

Analysis of GST Compliance & Accounting Procedures in MSMEs

SNEHA GUPTA¹, DR. SHWETA PATEL²

¹Amity University Chhattisgarh

²Assistant Professor, Amity University Chhattisgarh

Abstract- The introduction of the Goods and Services Tax (GST) in India on 1st July 2017 was a major change in the country's indirect taxation system. It replaced multiple taxes with a single structure. This reform aimed to improve transparency, remove cascading taxation, and boost overall tax compliance. Micro, Small, and Medium Enterprises (MSMEs), which play a key role in job creation and economic growth, have been significantly impacted by this change due to their limited financial and technological resources. The main goal of this study is to look at GST compliance practices and accounting procedures used by MSMEs in India. It also aims to examine the challenges MSMEs face with GST implementation, assess the impact of GST on their accounting systems, and evaluate how much these businesses have adopted digital technology. The research uses secondary data from government reports, academic journals, and previous studies. A descriptive and analytical approach helps interpret GST compliance trends and operational changes in MSMEs. The findings show that GST has improved transparency, standardized accounting practices, and promoted digitalization. However, MSMEs still face major challenges such as complicated return filing, high compliance costs, lack of technical knowledge, and problems with Input Tax Credit (ITC) reconciliation. The study also shows that larger MSMEs adjust more easily to digital systems than smaller ones. In conclusion, while GST has positively changed the taxation framework, there is a need to simplify compliance procedures, enhance awareness programs, and provide stronger technological support to help MSMEs implement these changes effectively.

Indexed Terms- Goods and Services Tax (GST); Micro, Small and Medium Enterprises (MSMEs); Tax Compliance; Accounting Practices; Input Tax Credit (ITC); Digitalization; Indirect Taxation; Financial Reporting; Compliance Cost

I. INTRODUCTION

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 marks one of the most important changes in the country's fiscal policy since

independence. By combining various indirect taxes like value-added tax (VAT), service tax, excise duty, and different state-level charges, GST created a unified, destination-based tax system. This system aims to improve efficiency, transparency, and ease of doing business. The reform was based on the idea of "One Nation, One Tax," with goals of reducing cascading effects, boosting tax compliance, and creating a shared national market.

They significantly contribute to job creation, industrial output, and exports. However, these enterprises often have limited financial resources, low levels of technology use, and restricted management skills. As a result, moving to a complete and tech-driven tax system like GST brings both opportunities and challenges for them.

GST has brought a major change in compliance requirements and accounting practices. The shift from manual and disorganized systems to a digital, invoice-based tax setup has required the use of standardized accounting methods, real-time data reporting, and regular return submissions. Elements like Input Tax Credit (ITC), e-invoicing, and online return processes have improved transparency and traceability in the tax system. Still, these changes have also raised the compliance burden, especially for smaller businesses that may lack necessary digital skills and infrastructure.

Research shows a mixed effect of GST on MSMEs. On one side, GST has simplified taxation, encouraged formalization, and increased financial discipline. On the other side, it has created challenges related to filing returns, reconciling ITC, and adjusting to frequent regulatory changes. The need for ongoing tech updates and reliance on professional help has increased operating costs for MSMEs.

Given this context, it is essential to analyze GST compliance and accounting practices in the MSME sector thoroughly. This study aims to look into how well MSMEs have adapted to GST requirements, identify major challenges in compliance and accounting, and assess the overall effects of GST on their operational and financial methods. By concentrating on secondary data and existing research, the study hopes to provide valuable insights into the effectiveness of GST implementation and its impact on small and medium enterprises in India.

II. REVIEW OF LITERATURE

The following literature review and data analysis are based on recent studies and reports (2019–2025) found within the sources regarding GST compliance and accounting in Indian MSMEs.

