

## Role of GST in Promoting Transparency and Accountability in MSME Operations

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### Abstract

The Goods and Services Tax (GST), introduced in India in 2017, marked a transformative shift in the country's indirect taxation system. For Micro, Small, and Medium Enterprises (MSMEs), GST has had far-reaching implications not only in terms of tax compliance but also in fostering operational transparency and financial accountability. This review paper explores how GST has contributed to improving visibility in business transactions, formalizing MSME operations, and strengthening the auditability of records. The paper draws insights from government reports, academic studies, and sectoral analyses to understand the mechanisms through which GST has reduced tax evasion, enabled real-time reporting, and enhanced MSMEs' credibility with financial institutions. At the same time, it critically examines the challenges that hinder the seamless integration of MSMEs into the GST regime, such as compliance costs, digital literacy barriers, and delayed refunds. The paper concludes by suggesting policy reforms and support measures that can further align MSME development with GST-led transparency initiatives.

**Keywords:** GST, MSME, Economic growth, SDG 8, SDG9, Innovation, Barriers, and Business Operations.

### 1. INTRODUCTION

The introduction of the Goods and Services Tax (GST) on July 1, 2017, marked the end of India's long wait for a landmark tax reform and brought about the most significant transformation of the country's taxation system to date. Aimed at simplifying the tax structure, improving compliance, reducing tax evasion, and stimulating economic growth, GST replaced the multiple indirect taxes previously imposed by central and state governments with a unified framework (Keshri, 2023; Das, 2023; Gupta et al., 2023; Singhal et al., 2022; Panda, 2021; Reserve Bank of India, 2022; Das, 2022; Sharma & Agarwal, 2022).

This reform has had wide-ranging effects on Micro, Small, and Medium-Sized Enterprises (MSMEs), a sector that plays a critical role in India's economic development. The Ministry of MSMEs reports that the country has more than 63 million such enterprises operating across trade, services, and manufacturing, with over half based in rural areas. Findings from the 73rd round of the National Sample Survey (2015–16) show that MSMEs employ nearly 110 million people and contribute around 29 percent of India's GDP. More recent data from the Ministry of Statistics & Programme Implementation indicates that by July 2024, the sector's share of Gross Value Added (GVA) had increased further to 30.1 percent (Figure 1).

Despite this contribution, MSMEs continue to face persistent challenges such as inadequate infrastructure, regulatory complexity, limited technology adoption, restricted market access, and financing gaps. The introduction of GST was expected to ease some of these difficulties by creating a more business-friendly environment. However, the outcomes have been mixed, with the new system offering both opportunities and obstacles for the sector.

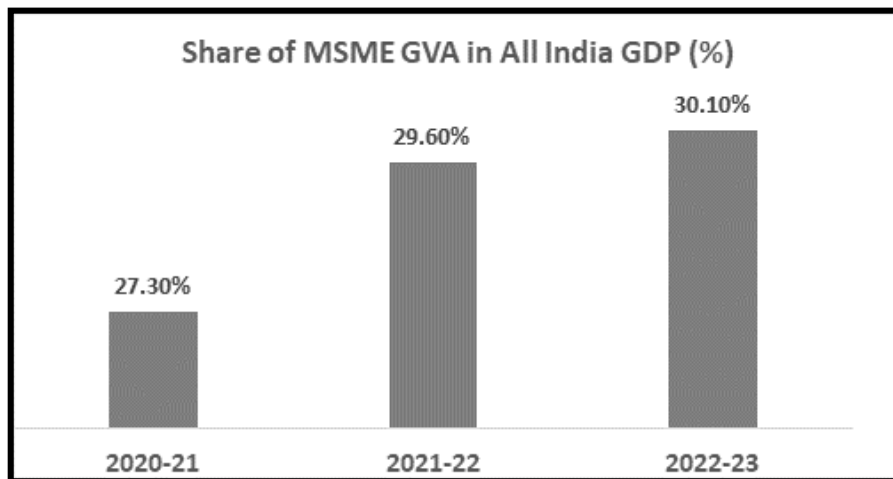


Figure 1: Share of MSME GVA in all India GDP(%)

Source: Press Release: Press Information Bureau

#### 1.1 Importance of MSMEs in the Indian Economy

Micro, Small, and Medium Enterprises (MSMEs) are often described as the backbone of the Indian economy because of their vital role in shaping the country's growth path. They make significant contributions to employment generation, GDP, and exports, while also driving entrepreneurship, innovation, and balanced regional development (Ministry of MSME, 2023). With a strong presence in manufacturing, services, and agribusiness, MSMEs cater to both domestic and global markets, strengthening India's trade competitiveness and ensuring that economic growth extends beyond metropolitan hubs into rural and semi-urban regions (Reserve Bank of India [RBI], 2022). Their scale and geographical spread mean that the performance of this sector directly influences India's economic stability and inclusive development.

The contribution of MSMEs to national output is substantial. They account for nearly 30 percent of India's GDP and about 45 percent of its manufacturing output (Panda, 2021). Spread across industries such as textiles, food processing, IT services, and handicrafts, MSMEs are an integral part of the industrial base. By producing goods and services for both domestic consumption and international trade, they help India stay connected with global value chains. Their role has become even more significant under initiatives like Make in India, which aims to position the country as a global manufacturing hub.

