

Barriers to GST Compliance in Informal Micro Service Businesses: An Economic Study of Chennai Metropolitan, Tamil Nadu, India

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Abstract

As per the Annual survey of Unincorporated Sector Enterprises, 2026 (ASUSE), India's informal economy contributed 45 percent of the GDP with 80 percent of the informal economy. As well same survey reveals that during the period from January 2025 to December 2025, 7.97 percentage of establishments increased in the country. Significant number of the micro informal enterprises in the Indian economy not enrolled into GST, mainly micro service business like hair cutting, ironing, laundry and small hotels. This study attempts to categorise the micro service business which is not enrolled into the GST and what are the main reason behind not enrolled by gathering primary survey in the informal sector of Chennai municipality of Tamil Nadu. Mainly the research focusing on the hair cutting, ironing, laundry service in Chennai metropolitan city to formalisation of GST. Reason behind this, customers are spending significant amount for these services. It is also mandatory services to all the citizens. What are the practical difficulties that rely to formalisation of these three-service business under the GST will analyse through the structured interview schedule. The study categorised three level of micro service business of haircut, ironing and laundry service. After categorised these services, the study found that the tier one micro service enterprises like 45% haircut, 63% ironing and 70% laundry were eligible to register the GST but they have not registered and they were not following any systematic billing system. Tier two micro service business were eligible but they running this micro service business in the multiple areas with the single owner. Tier three micro service business are running as a family business in the small at their home.

Keywords: Micro service business, Formalisation of GST, Informal Sector, Chennai Metropolitan

Introduction

The 56th Meeting of the GST Council took place in New Delhi from September 3–4, 2025, chaired by the Union Finance Minister Nirmala Sitharaman. The Council deliberated on India's next-generation GST reforms, including rationalisation of tax rates and simplification of compliance. GST Council approves reforms with a multi-sectoral and multi thematic focus on improving the lives of all citizens and ensuring ease of doing business for all, including small traders and businessmen. Next-generation GST reforms, as announced by Prime Minister Shri Narendra Modi from the ramparts of Red Fort on 15th August, 2025, represent a strategic, principled, and citizen-centric evolution of a landmark tax framework, which will enhance the quality of life of every last citizen. It aims to bring relief to the common man, farmers, middle class and MSME, and reducing taxes on essential goods and providing relief to local vendors and consumers. To build an Atmanirbhar Bharat, the Union Government had proposed significant reforms in GST to the Group of Ministers, which had met in August 2025. The reforms were focused on three pillars, namely structural reforms,

rate rationalization and ease of living. The main Objective of the paper is to bring out the Strategies, Policies and Programms which are adopted/implemented by the Government of India under Amrit Kaal Plan for next twenty Five Years to make India as an Advanced Country or Viksit Bharat@2047 when India enters into the 100 the year of Independence and how the New Gen GST 2.0 will be useful for achieving the same. In this paper the analysis has been carried out under two sections. The first section dealt with the India's achievements, failures for the past 79 years, and Philosophy of Amrit Kaal Programme and in the second section dealt with the GST reforms introduced by the government of India under two phases.

Review of related literature

Informal-sector taxation, focusing on taxation, governance, compliance and the relationship between citizens and the state. Their analysis suggests that survival-oriented micro-enterprises should not be treated like larger growth-oriented firms because limited resources and administrative capacity strongly influence their compliance behaviour. **(Joshi, Prichard & Heady, 2014)** Used a critical review method to examine the study on formalisation the capital and labour perspectives. Rather than relying on statistical testing, the study develops a theoretical argument that registration and taxation alone do not calculate the genuine formalisation if workers remain without social and economic protection. **Formalisation from the Labour Perspective (Unni, 2018)** Ghosh uses primary survey data from 157 MSMEs in Delhi, Mumbai and Surat to examine the practical consequences of GST formalisation. This study empirically finds the Input Tax Credit and invoice requirements created market pressure for small firms to register, while compliance requirements and cash-flow problems created additional difficulties. **(Ghosh 2022).**

