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Impact of GST 2.0 Administrative Reforms on Compliance Costs of MSMEs in India

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Abstract

This study examines the impact of GST 2.0 administrative reforms on the compliance costs of Micro, Small, and Medium Enterprises (MSMEs) in India using secondary data. The implementation of the Goods and Services Tax (GST) in 2017 unified the indirect tax system; however, it also imposed significant compliance burdens on MSMEs due to procedural complexity, multiple return filings, and digital reporting requirements. In response to these challenges, the government introduced a series of reforms, commonly referred to as GST 2.0, aimed at simplifying compliance procedures, strengthening digital infrastructure, and reducing administrative burden.

The study is based on secondary data drawn from government publications, policy reports, and academic literature. It analyzes key indicators of compliance costs, including time spent on tax-related activities, administrative expenses, and reliance on professional services. The findings indicate that GST 2.0 reforms have reduced procedural complexity and improved compliance efficiency. Measures such as pre-filled returns, simplified filing mechanisms, and improved input tax credit systems have lowered the time and effort required for compliance.

However, the study also observes that compliance costs remain relatively high for MSMEs, particularly micro enterprises, due to digital literacy gaps, infrastructural limitations, and frequent regulatory changes. Furthermore, the benefits of these reforms are unevenly distributed, with medium-sized enterprises experiencing greater advantages compared to smaller units.

The study concludes that while GST 2.0 represents a significant step toward improving the ease of doing business, additional policy interventions are required to ensure inclusive outcomes. Enhancing digital capacity, further simplifying procedures for micro-enterprises, and strengthening institutional support systems are essential to reducing compliance costs and promoting the sustainable growth of the MSME sector.

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1. Introduction

The introduction of the Goods and Services Tax (GST) in India in 2017 marked a landmark reform in the country's indirect taxation system. By subsuming multiple central and state taxes into a unified framework, GST aimed to create a seamless national market, eliminate cascading taxation, and improve tax compliance. While these objectives were largely achieved, the transition to a new tax system posed several challenges, particularly for Micro, Small and Medium Enterprises (MSMEs). MSMEs constitute a vital segment of the Indian economy, contributing significantly to employment generation, industrial production, and exports. Despite their importance, MSMEs often operate with limited financial, technical, and managerial resources. As a result, they are more vulnerable to regulatory complexities and compliance costs compared to large enterprises. In the initial years following GST implementation, MSMEs faced considerable difficulties in adapting to the new system. The requirement of multiple return filings, frequent changes in rules, and reliance on digital platforms increased the administrative burden. Compliance costs, including expenditure on tax professionals, software systems, and administrative time, became a significant concern. In response to these challenges, the government introduced a set of reforms commonly referred to as GST 2.0. These reforms aim to simplify compliance procedures, reduce the frequency of filings, enhance digital systems, and improve the efficiency of tax administration. Key measures include the introduction of pre-filled returns, quarterly filing schemes for small taxpayers, streamlined input tax credit mechanisms, and faster refund processing. This study seeks to evaluate the impact of these reforms on the compliance cost of MSMEs in India. It examines whether GST 2.0 has succeeded in reducing the administrative burden and improving the ease of doing business for small enterprises.

2. Review of Literature

Existing literature on GST and MSMEs highlights both the benefits and challenges of the tax reform. Several studies have emphasized that GST has improved transparency and reduced tax cascading, thereby enhancing overall economic efficiency. However, the compliance burden associated with GST has been a major concern, particularly for small businesses. Research studies indicate that MSMEs incur significant compliance costs due to complex filing requirements and frequent regulatory changes. These costs include both direct expenses, such as fees paid to tax consultants, and indirect costs, such as time spent on compliance activities. The Economic Survey of India has also noted that compliance costs are disproportionately higher for smaller firms due to limited resources and a lack of specialised expertise. Recent studies focusing on GST 2.0 reforms

suggest that measures such as simplified return filing and digital automation have improved compliance efficiency. However, challenges related to digital literacy, infrastructure, and regulatory complexity continue to affect MSMEs. The literature also highlights the existence of a digital divide, with smaller enterprises facing greater difficulties in adopting technology-driven compliance systems. Overall, while GST reforms have made progress in simplifying the tax system, there remains a need for further improvements to ensure that MSMEs fully benefit from these changes.

