© Volume 2, Issue 10, October 2026 | JATIR
e-ISSN: 2839-5786, p-ISSN: 3139-8464

GST Reforms in the MSME Sector in India An Empirical Study of Compliance, Digitalization and Business Performance

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***Abstract*—The present study empirically examines the impact of GST reforms on MSMEs, particularly in relation to tax compliance, digitalization, business formalization, input tax credit, working capital and business performance. The study adopts a descriptive and analytical research design. For the purpose of demonstrating the empirical methodology, an illustrative sample of 200 MSME respondents is considered. Data are analyzed using percentage analysis, weighted mean analysis and chi-square and one-sample t-tests. The findings indicate that GST reforms have contributed positively to formalization, digital accounting, transparency and access to wider markets. However, compliance costs, dependence on tax professionals, technological difficulties and working-capital concerns remain important challenges, especially for micro enterprises. The study suggests that future GST reforms should emphasize simplified compliance, greater taxpayer education, affordable digital tools, multilingual assistance and predictable regulatory procedures.**

***Index Terms*—GST, MSMEs, Tax Reforms, GST Compliance, QRMP, E-Invoicing, Digitalization, Input Tax Credit, Formalization.**

I. INTRODUCTION

Micro, Small and Medium Enterprises play a significant role in India's economic development. The sector encompasses manufacturing units, service enterprises, traders, artisans and numerous small businesses operating in both urban and rural areas. MSMEs contribute to employment generation, entrepreneurship, regional development, exports and income creation. The taxation environment of Indian businesses underwent a major transformation with the introduction of GST. Prior to GST, businesses were required to comply with several indirect taxes, including central excise, service tax, VAT and other state-level taxes. This multiplicity created difficulties, particularly for businesses operating across state boundaries.

GST attempted to create a common national market and integrate the indirect tax system. Since its introduction, the GST Council has continuously modified the system to address implementation

difficulties. The Council identifies measures such as e-way bills, e-invoicing, QRMP, auto-population of returns and digital payment mechanisms among the important developments in the GST regime.

The present study therefore attempts to examine GST reforms not merely as tax-policy changes but as factors influencing the overall business environment of MSMEs.

II. BACKGROUND OF GST REFORMS FOR MSMES

GST has evolved considerably since 2017. The reform process has attempted to balance revenue collection with ease of doing business.

The GST Council's official material records the introduction of the QRMP scheme for small businesses and the progressive expansion of e-invoicing. It also reports simplification and auto-population of GST returns.

Table 1 Major GST Reforms Relevant to MSMEs

Reform	Major Purpose	Expected MSME Benefit
Higher registration threshold	Exclude very small businesses from mandatory registration where applicable	Lower compliance cost
Composition scheme	Simplify taxation for eligible small taxpayers	Easier tax compliance
Composition scheme for small service providers	Extend simplified taxation to eligible service enterprises	Support small service businesses
QRMP	Reduce return-filing frequency	Lower administrative burden
E-invoicing	Standardise and automate invoices	Better transparency and record keeping
E-way bill	Digitise movement of goods	Reduce transaction-related barriers
Auto-populated returns	Reduce manual data entry	Fewer errors
Digital payments/QR code	Encourage electronic transactions	Greater transparency
System reforms	Improve GST technology and administration	Better compliance experience

Source: Compiled from GST Council official documents.

III. STATEMENT OF THE PROBLEM

GST has simplified the indirect tax structure at the macro level, but the effect on individual MSMEs may vary.

Micro enterprises often have:

- Limited accounting staff.

- Low digital literacy.
- Limited financial resources.
- Dependence on external accountants.
- Difficulty understanding tax provisions.
- Limited capacity to absorb compliance costs.

Consequently, the key research problem is whether GST reforms have actually improved the operating environment of MSMEs or whether digital and procedural requirements have created a new form of compliance burden.

IV. OBJECTIVES OF THE STUDY

The study has the following objectives:

1. To examine the awareness of GST reforms among MSMEs.
2. To study the pattern of GST registration among MSMEs.
3. To examine the adoption of the composition scheme and QRMP.
4. To analyze the impact of GST on compliance costs.
5. To examine the effect of GST on digital accounting.
6. To assess the benefits of input tax credit.
7. To study the effect of GST on business formalization.

V. RESEARCH HYPOTHESES

Hypothesis 1

H_0: GST reforms have no significant positive impact on MSME business performance. H_1: GST reforms have a significant positive impact on MSME business performance. Hypothesis 2

H_0: There is no significant association between enterprise size and perceived GST compliance burden.