Beyond production, MSMEs are also one of the largest job creators in India. The sector employs over 110 million people, making it the second-largest source of livelihood after agriculture (Das, 2022). By offering opportunities to semi-skilled and unskilled workers, they provide livelihoods for those who may not find employment in larger corporations. Their spread into rural and semi-urban areas also reduces migration

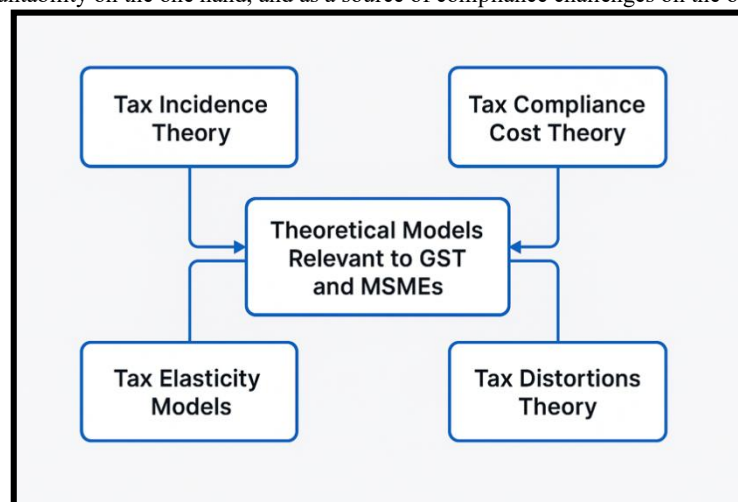
pressures on big cities and helps promote localized growth, thereby contributing to social stability. In this way, MSMEs act not only as economic drivers but also as important agents of social development.

MSMEs further strengthen India's export performance, contributing nearly 48 percent of total exports (Sharma & Agarwal, 2022). Their participation is particularly critical in sectors such as textiles, handicrafts, leather, and engineering goods, where small-scale producers often hold comparative advantages. By enabling entrepreneurs to tap into global markets, the sector boosts innovation, competitiveness, and resilience against external shocks. Another defining feature of MSMEs is their role in promoting entrepreneurship and innovation. Unlike larger firms that often face rigid structures, MSMEs function as breeding grounds for new ideas, niche products, and adaptive technologies. Their flexibility allows them to respond quickly to changing market conditions and consumer demands (Kumar, 2021). This innovative capacity places them at the center of India's transition toward a knowledge-driven, innovation-based economy. However, despite their contributions, MSMEs continue to face major challenges that limit their growth potential. Access to formal finance is a recurring issue, with many enterprises struggling due to collateral requirements, poor credit histories, and bureaucratic delays (Ahmad, S., et al 2018 & Ghosh, 2020). Infrastructure bottlenecks such as weak logistics, unreliable electricity, and poor digital connectivity also reduce their competitiveness. At the same time, complex regulations and heavy compliance requirements strain their resources and lower operational efficiency. The COVID-19 pandemic further exposed these vulnerabilities, as many MSMEs suffered from supply chain disruptions, labor shortages, and reduced demand (Chandrasekhar, 2022). These difficulties underline the fragility of the sector and the need for stronger resilience-building measures.

To address these issues, the Indian government has introduced a series of supportive initiatives. Under the Atmanirbhar Bharat Abhiyan, measures have been taken to improve liquidity, expand credit access, and encourage self-reliance. Programs like Make in India place MSMEs at the heart of domestic manufacturing, while digitalization schemes aim to integrate new technologies into production and service delivery. Other interventions, such as credit guarantee schemes, cluster development projects, and financial inclusion initiatives, are designed to provide structural support and strengthen the MSME ecosystem (NITI Aayog, 2020). Overall, MSMEs are indispensable to India's economic and social fabric. They contribute to GDP, manufacturing, exports, and employment, while fostering entrepreneurship and innovation across urban, semi-urban, and rural regions. At the same time, persistent challenges around finance, infrastructure, and regulation continue to restrict their full potential. With consistent policy support, digital transformation, and deeper integration into global markets, MSMEs can play a decisive role in India's aspiration of becoming a \$5 trillion economy and a globally competitive industrial hub.

### 1.2 Theoretical Models relevant to GST and MSMEs

The impact of GST on MSMEs can be better understood through established taxation theories, which help explain how fiscal policies shape business behavior. Tax Incidence Theory explores how the burden of taxation is shared between producers and consumers, showing whether firms can pass on the tax to buyers through higher prices or must absorb it through reduced profit margins (Musgrave, 1959; Atkinson & Stiglitz, 1980). For MSMEs, which typically work with narrow margins, GST forces strategic decisions about pricing and profitability, directly affecting their competitiveness in local as well as interstate markets. Tax Compliance Cost Theory highlights the financial and administrative costs of meeting tax obligations, such as maintaining records, filing returns, and adapting to digital systems. This becomes especially relevant under GST, where many smaller firms struggle with limited resources to handle complex technological and procedural requirements, reducing their operational efficiency (Evans, 2003; Gupta, 2017). Similarly, Tax Elasticity Models explain how changes in tax rates and structures influence economic activity and government revenues. For MSMEs, such analysis helps reveal how GST affects sales volumes, investment decisions, and long-term growth prospects, linking tax design directly to business performance (Siddique, 2019; Parida & Mohanty, 2022). Finally, Tax Distortions Theory looks at how taxes alter resource allocation and potentially create inefficiencies in production and consumption. While GST was intended to minimize such distortions by replacing multiple cascading taxes with a unified framework, issues like classification disputes, rate complexities, and uneven compliance burdens across firms may still generate new inefficiencies (Pandey, 2017; Keen, 2013). Together, these theoretical perspectives provide a useful foundation for analyzing GST's dual impact on MSMEs as a tool for greater transparency and accountability on the one hand, and as a source of compliance challenges on the other as shown in figure 2.