(Vishnuhadevi & Bindu 2022) Their study having a survey of 247 enterprises in Erode, Tiruppur and Karur, the authors quantitatively compare GST compliance costs across different size of the enterprise. Their analysis shows that the smallest enterprises bear a much higher compliance cost relative to turnover, with micro-enterprises spending around 1.45% of turnover compared with only 0.02% among the largest firms. **(Kesari 2025)** This survey evidences the small businesses that how they identify the different costs involved in maintaining GST compliance, including owner time, training, professional services and accounting software. The study shows that the burden of GST extends well beyond the tax payment itself and includes considerable administrative expenditure for the respective business owners. **(Patil et al. 2025)** This study discussed the interviews of 62 nano-entrepreneurs with 30 Chartered Accountants as a qualitative approach. Their findings show that the digital filing, documentation, penalties and limited knowledge create difficulties for very small businesses. **(Patnaik (2026),** This paper studies large-scale firm-level data covering 12,024 corporate firms to study how GST's Input Tax Credit system encourages formal invoicing and supplier formalisation. Their empirical results show that firms exposed to the earlier cascading tax system increased documented input purchases and reduced their tax payments, demonstrating that formalisation can spread through supply chains. **(Veena, 2026)** The study uses a sectoral and policy-based analysis to examine GST reforms and MSME formalisation especially on digital infrastructure and compliance challenges. This study highlights that digital literacy, internet access and the ability to use online systems can determine whether small enterprises benefit from formalisation. **Singh & Nandal (2020)** This study is an **empirical assessment of MSME compliance requirements** to examine the technological changes introduced by GST. It indicates the computerisation, internet connectivity, accounting software and changing online procedures created significant operational difficulties for small businesses. **(Hussain & Riyaz, 2025)** The study used a qualitative assessment of **SMEs** to compare the business conditions before and after GST. They identify delayed Input Tax Credit, repeated filing requirements, digital-literacy problems and cash-flow pressure as important challenges for smaller firms. **(Anand, 2022)** This study provides a critical sectoral assessment of GST's effect on informal and labour-intensive activities, linking changes in taxation with profitability and employment. The study reports the declining employment and economic pressure in selected informal sectors, particularly where businesses struggle to bear additional costs on to price-sensitive customers.

Research Gap

Taken together, the studies reviewed above show that GST formalisation is not simply a matter of registering a business. The decision to formalise is shaped by compliance costs, digital literacy, administrative capacity, liquidity constraints, customer behaviour, business structure and the perceived benefits of becoming formal. However, the existing literature is largely concentrated on manufacturing MSMEs, large corporate firms, and nano-entrepreneurs in other states and sectors, with very limited attention paid to hyper-local, cash-based personal service businesses such as haircutting,

ironing and laundry/washing. Further, none of the reviewed studies examine these three specific micro service categories together, nor do they capture both the shop owners' and customers' perspectives simultaneously within a single Metropolitan setting such as Chennai. This gap is addressed in the present study, which categorises haircutting, ironing and laundry/washing units into three tiers and examines the barriers to GST formalisation from the standpoint of both the micro service business owners and their customers in Chennai Metropolitan.

Brief History of GST in India

The introduction of the Goods and Services Tax (GST) on July 1, 2017, represented the biggest momentum in India's post-independence fiscal history (Lourdunathan & Xavier, 2017 & Bansal et al., 2024; Poddar, 2025). The previous indirect tax system was combined as a complex and multi-layered structure comprising numerous central and state-level levies, including Value Added Tax (VAT), excise duties, service taxes, and various entry taxes, which created cascading effects and administrative inefficiencies (Sharmeen & Arora, 2026). The fragmented tax regime resulted in significant compliance complexities, higher costs for businesses, and opportunities for tax evasion that undermined revenue mobilization efforts across both central and state governments (Debroy & Misra, 2023). The 101st Constitutional Amendment Act of 2016 paved the way for GST implementation, fundamentally altering India's federal fiscal architecture by consolidating indirect taxation powers (Swaroop et al., 2025). GST was envisioned as a destination-based consumption tax that would create a unified, integrated market while simultaneously enhancing economic efficiency and formalizing the informal sector (Indumati, 2024; Adhana & Raghuvanshi, 2019; Iyer et al., 2024). The reform embodied the principle of "One Nation, One Tax," symbolizing a shift from a fractured state-level tax regime to a cohesive national framework that would facilitate seamless interstate commerce and improve economies of scale for businesses. According to the GST Council of India, Rs. 8,76,770 crore was collected in GST during 2017–2018. There was a significant increase in 2025–2026, reaching Rs. 16,75,697 crores. This shows that there has been an increase in the registration of businesses and taxpayers in the country.

