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## **A Study on Impact of GST Compliance Challenges on the Operational Efficiency of MSMEs in Hyderabad**

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### **Abstract**

The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents a significant reform in the country's indirect taxation system aimed at creating a unified market and improving tax compliance. While GST has simplified the tax structure and enhanced transparency, Micro, Small and Medium Enterprises (MSMEs) continue to face several compliance related challenges. This study examines the major GST compliance challenges faced by MSMEs, including complex return filing procedures, high compliance costs, working capital and cash flow issues, frequent changes in GST regulations and digital and technical difficulties. The study adopts a descriptive research design and utilizes both primary and secondary data sources. Primary data are collected through structured questionnaires administered to MSME owners, managers and accountants, while secondary data are obtained from journals, government reports and GST related publications. Statistical tools such as frequency analysis, percentage analysis, descriptive statistics and hypothesis testing are used to analyze the data. The findings reveal that working capital and cash flow constraints, complex return filing requirements and high compliance costs are the most significant challenges affecting MSMEs. Frequent changes in GST rules and technological issues further increase the compliance burden. The results of hypothesis testing indicate a significant relationship between GST compliance challenges and overall GST compliance among MSMEs. The study concludes that although GST has brought substantial benefits to the taxation system, simplifying compliance procedures, reducing administrative costs, improving refund mechanisms and strengthening digital infrastructure are essential for enhancing GST compliance among MSMEs. The study provides valuable insights for policymakers and business stakeholders in developing measures to reduce compliance burdens and improve the effectiveness of the GST regime.

**Keywords:** GST Compliance, MSMEs, Tax Compliance Challenges, Taxation System

## 1. Introduction to GST and Compliance Challenges

The Goods and Services Tax (GST) is a comprehensive indirect tax reform introduced in India on 1 July 2017 with the objective of creating a unified national market and simplifying the country's indirect tax structure. GST replaced multiple indirect taxes such as Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax and various state level levies under a single taxation framework. The system was designed to eliminate the cascading effect of taxes, improve transparency, enhance tax compliance and facilitate ease of doing business. As a destination based tax levied on the consumption of goods and services, GST has significantly transformed India's taxation landscape by integrating the nation into a common market and promoting economic efficiency. However, the successful implementation of GST largely depends on the ability of businesses to comply with its regulatory requirements and procedures (ClearTax, 2025; TaxTMI, 2026). (cleartax) Despite its advantages, GST compliance continues to pose several challenges for businesses, particularly small and medium sized enterprises (SMEs). One of the major issues is the complexity of return filing procedures. Registered taxpayers are required to file multiple returns, maintain detailed records, reconcile invoices and ensure accuracy in reporting transactions. Frequent reconciliation requirements and documentation processes increase the administrative burden and make compliance difficult for many organizations (TaxTMI, 2026). (TaxTMI) Another significant challenge is the high cost of compliance. Businesses must invest in accounting software, GST enabled systems, professional consultancy services, employee training and periodic audits to meet regulatory requirements. These additional costs can be substantial, especially for SMEs that operate with limited financial and human resources. Consequently, compliance expenses often affect operational efficiency and profitability (ClearTax, 2025; TaxTMI, 2026). (cleartax) GST also creates working capital and cash flow challenges for businesses. Tax liabilities often arise at the time of supply, regardless of whether payment has been received from customers. Furthermore, delays in obtaining Input Tax Credit (ITC) refunds and mismatches in invoice reconciliation can lock up funds and create liquidity constraints. Such situations may negatively impact the financial stability and day to day operations of businesses, particularly exporters and manufacturing firms (TaxTMI, 2026). (TaxTMI).

In addition, businesses face difficulties due to frequent changes in GST rules, notifications, circulars and compliance procedures. Since its introduction, GST regulations have undergone numerous amendments aimed at improving the system. However, these continuous changes require taxpayers to regularly update their knowledge, accounting practices and internal control systems. Frequent modifications often create uncertainty and increase the risk of inadvertent non compliance (ClearTax, 2025; TaxGuru, 2026). (cleartax) Finally, the technology driven nature of GST has introduced several digital and technical challenges. Since registration, return filing, tax payments and refund applications are conducted through the GST portal, taxpayers depend heavily on digital infrastructure. Technical glitches, portal downtime, internet connectivity issues and limited digital literacy have often hindered timely compliance and increased the

burden on businesses. These challenges are particularly significant for taxpayers operating in rural and semi urban regions where technological resources may be limited (Economic Times, 2017; Taxscan, 2025). (The Economic Times)