**Figure 2: Theoretical Models relevant to GST and MSMEs**

## 2. EVOLUTION OF GST AND MSME OPERATIONS

Since its rollout in 2017, the Goods and Services Tax (GST) has gone through several reforms that have deeply influenced the functioning of Micro, Small, and Medium Enterprises (MSMEs) in India. In the early phase, MSMEs struggled with compliance because the system demanded frequent return filings, complex invoice matching, and quick adaptation to a fully digital platform (Poddar & Mukherjee, 2017). Many small businesses lacked the required accounting infrastructure and digital know-how, which led to rising compliance costs and operational difficulties. These challenges were even more severe in rural and semi-urban areas, where internet access was often unreliable (Bhattacharya, 2019).

To ease these hurdles, the government gradually introduced policy changes aimed at reducing the compliance burden and improving efficiency. One of the earliest steps was the Composition Scheme, which initially covered firms with turnover up to ₹75 lakh and was later extended to ₹1.5 crore. This allowed eligible small taxpayers to pay tax at a concessional rate and file quarterly returns, significantly reducing administrative pressure (Aggarwal, 2019). In 2021, the Quarterly Return Monthly Payment (QRMP) scheme was launched, enabling businesses

with turnover up to ₹5 crore to file quarterly returns while paying taxes monthly. This reform helped MSMEs manage liquidity better (Mukherjee, 2021). At the same time, technological improvements reshaped compliance. The creation of the Goods and Services Tax Network (GSTN) offered a strong digital backbone for return filing, e-invoicing, and e-way bills, drawing MSMEs into a more transparent, data-driven system (Singh & Kumar, 2018). Although shifting to digital systems was initially difficult, over time it enhanced transparency, improved compliance, and expanded MSMEs' access to finance. For instance, banks began using digital transaction records to assess creditworthiness, making it easier for small firms to secure loans (Reserve Bank of India, 2020).

Another key reform was the introduction of e-invoicing, first made mandatory for large firms in 2020 and later extended to companies with turnover above ₹5 crore. This measure standardized documentation, reduced tax evasion, and improved supply chain efficiency (Chakraborty & Bandyopadhyay, 2021). Likewise, the e-way bill system simplified logistics and reduced interstate trade barriers, benefiting MSMEs engaged in manufacturing and distribution (Kumar & Sinha, 2022). The COVID-19 pandemic (2020–2021) further accelerated both reforms and digital adoption. Relief measures such as late fee waivers, extended filing deadlines, and temporary cuts in interest on delayed tax payments helped liquidity-strapped MSMEs survive the crisis (Nair, 2021). At the same time, many small businesses turned to cloud-based accounting and digital invoicing, contributing to the wider formalization of the economy and gradually bringing more MSMEs into the tax net.

Overall, the evolution of GST has had a dual effect on MSMEs. The initial years brought disruption, high compliance costs, and steep digital adaptation challenges. However, subsequent reforms steadily improved efficiency, transparency, and access to credit. As GST continues to evolve, MSMEs are likely to benefit further from simpler compliance systems, expanding digital tools, and stronger integration into India's formal economy. (Ahmad, S, 2020)

### **3. TRANSPARENCY IN MSME OPERATIONS UNDER GST**

One of the key goals behind introducing the Goods and Services Tax (GST) in India was to curb tax evasion and reduce corruption in the indirect tax system. Before GST, the patchwork of excise duty, VAT, service tax, and various local levies created loopholes that allowed practices such as tax arbitrage and underreporting of sales (Baby, 2020). GST replaced this fragmented structure with a unified tax base supported by technology-driven compliance measures, which made the system more transparent and significantly reduced revenue leakages.

A major breakthrough came with the launch of e-invoicing in 2020. Under this system, businesses had to generate invoices through a centralized platform linked to the Goods and Services Tax Network (GSTN). This ensured real-time authentication of transactions and curbed the misuse of fake invoices for claiming fraudulent input tax credit (Kumar, Malhotra, & Singh, 2023). For MSMEs, adapting to e-invoicing meant embracing digital processes, but it also simplified documentation, improved record-keeping, and allowed automated reconciliation of returns. By standardizing reporting formats and ensuring invoice traceability across the supply chain, e-invoicing significantly improved transparency (Bhat, Shastri, Ravindra, & Meti, 2021).