Statement of the Problem

The collection includes GST before September 2025 and after. This means it includes GST 2.0. All the GST collected is from the formal sector in India. These are not included for the informal sector or informal enterprises. One of India's principal motives for GST is "One Nation, One Tax." Likewise, everyone needs to benefit from the government; everyone needs to pay tax. Formalisation of GST also one of the formalisations of the informal economy to the formal economy of the country. This will lead to achieve the "Vikshit Bharat 2047". For this it is mandatory to make the GST tax payers easy to make the GST registration, tax payment and returns. In the informal sector, particularly metropolitan city like Chennai, Thiruvananthapuram, Mumbai, Kolkatta, Delhi and Bengaluru. For the mentioned purpose of this study to understand the Barriers on GST Formalisation especially to the Informal Micro Service Businesses in Chennai, Metropolitan, Tamil Nadu, India.

Objectives of the Study

The specific objectives framed for the present study are as follows:

1. To categorise the micro service business units engaged in haircutting, ironing and laundry/washing services in Chennai Metropolitan into tiers, based on their scale of operation, ownership pattern and eligibility for GST registration.
2. To examine the level of awareness among the owners of these micro service business units regarding GST provisions, registration procedures and the systematic billing system.
3. To identify the practical difficulties and barriers faced by the owners of haircutting, ironing and laundry/washing units in registering under GST and adopting formal billing practices.
4. To study the perception, spending pattern and attitude of the customers of haircutting, ironing and laundry/washing services towards billing and formalisation of these services under GST.
5. To offer suitable suggestions to ease GST formalisation for informal micro service businesses, based on the views expressed by shop owners and customers.

Research Methodology

The present study adopts a descriptive-cum-analytical research design to examine the barriers to GST formalisation among informal micro service businesses in Chennai Metropolitan, Tamil Nadu. The study is based on both primary and secondary data.

Primary data were collected directly from the field through a structured interview schedule, separately designed for two categories of respondents: (i) owners of micro service business units engaged in haircutting (barber shops/saloons), ironing and laundry/washing services, and (ii) customers availing these three services in Chennai Metropolitan. The interview schedule for shop owners covered aspects such as nature and scale of the business, ownership pattern, monthly turnover, awareness of GST provisions, registration status, billing practices, and the practical difficulties faced in formalisation. The interview schedule for customers covered aspects such as frequency and monthly spending on these services, awareness of GST applicability to such services, preference for a formal bill/receipt, and willingness to pay GST if these services are formalised.

The universe of the study comprises the informal micro service business units and their customers located within Chennai Metropolitan area. Since the total population of such informal micro service business units in Chennai Metropolitan was not known, the study adopted convenience sampling technique to select the respondent units. A total of 179 micro service business owners were surveyed, comprising 83 haircutting shops (saloons/barber shops) and 96 laundry service units (covering both ironing and washing/laundry business) operating in different localities of Chennai Metropolitan. In addition, 145 customers availing haircutting, ironing and laundry/washing services were also selected as respondents, in order to understand the extent of implementation of GST in such micro service businesses from the customer's point of view. The survey was confined to the IT hub and college-agglomerate localities of Chennai Metropolitan, namely Sholinganallur, Perungudi and Kelambakkam, which are characterised by a dense concentration of IT/ITES employees, students and a corresponding cluster of micro service business units catering to this population. The field survey was conducted over the period from 14th February 2024 to 24th August 2024.