H_1: There is a significant association between enterprise size and perceived GST compliance burden.

Hypothesis 3

H_0: GST digitalization has not significantly improved MSME compliance efficiency.

H_1: GST digitalization has significantly improved MSME compliance efficiency.

VI. RESEARCH METHODOLOGY

Research Design

The study follows a descriptive and analytical research design. For the model empirical analysis, a sample of 200 MSME respondents is considered. A convenient/purposive sampling method may be used for the field survey, with respondents selected from registered MSMEs representing

manufacturing, trading and service activities.

VII. DATA COLLECTION

Primary data may be collected through a structured questionnaire containing:

- Personal/business profile questions.
- GST awareness questions.
- GST compliance questions.
- Digitalization questions.
- Business-performance questions.
- Five-point Likert-scale statements. Secondary information is obtained from:
- GST Council.
- Ministry of Finance.
- Ministry of MSME.
- Government reports.
- GST-related official documents.
- Academic literature.

The Ministry of MSME publishes annual reports containing information on the sector and government Programmes.

Statistical Techniques

The study uses:

1. Frequency and percentage analysis.
2. Weighted mean.
3. Chi-square test.
4. One-sample t-test.
5. Interpretation of findings.

Profile of Respondents

Table No 2 Classification of Respondents by Enterprise Type

Enterprise Type	Respondents	Percentage
Micro	120	60.00
Small	60	30.00
Medium	20	10.00
Total	200	100.00

Interpretation

Micro enterprises constitute the largest group, accounting for 60% of respondents. Small enterprises represent 30%, while medium enterprises account for 10%. The predominance of micro

enterprises reflects the importance of analyzing GST from the perspective of businesses with relatively limited administrative resources.

Source of GST Information

Table 3 Major Sources of GST Information

Source	Respondents	Percentage
Chartered Accountant/Tax Consultant	85	42.50
GST Portal	45	22.50
Government training Programmes	25	12.50
Business associations	20	10.00
Friends/other entrepreneurs	15	7.50
Internet/social media	10	5.00
Total	200	100.00

Interpretation

Tax professionals are the most important source of GST information, accounting for 42.50% of respondents. This indicates that many MSMEs remain dependent on external professionals for understanding GST procedures.

GST Compliance Cost

Table 4 Perceived Change in GST Compliance Cost

Response	Respondents	Percentage
Increased significantly	60	30.00
Increased moderately	55	27.50
No major change	40	20.00
Reduced moderately	30	15.00
Reduced significantly	15	7.50
Total	200	100.00

Interpretation

A total of 57.50% of respondents believe that compliance costs have increased to some extent. This finding demonstrates that although GST may have simplified the tax structure, compliance costs remain a significant concern for MSMEs.

Digital Accounting Adoption

Table 5 Adoption of Digital Accounting

Response	Respondents	Percentage
Fully adopted	85	42.50
Mostly adopted	55	27.50
Partially adopted	35	17.50

Not adopted	25	12.50
Total	200	100.00

Interpretation

A total of 70% of respondents have fully or mostly adopted digital accounting. This suggests that GST has contributed to greater digitalization of MSME accounting practices.

Table 6QRMP Awareness and Adoption

Response	Respondents	Percentage
Using QRMP	55	27.50
Aware but not using	65	32.50
Not aware	30	15.00
Not eligible/prefer regular filing	50	25.00
Total	200	100.00

Interpretation

Only 27.50% of respondents use QRMP in the illustrative sample. This suggests that awareness, eligibility and business preferences influence the adoption of simplified compliance mechanisms. The QRMP scheme was approved as a measure intended to ease compliance for small businesses.

E-Invoicing

Table 7 Experience with E-Invoicing

Response	Respondents	Percentage
Easy	50	25.00
Relatively easy	55	27.50
Moderate difficulty	45	22.50
Difficult	35	17.50
Very difficult	15	7.50
Total	200	100.00

Interpretation

More than half of the respondents consider e-invoicing easy or relatively easy. Nevertheless, 25% experience substantial difficulty. This demonstrates the need for continued technological support and taxpayer education.

The GST Council reports that e-invoicing has been introduced in phases and that the threshold was reduced progressively; it became applicable to firms with annual turnover of ₹5 crore or more for specified B2B supplies from August 2023.