3. Objectives of the Study

- To examine the administrative reforms introduced under GST 2.0
- To analyse the nature and extent of compliance costs faced by MSMEs
- To evaluate the impact of GST 2.0 on reducing compliance burden
- To identify the challenges faced by MSMEs in adapting to GST reforms

4. Methodology

The study is based on secondary data collected from various sources, including government reports, policy documents, and academic research articles.

Data Sources

- Economic Survey of India
- Ministry of MSME Annual Reports
- GST Council publications
- RBI Handbook of Statistics
- Research papers and institutional reports

Analytical Tools

- Comparative analysis (pre- and post-GST 2.0)
- Trend analysis
- Qualitative interpretation

The study covers the period from 2017 to 2026, capturing both the initial GST phase and subsequent reforms.

5. Analysis and Discussion

5.1 Nature of Compliance Costs

Compliance costs for MSMEs can be classified into three categories:

- **Direct Costs:** Payments made to tax professionals, accountants, and software providers
- **Indirect Costs:** Time spent on maintaining records, filing returns, and responding to regulatory requirements
- **Opportunity Costs:** Loss of productive time due to compliance activities

Studies suggest that MSMEs face a high compliance burden due to the large number of regulatory requirements. Smaller firms, in particular, depend heavily on external professionals, which increases their financial burden.

5.2 Compliance Challenges under GST

The initial phase of GST implementation was marked by several challenges:

- Multiple return filings and complex procedures
- Frequent changes in tax rules and regulations
- Heavy reliance on digital platforms
- Delays in input tax credit and refunds
- Increased dependency on tax consultants

These challenges led to higher compliance costs and reduced operational efficiency for MSMEs.

5.3 Administrative Reforms under GST 2.0

GST 2.0 introduced several reforms aimed at addressing these challenges:

- Simplification of return filing procedures
- Introduction of quarterly filing for small taxpayers
- Pre-filled returns to reduce manual data entry
- Improved input tax credit mechanisms
- Faster and automated refund processes

These measures aim to reduce both the time and cost associated with compliance.

5.4 Impact on Compliance Cost

The reforms have resulted in several positive outcomes:

- Reduction in time spent on compliance activities
- Decrease in frequency of return filings
- Improved efficiency in tax administration
- Faster processing of refunds

However, the impact varies across different categories of MSMEs. Medium enterprises, which have better access to digital resources, benefit more from these reforms compared to micro enterprises.

5.5 Digitalization and Compliance

Digitalization is a key feature of GST 2.0. While it has improved efficiency and transparency, it has also created new challenges:

- Lack of digital literacy among small business owners
- Inadequate internet infrastructure in rural areas
- Initial costs of adopting digital systems

Thus, digitalization acts as both an enabler and a barrier for MSMEs.

5.6 Critical Evaluation

Despite improvements, several issues persist:

- Compliance costs remain relatively high for small enterprises
- Frequent regulatory changes create uncertainty
- Many MSMEs remain outside the GST system
- Benefits of reforms are unevenly distributed

These factors indicate that GST 2.0 reforms, while beneficial, are not sufficient to fully address the challenges faced by MSMEs.

6. Key Findings

- GST 2.0 has simplified compliance procedures
- Time and administrative burden have reduced moderately
- Digital systems have improved efficiency but created new challenges
- Compliance costs remain higher for micro enterprises
- Benefits of reforms are not evenly distributed across MSMEs

7. Policy Suggestions

- Further simplification of compliance procedures for micro enterprises
- Expansion of digital literacy and training programs
- Development of user-friendly GST platforms
- Reduction in frequency of regulatory changes
- Strengthening institutional support mechanisms

8. Conclusion

GST 2.0 administrative reforms have significantly improved the efficiency and transparency of the tax compliance system in India. By simplifying procedures and promoting digitalization, these reforms have reduced certain aspects of compliance cost for MSMEs. However, structural challenges such as digital barriers, regulatory complexity, and limited institutional support continue to affect small enterprises.

For GST to achieve its full potential, policy efforts must focus on inclusiveness and capacity building. Ensuring that MSMEs, particularly micro enterprises, can effectively participate in the GST system is essential for promoting sustainable economic growth.

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