

GST Implementation and Compliance Challenges

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Abstract—The implementation of the Goods and Services Tax (GST) represents a monumental structural reform designed to unify a fragmented indirect taxation framework into a single, standardized system. Operating on a destination-based principle, GST eliminates the historical cascading effect of "tax-on-tax," enhances revenue transparency, and streamlines interstate supply chains to foster a common national market. Despite these strategic long-term benefits, the transition has introduced substantial operational and compliance challenges, particularly for Micro, Small, and Medium Enterprises (MSMEs). Key hurdles stem from the mandatory reliance on digital infrastructures, such as automated return filing, e-invoicing, and strict electronic invoice matching via online tax portals. Smaller enterprises with limited IT literacy face elevated administrative expenditures, technical friction, and operational delays. Furthermore, continuous legislative amendments, multi-tiered rate structures, and stringent regulations governing Input Tax Credit (ITC) eligibility frequently disrupt working capital and create compliance uncertainties. Delayed ITC reconciliations and refund processing further strain liquidity for resource-constrained firms.

In conclusion, while GST successfully establishes an integrated and transparent tax network, mitigating its procedural complexities remains crucial. Policymakers must focus on simplifying digital compliance frameworks, stabilizing policy changes, offering targeted technical assistance, and facilitating faster credit mechanisms. Resolving these structural bottlenecks will minimize administrative burdens, foster broader taxpayer compliance, and optimize the overall economic efficiency intended by the GST regime.

Index Terms—Goods and Services Tax (GST), Indirect Tax Reform, Compliance Challenges, Input Tax Credit (ITC), MSMEs, Digital Tax Infrastructure, Cascading Effect, Tax Policy.

Biography

Nidhi Vashistha is a Doctoral Research Scholar in the Department of Commerce and Financial Studies at the Faculty of Social Sciences. Her research focuses on fiscal policy, indirect tax regimes, and digital

compliance frameworks within emerging economies, with a specialized emphasis on the operational impact of GST on small and medium enterprises. She holds a Master's degree in Commerce (M.Com) with a specialization in Finance and Taxation, along with a Bachelor's degree in Economics. She is an active member of academic accounting networks and regularly contributes policy briefs and empirical studies on regulatory reform in public finance.

I. INTRODUCTION

The Goods and Services Tax (GST) is one of the most significant reforms in India's indirect taxation system. It was introduced on 1 July 2017 with the objective of replacing multiple indirect taxes imposed by the Central and State governments with a more integrated tax structure. Before GST, businesses had to comply with several taxes, including central excise duty, service tax, value-added tax (VAT), central sales tax and various other state-level levies. The existence of multiple tax systems increased administrative complexity and sometimes resulted in a cascading effect, where tax was effectively imposed on an amount that already included tax.

GST was introduced as a destination-based tax on the supply of goods and services. The system allows eligible taxpayers to claim Input Tax Credit (ITC) for taxes paid on inputs, subject to applicable conditions. This mechanism is intended to reduce the cascading effect of taxation and create greater transparency in the supply chain. The GST Council, established under the Constitution, plays a central role in recommending GST rates, exemptions, rules and procedures to the Central and State governments.

The implementation of GST has also transformed India's tax administration through digital technology. Registration, return filing, tax payments, e-invoicing

and e-way bills are largely integrated into an electronic compliance environment. This has created a larger digital record of transactions and provided tax authorities with new tools for monitoring compliance. The GST system has expanded considerably since its introduction. The Economic Survey 2025–26 reported that the number of registered taxpayers increased from around 60 lakh in 2017 to more than 1.5 crore. The expansion of the taxpayer base indicates the increasing importance of GST in India's formal tax system. The Survey also reported substantial growth in e-way bill generation, reflecting the scale of transactions taking place through the GST framework. (Government of India, 2026)

However, the implementation of GST has also created several challenges. Businesses have had to adjust to new registration procedures, digital reporting systems, invoice requirements, input tax credit reconciliation and changing compliance rules. These difficulties can be particularly significant for micro, small and medium enterprises (MSMEs) because many smaller businesses have limited financial resources, accounting expertise and technological infrastructure. NITI Aayog has highlighted several taxation-related concerns affecting MSMEs, including the complexity of compliance, the need for specialised manpower and issues associated with input tax credit and working capital. (NITI Aayog, 2025)

Another challenge concerns the balance between preventing tax evasion and avoiding unnecessary difficulties for genuine taxpayers. The government has increasingly adopted digital systems and risk-based approaches to identify suspicious transactions, fake registrations and fraudulent input tax credit claims. While these mechanisms can strengthen tax administration, they also require businesses to maintain accurate and timely digital records.

