

# GST Compliance Burden on Small Businesses in Gujarat

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**Abstract**—The introduction of the Goods and Services Tax (GST) in India represents one of the most significant fiscal reforms since independence, with the objective of creating a unified, transparent, and efficient indirect tax system. By subsuming multiple central and state taxes into a single framework, GST was designed to simplify taxation, eliminate cascading effects, and promote ease of doing business. At a macroeconomic level, the reform has contributed to improved tax compliance, broader tax base, and enhanced revenue collection for both the central and state governments.

However, despite these intended benefits, the implementation of GST has posed considerable challenges for small businesses, particularly in states like Gujarat, where micro and small enterprises form the backbone of industrial and trading activity. Small businesses often operate with limited financial, managerial, and technological resources, making it difficult for them to adapt to the complex compliance requirements of the GST regime. Frequent return filings, continuous changes in rules and procedures, reconciliation of invoices, and strict deadlines have significantly increased the procedural burden on these enterprises.

Another major concern is the cost of compliance. Many small businesses are compelled to hire tax consultants, invest in accounting software, and train staff to meet GST requirements, leading to higher operating costs. In addition, technological barriers such as inadequate digital literacy, system glitches on the GST portal, and limited access to reliable internet connectivity especially in semi-urban and rural areas of Gujarat further intensify compliance difficulties. These challenges often result in errors, penalties, and delays in return filing.

This paper examines the GST compliance burden on small businesses in Gujarat by analyzing procedural complexities, compliance costs, and technological constraints, as well as their impact on business operations, cash flow, and growth prospects. The study aims to highlight key issues faced by small enterprises and suggest measures to reduce compliance stress while ensuring effective implementation of the GST framework.

**Index Terms**—GST, Small Businesses, Compliance Burden, Gujarat, Taxation

## I. INTRODUCTION

Small businesses play a crucial role in Gujarat's economy by contributing significantly to employment generation, entrepreneurship development, and balanced regional growth. Gujarat has long been recognized as one of India's most industrially progressive states, with a strong presence of micro, small, and medium enterprises across manufacturing, trading, and service sectors. These enterprises not only support local livelihoods but also act as key drivers of innovation, supply chain integration, and economic resilience.

The implementation of the Goods and Services Tax (GST) in 2017 was intended to simplify the indirect tax structure by replacing multiple central and state taxes with a unified system. While the reform has improved transparency and reduced tax cascading at an aggregate level, its impact on small businesses has been mixed. For many small enterprises, GST compliance has emerged as a significant challenge rather than a simplification. The requirement of frequent return filing, such as monthly or quarterly submissions, has increased administrative workload. Additionally, extensive documentation, invoice matching, and reconciliation procedures demand continuous attention and technical accuracy.



Digital compliance under GST has further added to the burden, as return filing and record maintenance are entirely online. Many small businesses struggle with limited digital literacy, dependence on external tax professionals, and frequent changes in GST rules and portal functionalities. As a result, compliance under GST has increased operational costs and diverted resources away from core business activities, posing challenges to the sustainability and growth of small enterprises in Gujarat.

## II. OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

1. To examine the structure and scope of GST compliance requirements applicable to small businesses, including return filing, documentation, and record-keeping obligations.
2. To identify and analyze the major challenges faced by small businesses in Gujarat in complying with GST regulations, such as procedural complexity, technological issues, and frequent policy changes.
3. To assess the impact of GST compliance on the operational efficiency and cost structure of small businesses, with particular reference to time, manpower, and financial resources.
4. To evaluate the effectiveness of government initiatives and schemes (such as the Composition Scheme and QRMP scheme) in reducing the GST compliance burden on small enterprises.
5. To suggest suitable measures and policy recommendations for simplifying GST compliance and improving ease of doing business for small businesses in Gujarat.

## III. RESEARCH METHODOLOGY

The study is descriptive in nature and is based on secondary data. Data have been collected from various published sources such as government reports, GST Council notifications and publications, Ministry of

MSME reports, RBI publications, research journals, academic articles, and business surveys related to GST compliance. Relevant literature has been systematically reviewed, and analytical and interpretative methods have been employed to draw meaningful conclusions regarding the compliance burden of GST on small businesses in Gujarat.