Similarly, the rollout of the e-way bill system in 2018 transformed logistics by creating a nationwide, digitally verifiable system to track goods in transit. By making firms declare the movement of goods above a certain value, the e-way bill curtailed common malpractices such as under-invoicing and unrecorded transportation (V. Kumar, 2024). Its integration with GSTN also helped align reported invoices with actual goods movement, reducing corruption at state borders and limiting rent-seeking by enforcement officers (Sinha & Shrivastava, 2021).

Another critical reform was the strengthening of the input tax credit (ITC) chain. Under GST, ITC requires invoice-level matching between buyers and suppliers, making it harder to file false claims. This not only improved compliance but also encouraged businesses to work with tax-compliant suppliers, creating a ripple effect of formalization across the MSME sector (Baby, 2020). ITC reconciliation also pushed firms to maintain cleaner and more consistent records, which enhanced the overall quality of financial reporting. Research shows that the combined impact of e-invoicing, e-way bills, and ITC mechanisms has made GST data a reliable source of business information. Banks and financial institutions, for instance, increasingly use GST filings to assess creditworthiness, reducing information gaps and improving MSMEs' access to finance (Kumar et al., 2023).

Overall, GST has emerged as a powerful tool to combat tax evasion and corruption by embedding digital, technology-driven compliance into everyday business practices. The combined framework of e-invoicing, e-way bills, and ITC monitoring has not only reduced fraudulent practices but also strengthened transparency, improved financial reporting, and built greater institutional trust in the MSME sector.

### **4. ACCOUNTABILITY MECHANISMS ENABLED BY GST**

When the Goods and Services Tax (GST) was rolled out in 2017, one of its core promises was to make India's tax system more transparent and accountable. At the center of this reform was the shift to digital compliance. Instead of dealing with fragmented, state-level systems, GST introduced a single digital platform where every registered business had to file returns. For the first time, transactions could be tracked across the supply chain almost in real time. If a supplier reported a sale but the buyer failed to record the purchase, the system automatically flagged the mismatch. For many small and medium enterprises (SMEs), this was a major change: compliance was no longer about filing papers once in a while, but about maintaining records in a way the system itself could instantly verify (Poddar & Mukherjee, 2017; Singh & Kumar, 2018).

Another significant shift came with the standardization of record-keeping. In the pre-GST era, businesses used their own invoice formats, and tax reporting varied widely across states. GST replaced this patchwork with standardized invoice formats and structured return filings. Though businesses initially had to adjust to new systems, over time their books became more consistent and professional. This also had a positive spillover: banks and auditors started treating GST filings as reliable indicators of business performance. For many MSMEs, this credibility opened new doors to formal credit and financial opportunities (Bhat, Shastri, Ravindra, & Meti, 2021; Kumar, Malhotra, & Singh, 2023; Mazhar et al., 2024). What once looked like an extra compliance burden gradually became an asset, helping smaller firms present themselves more confidently in financial markets.

The reform also had a visible impact on curbing shadow economy practices. Before GST, goods often moved across state borders with minimal checks, and many businesses kept two sets of accounts: one for official records and another for unreported transactions. With the introduction of e-way bills and digital invoice matching, these loopholes narrowed significantly. Every shipment and every sale now had to be documented, leaving less room for underreporting. Research suggests that the improvement in revenue buoyancy after GST is partly due to these mechanisms, which brought more economic activity into the formal tax net (Baby, 2020; Sinha & Shrivastava, 2021). For many MSMEs, this meant that keeping cleaner books was no longer just about avoiding penalties but about staying competitive in an environment where customers, suppliers, and lenders increasingly value formal compliance.

Of course, the transition has not been without challenges. For smaller firms, moving to digital compliance and structured accounting often demanded extra effort. Frequent filing requirements, input credit reconciliations, and dependence on internet-based systems posed difficulties, especially for enterprises with limited staff or low digital literacy (Aggarwal, 2019; Mukherjee, 2021). Many had to hire accountants or invest in new software, adding to their costs. Yet, studies and practical experiences show that these short-term struggles often translated into long-term benefits. Businesses that adapted to the system reported advantages like faster loan approvals, smoother audits, and fewer disputes with tax authorities (Reserve Bank of India, 2020; Kumar, 2024).

In this way, GST has not only streamlined tax compliance but also nudged MSMEs toward greater professionalism, formalization, and financial credibility.

### 5. CHALLENGES FACED BY MSMEs UNDER GST

When the Goods and Services Tax (GST) was introduced, it was envisioned as a revolutionary reform, but for Micro, Small, and Medium Enterprises (MSMEs), the transition often proved more complex than anticipated. Mohan and Salman (2018), through qualitative interviews and surveys with MSME owners, uncovered how expectations and reality diverged significantly. Their findings revealed that small businesses struggled with record-keeping requirements, which not only raised compliance costs but also eroded profitability. Technical issues such as inefficient software systems, glitches during return filing, and poor internet connectivity in rural areas further compounded these challenges. The study also highlighted systemic gaps, including the absence of a robust feedback mechanism, insufficiently trained GST officers, and lack of clarity on input tax credit (ITC). Taken together, these issues reflected a disconnect between policy formulation and its ground-level implementation, reinforcing the urgent need for government-led training programs and institutional support to strengthen MSME compliance (Mohan & Salman, 2018).