Secondary data were drawn from the Annual Survey of Unincorporated Sector Enterprises (ASUSE), 2026, reports and press releases of the GST Council of India, and relevant published literature.

The primary data collected were tabulated and analysed using simple percentage analysis and cross-tabulation. Based on scale of operation, ownership pattern and GST eligibility, the sampled micro service business units were classified into three tiers, namely Tier One, Tier Two and Tier Three, and the results are presented and interpreted in the following section.

BARRIERS ON GST FORMALISATION

Table No- 1: Type of Service

Type of service	Frequency	Percentage
Haircutting/Saloon	83	46.4%
Ironing	41	22.9%
Laundry/Washing	38	21.2%
Ironing + Washing combined	17	9.5%
Total	179	100.0%

Source: Primary Data

From the table it is noted that type of Service of the 179 micro service enterprises surveyed, haircutting and saloon services form the single largest category, accounting for close to half the sample (46.4%). Ironing and laundry/washing units together make up a comparable share (44.1% combined), while a small minority (9.5%) combine ironing and washing under one roof. This confirms the sample is reasonably balanced between personal-grooming and garment-care services.

Table No- 2: Locality of Business Unit

Locality	Frequency	Percentage
Sholinganallur	76	42.5%
Perungudi	58	32.4%
Kelambakkam	39	21.8%
Other	6	3.3%
Total	179	100.0%

Source: Primary Data

Above table inferred that Sholinganallur accounts for the largest share (42.5%), followed by Perungudi (32.4%) and Kelambakkam (21.8%). This concentration reflects the deliberate targeting of Chennai's IT-corridor and college-agglomerate belt, meaning the findings speak most directly to formalisation barriers in a high-growth, urbanising commercial corridor.

Table No- 3: Ownership Pattern

Ownership pattern	Frequency	Percentage
Single owner, single outlet	141	78.8%
Single owner, multiple outlets	12	6.7%
Family-run (home-based)	26	14.5%
Total	179	100.0%

Source: Primary Data

It is noted that ownership pattern an overwhelming majority (78.8%) are single-owner, single-outlet units. With almost no multi-outlet operations, cross-location turnover aggregation often a GST-liability trigger is largely irrelevant here; the barriers identified are essentially those facing individual proprietors.

Table No- 4: State of Origin / Mother Tongue of Owner

Origin	Frequency	Percentage
Native Tamil (Tamil Nadu)	98	54.7%
Migrant – North India	61	34.1%
Migrant – Other state	20	11.2%
Total	179	100.0%

Source: Primary Data

It is observed from the surveyed data that date of origin / Mother Tongue of Owner Just over half (54.7%) are native Tamil speakers; migrants make up 45.3% combined. This sizeable migrant presence means remedies like Tamil-language guidance material would need language-inclusive design to reach nearly half the ownership base.

Table No- 5: Years in Operation and Workforce Size

Category	Frequency	Percentage
Below 3 years	44	24.6%
3 – 7 years	69	38.5%
7 – 15 years	47	26.3%
Above 15 years	19	10.6%
Total	179	100%
Workers:1 (owner only)	52	29.1%
Workers: 2 – 3	87	48.6%
Workers:4 or more	40	22.3%
Total	179	100%

Source: Primary Data

Years in Operation and Workforce Size Most units have operated 3–7 years (38.5%), and nearly half employ 2–3 workers (48.6%), with 29.1% run solely by the owner. This confirms a small-scale, labour-light sector, reinforcing the paper's human-capital-as-investment argument.

Table No- 6: Approximate Average Monthly Turnover

Turnover slab	Frequency	Percentage
Below ₹50,000	38	21.2%
₹50,000 - ₹1,00,000	71	39.7%
₹1,00,000- ₹1,50,000	51	28.5%
Above ₹1,50,000	19	10.6%
Total	179	100.0%

Source: Primary Data

Approximate Average Monthly Turnover Most units cluster in the ₹10,000–₹40,000 range. Since this sits below typical GST registration thresholds, most sampled businesses are, in principle, legitimately outside mandatory registration important context for the awareness tables that follow.