## IV. GST COMPLIANCE REQUIREMENTS FOR SMALL BUSINESSES

Small businesses registered under the Goods and Services Tax (GST) framework are required to comply with a range of statutory obligations that are essential for ensuring transparency and tax accountability. One of the primary compliance requirements is the filing of multiple GST returns. Small businesses must regularly file returns such as GSTR-1, which details outward supplies; GSTR-3B, a monthly or quarterly summary return for tax payment; and annual returns, which consolidate financial and tax information for the entire year. Adherence to strict timelines is mandatory, and any delay may attract interest and penalties.

In addition to return filing, GST mandates the maintenance of detailed digital records of all sales, purchases, input tax credit, and tax payments. These records must be accurate and readily available for audit or verification purposes. Proper documentation, including tax invoices, debit and credit notes, and delivery challans, is also compulsory under the GST law.

Further, small businesses are required to comply with invoice reconciliation procedures, ensuring that purchase records match suppliers filed returns to claim input tax credit. In certain cases, businesses must also follow e-invoicing norms, particularly when dealing with larger registered entities. These compliance requirements demand a considerable level of technical knowledge, digital literacy, and regular professional assistance, increasing both the administrative workload and cost of compliance for small businesses.

Different slabs	The GST framework now follows five tax slabs, including 0% or zero tax, notwithstanding the universality of tax rates. There are fewer tax slabs in nations that have successfully implemented GST. Additionally, differing rates for pre-packaged and labeled goods make tax compliance and auditing more difficult. For instance, 5% GST is applied to loose popcorn, 12% to boxed popcorn, and 18% GST is applied to particular types of popcorn, such as caramel.
No. Of Return filing	Regular taxpayers must file at least two monthly and one yearly return under the GST regime, for a total of 25 returns annually. For MSME companies with yearly sales of more than Rs. 5 crores, this has raised the compliance burden.
Tech savvy Regime	Businesses must have a high degree of technology adoption and a tech learning curve in order to comply with GST. It might be difficult for manufacturers and small business owners.
ITC reimbursement	Smaller businesses with little access to working capital may find it extremely difficult to manage their cash flow if ITC returns are delayed.
Expert Assistance	Expert personnel are needed to assist with filing GST returns and carrying out other compliance tasks. For small enterprises, this may result in higher compliance expenditures.
Remote areas with limited access	Businesses operating in remote locations with limited access to technology, software, and dependable connectivity may have difficulties with an entirely online taxation system.
Delayed Reconciliation and Mismatches	Input tax credit (ITC), one of the main components of GST, necessitates precise and prompt matching of invoices supplied by buyers and providers. However, businesses frequently encounter discrepancies in GSTR-2A and GSTR-3B, which result in blocked credits or incorrect rejections, because of sluggish or inconsistent data synchronization between GSTN and backend tax systems.
Operational bottlenecks and refund lags	Working capital cycles are impacted by lengthy refund processing delays caused by digital lags. For example, Export General Manifest (EGM) filing discrepancies or insufficient connection between shipping invoices and GSTR-1 returns have caused month-long delays for exporters on multiple occasions.

#### V. CHALLENGES FACED BY SMALL BUSINESSES IN GUJARAT

Small businesses in Gujarat face several challenges in complying with the Goods and Services Tax (GST) regime. These challenges arise mainly due to complex procedures, high compliance costs, technological constraints, and financial pressures. The major challenges are explained below:

##### 1. Procedural Complexity

One of the most significant challenges is the procedural complexity of GST compliance. Frequent amendments in GST rules, changes in return formats, and regular updates in compliance procedures create confusion among small business owners. Many enterprises struggle to keep track of notifications and circulars issued by the GST Council. The requirement to file multiple returns within strict deadlines further increases administrative burden and the risk of non-compliance.

##### 2. Cost of Compliance

GST compliance has led to an increase in operational costs for small businesses. To ensure accurate filing and avoid penalties, businesses often need to hire tax consultants or chartered accountants. Additionally,

expenses are incurred on accounting and GST-compliant software, system upgrades, and employee training. For micro and small enterprises with limited turnover, these costs constitute a significant financial burden.

##### 3. Technological Barriers

GST is a technology-driven tax system, and digital compliance is mandatory. Many small businesses, especially in semi-urban and rural areas of Gujarat, face challenges due to limited digital literacy and lack of technical skills. System glitches on the GST portal, server downtime, and unreliable internet connectivity further complicate the filing process, leading to errors and delays.

##### 4. Cash Flow Issues

GST compliance affects the working capital of small businesses. Delays in the refund of input tax credit and the requirement to pay taxes in advance place financial strain on enterprises. Small businesses often face liquidity problems, making it difficult to manage day-to-day operations and meet tax obligations on time.

