United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 | Impact Factor: 6.934 (SJIF)
Volume 3, Special Issue -IX, 2026; Website: www.uijmr.in

GST 2.0 and Small Businesses in India: Examining Tax Compliance Challenges

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DOI:10.37854/UIJMR.2026.3.3.9.624

Abstract: The Goods and Services Tax (GST) has been a major reform in India's indirect taxation system, which provides a straightforward tax system and better tax system transparency. The GST 2.0 reforms introduced in 2025 established a new reform phase, which developed enhanced digital systems while creating more efficient compliance processes and better tax administration systems. This research investigates how GST 2.0 reforms affect tax compliance for small businesses in India.

The study main goal is to evaluate GST 2.0 compliance requirements while determining the major difficulties Micro Small and Medium Enterprises (MSMEs) encounter. The study uses a descriptive research design which depends on secondary data that official sources provided. The study used secondary data from official sources which included Central Board of Indirect Taxes and Customs and Goods and Services Tax Network and Ministry of Micro and Small and Medium Enterprises and Reserve Bank of India and relevant academic literature.

The study results show that GST 2.0 improves system performance through its digitalization growth and return filing automation and its enhanced compliance enforcement methods. These reforms have created extra compliance requirements which small businesses must handle. The main challenges which businesses face include digital and technical difficulties and high compliance expenses and complicated operational processes and challenges with Input Tax Credit (ITC) claims. The difficulties faced by MSMEs have resulted in decreased operational performance and financial difficulties.

The study shows that GST 2.0 provides a modern tax system improvement through its new features yet the system fails to achieve its goal of making small business compliance easier. The study shows that organizations need to simplify their work

processes and enhance their online support systems while implementing dedicated policies to achieve better compliance results and extend their business reach.

Keywords: GST 2.0, Tax Compliance, Digital Taxation, Small Businesses, Compliance Cost

Introduction

The implementation of the Goods and Services Tax (GST) marked a substantial taxation reform in India which combined various taxes into one system while creating better tax assessment methods. The system required modifications because its operational problems needed solutions which resulted in the implementation of new changes that became known as GST 2.0 in 2025. The reforms create better operational performance through digital system improvements and easier tax compliance methods.

The Indian economy depends on small businesses which include Micro Small and Medium Enterprises because these enterprises create jobs and produce goods and services and international trade products. The Ministry of Micro Small and Medium Enterprises (2023) reported that the MSME sector serves as the main industrial development engine of the nation. The enterprises face ongoing difficulties with tax compliance under GST regulations.

The GST framework depends on digital systems for three main functions which include registration, return filing, and tax administration. The Goods and Services Tax Network (2025) reported that the recent changes improved digital compliance systems through e-invoicing and automated return submission methods. The Central Board of Indirect Taxes and Customs (2025) requires organizations to continuously update their compliance processes through official notifications and circulars.

The existing improvements have not eliminated all existing problems. Sharma and Singh (2021) explain that GST compliance creates both financial and procedural challenges for MSMEs because of its constant rule changes and difficult filing procedures. The Reserve Bank of India (2024) supports this perspective by showing how small businesses experience operational difficulties because of existing financial and regulatory limitations.

The Press Information Bureau (2025) has released a new policy statement which indicates that GST 2.0 reforms will help businesses while making business operations simpler. The current debate centres on whether the new reforms have made it easier for

small businesses to comply with regulations. The analysis requires researchers to assess whether the GST 2.0 reforms have decreased compliance requirements for small businesses or created additional problems for these businesses in India.

Objective

- To examine the key compliance requirements under GST 2.0 in India.
- To identify the major tax compliance issues faced by small businesses.
- To analyze the impact of GST 2.0 on compliance cost and operational efficiency.
- To suggest measures for simplifying tax compliance for MSMEs.

Literature Review

The introduction of the Goods and Services Tax (GST) in India has been widely studied in terms of its structure, implementation, and impact on businesses. Garg (2014) explained the fundamental concepts and features of GST because it aims to establish a unified tax structure while making indirect tax processes more understandable. The implementation of GST faced practical difficulties because its theoretical framework designed to simplify tax processes encountered operational obstacles during execution.

Subsequent studies focused on the impact of GST on small businesses and MSMEs. Sharma and Singh (2021) discovered that GST compliance required MSMEs to follow labor-intensive and costly procedures because they needed to file returns multiple times and handle complicated paperwork without having sufficient technical skills. These challenges were more pronounced among smaller firms with limited resources.

The World Bank (2020) showed that businesses find it easier to operate when tax systems have simplified structures which lower their expenses for tax compliance. Small enterprises face higher operational costs because of complicated tax requirements and constant changes in regulations which impede their ability to expand their businesses and maintain their existence.

The Indian context shows that digital infrastructure development studies which focus on tax compliance also present essential findings in their research. The NITI Aayog (2024) reported that digital public infrastructure improvements have enhanced efficiency but created difficulties for MSMEs because of their low digital knowledge and growing need for technology-based compliance solutions.