Awareness of GST and GST 2.0

Table No- 7: Awareness that GST Provisions Apply to the Business

Response	Frequency	Percentage
Yes	54	30.2%
No	79	44.1%
Partially aware	46	25.7%
Total	179	100.0%

Source: Primary Data

From the above table it was observed that awareness that GST provisions apply 44.1% believe GST doesn't apply to them, 25.7% are only partially aware. Read against Table 6, some of this may be technically correct, but it also signals a broader knowledge gap about GST as a system.

Table No- 8: Awareness Before vs After GST 2.0 Reforms (September 2025)

Response	Before GST 2.0 (n, %)	About GST 2.0 itself (n, %)
Yes	41 (22.9%)	37 (20.7%)
No	97 (54.2%)	89 (49.7%)
Partially aware	41 (22.9%)	53 (29.6%)

Source: Primary Data

Awareness Before vs After GST 2.0 Reforms Awareness shifted only marginally post-reform (unaware: 54.2%→49.7%), suggesting the GST 2.0 changes did little to independently raise awareness among this segment national reforms aren't reaching small operators on the ground.

Table No- 9: Knowledge of the Mandatory Registration Turnover Threshold

Response	Frequency	Percentage
Yes	39	21.8%
No	140	78.2%
Total	179	100.0%

Source: Primary Data

Knowledge of the Mandatory Registration Threshold Only 21.8% know the actual threshold. Even owners aware of GST generally can't identify the specific number determining their liability a sharper, more practical knowledge gap than general awareness alone.

Table No- 10: Source of GST Awareness

Source	Frequency	% of aware respondents
Government notice/GST office	14	14.0%
Trade association/local shop owners' group	22	22.0%
Chartered Accountant/Tax consultant	18	18.0%
Newspaper/TV/Social media	31	31.0%
Other shop owners	27	27.0%

*Percentages exceed the base as the question permits multiple responses. (multiple response, base = aware/partially aware, n = 100)

Source: Primary Data

Source of GST Awareness Media (31.0%) and peer shop owners (27.0%) dominate over official channels like the GST office (14.0%). Knowledge circulating is largely informal and second-hand, likely compounding the threshold-knowledge gap in Table 9.

Registration Status and Barriers

Table No- 11: Current GST Registration Status

Registration status	Frequency	Percentage
Registered	28	15.6%
Not registered	151	84.4%
Total	179	100.0%

Source: Primary Data

Current GST Registration Status Only 15.6% are registered. This headline figure anchors the paper's central concern the vast majority operate outside the formal GST net.

Table No- 12: Reasons for Non-Registration (multiple response, base = 151)

Reason	Frequency	% of non-registered
Lack of awareness about GST procedures	88	58.3%
Registration process seen as complex/time-consuming	61	40.4%
Fear of increased tax burden	74	49.0%
Do not see any benefit in registering	52	34.4%
Cost of compliance (accountant/software/training)	47	31.1%
Difficulty with digital filing/online procedures	39	25.8%
Lack of time due to daily business operations	33	21.9%

Source: Primary Data

Table No. 12: Reasons for Non-Registration Lack of awareness (58.3%), fear of tax burden (49.0%), and process complexity (40.4%) top the list. Since owners could select multiple reasons, non-registration clearly stems from overlapping informational, financial, and procedural barriers arguing for a multi-pronged policy response.

Table No- 13: Billing and Digital Practices

Indicator	Category	Frequency	Percentage
Issues systematic bill/receipt	Always	21	11.7%
	Sometimes	64	35.8%
	Never	94	52.5%
Uses digital billing/payment tools (e.g., UPI)	Yes	96	53.6%
	No	83	46.4%
Ever consulted a CA/tax professional	Yes	33	18.4%
	No	146	81.6%

Source: Primary Data

Table No: 13, discuss the billing and digital practices 52.5% never issue bills, yet 53.6% use digital payments digital-payment adoption has outpaced formal record-keeping. With 81.6% never consulting a tax professional, the channel that would normally transmit GST knowledge is largely absent.