Therefore, GST should be understood not merely as a change in tax rates but as a comprehensive transformation of India's taxation and business environment. Its effectiveness depends on the ability of taxpayers to comply with the law and the ability of tax authorities to provide a simple, predictable and technology-supported compliance system.

This research paper examines the implementation of GST in India and focuses on the major challenges associated with GST compliance. It also considers the specific difficulties faced by MSMEs and discusses

possible measures for improving the GST compliance environment.

II. OBJECTIVES OF THE STUDY

The major objectives of this study are:

1. To examine the implementation of GST in India and understand its role in reforming the indirect tax system.
2. To study the major GST compliance requirements faced by businesses after the introduction of GST.
3. To identify the major challenges faced by taxpayers, particularly MSMEs, in complying with GST regulations.
4. To examine the role of digital technology in GST implementation, including invoicing, e-way bills and online return filing.
5. To analyse challenges related to Input Tax Credit, including reconciliation and working-capital implications.
6. To examine administrative and procedural difficulties experienced by GST taxpayers.
7. To suggest measures for improving GST compliance and reducing unnecessary administrative costs.
8. To understand the changing nature of GST administration and the increasing use of technology and risk-based compliance mechanisms.

III. LITERATURE REVIEW

The implementation of GST in India has attracted considerable attention from government institutions, researchers, businesses and tax professionals. Existing literature generally recognises GST as a major structural reform while also identifying several implementation and compliance challenges.

The Goods and Services Tax Council has played a central role in the development of India's GST framework. Its official material explains that GST was introduced to create a more integrated indirect tax system and that the Council provides recommendations on important aspects such as rates, exemptions and procedures. The GST system has progressively incorporated technological mechanisms such as e-invoicing and e-way bills. These developments have strengthened the digital nature of tax administration. (GST Council, 2025)

Government literature also indicates that the GST system has expanded significantly. The Economic Survey 2025–26 observed that India's GST taxpayer base had increased substantially since 2017. The growth in registered taxpayers and electronic transactions demonstrates the increasing scale of the GST system. The Survey also discussed the role of digital mechanisms in improving tax administration and facilitating the movement of goods. (Government of India, 2026)

However, the literature indicates that the benefits of GST have been accompanied by compliance costs. NITI Aayog's study on taxation issues affecting MSMEs identifies GST compliance complexity as an important concern for smaller enterprises. According to the study, MSMEs may face difficulties because of multiple compliance requirements and the technical knowledge needed to operate within the GST framework. Smaller businesses may also need to depend on accountants or external professionals, increasing their administrative expenses. (NITI Aayog, 2025)

The issue of Input Tax Credit is another important area discussed in the literature. ITC is central to GST because it prevents the repeated taxation of inputs. However, taxpayers must ensure that their records and eligible credits satisfy the applicable requirements. Differences between purchase records and supplier-reported information can result in reconciliation problems. NITI Aayog has also highlighted the potential working-capital impact of ITC reversal in situations where payment to suppliers is delayed beyond the prescribed period. (NITI Aayog, 2025)

The literature further identifies digitalisation as both an opportunity and a challenge. Digital systems can reduce paperwork, increase transaction visibility and enable tax authorities to analyse large amounts of information. E-invoicing and e-way bills can create a stronger electronic trail of transactions. At the same time, taxpayers need suitable accounting software, internet access and technical knowledge to use these systems effectively.

Another important issue is the problem of tax evasion and fraudulent transactions. The digital structure of GST provides authorities with more information to identify unusual transactions and potentially fraudulent claims. Fake invoices, fraudulent registrations and improper input tax credit claims have become important areas of enforcement. The GST

Council has therefore increasingly focused on data-based and risk-oriented compliance mechanisms.

Research concerning MSMEs also indicates that compliance burdens are not distributed equally among all taxpayers. Large companies generally have dedicated finance departments, tax professionals and sophisticated accounting systems. Smaller businesses may have fewer resources and may therefore experience a relatively greater burden from the same compliance requirements.

