector in general.

In the five years since GST implementation, the government has undertaken several such facilitation measures to reduce compliance cost of GST for MSMEs. But to facilitate MSMEs who are an extensive part in the growth of India's economy, the government should provide more facilitation. The government decided to create a single tax system called Goods and Services Tax (GST). GST covers all indirect taxes, which will help the economy grow and prove its worth in business. GST will also enable to demonstrate the impact of GST, benefits of GST and the current indirect tax system in India is actually meant to be simplified through The System Of GST. Government assurance that GST will reduce taxes at the same rate makes it a possible means of removing distortion. As there will only be one tax system, GST, many more indirect taxes like sales tax and value-added tax will vanish.

An economic overview:

Challenges and Impact ahead. International Research Journal of Engineering and Technology. The entire goods and services tax framework is quite large when implemented at a national level. For one of the biggest tax revolutions, businesses need to pay various taxes, increasing goods costs and decreasing business profit margins. Some taxes and a complicated tax structure are important barriers to the country's development. The introduction of the GST will lead to consolidation of multiple indirect taxes into severe rates. Given the importance of taxation for public expenditure, the Goods and Services Tax (GST) would benefit Indians significantly It remains to be seen if it is going to help consumers with a new centralized tax regime. As far as the new system is concerned, tax system in state-level. Government: Major indirect tax changes



set to occur in the nation because of new tax. Apart from GST being VAT + service tax, it is also a continued improvement over earlier VAT and services.

4. Impact and challenges faced by Indian economy.

Goods and Services Tax is an all in one indirect tax (GST) that will be levied on the manufacture, sale and consumption of goods. It is a landmark step towards the development of the country and aims at simplifying India's indirect tax structure by replacing many cascading taxes with a single one. The GST concept includes an overview of the significant components of the GST idea and the simplest remedy to tackle those issues together with what would be the effect on Indian economy. The government introduced the goods and service tax model to bridge this gap, so that the entire economy of the country can be analysed effectively. But, the primary objective of goods and service tax (GST) was that there should be one tax all over the country. This was a disadvantage because the government's eager push for something positive to happen in the economy resulted in implementation of GST before its proper time of being used and can trigger disruptions with respect to GST transitional process.

Research Gap:

Existing plethora of literature covering the implementation challenges of Goods and Services Tax (GST) in India remains only limited to specific sectors or type of industry rather than a scenario for small businesses. Although previously published literature has explored general challenges in GST, there is a distinct gap in understanding the unique constraints, perceptions and coping strategies adopted by small businesses within an Indian context. It is important that this research gap be filled, as the data will help inform policymakers and other stakeholders working to provide appropriate interventions and support for this important sector of the economy.

Statement of problem

The GST was introduced in India, bringing along what is possibly the most monumental tax reform this country ever experienced; with a purpose to simplify the complex tax structure and create significant reforms in terms of compliance. But small businesses have faced many hurdles transitioning to this newly implemented tax system. There are challenges in terms of understanding and complying with GST rules, higher admin and compliance costs, IT risks involved in the GST filing portal and cash flow disruptions due to delay in input tax credit refunds. Also, the continuous change of GST rules and rates have further added to the confusion for small business owners and operational burden. The current study aims to explore these multidimensional issues and offer an in-depth understanding of their influence on Indian small businesses, along with appropriate recommendations to resolve the problems so that GST compliance becomes easier for small businesses.

Objective of the study

1. To Diagnose the specific GST compliance Burdens of small Businesses in India.
2. To study the main challenges of small business to adopt GST in India like ERP, administrative, compliance and sensitivity issues.

5. Research methodology and Data collection

Data for this paper is tracked and collated from credible sources, including Government Reports — the Ministry of Finance reports on GST Council proceedings, advisories from the Central Board of Indirect Taxes & Customs (CBIC) that provide guidance on compliance structure and implementation issues, data about complied rates and revenue collection under GST on small businesses; and Recent news articles reporting current affairs to highlight challenges faced and solutions introduced by Small Businesses around various cases related to GST. Reviewing secondary data from various sources allows for a comprehensive analysis to reveal the possible areas of concern surrounding GST implementation among small enterprises operating within India. This method gives a comprehensive view, drawing upon previous studies and information to expose major problems and promote potential remedies. India will also do a value-added tax called the goods and services tax (GST). the only indirect tax whose performance directly affects all the spheres and sectors of our economy is the GST. one can say learn GST and don't let ignorance be so expensive the GST was intended to unify the market in a single unified market, which generally benefits an economy and businesses. The rewritten sentence is: India plans to introduce the new good and services tax GST in terms of direct tax structure. The first Country to Introduce the goods and services tax (GST) was France, After That Many Other Countries.