Perception and Suggestions

Table No- 14: Perceived Effect of GST Registration on the Business

Perception	Frequency	Percentage
Help	37	20.7%
Hurt	66	36.9%
No difference	41	22.9%
Don't know	35	19.6%
Total	179	100.0%

Source: Primary Data

Perceived Effect of GST Registration 36.9% believe registration would hurt their business versus 20.7% who see it as helpful. This negative-to-uncertain sentiment, held by 80% of respondents, is a standalone behavioural barrier that any intervention must address directly.

Table No- 15: Support Needed to Formalise

Type of support	Frequency	Percentage
Simplified registration procedure	97	54.2%
Free training/awareness programmes	88	49.2%
Government subsidy for billing software/devices	61	34.1%
Guidance material in Tamil/local language	73	40.8%
Lower compliance cost	84	46.9%

Source: Primary Data (multiple response, $n = 179$)

Support Needed to Formalise Simplified procedure (54.2%) and lower compliance costs (46.9%) rank above training (49.2%). Owners see the process itself not just their own knowledge as the primary obstacle.

Table No- 16: GST Registration Status by Type of Service

Type of service	Registered	Not registered	Total
Haircutting/Saloon (n=83)	9 (10.8%)	74 (89.2%)	83
Laundry/Ironing/Washing (n=96)	19 (19.8%)	77 (80.2%)	96
Total	28	151	179

Source: Primary Data

Table No: 16 discussing the GST Registration Status by Type of Service Laundry/ironing/washing units register at nearly double the rate of saloons (19.8% vs 10.8%), suggesting formalisation pressure isn't uniform across the sector.

Table No- 17: Awareness of GST by Monthly Turnover Slab

Turnover slab	Aware/partially aware	Not aware	Row total
Below ₹10,000	12 (31.6%)	26 (68.4%)	38
₹10,000 – ₹20,000	31 (43.7%)	40 (56.3%)	71
₹20,000 – ₹40,000	38 (74.5%)	13 (25.5%)	51
Above ₹40,000	19 (100.0%)	0 (0.0%)	19

Source: Primary Data

Table No: 17 shows that awareness of GST by Turnover Slab Awareness rises sharply with turnover from 31.6% (below ₹10,000) to 100% (above ₹40,000) showing awareness tracks proximity to the registration threshold rather than general exposure.

Customer Survey (n = 145)

Table No- 18: Locality and Services Used

Locality	Frequency	Percentage
Sholinganallur	62	42.8%
Perungudi	47	32.4%
Kelambakkam	31	21.4%
Other	5	3.4%
Service Used (Multiple Response)	Frequency	% of respondents
Haircutting/Saloon	101	69.7%
Ironing	58	40.0%
Laundry/Washing	44	30.3%

Source: Primary Data

Based on the surveyed data locality and services used Saloon visits (69.7%) are the most frequent customer touchpoint, ahead of ironing (40.0%) and laundry (30.3%), with many customers using more than one service.

Table No- 19: Frequency and Spending

Frequency of use	Frequency (n)	Percentage
Weekly	26	17.9%
Fortnightly	39	26.9%
Monthly	51	35.2%
Occasionally	29	20.0%
Monthly spending	Frequency (n)	Percentage
Below ₹5,000	22	15.2%
₹5,000 – ₹10,000	58	40.0%
₹10,000 – ₹15,000	46	31.7%

Frequency of use	Frequency (n)	Percentage
Above ₹15,000	19	13.1%

Source: Primary Data

Table No. 19: Frequency and Spending Monthly use (35.2%) and ₹5,000- 10,000 spending (40.0%) are most typical small, frequent, largely cash-oriented transactions that make systematic billing harder to enforce and less habitual.