Recent academic research highlights the evolving relationship between the GST regime and MSME operational practices:

- **Impact on Performance and Behavior (2024–2025):** Studies by Vijay Keerthan, Reddy, and Srilekha (2025) and Bhalla, Kaur, and Sharma (2024) focus on the direct impact of GST on the MSME sector and small traders, utilizing advanced methods like Artificial Neural Networks to analyze these effects. Dwivedi and Agrawal (2024) further examined how GST influences both the financial performance and the compliance behavior of MSMEs in India.
- **User Acceptance and System Maturity (2023):** Verma and Chauhan (2023) identified that ease of use, system quality, and training are the primary factors influencing whether MSMEs accept digital GST systems. Similarly, Rajan and Arora (2023) validated that GST has successfully strengthened financial control and improved accounting accuracy by reducing manual errors.
- **Compliance Burden and Costs (2021–2022):** Haldankar and Patkar (2022) found that requirements like return filing and invoice matching significantly increased the operational burden on small businesses. Sharma and Singh (2021) highlighted that small enterprises face high compliance costs and a heavy dependency on tax professionals due to frequent rule changes.

- **Digital Transformation and Knowledge Gaps (2020–2021):** Research by Kothari and Desai (2020/2021) emphasized that while automation and e-invoicing improve efficiency, they necessitate continuous training. Gupta (2020) noted that while transparency has improved, a significant lack of technical skills and resistance to digital systems remains a hurdle for many MSME owner.

III. OBJECTIVES OF THE STUDY

The current research aims at investigating the GST compliances and accounting methods used by MSMEs from the perspective of an analysis framework recommended previously in the existing literature about tax. The objectives of the proposed study are stated below:

- To evaluate the effects of GST compliance requirements on the accounting system and compliance activities within Micro, Small and Medium Enterprises.
- To review the GST compliance requirements for Micro, Small and Medium Enterprises (MSMEs).
- To determine the obstacles to GST compliance within Micro, Small and Medium Enterprises.
- To evaluate the effect of GST on the financial performance of Micro, Small and Medium Enterprises (MSMEs).
- To assess the level of GST awareness among Micro, Small and Medium Enterprises (MSME) owners.

IV. RESEARCH METHODOLOGY

Research Design

Descriptive research design is used in this research project. This research design is useful in providing explanations regarding the present extent of GST awareness among respondents. It emphasizes describing “what exists.”

Type of Data

Two types of data have been used for carrying out this research, which include primary and secondary data.

- **Primary Data:** These were collected directly from the respondents by using a questionnaire through Google Forms.
- **Secondary Data:** These were collected from various resources including books, journal articles, reports

from governments, and websites related to GST and MSMEs.

Both types of data have been used for making the research reliable.

Sampling Design

As it would be impractical to collect data from all members of the population, a sampling method has been chosen for the collection of data from respondents.

Sampling Frame

Respondents include:

- Students
- Basic economic knowledge holders
- Persons capable of accessing the survey

Size of Sample

The total sample size in this research comprised of 70 respondents. This figure is enough to provide a general idea about the trends and awareness levels.

Method of Data Collection

For collecting data, a structured questionnaire was developed in the form of Google Forms. The questionnaire contained very simple questions in terms of yes or no and multiple choice.

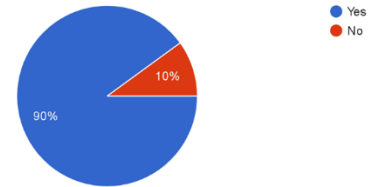
Tools of Statistical Analysis

Some basic tools for statistical analysis are utilized in this study:

- Percentage Analysis
- Frequency Distribution
- Charts and Graphs
- Comparative Analysis

V. DATA ANALYSIS AND INTERPRETATION

1. Have you heard about GST before?



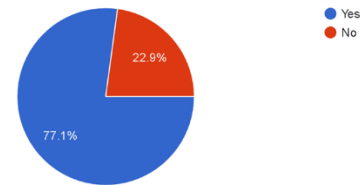
Data Analysis

Among the total of 70 respondents, 63 respondents answered "Yes", meaning they know about GST. The remaining 7 respondents answered "No".

Interpretation

It indicates that the GST awareness level among people is very high indeed. This is because GST affects every transaction made by an individual on a daily basis. However, there are some people who do not know about it.

2. Are you aware about MSMEs ?



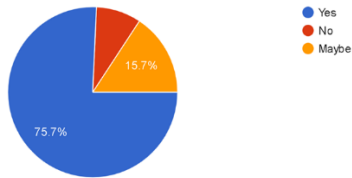
Data Analysis

From the total 70 participants, 54 people (77.1%) responded "Yes," while 16 (22.9%) responded "No."

