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# GST COMPLIANCE CHALLENGES FACED BY SMALL BUSINESSES IN INDIA: A LITERATURE REVIEW

***Tejal Maurya**

*An Analysis of Statutory Requirements, Operational Hurdles, and Policy Responses.*

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***Corresponding Author: Tejal Maurya**
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## ABSTRACT

The Goods and Services Tax (GST), introduced on 1 July 2017, transformed India's indirect-tax framework by replacing several Central and State levies and creating a technology-enabled compliance system. Although GST seeks to reduce cascading taxes, improve market integration, and strengthen transparency, its compliance architecture can impose disproportionate administrative and financial burdens on small businesses with limited accounting capacity, digital infrastructure, and working capital. This literature review examines statutory provisions, official guidance, and selected academic literature concerning registration, return filing, input tax credit (ITC), digital compliance, professional costs, regulatory change, and liquidity pressures. It also considers relief measures such as the Quarterly Return Monthly Payment (QRMP) scheme and GST Council recommendations. The review concludes that simplification must be assessed not only by filing frequency but also by the practical ability of small taxpayers to comply accurately and at reasonable cost.

**KEYWORDS:** GST, small businesses, tax compliance, input tax credit, GSTN, compliance cost, CGST Act, digital taxation, India.

## 1. INTRODUCTION

The constitutional framework for GST was introduced by the Constitution (One Hundred and First Amendment) Act, 2016. The principal GST statutes, including the Central Goods and Services Tax Act, 2017 (CGST Act) and the Integrated Goods and Services Tax Act, 2017 (IGST Act), came into force on 1 July 2017. GST replaced several Central and State indirect taxes and operates through CGST and State GST (SGST) on intra-State supplies, Union Territory GST (UTGST) where applicable, and IGST on inter-State supplies and specified transactions.

GST compliance is largely administered through the Goods and Services Tax Network (GSTN) and related portal systems. Registration, invoice reporting, return filing, tax payment, and ITC reconciliation therefore require reliable records, digital access, and compliance with statutory timelines. For enterprises with dedicated tax teams and established accounting systems, digital processes may improve standardisation. For small proprietorships and informal-sector businesses, however, the same processes may create recurring procedural costs and operational disruption.

## 2. OBJECTIVES OF THE STUDY

- To examine statutory and administrative compliance requirements applicable to small businesses under Indian GST law.
- To identify the principal operational and financial challenges faced by small taxpayers.
- To assess the role of the GSTN and digital infrastructure in GST compliance.
- To analyse the effect of compliance costs and working-capital constraints on smaller enterprises.
- To review policy measures intended to reduce compliance burdens.
- To propose reforms for a more proportionate and accessible compliance framework.

## 3. RESEARCH METHODOLOGY

This study adopts a qualitative, secondary-source literature-review methodology. It draws upon the CGST Act, 2017; the IGST Act, 2017; CGST Rules, 2017; official GST portal guidance; GST Council material; CBIC publications; and selected academic literature. The material is analysed thematically across registration, return filing, ITC reconciliation, digital adaptation, compliance costs, regulatory change, and liquidity effects.

## 4. LEGAL AND REGULATORY FRAMEWORK

GST law contains mechanisms that may reduce compliance burdens for eligible smaller taxpayers, although each mechanism has conditions and limitations. Registration thresholds, composition eligibility, and return-filing options must be assessed with reference to the taxpayer's nature of supply, turnover, location, and applicable statutory exceptions.

### 4.1 Comparative Analysis of Statutory Compliance Mechanisms

The table below provides a structured comparative overview of the principal statutory options available to small taxpayers under the CGST Act, detailing their legal basis, coverage eligibility, key compliance duties, and limitations.