Table No- 20: Awareness, Billing and Attitudes toward Formalisation

Question	Response	Frequency	Percentage
<i>Aware GST applies above a turnover threshold</i>	Yes	51	35.2%
	No	94	64.8%
<i>Currently receives a bill/receipt</i>	Always	24	16.6%
	Sometimes	55	37.9%
	Never	66	45.5%
<i>Would prefer a formal GST-compliant bill</i>	Yes	79	54.5%
	No	34	23.4%
	No opinion	32	22.1%
<i>Willing to pay GST if formally billed</i>	Yes	41	28.3%
	No	58	40.0%
	Depends on amount	46	31.7%
<i>Formalisation would improve quality/trust</i>	Yes	68	46.9%
	No	39	26.9%
	No difference	38	26.2%

Source: Primary Data

Awareness, Billing and Attitudes (Customers) Customer awareness (35.2%) is even lower than owners. Yet customers are notably more favourable toward formalisation (54.5% want formal bills) than they are willing to pay for it (only 28.3%) an asymmetry that likely underlies owners' fear that registration would hurt rather than help business.

Discussion

The findings of this study demonstrate that GST formalisation among micro service businesses in Chennai Metropolitan is constrained less by outright unwillingness and more by a combination of low awareness, weak billing infrastructure, and an unfavourable risk perception. Although the majority of surveyed units report modest monthly turnovers that in principle place them below the mandatory registration threshold, only 30.2% of owners are even clearly aware that GST provisions could apply to their businesses, and a mere 21.8% know the actual threshold that would trigger registration

indicating that the "non-registration" observed among Tier One units (haircut, ironing and laundry operators) is not always a deliberate choice but often the outcome of genuine information gaps. The GST 2.0 reforms of September 2025, despite their stated citizen-centric and ease-of-doing-business objectives, appear to have made only a marginal dent in this awareness gap, suggesting that policy communication is not adequately reaching hyper-local, cash-based service providers of this kind. This is compounded by the near-total absence of professional tax guidance over 81% of owners have never consulted a chartered accountant or tax consultant leaving peer networks and mass media as the dominant, and often unreliable, sources of GST knowledge. At the same time, owners who are informed tend to view formalisation unfavourably: 36.9% believe registration would hurt their business against only 20.7% who see it as beneficial, and this negative sentiment, layered on procedural complexity and fear of increased tax burden, forms a genuine attitudinal barrier that awareness campaigns alone cannot resolve. Interestingly, the customer-side data reveals a countervailing force: over half of customers (54.5%) would prefer a formal, GST-compliant bill and nearly 47% believe formalisation would improve trust, yet only 28.3% are willing to actually absorb the associated cost an asymmetry that may itself validate owners' fear that formalisation could raise prices and depress footfall in a highly price-sensitive, essential-services market.

Practical Suggestions

Based on the barriers identified, several practical measures could ease formalisation for Tier One, Tier Two and Tier Three micro service businesses. First, targeted, locality-specific awareness drives conducted in Tamil and other regional languages relevant to the sizeable migrant ownership base should move beyond generic GST messaging to concretely explain the registration threshold, the composition scheme available to small service providers, and the actual steps involved in registering and filing returns. Second, since digital payment adoption (53.6%) already outpaces formal billing (only 11.7% issue bills consistently), the more realistic entry point is to piggyback billing reform onto existing UPI habits for instance, simple, pre-formatted digital billing apps linked to payment tools owners already use rather than introducing a wholly separate compliance system. Third, since trade associations and peer shop-owner networks are already the second-most-used source of GST information (27%), the GST department and local trade bodies could be formally engaged as awareness and facilitation partners, using peer-led demonstration to counteract misinformation. Fourth, one-time facilitation camps offering free, on-the-spot registration assistance bringing the paperwork to the shop rather than requiring owners to leave their business would directly address the "lack of time" and "process complexity" barriers cited by 21.9% and 40.4% of non-registered owners respectively. Finally, given customers' stronger appetite for formal billing, businesses could be encouraged to treat GST-compliant billing as a visible trust and service-quality signal, converting customer preference for accountability into a genuine commercial incentive to formalise.