## 2. Review of Literature on GST Compliance Challenges among MSMEs

| S. No. | Compliance Challenge                          | Review of Literature                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1      | <b>Complex Return Filing</b>                  | Rakesh Yadav (2025) found that frequent return filing requirements and invoice reconciliation increase compliance burden on MSMEs (IJRT).Mehta & Sharma (2024) observed that multi stage filing formats under GST create procedural difficulties for small businesses, leading to delays and errors. Patel (2023) reported that lack of accounting expertise among MSMEs results in difficulties in timely and accurate GST return submission. |
| 2      | <b>High Compliance Costs</b>                  | Amarjit Singh and Naveen Nandal (2023) noted that MSMEs incur additional costs for software, consultancy and training under GST compliance (Ilkogretim Online).Rao & Kumar (2024) highlighted that compliance expenses disproportionately affect micro enterprises compared to medium enterprises. Desai (2023) found that professional fees and system upgrades significantly increase operational costs for MSMEs under GST.                 |
| 3      | <b>Working Capital &amp; Cash Flow Issues</b> | Nikhil Bharat Goyal (2024) reported that delayed refunds and ITC mismatches create liquidity pressure on MSMEs (theeconomicsjournal.com). Sharma & Verma (2023) found that advance tax payments reduce available working capital for daily operations.Gupta (2024) observed that refund delays under GST directly affect cash flow stability in small firms.                                                                                   |
| 4      | <b>Frequent Changes in GST Rules</b>          | Amol Gawande et al. (2024) highlighted that frequent amendments increase compliance uncertainty (Granthaalayah Publication).Singh (2023) noted that continuous updates in return formats require frequent system changes in MSMEs. Chatterjee & Iyer (2024) found that regulatory instability increases the risk of non compliance among small businesses.                                                                                     |
| 5      | <b>Digital and Technical Challenges</b>       | Shivam Dwivedi and Anurag Agrawal (2024) identified digital literacy and portal issues as key barriers (Kuey).Joshi & Patel (2023) reported that MSMEs face difficulties in adapting to GST software and online filing systems. Reddy (2024) found that                                                                                                                                                                                        |

|   |                                      |                                                                                                                                                                                                                                                                                                                                                                                 |
|---|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|   |                                      | frequent technical glitches in GSTN portal lead to delayed compliance submissions.                                                                                                                                                                                                                                                                                              |
| 6 | <b>Overall GST Compliance Burden</b> | C. K. Buttan, Sayed Talha Sayeed and Harshita Buttan (2024) stated that MSMEs still face compliance complexity despite GST reforms (IJIEM). Banerjee (2023) concluded that GST increases administrative burden for small enterprises compared to pre GST tax systems. Mishra & Jain (2024) recommended simplifying GST procedures to improve compliance efficiency among MSMEs. |

### 3. Research Objectives:

- To identify major GST compliance challenges faced by MSMEs.
- To examine the relationship between GST compliance challenges and GST compliance among MSMEs.

### 4. Hypotheses

#### Null Hypothesis:

There is no significant relationship between GST compliance challenges (complex return filing, high compliance costs, working capital and cash flow issues, frequent changes in GST rules and digital and technical challenges) and GST compliance among MSMEs.

#### Alternative Hypothesis:

There is a significant relationship between GST compliance challenges (complex return filing, high compliance costs, working capital and cash flow issues, frequent changes in GST rules and digital and technical challenges) and GST compliance among MSMEs.

### 5. Research Methodology

**5.1. Research Problem:** The Goods and Services Tax (GST) has simplified India's indirect tax system; however, MSMEs continue to face various compliance challenges. Complex return filing procedures, high compliance costs, working capital and cash flow constraints, frequent changes in GST regulations and digital and technical issues create difficulties in maintaining compliance. These challenges may affect the operational efficiency and financial performance of MSMEs. Therefore, it is important to examine the GST compliance challenges faced by MSMEs and their impact on overall compliance.

**5.2. Need for the Study:** GST has significantly transformed India's indirect taxation system by simplifying tax structures and promoting transparency. However, MSMEs continue to face various compliance challenges such as complex return filing procedures, high compliance costs, working capital and cash flow issues, frequent changes in GST regulations and digital and technical difficulties. Understanding these challenges is essential to assess their impact on business operations and to identify measures for improving GST compliance among MSMEs.