| Scheme / | Legal Basis Provision | Eligibility & Coverage | Main Compliance Duties & Limitations |
|---|---|---|---|
| **Regular Registration** | Sections 22–24, CGST Act, 2017 | Depends on applicable turnover thresholds (e.g., ₹20L/₹40L for goods). Mandatory for inter-State suppliers and e-commerce operators. | **Duties:** Invoice reporting (GSTR-1), monthly summary filing & tax payment (GSTR-3B), ITC reconciliation. **Limitations:** High administrative burden and strict recurring deadlines. |
| **Composition Scheme** | Section 10, CGST Act, together with rules & notifications | Eligible taxpayers with aggregate turnover up to ₹1.5 Crore (₹75 Lakhs for special category States). Excludes inter-State suppliers and e-commerce. | **Duties:** Quarterly statement (CMP-08) and annual return (GSTR-4). Tax paid at flat composition rate. **Limitations:** Cannot collect tax from recipients, cannot claim ITC, and cannot pass ITC to B2B buyers. |
| **QRMP Scheme** | Applicable Rules, Notifications & GST Portal Guidance | Regular registered taxpayers with aggregate annual turnover up to ₹5 Crore in the preceding financial year. | **Duties:** GSTR-1 and GSTR-3B filed quarterly; monthly tax payment via PMT-06. Optional Invoice Furnishing Facility (IFF). **Limitations:** Requires ongoing monthly tax computation and regular bookkeeping despite quarterly return filing. |

Although the composition and QRMP schemes can reduce the frequency of some compliance tasks, they may involve trade-offs. For example, a composition taxpayer cannot ordinarily pass ITC to a business recipient, which can affect commercial preferences in business-to-business transactions.

## 5. THEMATIC ANALYSIS OF COMPLIANCE CHALLENGES

### 5.1 Registration and Classification

Determining whether registration is required may involve turnover thresholds, the nature and place of supply, mandatory-registration provisions, and statutory exceptions. Small businesses may also face difficulty in selecting the appropriate Harmonised System of Nomenclature (HSN) or service classification, understanding applicable tax rates, and maintaining registrations in more than one State when required.

### 5.2 Return Filing and Record Keeping

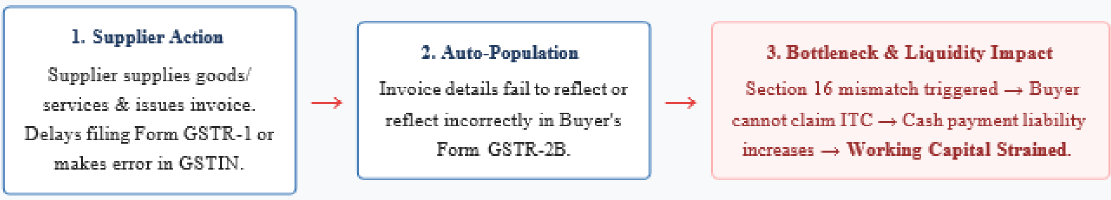
Regular taxpayers must maintain records adequate for periodic reporting and tax payment. Form GSTR-1 reports outward supplies, while Form GSTR-3B is a summary return through which tax liability is declared and tax is paid. The process may require continuous bookkeeping or professional assistance, creating a larger relative burden for sole proprietors and small firms with limited administrative staff.

### 5.3 ITC Eligibility and Reconciliation

ITC eligibility and invoice-data reconciliation are major compliance concerns. Section 16 of the CGST Act imposes strict conditions for availing ITC. Invoice information reflected in Form GSTR-2B is an important compliance reference, but a taxpayer must satisfy all applicable statutory conditions; ITC should not be described as automatically granted or automatically denied solely because of a portal mismatch.

Supplier-side delays, inaccurate invoice details, and errors in GSTIN or tax-period reporting can create reconciliation issues. These issues may lead to additional verification, delayed claims, or disputes and can affect the working capital of small purchasers.

FIGURE 1: CONCEPTUAL FLOW OF ITC RECONCILIATION BOTTLENECKS & WORKING CAPITAL IMPACT




### 5.4 Digital Adaptation and GSTN Interface

GST compliance requires digital literacy, dependable connectivity, and appropriate record-management practices. Portal downtime, peak-period congestion, changes in return utilities, and unfamiliarity with online procedures may create a greater risk of error or delay for small taxpayers, especially where professional support is limited.

### 5.5 Compliance Costs

Compliance costs include accounting software, hardware, internet access, professional fees, staff time, and the cost of correcting errors. Because many of these costs are fixed or semi-fixed, they may represent a larger proportion of turnover for a small firm than for a large corporation. This may create a regressive effect even where the legal obligations are formally uniform.