These challenges were echoed by Pandit (2017), who in her analysis of GST’s impact on MSMEs, emphasized how lowered exemption thresholds and increased levies disrupted the ease of doing business. She pointed out that stock transfers attracted additional costs, compliance obligations grew heavier, and business-to-consumer firms were particularly hit by higher operational burdens. Software and server-related hiccups further strained small firms that were still adapting to digital systems. Pandit’s findings complemented those of Mohan and Salman, showing how both structural design and technological shortcomings intensified the struggles of MSMEs (Pandit, 2017).

Expanding on these insights, Viswanatha and Gurudath (2021) examined the broader economic contribution of MSMEs and observed that while GST aimed to bring uniformity, the ever-changing nuances of the law created fresh hurdles. They noted that even though regulations attempted to ensure benefits were passed on to end users, no clear guidelines existed to evaluate profiteering. This ambiguity fueled litigations and inconsistencies, as states began interpreting GST provisions differently. Their study suggested that what was meant to be a unifying reform often ended up fragmenting experiences across regions, deepening MSMEs’ uncertainty (Viswanatha & Gurudath, 2021).

A more critical lens was offered by Sharma (2017), who argued that the challenges were not only operational but also structural. He called for a redefinition of the MSME sector itself, stressing the need for policies that would reduce overhead costs, particularly for exporters. Importantly, Sharma highlighted the necessity of organized, government-led training sessions so that MSMEs did not have to compromise profits to hire GST-versed accountants( Farooque , 2014) Yet, despite these criticisms, Sharma maintained a cautiously optimistic view, suggesting that the principle of “One Nation, One Tax” had the potential to create a healthier tax environment. He argued that federal redistribution of revenues could encourage balanced growth, foster start-ups, generate employment, and eventually pave the way for robust MSME development (Sharma, 2017).

### 6. BARRIER RELATED TO THE ADOPTION OF GST

This section examines the major barriers that hinder the effective adoption of GST in India. A detailed review of existing literature first helped to identify the key negative aspects associated with GST implementation. To validate these findings, a focused discussion was then held with 16 experienced business owners, each with more than 15 years in the field and registered under GST. These owners, having dealt directly with the rules and conditions of the law, provided valuable real-world insights. Initially, 17 barriers were identified through the review process, but after incorporating the respondents’ perspectives, the list was refined to 13 critical barriers. In the next step, the business owners were asked to highlight how these barriers were interrelated. Table 1 presents the final list of 13 GST-related barriers in the Indian context.

Barrier No	Barriers	Supported By	Key Insight
B1	Poor tax acceptance	Basavarajaiah et al. (2022), Gupta and Jhavar (2017)	Low acceptance stems from inadequate awareness and trust in the GST system.
B2	Attitude of GST-registered taxpayers	Gupta and Meher (2021), Semwal and Rani (2019), Shukla and Kumar (2019)	Negative taxpayer attitude arises from ambiguities, complexities, and lack of adequate knowledge.
B3	Enhanced compliance cost	Geeta et al. (2023), Guna and Anuradha (2021), Tyagi et al. (2019), Mohan and Ali (2018), Nandal and Diksha (2018), Pandit (2017)	Small businesses face higher compliance costs, increasing operational burdens.
B4	Delay in refund	Guna and Anuradha (2021), Mehta and Mukherjee (2021), Vij (2018)	Refund delays impact working capital, particularly for exporters and SMEs.
B5	Compliance complexities	Deshmukh et al. (2022), Nandal et al. (2021), Srivastava and Srivastava (2019), Kanda et al. (2018), Nandal and Diksha (2018)	Multiple filings and procedural complexities hinder ease of doing business.
B6	High penalties for non-compliance	Harishekar and Manoj (2021)	Fear of strict penalties discourages risk-taking and burdens smaller firms.
B7	Problems regarding e-way bill	Alam (2021), Mehta and Mukherjee (2021), Chandak (2019)	E-way bill implementation challenges include delays, logistical hurdles, and compliance issues.
B8	Lack of skilled manpower	Deshmukh et al. (2022), Semwal and Rani (2019), Shukla and Kumar (2019), Mohan and Ali (2018), Chouhan et al. (2017)	Insufficient trained staff increases dependency on external professionals for GST compliance.
B9	Issues of online compliance	Kathiriyaa (2020), Semwal and Rani (2019), Shukla and Kumar (2019), Tyagi et al. (2019), Mohan and Ali (2018), Nandal and Diksha (2018), Guna and Anuradha (2021), Srivastava and Srivastava (2019)	Technical glitches and lack of digital literacy complicate online GST processes.
B10	Poor IT infrastructure	Guna and Anuradha (2021), Srivastava and Srivastava (2019), Tyagi et al. (2019)	Weak IT infrastructure limits smooth functioning of GST platforms, especially in rural areas.
B11	Issues concerning reverse charge mechanism	Guna and Anuradha (2021), Harishekar and Manoj (2021), Mehta and Mukherjee (2021), Pandit (2017)	Confusion around applicability and compliance burdens businesses unnecessarily.
B12	HSN/SAC-related issues	Mehta and Mukherjee (2021), Indhumathi and Jambunathan (2019), Singh (2017)	Classification errors in HSN/SAC codes lead to incorrect tax filings.
B13	Items outside GST	Asolekar (2021), Shome (2021), Srivastava and Srivastava (2019)	Exclusion of petroleum, alcohol, and certain goods reduces tax base and complicates compliance.