Result of analysis & interpretation

Table 1: GST Compliance Burdens of Small Businesses

| Compliance Burden | Proprietor | Partnership | Total |
|--------------------------|-------------------|--------------------|--------------|
| Frequent Return Filing | 6 | 3 | 9 |
| Complex Documentation | 5 | 2 | 7 |
| Technical Portal Issues | 7 | 3 | 10 |
| Lack of Knowledge | 4 | 2 | 6 |
| Cost of Compliance | 5 | 1 | 6 |
| Total | 27 | 11 | 38 |

Interpretation

Table 1 highlights the multidimensional compliance burdens faced by small businesses under the GST regime. The most significant burden emerges from technical portal issues (10 cases), reflecting inefficiencies in the digital infrastructure of GST compliance. Frequent return filing requirements (9 cases) also impose a substantial administrative burden, particularly for small enterprises with limited human and financial resources.

From a legal perspective, GST compliance obligations—though designed to ensure transparency and tax accountability—have resulted in procedural overload for small taxpayers. The requirement of filing multiple returns and maintaining detailed documentation creates complexity, often necessitating professional assistance, thereby increasing compliance costs. Socio-economically, proprietors are the most affected category, indicating that micro and small enterprises lack the institutional capacity to adapt to technologically driven tax systems. The

findings reveal that GST, while structurally progressive, imposes disproportionate compliance pressure on smaller entities, thereby affecting their operational efficiency and profitability.

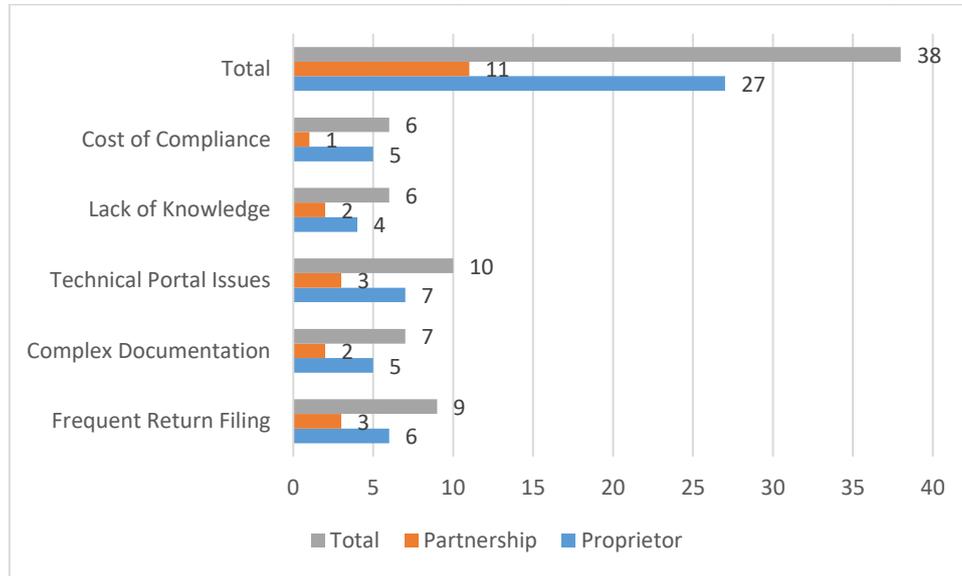
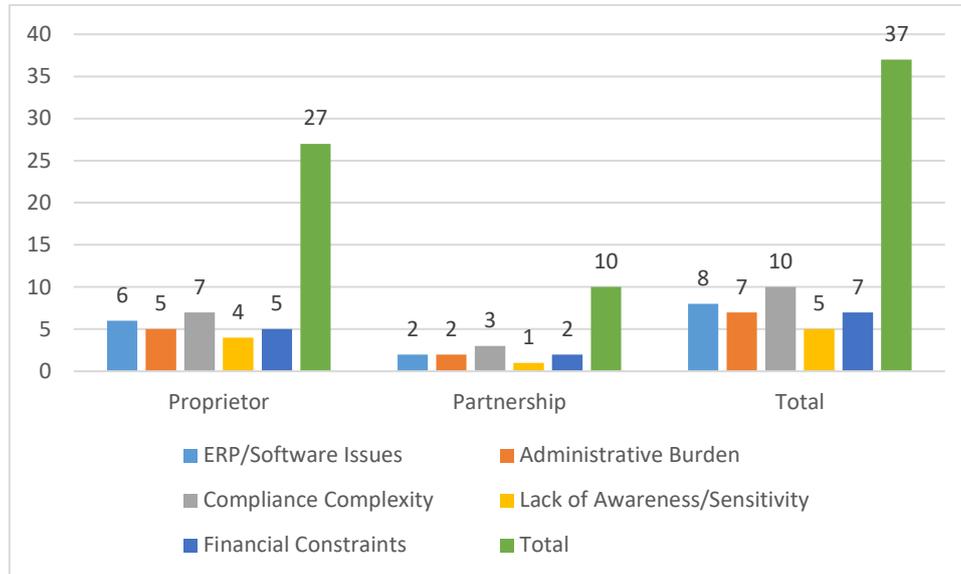