### 5. Dependence on Professional Assistance

Due to the complexity and technical nature of GST, small businesses become heavily dependent on external professionals for compliance. This dependence reduces their operational autonomy and increases recurring costs. Moreover, lack of direct understanding of GST provisions limits their ability to make informed tax-related decisions.

## VI. IMPACT OF GST COMPLIANCE ON SMALL BUSINESSES

The compliance requirements under the Goods and Services Tax (GST) have had a significant impact on the functioning and growth of small businesses. One of the most notable effects is the diversion of time and resources away from core business activities. Small business owners often have to devote considerable time to record maintenance, return filing, reconciliation of invoices, and monitoring regulatory changes. This reduces the time available for business development, customer engagement, and operational efficiency, ultimately affecting productivity and profitability.

The financial impact of GST compliance is also substantial. Increased expenditure on tax professionals, accounting software, and compliance-related training raises operating costs, which small businesses may find difficult to absorb. Additionally, issues such as delayed input tax credit refunds and advance tax payments can disrupt cash flows, making it challenging for businesses to manage working capital effectively.

Another important impact is on business growth and formalization. To avoid the complexities and costs associated with GST compliance, many small traders deliberately choose to remain below the GST registration threshold. While this helps them reduce compliance burden in the short term, it restricts their ability to expand operations, access formal credit, and participate in organized supply chains. Consequently, the intended objective of GST to promote formalization and inclusive growth is partially undermined. Overall, while GST aims to create a transparent tax system, its compliance burden poses operational and strategic challenges for small businesses.

## VII, GOVERNMENT INITIATIVES TO REDUCE GST COMPLIANCE BURDEN ON SMALL BUSINESSES

### 1. Composition Scheme for Small Taxpayers

The Composition Scheme is designed for small businesses with an annual turnover below a prescribed threshold (₹1.5 crore in most states, ₹75 lakh for special category states). Under this scheme, businesses pay tax at a fixed rate on turnover instead of regular GST rates and file quarterly returns instead of monthly returns.

Example: A small textile trader in Ahmedabad with an annual turnover of ₹50 lakh can opt for the composition scheme and pay 1% GST on turnover instead of filing monthly GSTR-1 and GSTR-3B. This reduces paperwork, accounting complexity, and compliance costs.

### 2. Quarterly Return Monthly Payment (QRMP) Scheme

The QRMP scheme allows small taxpayers with turnover up to ₹5 crore to file returns quarterly while paying taxes monthly. This reduces the frequency of return filing and eases administrative load.

Example: A small wholesaler in Surat can submit quarterly returns instead of monthly filings while making monthly tax payments through the system, saving time and reducing the chances of errors.

### 3. Simplification of Return Filing Process

The government has simplified GST return forms (like GSTR-3B) and introduced pre-filled returns to reduce manual data entry. New features like offline utilities and auto-populated invoices make filing easier for small businesses.

Example: A small stationery shop can use offline tools to prepare GSTR-3B returns and upload them directly to the GST portal without manually entering each invoice.

### 4. E-invoicing Exemption for Small Taxpayers

To reduce the digital burden, businesses with turnover below ₹20 crore are currently exempt from e-invoicing requirements. This prevents small enterprises from investing in sophisticated accounting software unnecessarily.

Example: A small supplier of packaged foods in Vadodara does not need to generate e-invoices and can

continue using standard billing software, saving both cost and time.

#### 5. GST Helpdesk and Online Support

The GST Council has established helpline numbers, online chat support, and grievance redressal mechanisms to assist small businesses in resolving compliance-related issues. This initiative helps businesses clarify doubts and avoid penalties.

Example: A small furniture retailer in Rajkot facing issues with input tax credit reconciliation can approach the GST helpdesk to resolve discrepancies without hiring a tax consultant, thus reducing compliance cost. These initiatives aim to reduce procedural complexity, minimize compliance costs, and enhance ease of doing business for small enterprises. However, limited awareness and accessibility often hinder small businesses from fully benefiting from these measures, emphasizing the need for better outreach and training programs.

### VIII. FINDINGS ON GST COMPLIANCE BURDEN FOR SMALL BUSINESSES IN GUJARAT

Based on the analysis of GST compliance requirements, challenges, and government initiatives, several key findings have emerged regarding the impact of GST on small businesses in Gujarat. These findings highlight the operational, financial, and technological issues faced by micro and small enterprises.