#### 6.1 Poor Tax Acceptance

One of the critical challenges in the effective implementation of GST is poor tax acceptance, which refers to the extent to which taxpayers recognize and willingly comply with the rules and obligations of the tax system. Successful GST adoption depends not only on legal enforcement but also on businesses’ acceptance of the system as fair, transparent, and manageable. Research shows that tax acceptance is influenced by multiple factors, including resource availability, simplicity of compliance, and the compatibility of the system with existing business practices (Hung et al., 2006; Deshmukh et al., 2022). Hung et al. (2006) found that these factors shape the attitudes of GST-registered taxpayers, directly affecting their willingness to comply.

However, studies in the Indian context suggest that many businesses remain hesitant. Basavarajaiah et al. (2022) observed that only a small fraction of businesses support GST, while most continue to prefer the earlier tax regime. Similarly, Garg et al. (2018) highlighted the importance of cultivating a favourable attitude towards GST, arguing that improving perception and understanding among businesses can significantly enhance acceptance levels. Shukla and Kumar (2019) reinforced this perspective, emphasizing that strengthening trust and ensuring quality in the system are essential for improving compliance among SMEs.

Beyond the Indian context, evidence from broader e-government studies also underscores the role of trust and technical readiness in acceptance. Mellouli et al. (2016) found that technical factors, trust, and individual determinants strongly influence the adoption of digital governance systems, suggesting that even well-designed tax reforms require supportive infrastructure and stakeholder confidence. Furthermore, Remali et al. (2020) cautioned that poor tax acceptance can jeopardize the sustainability of any tax system, indicating that fostering acceptance is not merely a behavioural concern but a strategic necessity.

Collectively, these studies reveal that tax acceptance is a cornerstone of effective GST implementation. Enhancing clarity, simplifying compliance procedures, and building trust among MSMEs are critical steps to ensure that the system functions smoothly and achieves its intended outcomes.

### **6.2 Attitude of GST-registered Taxpayers**

The attitude of GST-registered taxpayers is a key factor influencing the success of GST in India, and a negative perception among taxpayers remains a major barrier (Shukla & Kumar, 2019). Studies show that many taxpayers hold a moderate or cautious attitude toward GST implementation, reflecting uncertainties and challenges in understanding the system (Semwal & Rani, 2019; Tomar et al., 2018). The complexity and ambiguities of the GST framework often contribute to this negative outlook, making compliance feel difficult and burdensome.

Researchers suggest that enhancing taxpayer knowledge is crucial to building a more positive perception. Garg et al. (2018) stress the importance of educating taxpayers to improve understanding and confidence in GST. Similarly, Hung et al. (2006) highlight that strategic government efforts—such as improving service quality, providing adequate IT infrastructure, and promoting the importance of compliance—can help transform less favourable attitudes into supportive ones.

Developing a positive attitude is not only about compliance but also about satisfaction and trust. Bidin et al. (2019) note that fostering favourable attitudes can improve overall satisfaction among business communities. Ramkumar et al. (2023) emphasize the role of real-time GST experiences in shaping taxpayer behaviour, while Gupta and Jhavar (2017) underline that cultivating positive perceptions is essential for achieving the broader revenue objectives of the economy. In short, addressing negative attitudes through education, support, and reliable systems is key to encouraging GST compliance and building trust among taxpayers.

### **6.3 Enhanced Compliance Cost**

Unfavourable attitudes towards GST and poor tax acceptance often arise from the high costs associated with compliance. A tax system that increases compliance burdens can make taxpayers view it negatively (Arora & Singh, 2022). In the post-GST period, Pandit (2017) observed that compliance costs for businesses rose significantly, driven by complex rules, frequent changes in tax regulations, and limitations on claiming tax credits (Vishnuhadevi & Bindu, 2022).

A substantial portion of these costs comes from consulting tax professionals, especially for businesses that rely on computerized accounting systems, which often incur the highest expenses. Studies by Dhillon and Gautam (2022) and Rametse et al. (2020) also highlight that compliance costs include expenses for acquiring skills, purchasing software and hardware, and the time spent on these tasks. Similarly, Chen and Taib (2017) point out that costs related to employee training, record maintenance, and payroll management add significantly to compliance burdens.

Higher compliance costs can affect timely return filing and tax payments, and in some cases, may even encourage corporate tax evasion (Agarwal et al., 2022). Overall, managing and reducing compliance costs is essential for improving taxpayer attitudes and fostering better GST acceptance.

### **6.4 Delay in Refund**

Delays in GST refunds have emerged as a major concern for businesses, particularly for Micro, Small, and Medium Enterprises (MSMEs), because they directly affect liquidity and working capital. Kumar (2019) highlighted that such delays have a significant negative impact on businesses' operational cash flow. The study pointed out that intermediaries often contribute to these delays, and eliminating unnecessary layers could help ensure faster processing. Alongside this, fostering self-efficacy among businesses encouraging them to maintain timely and accurate compliance can reduce both the duration and cost of refund processing.