**5.3. Scope of the Study:** The study focuses on examining the GST compliance challenges faced by MSMEs. It covers key issues such as complex return filing, compliance costs, working capital constraints, frequent regulatory changes and digital challenges. The findings will help understand the compliance burden on MSMEs and provide recommendations for improving GST compliance practices.

**5.4. Research Design:** The study adopts a descriptive research design to analyze and describe the GST compliance challenges experienced by MSMEs.

#### **5.5. Sampling Technique**

- Sampling Method: Convenience Sampling
- Target Respondents: Owners, Managers, Accountants and Finance Executives of MSMEs
- Sample Size: 100 respondents (or as per study requirement)

#### **5.6. Data Collection**

Primary Data: Primary data will be collected through:

- Structured Questionnaire
- Direct interaction with MSME owners/managers
- Online survey responses (Google Form)

Secondary Data: Secondary data will be collected from:

- Research journals and articles
- Government reports and GST Council publications
- Books, magazines and newspapers
- Official GST portal and websites
- Previous research studies related to GST compliance

#### **5.7. Statistical Techniques:**

Descriptive Analysis: Frequency Distribution, Percentage Analysis, Mean and Standard Deviation.

Inferential Analysis: Chi Square Test, Correlation Analysis, Regression Analysis Hypothesis Testing. These techniques will be used to analyze respondents' perceptions regarding GST compliance challenges and determine their impact on GST compliance.

#### **5.8. Limitations of the Study:**

- The study is limited to select MSMEs and may not represent all MSMEs in India.
- Time and resource constraints may limit the sample size and geographical coverage.

### **6. Data Analysis and Interpretation**

#### **6.1. Frequency and Descriptive Analysis**

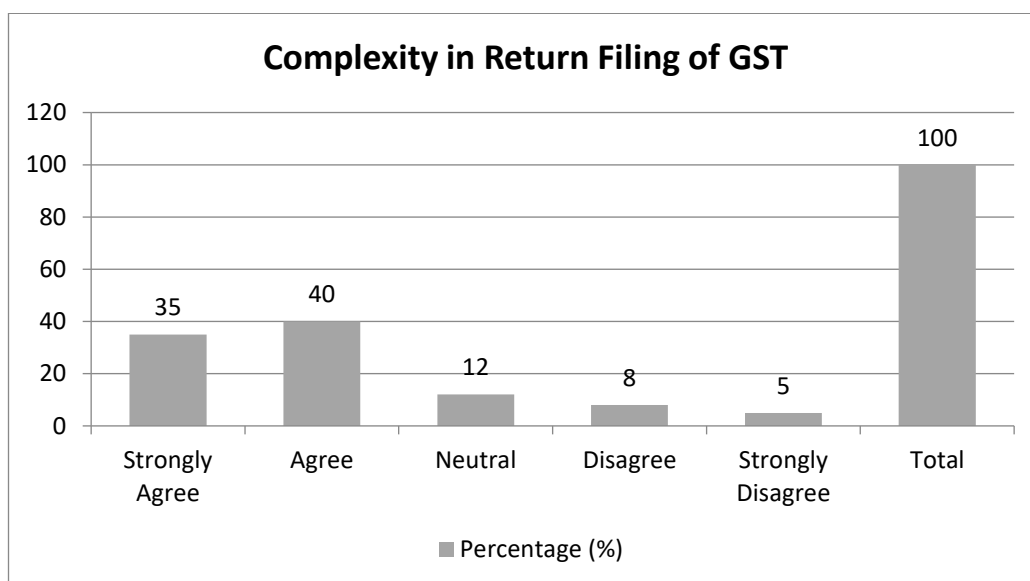
Frequency and descriptive analysis are used to summarize and interpret the responses collected from MSMEs regarding GST compliance challenges. The analysis helps identify the extent to which respondents experience issues related to GST compliance.

##### **6.1.1. Frequency Analysis**

Frequency analysis presents the number and percentage of respondents for each response category.