**Key Insight: Regressive Impact of Compliance Costs**

For micro and small enterprises (MSEs), compliance expenses—such as monthly retainer fees for tax consultants and specialized software subscriptions—operate as fixed administrative overheads. Consequently, compliance costs as a percentage of gross revenue are significantly higher for small businesses than for large corporations, creating a regressive financial burden.

### 5.6 Regulatory Change

GST has developed through legislation, rules, notifications, circulars, rate changes, and portal advisories. Frequent changes can be difficult for smaller businesses to track and implement, particularly where they lack a dedicated legal or tax department.

### 5.7 Working Capital and Cash Flow

GST liability generally arises at the applicable time of supply. The timing difference between payment obligations and the receipt of payment from customers may create liquidity pressure, particularly for small suppliers that sell on credit. Delays in credit availability, refunds, or reconciliation can intensify this pressure.

## 6. REVIEW OF SELECTED LITERATURE

Academic writing on GST and small enterprises commonly identifies a mixed effect. The reform may improve market integration and formalisation, but the transition to digital compliance can generate adjustment costs, especially for firms with limited technological and professional resources. Published research should be cited only after verifying the author, journal, volume, issue, pages, and publication date.

| Source & Study Focus | Key Findings & Scope | Relevance to Current Review |
|---|---|---|
| **Pandit (2017)** *Inspira-Journal of Commerce, Economics & Computer Science* | Examines early GST adoption and transitional challenges for Indian MSMEs during the initial implementation phase. | Discusses the critical need for technical training, information-technology infrastructure investment, and legal awareness during structural tax transitions. |
| **Chennathur & Anuradha (2021)** *Vision: The Journal of Business Perspective* | Systematically reviews GST effects on small and moderate business units across multiple operational parameters. | Considers both potential benefits (market access, formalisation) and practical burdens (administrative overheads, compliance complexity). |
| **Official GST Materials** *CBIC & GST Council Publications* | Provides statutory rules, administrative guidance, portal advisories, and official policy recommendations. | Serves as primary source data for legal requirements, return procedures, eligibility criteria, and administrative relief mechanisms. |

## 7. POLICY DEVELOPMENTS

The GST Council and tax authorities have continued to address procedural issues through recommendations, notifications, and administrative measures. The 56th GST Council meeting, held in September 2025, included recommendations concerning GSTAT operationalisation and other GST matters. Recommendations should be distinguished from provisions that have already been enacted, notified, or implemented.

The official press material for the 56th meeting stated that GSTAT would be made operational for accepting appeals before the end of September 2025 and would commence hearings before the end of December 2025. Any account of the Tribunal's operational status should be supported by the relevant notification or official update current on the date of submission.

Policy discussions on simplified registration, faster refunds, risk-based compliance, and improved ITC error-correction mechanisms remain relevant to small businesses. The practical effectiveness of these measures depends on their formal adoption and implementation.

## 8. SUGGESTIONS AND POLICY RECOMMENDATIONS

- **Targeted Relief for Minor Credit-Related Errors:** Consider a statutory or administrative mechanism that allows correction of bona fide clerical errors without disproportionate denial of ITC, while preserving safeguards against fraud.
- **Simplified Annual Compliance for Small Taxpayers:** Consider an auto-populated annual declaration for eligible small taxpayers, subject to appropriate verification and

record-retention requirements.

- **Liquidity-Sensitive Compliance Measures:** Examine whether carefully designed relief is appropriate where small suppliers face documented and prolonged non-payment by large buyers.
- **Accessible Legal-Literacy Support:** Establish or strengthen free GST helpdesks and training support through MSME facilitation centres and local outreach programmes.
- **Regular Correction Windows:** Provide clear and proportionate opportunities to correct inadvertent, non-fraudulent reporting errors before escalation to penalty-oriented proceedings.

## 9. CONCLUSION

GST has strengthened the integration and digitisation of India's indirect-tax system. However, the same compliance structure may impose disproportionate costs on small businesses with limited capital, staff, and technological capability. Registration decisions, periodic reporting, ITC reconciliation, portal dependence, and cash-flow timing can combine to create a significant administrative burden.

Relief schemes such as QRMP can reduce some filing frequency, but effective simplification requires more than fewer return dates. A proportionate GST framework should promote accurate compliance while providing clear guidance, practical correction mechanisms, accessible support, and procedures calibrated to the capacity of small taxpayers.

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