Export-oriented businesses are especially vulnerable. Vij (2018) found that exporters face severe operational difficulties when GST refunds are delayed, and he recommended automating and accelerating the refund mechanism to enhance efficiency. Mehta and Mukherjee (2021) echoed this concern, noting that blocked refunds restrict working capital and adversely affect exporters' day-to-day operations. These studies collectively suggest that the existing refund processes, if streamlined, could significantly improve MSME performance.

Siddaraju and Muninarayanappa (2020) and Dhillon and Gautam (2022) further emphasized the broader benefits of timely refunds. According to their findings, prompt disbursement of refunds not only strengthens operational efficiency but also builds trust between taxpayers and the government. Kumar and Singh (2023) added that delays often arise due to technical errors, legal complications, or fraudulent and evasive practices, further compounding the problem for MSMEs.

Together, these insights paint a clear picture: delayed GST refunds are more than a procedural issue they have a cascading effect on business operations, particularly for exporters and smaller enterprises with limited liquidity. Addressing the delays through automation, simplification, and real-time monitoring of the refund process could significantly ease financial pressures, improve compliance, and enhance the overall efficiency of the MSME sector under GST.

### **6.5 Compliance Complexities**

The Indian GST system presents multiple layers of complexity, including rules complexity, computational complexity, structural complexity, and compliance complexity (Saw & Sawyer, 2010). Nandal et al. (2021) observed that businesses' heavy reliance on external assistance often reflects the intricate nature of the tax system. Shwetha (2020) further highlighted that, compared to other countries with GST, India's GST framework is particularly complex, showing the highest complexity index due to frequent legislative changes.

These complexities mainly arise from return filing procedures, frequent amendments in tax provisions, ambiguous rules, difficulties in maintaining records, and computation-related challenges (Shwetha, 2020). Such intricacies have a direct effect on SMEs, influencing their compliance behaviour and creating operational hurdles (Kumar et al., 2019). Kumar et al. emphasized that ambiguity in GST provisions remains a key barrier preventing smooth adoption of the tax system.

To address these challenges, Deshmukh et al. (2022) recommend simplifying and clarifying tax provisions, which can support better implementation and reduce confusion. Similarly, Mehta and Mukherjee (2021) and Shinde (2019) stress the importance of resolving design-

related issues within GST to enhance the economic performance of the nation. Together, these studies suggest that reducing procedural and legislative complexities is critical to fostering smoother compliance and improving business confidence under GST.

### **6.6 High Penalties for Non-compliance**

An appropriate level of tax penalties is necessary to control non-compliance, but both under- or over-enforcement can affect taxpayer behaviour and revenue collection (Farrar & King, 2023; Triandani & Apollo, 2020). Excessive penalties may create perceptions of unfairness, leading to negative attitudes among taxpayers (Marriott, 2022). In India, Saranya and Malani (2021) found that penalties and prosecution issues are among the most common problems faced by MSMEs under GST. Often, unintentional non-compliance occurs due to lack of awareness about tax amendments, which can result in penalties (Nair & Eapen, 2017). Slemrod (2019) emphasized that enforcement should be carefully assessed to ensure it improves revenue without discouraging compliance. To ease the burden on MSMEs, Roy et al. (2020) suggested relaxing GST penalties and implementing auto-generated systems for levying fines.

### **6.7 Problems Regarding E-Way Bill**

The introduction of the e-way bill system brought transparency to goods movement but also created challenges. Kumar (2019) identified discrepancies between states, difficulties in portal access, and low awareness among transporters. Chandak (2019) further noted delays in generating e-way bills and managing multiple bills as major hurdles for businesses. Chaudhuri and Dafria (2022) highlighted the burden of high penalties and insufficient knowledge about e-way bill provisions, recommending simplification and awareness-building initiatives. Mehta and Mukherjee (2021) stressed that lack of knowledge is the main bottleneck, while Alam (2021) pointed out technical glitches and non-uniformity across states as key concerns that reduce taxpayer confidence.

### **6.8 Lack of Skilled Manpower**

A skilled workforce is critical for smooth GST implementation (Alam, 2017). Kumar et al. (2019) and Shinde (2019) emphasized the need for trained accounting and IT professionals to navigate GST's evolving provisions. Singh (2019) and Dhillon and Gautam (2022) identified the shortage of skilled personnel as a major challenge for MSMEs, suggesting that owners should invest in educating employees about GST compliance. Mukkerla (2020) and Alam (2017) further recommend reskilling staff to ensure timely and accurate compliance, highlighting that knowledgeable human resources are essential for reducing errors and improving operational efficiency.

### **6.9 Issues of Online Compliance**

Since GST is largely IT driven, all tax-related processes from registration to return filing and tax payments are conducted online (Haines, 2017; Tyagi et al., 2019). MSMEs often struggle with digital compliance due to limited technical know-how, connectivity issues, and server glitches (Dhillon & Gautam, 2022; Mohan & Ali, 2018). Shukla and Kumar (2019) emphasized that these factors, combined with lack of trust in GSTN portals, reduce adoption levels. To improve compliance, studies recommend simplifying online processes and enhancing digital literacy among taxpayers (Tyagi et al., 2019).