Despite these contributions, most existing studies focus on the initial phases of GST implementation. Limited research is available on the recent GST 2.0 reforms introduced in 2025, particularly in relation to their impact on tax compliance among small

businesses. This indicates a clear research gap, which the present study seeks to address by analyzing compliance issues under the GST 2.0 framework.

Research Methodology

The research uses descriptive research design to study tax compliance problems which small businesses encounter because of GST 2.0 reforms in India. The research uses secondary data as its only source of information.

Researchers obtained data from trustworthy sources which include the Central Board of Indirect Taxes and Customs (2025), Goods and Services Tax Network (2025), Ministry of Micro Small and Medium Enterprises (2023) and Reserve Bank of India (2024) publications. The researchers used policy insights from Press Information Bureau (2025) to analyze the recent changes in GST 2.0 reform implementation.

The research investigates the period after 2025 which follows the implementation of GST 2.0 reforms while using previous research only for contextual purposes. The researchers used content analysis and descriptive analysis methods to examine the collected data which helped them identify main compliance needs and challenges which small businesses encounter.

The research investigates tax compliance requirements which apply to MSMEs throughout India and specifically examines their registration process and return filing procedures and digital system usage and input tax credit access. The study does not involve primary data collection or advanced statistical analysis.

GST 2.0 Reforms (2025)

The Goods and Services Tax (GST) system in India has undergone continuous evolution since its implementation in 2017. The Government established GST 2.0 as a new reform initiative to solve ongoing problems which cause difficulties with following rules and create operational problems starting in 2025. The tax reform initiatives try to make tax collection easier and to build better digital systems which will help businesses comply with tax regulations.

The Press Information Bureau (2025) reports that GST 2.0 reforms were established to help companies while they built a stronger tax system. The reforms focus on making compliance procedures more efficient while decreasing tax obligations which small taxpayers must handle.

The main component of GST 2.0 provides the tax administration system with improved capabilities through digital advancements. The Goods and Services Tax Network (2025)

highlight the expansion of system-driven compliance mechanisms which include improved return filing systems and automated data validation and integration of e-invoicing processes. The system aims to achieve two objectives which are to decrease the need for human involvement and to enhance the exactness of tax declarations.

The Central Board of Indirect Taxes and Customs (2025) has issued new notifications and circulars which help businesses understand compliance procedures better. The organization introduced three major changes which included new formats for return filing and better process management and compliance monitoring systems.

The strengthening of Input Tax Credit (ITC) mechanisms represents another important element of GST 2.0. The reforms require businesses to provide precise information through the implementation of stricter invoice matching standards and stronger verification requirements which help prevent tax fraud.

Overall, GST 2.0 represents a shift towards a more **technology-driven and compliance-oriented tax system**. While these reforms are intended to simplify processes and improve transparency, their effectiveness largely depends on the ability of small businesses to adapt to the increased digital and procedural requirements.

Compliance Requirements under GST 2.0

The implementation of GST 2.0 has established a more organized system for small business tax compliance which operates through technological solutions. The operational procedures of businesses demand compliance with all steps needed for registration and return submission and tax credit handling.

The Central Board of Indirect Taxes and Customs (2025) states that companies which exceed the established revenue limit must obtain GST registration and maintain accurate records of their business activities. The process of registration now functions through a system which combines digital verification methods to provide precise and transparent results.

The process of return submission continues to serve as an essential requirement for compliance. The Goods and Services Tax Network (2025) states that businesses must submit their scheduled returns through the GST portal using GSTR-1 and GSTR-3B forms. The GST 2.0 reforms established new automatic systems which include data auto-population and validation processes to decrease human errors.

The implementation of e-invoicing and digital reporting systems stands as another essential requirement. The systems enable immediate recording of business operations while establishing more effective tax oversight mechanisms. The systems require businesses to establish an IT infrastructure which depends on digital channels.

The rules governing Input Tax Credit (ITC) management have become more rigorous. Businesses need to conduct proper invoice matching processes together with meeting eligibility requirements before they can obtain ITC according to the Central Board of Indirect Taxes and Customs (2025). The availability of tax credits depends on the time frame which will result from any discrepancies or delays.

Small businesses must maintain their tax records and implement digital solutions and complete their required filing tasks when they need to comply with GST 2.0 regulations. The measures seek to enhance operational efficiency but they also create additional duties which small businesses must fulfil together with their compliance obligations.

Issues in Tax Compliance under GST 2.0

Despite the objective of simplifying the tax system, GST 2.0 reforms have introduced several challenges for small businesses, particularly in terms of compliance.

Digital and Technical Challenges

The increased reliance on digital platforms has created difficulties for small businesses with limited technological capabilities. As noted by the Goods and Services Tax Network (2025), compliance processes such as return filing and e-invoicing are now largely system-driven. However, many MSMEs face issues such as portal errors, lack of digital literacy, and inadequate access to reliable internet infrastructure.