Interpretation

It can be seen from the above data that most of the participants have a positive attitude towards the topic. However, there is still a considerable number of participants who disagree.

3. Do you think digital systems are necessary for GST?



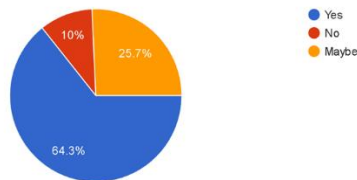
Data Analysis

From among the 70 respondents, 53 or 75.7% said "Yes", 6 or 8.6% said "No", while the remaining 11 or 15.7% answered "Maybe".

Interpretation

It can be seen that most respondents agree with the statement or have a positive reaction to it. Nevertheless, a few still disagree or have mixed feelings about it.

4. Do you think GST is beneficial for MSMEs?



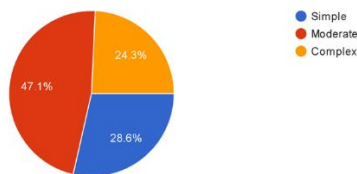
Data Analysis

From the total number of 70 respondents, 45 or 64.3% gave "Yes" as the answer, 7 or 10% answered "No", while 18 or 25.7% answered "Maybe".

Interpretation

It can be concluded that most respondents have positive responses. Yet, there are also many who are still not sure.

5. According to you, GST is:



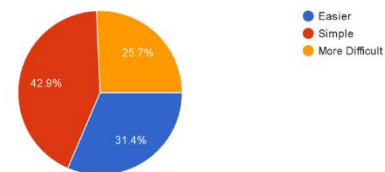
Data Analysis

From the total respondents of 70, 33 (47.1%) respondents found the system to be simple, 17 (24.3%) found it moderate, and 20 (28.6%) found it complex.

Interpretation

It clearly reflects that the majority of the respondents have found it very easy to understand. On the other hand, there is an appreciable number of respondents who found it moderate or complex.

6. In your opinion, GST has made business:



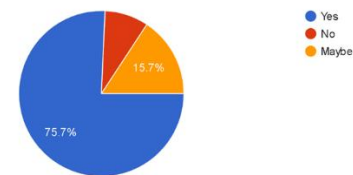
Data Analysis

Among the total number of 70 people, 30 (42.9%) find it easy, 18 (25.7%) find it hard, while 22 (31.4%) find it easy to comprehend.

Interpretation

From this, it can be said that the majority perceives it as easy to understand, but there is a considerable percentage that finds it hard.

7. Are MSMEs important for the Indian economy? **Data Analysis**



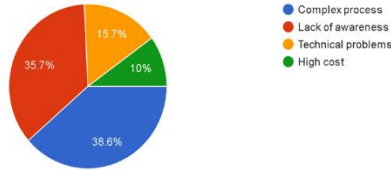
Data Analysis

Out of the 70 participants, 53 (75.7%) answered "Yes," 6 (8.6%) answered "No," while 11 (15.7%) answered "Maybe."

Interpretation

This result proves that most of the respondents have an affirmative answer. Nonetheless, there is a group that has different opinions.

8. What do you think is the biggest issue in GST?



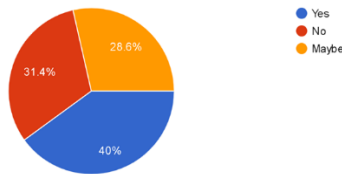
Data Analysis

Of the total 70 respondents, 27 people or 38.6% cited difficulty in process as their problem, while 35.7% cited lack of awareness as their problem, 15.7% cited technical difficulties as a problem, and 10% cited high costs as their problem.

Interpretation

This shows that complicated processes and lack of awareness are the two major problems for respondents, although technical difficulties and high costs are other problems as well.

9. Do you believe GST has reduced tax complexity?



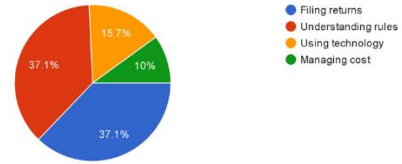
Data Analysis

From the total of 70 people surveyed, 28 people (40%), 22 people (31.4%), and 20 people (28.6%) said “yes”, “no”, and “maybe”, respectively.