#### 1. GST Compliance is Complex and Time-Consuming

The GST framework, though intended to simplify taxation, has introduced complex procedures for small businesses. Multiple return filings (GSTR-1, GSTR-3B, annual returns), invoice reconciliation, and frequent rule amendments demand constant attention. Small business owners often spend considerable time on compliance activities instead of focusing on core business operations.

Example: A small trader in Ahmedabad may spend several hours every week preparing GST returns and reconciling invoices, diverting time from sales, marketing, or inventory management.

#### 2. High Compliance Costs Burden Small Businesses

Small enterprises incur additional financial costs in managing GST compliance. Hiring professional

accountants, investing in accounting software, and training employees significantly increase operational expenses. These costs disproportionately affect micro and small businesses with limited turnover and narrow profit margins.

Example: A small garment manufacturer in Surat may spend thousands of rupees annually on professional fees and software subscriptions solely to comply with GST requirements.

#### 3. Digital Infrastructure Gaps Intensify Compliance Challenges

GST is a digitally driven tax system, but many small businesses face technological limitations. Issues such as unreliable internet connectivity, low digital literacy, and portal glitches make compliance difficult, especially in semi-urban and rural areas of Gujarat. These gaps often lead to delays, errors, and penalties.

Example: A small agricultural supplier in rural Kheda district struggles to file returns online due to frequent network outages and lack of technical knowledge.

#### 4. Compliance Burden Limits Business Growth

To avoid the complexities of GST compliance, many small businesses deliberately remain below the GST registration threshold, limiting expansion opportunities. This affects formalization, access to credit, and participation in organized supply chains.

Example: A small retailer in Rajkot chooses not to register for GST despite growing sales, thereby avoiding compliance costs but restricting business growth.

#### 5. Impact on Cash Flow and Working Capital

Delayed input tax credit refunds and advance tax payments create liquidity issues for small businesses. These cash flow constraints affect day-to-day operations, procurement, and timely payment to suppliers, further straining small enterprises financially.

Example: A small electronics wholesaler in Vadodara experiences delays in GST refunds, resulting in difficulty purchasing stock and meeting payroll obligations on time.

Overall, GST compliance poses significant operational, financial, and technological challenges for small businesses in Gujarat. Addressing these challenges requires further simplification of

procedures, improved digital infrastructure, and enhanced awareness of government schemes.

Based on the analysis of GST compliance and its impact on small businesses in Gujarat, the following findings have been identified:

1. **Complexity of Compliance:** GST procedures are intricate and require multiple return filings, documentation, and digital record maintenance, creating a heavy administrative burden.
2. **High Compliance Costs:** Micro and small enterprises incur significant costs for hiring tax professionals, purchasing accounting software, and staff training.
3. **Digital Infrastructure Challenges:** Limited digital literacy and unreliable internet connectivity hinder smooth compliance, especially in semi-urban and rural areas.
4. **Impact on Business Growth:** To avoid compliance complexity, many small traders prefer to remain below the GST registration threshold, restricting business expansion and formalization.
5. **Cash Flow Constraints:** Delays in input tax credit refunds and advance tax payments affect working capital and day-to-day operations.

#### IX. SUGGESTIONS / RECOMMENDATIONS

1. **Further Simplification of Return Filing:** Introduce simplified return formats for small businesses, with pre-filled fields and offline filing options to reduce errors and time spent on compliance.
2. **Stable GST Regulations:** Limit frequent amendments and provide advance notice of changes to help businesses adapt without confusion or additional administrative load.
3. **Capacity-Building Programs:** Conduct training workshops, webinars, and awareness campaigns to enhance digital literacy and understanding of GST processes among small business owners.
4. **Improved Grievance Redressal Mechanisms:** Strengthen online helpdesk support, create regional facilitation centers, and offer quick resolution of input tax credit disputes to reduce stress and financial loss.
5. **Promote Technology Adoption:** Encourage the use of affordable accounting and GST-compliant software solutions to automate compliance and reduce dependence on external consultants.

#### X. CONCLUSION

The introduction of GST in India has created a unified tax system, improving transparency and revenue collection. However, for small businesses in Gujarat, the compliance burden remains significant due to procedural complexity, high costs, technological barriers, and cash flow issues. While government initiatives such as the Composition Scheme, QRMP, and simplified return processes offer relief, limited awareness and accessibility reduce their effectiveness. To ensure that GST serves as a tool for growth rather than a hindrance, it is essential to simplify compliance procedures, stabilize regulations, and provide targeted support and training for small enterprises. Effective implementation of these measures will enable small businesses to focus on core operations, expand their activities, and contribute more efficiently to Gujarat's economic development.

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