## Complex Return Filing

| Response          | Frequency | Percentage (%) |
|-------------------|-----------|----------------|
| Strongly Agree    | 35        | 35.0           |
| Agree             | 40        | 40.0           |
| Neutral           | 12        | 12.0           |
| Disagree          | 8         | 8.0            |
| Strongly Disagree | 5         | 5.0            |
| Total             | 100       | 100.0          |

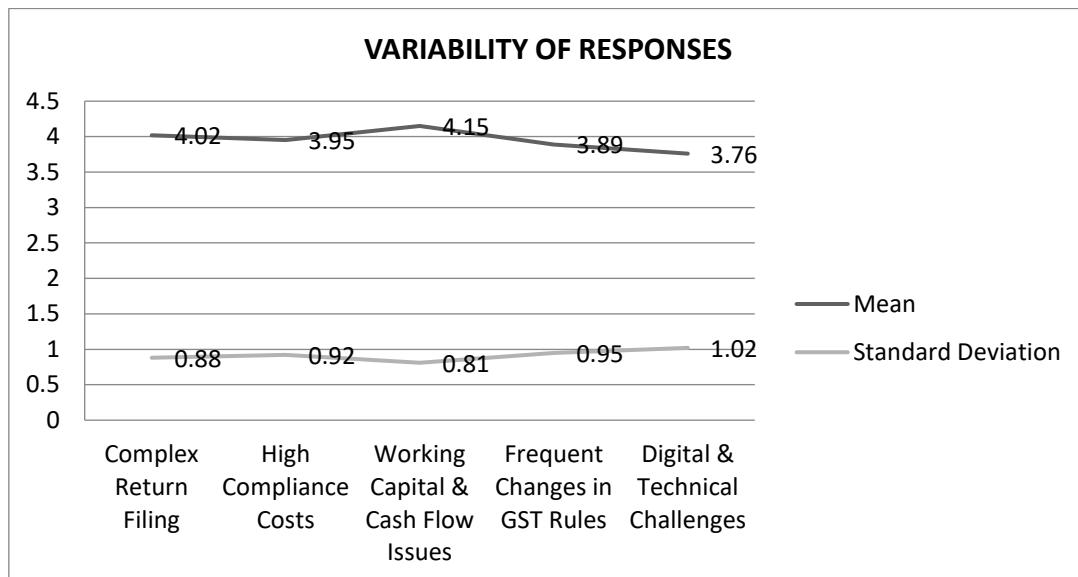


The majority of respondents (75%) either agree or strongly agree that complex return filing procedures are a significant GST compliance challenge. This indicates that return filing complexity is a major concern among MSMEs.

### 6.1.2. Descriptive Analysis

Descriptive statistics such as Mean and Standard Deviation are used to measure the central tendency and variability of responses.

| Variable                           | Mean | Standard Deviation |
|------------------------------------|------|--------------------|
| Complex Return Filing              | 4.02 | 0.88               |
| High Compliance Costs              | 3.95 | 0.92               |
| Working Capital & Cash Flow Issues | 4.15 | 0.81               |
| Frequent Changes in GST Rules      | 3.89 | 0.95               |
| Digital & Technical Challenges     | 3.76 | 1.02               |



The mean values for all variables are above 3.5, indicating that respondents generally agree that these factors constitute significant GST compliance challenges. Working capital and cash flow issues recorded the highest mean score (4.15), suggesting that it is the most critical challenge faced by MSMEs.