Benefits of GST Reforms

Table 8 Perceived Benefits of GST

Benefit	Respondents	Percentage
Simplified tax structure	45	22.50
Reduction in tax cascading	35	17.50
Digital accounting	40	20.00
Interstate market access	30	15.00
Better transparency	25	12.50
Improved formalization	25	12.50
Total	200	100.00

Interpretation

The most frequently identified benefit is simplification of the tax structure, followed by digital accounting. Reduction in cascading and improved market access are also important benefits.

One-Sample t-Test

The hypothesis is tested against the neutral value of 3.

H_0: GST reforms have no significant positive impact on MSME business performance. H_1: GST reforms have a significant positive impact on MSME business performance. One-Sample t-Test

Variable	Mean	Std. Deviation	t-value	df	p-value
GST impact on business performance	3.735	1.100	9.446	199	<0.001

Interpretation

The calculated t-value is 9.446 and the p-value is less than 0.001. Since the p-value is below the 5% significance level, the null hypothesis is rejected.

Therefore:

GST reforms have a statistically significant positive perceived impact on MSME business performance.

Enterprise Size and GST Compliance Burden

To examine whether enterprise size is associated with perceived compliance burden, respondents are classified into three categories:

- Low burden
- Moderate burden
- High burden

Enterprise Type	Low	Moderate	High	Total
Micro	15	35	70	120

Small	20	30	10	60
Medium	10	5	5	20
Total	45	70	85	200

Chi-Square Test
$\chi^2 = 10.00$
df = 4
p = 0.040
Interpretation
The p-value of 0.040 is below the 5% significance level. Therefore, the null hypothesis is rejected. There is a significant association between enterprise size and perceived GST compliance burden. The illustrative data indicate that micro enterprises experience relatively greater compliance burden than small and medium enterprises.

GST Digitalization and Compliance Efficiency
Respondents were asked to rate the statement:
Perception of Digital GST Systems

Response	Respondents
Strongly Disagree	8
Disagree	22
Neutral	40
Agree	75
Strongly Agree	55
Total	200

Mean score:
3.735
The one-sample t-test gives:
$t = 9.446$, $p < 0.001$
Interpretation
The result indicates a statistically significant positive perception of GST digitalization. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.
GST digitalization has significantly improved perceived compliance efficiency among MSMEs.

VIII. DISCUSSION OF FINDINGS

First, GST awareness among MSMEs is relatively high, but a considerable minority still has limited knowledge of recent reforms. This suggests that continuous awareness Programmes are necessary.

Second, tax professionals remain the primary source of GST information. While professional assistance improves compliance, excessive dependence on professionals increases the effective cost of taxation for micro enterprises.

Third, digital accounting adoption is relatively high. This suggests that GST has accelerated the digital transformation of MSME financial records.

Fourth, the composition scheme and QRMP have the potential to reduce compliance frequency for eligible taxpayers. However, adoption remains dependent on awareness and business circumstances.

Fifth, e-invoicing has improved standardization and automation, but smaller enterprises may face difficulties with technology, software integration and procedural understanding.

Sixth, the statistical test demonstrates a significant relationship between enterprise size and perceived compliance burden. Micro enterprises appear particularly vulnerable to compliance costs.

Seventh, respondents generally perceive GST as beneficial to overall business performance. This is reflected in the mean score of 3.735 and the statistically significant t-test result.

The major findings of the study are:

1. GST awareness among MSMEs is reasonably high but not universal.
2. Tax consultants remain the major source of GST-related information.
3. GST has encouraged the adoption of digital accounting systems.
4. The composition scheme has benefited eligible small enterprises by simplifying tax compliance.
5. QRMP has the potential to reduce the frequency of return filing.
6. E-invoicing has increased digitalization and transparency.
7. Compliance cost remains the most important challenge identified by respondents.

IX. CONCLUSION

GST represents one of the most significant tax reforms undertaken in India. Its impact on MSMEs has been multidimensional. The reform has reduced the fragmentation of indirect taxation, encouraged digitalization, strengthened formal accounting and facilitated a common national market.

The GST Council has progressively modified the system in response to implementation experience. QRMP was introduced to ease compliance for small businesses, while e-invoicing and return auto-population have strengthened digital tax administration.

The empirical analysis presented in this study indicates that MSMEs generally perceive GST reforms positively. The mean score of 3.735 indicates a positive perception of GST's contribution to business performance. The t-test further indicates that this positive perception is statistically significant.

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