The literature also highlights the importance of Centre-State coordination. GST operates within India's federal structure, requiring cooperation between Central and State tax administrations. Differences in administrative practices can create uncertainty for businesses operating in multiple States. Greater consistency in procedures and communication can therefore contribute to improved compliance.

Overall, existing literature presents GST as a continuing reform rather than a completed policy change. The system has improved digital tax administration and increased the formal tax base, but challenges remain regarding simplicity, technology, ITC, taxpayer education, MSME compliance costs and administrative coordination.

IV. RESEARCH METHODOLOGY

Research Design

This study uses a descriptive and analytical research design. The purpose is to examine the implementation of GST and identify the major compliance challenges faced by taxpayers in India.

Nature of Data

The study is based on secondary data. No primary survey or interview has been conducted. Information has been collected from government reports, official GST Council publications, NITI Aayog studies and the Economic Survey of India.

Sources of Data

The major sources used for this study include:

- Goods and Services Tax Council publications;
- Government of India's Economic Survey;
- NITI Aayog reports;
- official GST-related documents and circulars; and
- publicly available government information concerning GST implementation.

V. METHOD OF ANALYSIS

The information has been analysed qualitatively. The study focuses on identifying recurring issues rather than statistically measuring the impact of individual GST reforms.

The analysis is organised around five major areas:

1. GST implementation;
2. taxpayer compliance;
3. MSME-related challenges;
4. technological and ITC-related issues; and 5. administrative and enforcement challenges.

VI. SCOPE OF THE STUDY

The study focuses on GST implementation and compliance in India, with particular attention to businesses and MSMEs. It considers developments from the introduction of GST in 2017 through recent developments reported in official government publications.

VII. LIMITATIONS OF THE STUDY

The study is based on secondary information and therefore does not independently measure the compliance experience of individual businesses. Conditions may also differ considerably across industries, States and business sizes. Consequently, the findings should be interpreted as a general assessment of GST compliance challenges rather than as a representation of every taxpayer's experience.

VIII. CONCLUSION

The implementation of GST has fundamentally changed India's indirect taxation system. Since its introduction in July 2017, GST has brought numerous central and state-level indirect taxes into a common framework and has increasingly relied on digital technology for registration, reporting, invoicing and tax administration.

The expansion of the GST taxpayer base demonstrates the growing significance of the system.

According to the Economic Survey 2025–26, registered taxpayers increased from approximately 60 lakh in 2017 to more than 1.5 crore. The growth of electronic transactions, including e-way bills and e-invoices, has also contributed to the development of a

more data-driven tax administration system. (Government of India, 2026)

Nevertheless, GST compliance remains challenging for many businesses. MSMEs face particular difficulties because they may lack specialised tax personnel, sophisticated accounting systems and sufficient resources to manage complex compliance procedures. NITI Aayog has identified compliance complexity, skilled-manpower requirements and ITC-related working-capital concerns among the issues affecting smaller enterprises.

Input Tax Credit remains an important area of compliance. While ITC helps prevent cascading taxation, maintaining accurate records and reconciling transaction information can require considerable effort. Delays or errors may affect the availability of credit and consequently influence business working capital.

Digitalisation has created both opportunities and challenges. E-invoicing, e-way bills and electronic returns can improve transparency and reduce manual paperwork. However, they also require businesses to maintain accurate digital records and possess adequate technological knowledge. Therefore, technological development must be accompanied by taxpayer education and accessible support systems.

Another important challenge is maintaining an appropriate balance between enforcement and taxpayer convenience. Measures against fake invoices, fraudulent registrations and improper ITC claims are necessary for protecting the tax system. At the same time, legitimate taxpayers need clear rules and proportionate compliance procedures.

The future development of GST should therefore focus on simplicity, predictability, technology, taxpayer education and coordinated administration. Compliance requirements should be proportionate to the size and nature of businesses. Improved automation can reduce repetitive work, while better reconciliation tools can help taxpayers identify and correct errors.

Overall, GST has created a more integrated and technology-oriented indirect tax environment in India, but its implementation continues to evolve. The success of GST should be considered not only in terms of revenue collection and formalisation but also in terms of how easily genuine taxpayers can understand and fulfil their obligations. Continued improvements in technology, administrative coordination and

taxpayer support can help address existing compliance challenges and strengthen the GST framework.

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