Interpretation

The survey results indicate that there is a relatively balanced stance among the respondents, with a mere majority supporting their side of the issue.

10. Which area do MSMEs struggle most in?



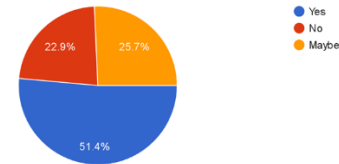
Data Analysis

Among the 70 participants, 26 (37.1%) experience problems with understanding the rules, 26 (37.1%) experience problems with filing their returns, 11 (15.7%) experience problems with technology, and 7 (10%) have problems with costs.

Interpretation

This means that the key problems are those of understanding the GST rules and filing returns. In comparison, fewer participants have technology and cost management problems.

11. Do you think GST rules change frequently?



Data Analysis

Among 70 responses, there were 36 (51.4%) who said "Yes", 16 (22.9%) said "No" and 18 (25.7%) said "Maybe".

Interpretation

What this means is that a majority of the respondents have a favourable opinion on the question asked. But a significant minority disagrees or is unsure about their opinions.

VI. FINDINGS OF THE STUDY

1. GST Awareness is Very High

Many of the respondents are aware of the concept of GST. This implies that GST is becoming a very

famous term among people owing to its broad acceptance and day-to-day use.

2. MSME Awareness is Only Moderate

Whereas many of the respondents are aware about the term MSME, many others are not aware. This implies that awareness about MSME is less than awareness about GST.

3. Necessity of Digital Systems

Majority of respondents hold the view that digital systems are essential in case of GST. Thus, technology plays an essential role in GST-related matters such as filing of GST returns and record keeping.

4. GST is Beneficial to MSMEs

While most respondents view GST as beneficial for MSMEs, there are some who feel that GST is not necessarily beneficial.

VII. DISCUSSION

The results of the study provide sufficient insight into the perception of GST and its effect on MSMEs. Firstly, the high level of GST awareness demonstrates that the tax is known well among the population. However, mere awareness does not mean anything; the study demonstrates that even though people are aware of GST, it is not always easy to understand its procedures.

Secondly, the average level of awareness of MSMEs demonstrates that further efforts need to be made to promote knowledge about these entities. As mentioned above, MSMEs are crucial in terms of economic growth. Therefore, people should be more informed about MSMEs and their significance.

Additionally, the importance of digitization should be discussed. The study shows that respondents understand it is impossible to implement GST without digitalization. Nevertheless, some respondents have challenges in working with digital platforms, which creates an issue. Finally, the mixed response concerning the effect of GST on the benefits and business development of respondents demonstrates that GST brings both positive and negative consequences. For instance, for some, GST simplifies the process of payment. In turn, for others, it creates

additional compliance costs, especially for small enterprises.

VIII. CONCLUSION

Thus, the current investigation of GST awareness and its influence on MSMEs can give insight into respondents' knowledge of GST and difficulties related to its implementation. Data gathered during the research process shows both pros and cons of implementing GST.

First, one of the main conclusions made based on the results of the survey is that GST awareness is relatively high. People know about GST and its essence and understand this term. On the other hand, awareness concerning MSMEs is not quite high, which means that more work should be done to make people realize their significance.

Next, the findings indicate that respondents view digital platforms as an important aspect of implementing GST. Since all operations with GST take place via the Internet, respondents have realized the importance of technology. On the other hand, there are people who experience certain difficulties in operating within this framework.

Finally, it should be noted that GST is viewed by respondents as a complex mechanism. Even though it has made the tax system more comprehensible, it is still complicated and difficult to apply. This fact makes another issue for MSMEs.

IX. RECOMMENDATIONS

- Create awareness regarding MSMEs
- Make the GST process easier
- Train MSMEs properly and provide necessary assistance
- Enhance digital facilities and support on the GST portal
- Avoid constant changes in the GST system
- Develop special schemes for MSMEs
- Lower costs of compliance and filing
- Make GST guidelines easier to understand
- Improve customer service

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