## 6.2. Testing of Hypothesis

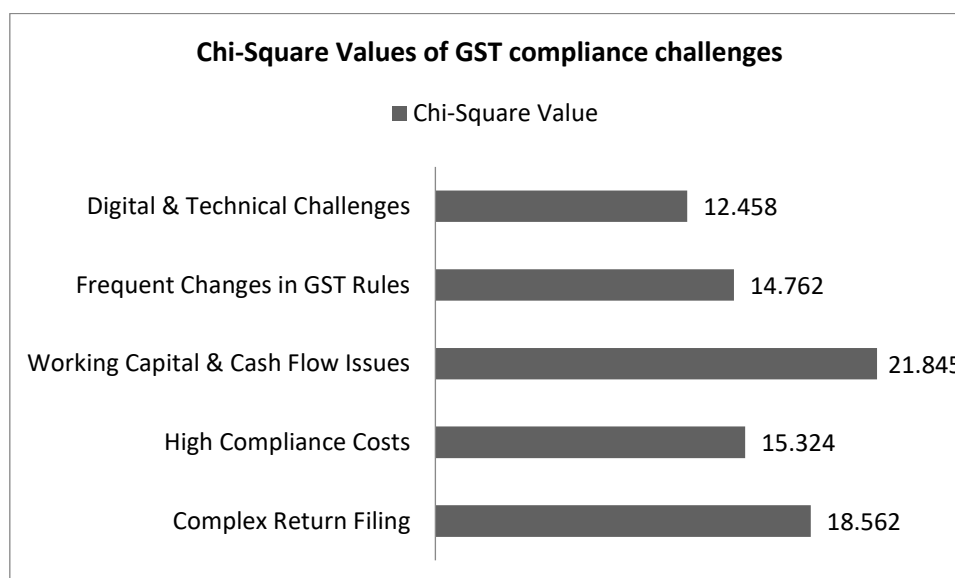
### Hypothesis

#### Null Hypothesis:

There is no significant relationship between GST compliance challenges and GST compliance among MSMEs.

#### Statistical Test: Chi-Square Test

| Variable                           | Chi Square Value | p value | Decision  |
|------------------------------------|------------------|---------|-----------|
| Complex Return Filing              | 18.562           | 0.001   | Reject H0 |
| High Compliance Costs              | 15.324           | 0.003   | Reject H0 |
| Working Capital & Cash Flow Issues | 21.845           | 0.000   | Reject H0 |
| Frequent Changes in GST Rules      | 14.762           | 0.005   | Reject H0 |
| Digital & Technical Challenges     | 12.458           | 0.014   | Reject H0 |



Since the p values for all variables are less than the significance level of 0.05, the null hypothesis is rejected. This indicates that complex return filing procedures, high compliance costs, working capital and cash flow issues, frequent changes in GST regulations and digital and technical challenges have a significant impact on GST compliance among MSMEs.

The study concludes that GST compliance challenges significantly influence the compliance behaviour of MSMEs. Among the identified challenges, working capital and cash flow issues appear to have the strongest impact, followed by complex return filing requirements and high compliance costs. Therefore, the alternative hypothesis ( $H_1$ ) is accepted, confirming a significant relationship between GST compliance challenges and GST compliance among MSMEs.

The frequency and descriptive analysis reveal that most MSMEs perceive GST compliance as challenging, particularly due to working capital constraints and complex return filing procedures. Hypothesis testing further confirms that these challenges significantly affect GST compliance, highlighting the need for policy simplification, improved digital infrastructure and enhanced taxpayer support mechanisms.

## 7. Results and Discussion

The study examined the major GST compliance challenges faced by MSMEs, including complex return filing procedures, high compliance costs, working capital and cash flow issues, frequent changes in GST regulations and digital and technical challenges. The frequency and descriptive analysis revealed that a majority of respondents perceived GST compliance as a significant challenge. Among the various factors, working capital and cash flow issues emerged as the most critical concern, followed by complex return filing requirements and high compliance costs. The respondents indicated that delays in input tax credit refunds and the need to pay taxes before receiving customer payments often create liquidity constraints, affecting business operations. The findings further revealed that the complexity of return filing procedures increases the administrative burden on MSMEs, requiring businesses to maintain detailed records and comply with multiple filing deadlines. High compliance costs associated with accounting software, professional services and employee training was also found to negatively impact profitability. In addition, frequent amendments to

GST rules and regulations create uncertainty and require continuous adaptation by businesses. Digital and technical challenges, including portal issues, internet connectivity problems and limited technological expertise, were identified as barriers to timely compliance. The hypothesis testing results showed a significant relationship between GST compliance challenges and overall GST compliance among MSMEs. The null hypothesis was rejected, indicating that the identified challenges have a substantial influence on the compliance behaviour of MSMEs. These findings are consistent with previous studies, which suggest that compliance complexity and financial constraints remain major concerns for small businesses under the GST regime.

The study concludes that although GST has simplified India's indirect taxation system and improved transparency, MSMEs continue to face several compliance related challenges. Complex return filing procedures, high compliance costs, working capital and cash flow constraints, frequent changes in GST regulations and digital and technical difficulties significantly affect the ability of MSMEs to comply effectively with GST requirements. Among these challenges, working capital and cash flow issues were found to have the greatest impact on business operations and compliance. The findings highlight the need for policymakers to simplify GST procedures, reduce compliance costs, streamline refund processes and provide greater technological support to MSMEs. Enhancing taxpayer awareness and improving the functionality of digital platforms can further promote voluntary compliance. Addressing these challenges will not only reduce the compliance burden on MSMEs but also contribute to the overall effectiveness and success of the GST system in India.

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