### **6.10 Poor IT Infrastructure**

A robust IT infrastructure is fundamental for GST adoption (Deshmukh et al., 2022; Rao & Nagayya, 2017). Kumar et al. (2019) and Shinde (2019) found that MSMEs without proper hardware or software face significant compliance difficulties. Guna and Anuradha (2021) noted that smaller businesses struggle most due to resource limitations. Pandit (2017) stressed that strong IT systems facilitate efficient compliance, and better digital adaptation can overcome most GST-related challenges (Tyagi et al., 2019; Mehta & Mukherjee, 2021; Desai et al., 2024).

### **6.11 Reverse Charge Mechanism (RCM) Issues**

RCM provisions have added to the compliance burden of registered taxpayers (Pandit, 2017; Harishekar & Manoj, 2021). Ghosh (2022) observed that RCM can negatively impact working capital. Since GST implementation, these provisions have contributed to increased compliance challenges and tax evasion risks (Vij, 2018; Mehta & Mukherjee, 2021). The inverted duty structure and difficulties in availing input tax credit further complicate matters for MSMEs.

### **6.12 HSN/SAC-Related Issues**

Proper disclosure of HSN or SAC codes has become a significant compliance burden (Popat & Raval, 2023). Mehta and Mukherjee (2021) highlighted ambiguities in product classification, which can result in incorrect tax rates and litigations. Indhumathi and Jambunathan (2019) and Kothari (2019) recommend user-friendly billing modules to integrate HSN/SAC codes efficiently.

### **6.13 Items Outside GST**

Excluding certain items, such as petroleum and electricity, from GST creates hurdles in claiming input tax credits (Dhillon & Gautam, 2022; Vij, 2018; Deshmukh et al., 2022; Shome, 2021). This can lead to cascading effects and increased production costs. Experts suggest including these items to reduce compliance complexity and maintain revenue neutrality (Haran & Ojha, 2021; Mukherjee & Rao, 2015).

## **7. POSITIVE AND NEGATIVE EFFECTS OF GST ON MSMEs**

GST has brought both opportunities and challenges for MSMEs. Eugene and Chellammal (2018) observed that operational costs have reduced due to a unified tax system, easing interstate trade and logistics. However, monthly returns, state-wise record maintenance, and mandatory e-commerce registration increase compliance costs. Kritika Somani (2018) noted benefits such as improved competitiveness, centralized registration, flexible goods movement, and enhanced transparency, but also challenges like dependence on CAs and mandatory digitization. Lavanya Kumari (2017) highlighted GST's role in removing cascading taxes and promoting a unified market, while Joseph JK (2020) emphasized ease of business, expanded markets, and reduced logistics costs. Puri (2022) pointed out high compliance costs as a major hurdle but acknowledged the positive effects, including easier business startups and better consumer access.

## **8. POLICY INTERVENTIONS AND GOVERNMENT INITIATIVES**

The government has taken several initiatives to ease GST adoption. Digital compliance mechanisms like e-invoicing and QRMP schemes reduce informal transactions and compliance costs while ensuring accountability (Kadaba et al., 2023; Kankariya, 2021). E-way bills enable real-time tracking of goods, reducing evasion and promoting transparency (Kumar & Mehta, 2024). Awareness programs, digital literacy workshops, and grievance platforms help MSMEs adapt to the digital GST framework (Yadav, 2025). By formalizing MSMEs, GST has improved access to credit, participation in tenders, and competitiveness in domestic and global markets (Srinivasu & Prathyusha, 2025).

## **9. CONCLUSION**

The introduction of the Goods and Services Tax (GST) changed the way Micro, Small, and Medium Enterprises (MSMEs) work in India. Earlier, these businesses had to deal with many state and central taxes, each with different rules and checkpoints. This caused delays, higher costs, and made it difficult for them to grow. GST replaced this complicated system with one unified tax, creating a national market. For many MSMEs, this meant easier trade across states, more consistent rules, and better growth opportunities. Features like e-invoicing, e-way bills, and the input tax credit (ITC) system also promoted transparency, proper record-keeping, and better access to formal credit.

At the same time, the shift to GST has not been easy for all businesses. Larger companies with more resources could adjust quickly, but smaller firms often faced problems. Frequent return filings, technical errors on the GST portal, and the cost of hiring accountants or buying

software made things difficult. Many business owners, especially in rural and semi-urban areas, struggled with poor internet access and low digital awareness. Instead of feeling simple, GST sometimes became a burden, creating a gap between bigger, well-prepared companies and smaller ones still adapting.

To reduce these challenges, the government introduced support schemes. The Composition Scheme allowed small firms to pay tax at a lower, fixed rate with simpler rules, while the QRMP scheme let them file returns quarterly instead of monthly. These measures helped reduce the pressure on small businesses. However, for GST to truly benefit MSMEs, there is still a need to make compliance simpler, reduce costs, and improve digital literacy. If these efforts continue, GST can become more than just a tax reform it can be a foundation for growth, giving MSMEs the chance to expand, compete fairly, and strengthen their role in India's economy.

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