Table 2: Challenges in Adoption of GST (ERP, Administrative & Sensitivity Issues)

| Type of Challenge | Proprietor | Partnership | Total |
|-------------------------------|------------|-------------|-----------|
| ERP/Software Issues | 6 | 2 | 8 |
| Administrative Burden | 5 | 2 | 7 |
| Compliance Complexity | 7 | 3 | 10 |
| Lack of Awareness/Sensitivity | 4 | 1 | 5 |
| Financial Constraints | 5 | 2 | 7 |
| Total | 27 | 10 | 37 |

Interpretation

Table 2 illustrates the major challenges encountered by small businesses in adopting GST. Compliance complexity (10 cases) stands out as the most critical challenge, followed closely by ERP/software issues (8 cases), which indicate technological unpreparedness among small enterprises. The introduction of GST necessitates the use of digital platforms and ERP systems for tax filing and record maintenance. However, many small businesses lack access to such technologies, resulting in operational inefficiencies. Administrative burdens (7 cases) further compound these challenges, as businesses must allocate time and resources to comply with regulatory requirements. socio-economic standpoint, financial constraints and lack of awareness significantly hinder GST adoption. Small businesses often operate with limited capital and are unable to invest in advanced software or professional consultancy services. This creates a gap between policy expectations and ground realities, leading to compliance gaps and potential legal liabilities.



Findings

- GST compliance is heavily burdened by technical issues and frequent return filing requirements.
- Compliance complexity and ERP-related challenges are the primary barriers to GST adoption.
- Proprietorship firms are the most affected segment, indicating vulnerability of micro-enterprises.
- Lack of awareness and digital literacy significantly impacts compliance behaviour.
- Financial constraints limit the ability of small businesses to adopt technological solutions.

6. Conclusion

The study concludes that while GST represents a significant reform in India’s indirect taxation system, its implementation has imposed substantial compliance and operational challenges on small businesses. The transition from a traditional tax system to a technology-driven regime has not been entirely smooth, particularly for enterprises lacking digital infrastructure and financial capacity. The findings indicate a clear disconnect between policy formulation and practical implementation, wherein small businesses struggle to meet compliance requirements. Therefore, it becomes imperative to adopt a more inclusive and simplified approach to GST compliance to ensure equitable participation of all business categories.

Suggestions

- Simplification of GST return filing procedures for small taxpayers.
- Strengthening of GST portal infrastructure to reduce technical glitches.
- Provision of subsidized ERP/software solutions for small businesses.
- Conducting awareness and training programs to enhance digital literacy.
- Establishment of an efficient help-desk and grievance redressal system.



Implications of the Study

- **Policy Implication:** Highlights the need for GST reforms focused on small business inclusivity.
- **Economic Implication:** Reducing compliance burden can improve productivity and profitability of MSMEs.
- **Administrative Implication:** Calls for better coordination between tax authorities and taxpayers.
- **Social Implication:** Enhances financial inclusion and formalization of small enterprises.

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