High Cost of Compliance

GST compliance often requires the assistance of tax professionals and specialized software. Sharma and Singh (2021) highlight that small businesses incur additional costs for accounting services and compliance tools. These costs increase the financial burden on MSMEs, affecting their profitability.

Procedural Complexity

Although reforms aim at simplification, the GST system still involves multiple procedures, frequent updates, and detailed documentation requirements. The Central Board of Indirect Taxes and Customs (2025) regularly issues notifications and circulars, which, while necessary, can make it difficult for small businesses to stay updated and compliant.

Input Tax Credit (ITC) Issues

The stricter ITC mechanism under GST 2.0 requires accurate invoice matching and compliance with multiple conditions. Any mismatch or delay can lead to denial or postponement of credit. This affects the working capital of small businesses, as highlighted by the Reserve Bank of India (2024), which notes that liquidity constraints remain a key concern for MSMEs.

Compliance Burden vs Ease of Doing Business

While GST 2.0 reforms aim to improve ease of doing business, the actual experience for small businesses is mixed. According to the Press Information Bureau (2025), reforms are intended to provide relief; however, in practice, increased compliance requirements and digital dependence may offset these benefits.

Overall, GST 2.0 has improved transparency and system efficiency, but it has also increased the compliance burden for small businesses. The gap between policy intention and ground-level implementation remains a key issue.

Findings and Discussion

The analysis of GST 2.0 reform shows that tax system now operates with better organization and clear processes and digital technology. The system-based compliance mechanisms together with digital platforms now enable businesses to achieve better tax reporting accuracy while decreasing their need for manual work.

The research shows that small enterprises face greater challenges because their compliance requirements have been increased through the implemented enhancements. The Goods and Services Tax Network (2025) shows that businesses have faced operational difficulties because digital systems require technological skills which their employees do not possess. The Central Board of Indirect Taxes and Customs (2025) issues frequent regulatory updates which create additional difficulties for businesses to follow their procedures.

The study shows that small businesses face higher compliance expenses because they need to use external professionals and software solutions which support the findings of Sharma and Singh (2021). The Reserve Bank of India (2024) raised concerns about Input Tax Credit provisions which now create stricter rules that limit business liquidity and working capital.

The Press Information Bureau (2025) states that GST 2.0 reforms should simplify business operations for small enterprises which the reforms fail to achieve because their actual results show mixed outcomes. The system has become more efficient through the reforms, but the system still requires businesses to meet operational compliance requirements.

The research results show that MSME businesses need better support because their existing policies fail to achieve their intended goals through complete operational effectiveness.

Suggestions / Policy Recommendations

Based on the findings, the following measures are suggested to reduce the compliance burden on small businesses under GST 2.0:

Simplification of Compliance Procedures

The Central Board of Indirect Taxes and Customs should focus on reducing procedural complexity by minimizing the number of returns and simplifying documentation requirements. A more stable and predictable compliance framework would benefit small businesses.

Strengthening Digital Support for MSMEs

As GST compliance is increasingly digital, the Goods and Services Tax Network should enhance user support systems, including helpdesks, tutorials, and simplified interfaces to assist small businesses with limited technical knowledge.

Reducing Compliance Costs

The government can introduce subsidized or free compliance tools and encourage simplified accounting solutions for MSMEs. As suggested by the NITI Aayog (2024), improving digital accessibility can reduce operational costs.

Improving Input Tax Credit (ITC) Mechanism

Faster processing and simplified verification of ITC claims are essential to avoid working capital issues. The Reserve Bank of India (2024) highlights the need to address liquidity constraints faced by MSMEs.

Capacity Building and Awareness Programs

Regular training programs and awareness campaigns should be conducted to educate small businesses about GST 2.0 updates. Information dissemination through official channels such as the Press Information Bureau can improve understanding and compliance.

Overall, these measures can help in making GST 2.0 more inclusive and supportive for small businesses, ensuring that the benefits of tax reforms are effectively realized.

Conclusion

The implementation of GST 2.0 reforms in India establishes a crucial milestone which aims to develop an advanced tax system that operates with enhanced efficiency and complete openness and modern technological capabilities. The digital compliance

systems for monitoring tax compliance have been strengthened through the reforms while businesses experience simpler tax handling processes.

The research demonstrates two positive outcomes which show that GST 2.0 has improved system performance while failing to decrease compliance requirements for small enterprises. The digital platform dependency of MSMEs has increased together with the complicated nature of their operations and their rising expenses for compliance activities. The system has attained greater organization according to the 2025 Goods and Services Tax Network reports and the 2025 Central Board of Indirect Taxes and Customs reports while requiring users to demonstrate higher precision and operational expertise.

The success of GST 2.0 in improving India's tax system depends on its ability to solve the compliance challenges that small enterprises encounter. A balanced approach that combines digital efficiency with ease of compliance is essential to ensure inclusive and sustainable growth.

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