Recommendations

At the policy level, this study recommends that GST authorities design a simplified, sector-specific compliance track exclusively for hyper-local personal and household service micro-enterprises, with lower documentation requirements, a higher effective threshold or presumptive taxation option, and minimal filing frequency, so the compliance burden is proportionate to the scale of these businesses. Awareness and outreach should be institutionalised rather than left to episodic reform announcements, through periodic ward- or corporation-level information sessions conducted jointly with local trade associations, particularly in fast-urbanising corridors such as Sholinganallur, Perungudi and Kelambakkam. Given the strong positive relationship between turnover and awareness observed in the study, the GST Council may consider proactive outreach specifically targeted at units nearing the threshold, since these are the businesses most likely to require registration in the near future. Subsidised access to affordable digital billing and accounting tools, ideally integrated with existing UPI infrastructure, is recommended to lower the compliance-cost barrier that falls disproportionately on the smallest units. Finally, since customer willingness to pay GST remains the weakest link in the formalisation chain, consumer-facing communication clarifying that formal billing does not necessarily mean a large price increase for genuinely small, below-threshold businesses would help align customer expectations with the composition-scheme reality, reducing owners' fear of losing price-sensitive customers.

Limitation of the Study

The study relies on purposive sampling method, since the total population of informal micro service units in Chennai Metropolitan was not known. This means the findings cannot be statistically generalised to all haircutting, ironing and

laundry businesses in Chennai, or to informal micro-service businesses elsewhere in India. The survey was confined to three localities — Sholinganallur, Perungudi and Kelambakkam — chosen specifically for their IT-corridor and college-agglomerate character. Findings may not hold for micro service businesses in older, non-IT-hub. The three "tiers" (single-owner/single-outlet, multi-outlet, family/home-based) were constructed by the researchers from survey responses rather than through a pre-validated or independently verified classification scheme, so tier boundaries carry some subjectivity. Turnover figures, awareness levels and billing practices are all self-reported by owners and customers, with no independent verification (e.g., against actual sales records or GST filings). Owners may under-report turnover, particularly given proximity to the registration threshold, introducing possible social-desirability or strategic-response bias. The study is cross-sectional, capturing owner and customer attitudes at a single point in time (field survey: 14 February–24 August 2024) even though it discusses awareness "before vs. after" GST 2.0 reforms (September 2025) the pre/post comparison in Table 8 is therefore based on retrospective recall rather than a genuine panel or before-after design, which is subject to recall bias. Only two of the three named service categories (haircutting and laundry/ironing combined) were sampled in the reported breakdowns; ironing and laundry/washing were sometimes merged in analysis (Table 16), which limits the ability to isolate barriers specific to ironing alone versus laundry/washing alone.

Sope of Further Research

The study captures perceptions and stated willingness (e.g., "willingness to pay GST if formalised") rather than observed behaviour, so actual behavioural response to formalisation policies may differ from what respondents reported. The customer sample (n=145) was drawn from customers of the same surveyed localities, not necessarily linked to the specific 179 sampled businesses, so owner-customer responses cannot be matched at the level of individual transactions or shops. The study does not include a comparison group of already-registered/formalised units of similar scale, which limits causal inference about what specifically distinguishes registered from non-registered units beyond the associations reported.

Conclusion

This study set out to categorise informal micro service businesses in Chennai Metropolitan and examine the barriers keeping them outside the GST net, drawing on primary data from 179 haircutting, ironing and laundry service owners and 145 of their customers. The evidence shows that formalisation is held back not by a single dominant obstacle but by an interlocking set of factors low and unevenly distributed awareness, an almost total absence of professional tax guidance, weak systematic billing practices even as digital payments have taken hold, procedural and cost-related apprehensions, and an owner-side perception that registration is more likely to hurt than help the business. While the recent GST 2.0 reforms have brought welcome structural simplification at the national level, their benefits have yet to meaningfully reach this hyper-local, cash-based segment of the informal economy, underscoring a gap between policy intent and ground-level implementation. At the same time, the relatively favourable customer disposition toward formal billing suggests an underexploited opportunity: if compliance can be simplified, awareness delivered in accessible language through trusted peer channels, and billing formalisation linked to the digital payment habits owners have already adopted, these micro enterprises could be brought into the formal fold with comparatively modest policy effort advancing the broader promise of "One Nation, One Tax" and bringing India's vast informal service economy a step closer to the Viksit Bharat@2047 agenda.

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