

Towards Simplified Compliance and Dispute Resolution: A Critical Review of Tax Reforms for Small Businesses in India

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Abstract: *Small businesses are the backbone of India's economy, but have historically faced high compliance burdens and complex dispute resolution processes under the tax system. Recent tax reforms, especially those introduced in the Union Budget 2025 and the new Income Tax Bill 2025, aim to streamline compliance, reduce administrative costs, and make dispute resolution more efficient for small businesses and MSMEs. This paper makes a perspective analysis of tax reforms for small businesses in India, particularly that of Goods and Services Tax (GST), through critical examination of the impact of these reforms, analysis of their effectiveness, limitations, and implications. The study uses a mixed-methods research methodology, combining qualitative and quantitative research methods. The qualitative research method involves document analysis and policy assessment using information from secondary sources. The quantitative research involves analysing quantitative data collected from secondary sources such as various reports, documents and databases. The findings emphasize the need for streamlined compliance and dispute resolution mechanisms, user-friendly digital infrastructure, continued focus on taxpayer awareness & training, that will be crucial to build upon the gains of existing tax reforms, ensuring sustainable growth for India's small business segment.*

Keywords: Tax Reforms; Goods and Services Tax (GST); Tax Compliance; Dispute Resolution; Small Business; India

“It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand-fold”
—Kalidas in Raghuvansham eulogizing KING DALIP (Radadiya, 2012)

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Introduction

Indirect tax is the tax levied by the government on various goods and services. This tax is paid by the customers and collected by the sellers or suppliers of goods and services and later on paid to the government. These taxes are called indirect taxes as they are not directly imposed on the income, but indirectly collected through numerous ways such as, Goods and Services Tax (GST), Sales Taxes, Value Added Tax (VAT) and so on. It is often referred to as consumption tax, and represents a critical component of modern fiscal policy due to its wider applications and impact on consumers across different income strata. The burden of indirect tax falls ultimately on the consumers, as it is imposed on goods and services consumed, in place of income or wealth, as the tax burden is priced in the value of the product. Moreover, its uniform application makes it regressive, as low-income groups generally spend a higher proportion of their income on consumption than richer individuals. So, the financial burden of indirect tax can fall heavily on economically deprived segments, leading to inequitable distribution of tax liabilities (Smith & Johnson, 2020).

Indirect taxes can distort markets as a policy tool if it is applied selectively, favouring some industries over others, thereby reducing efficiency. Such distortions might modify the equilibrium prices and resource allocation, raising issues about larger economic implications of indirect taxation policies (Brown et al, 2018). Nevertheless, they are also important as they generate substantial public revenue by taxing consumption, and help create a broad tax base where everyone contributes. These characteristics nurture a *more inclusive fiscal environment*, as the taxation system captures contributions from a larger population (Brown et al, 2018). Despite being regressive and potentially disruptive, a well-designed indirect taxation system is critical for modern economies for their growth, it has to be implemented carefully.

Evolution & Role of Indirect Taxes in Global Economy

Indirect taxes have long been central to fiscal policy of developed countries, evolving to meet their economic needs. The UK moved from the Window Tax in 1696 (revenue source during William III's war with France) to VAT in 1973 (replacing the earlier Purchase Tax). The US adopted indirect taxes on goods and services during the Civil War via Revenue Act of 1862 to fund war expenses. These instances emphasize the versatility of Indirect Taxes in responding to fiscal challenges (Taylor et al, 2020).

Indirect taxes like VAT, GST, and excise duties currently, are major revenue sources, due to their reliability and ease of administration. Besides funding public services and infrastructure development, they are also used to influence consumer behaviour, provision for social and environmental policies, and regulate trade. Usage of VAT and GST are also extended towards nudging adaptation to the evolving digital economy globally, via taxation of e-commerce and online services. At present, over 160 countries have adopted various forms of GST, France being the first country to adopt GST in 1954. Prominent countries such as New Zealand (1986), Canada (1991) and Malaysia (2015) adopted GST subsequently (Shacheendran, 2024).

Indirect taxes such as GST are less prone to evasion and provide governments with mechanism to deal with negative externalities, like pollution. With evolution of the global economy, indirect taxes continue to play a dynamic role in aiding fiscal stability, ensuring tax compliance and thereby promoting economic development. In 2018, average share of indirect taxes in total tax revenue in the OECD countries stood at about 32.7%. with US registering

17.6% share. The share of VAT was 20.4% in total tax revenue in OECD countries. Likewise, the overall average tax-to-GDP ratio of OECD countries stood at 33.8% in 2019, with a significant share contributed by indirect taxes as well (OECD, 2020).

Indian Context

In the Indian context, indirect taxes dates back to the colonial period when the British imposed excise duties on indigenous products in 1944 to protect imports from the United Kingdom. Post-independence, the Indian government initiated significant reforms to modernize and streamline the tax system. The launch of “*Modified Value Added Tax (MODVAT)*” in 1986, represents a pivotal step towards reducing the cascading effect of taxes. Subsequently, VAT replaced MODVAT in 1991, enabling a more structured approach to indirect taxation. However, the need for a unified tax regime to eliminate inefficiencies and promote compliance remained a pressing issue (Patel & Roy, 2019).

The Goods and Services Tax (GST), implemented in 2017, represents a transformative milestone in India’s taxation history. Article 366(12A) of Indian Constitution defines GST as “*any tax on the supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption*”. GST was introduced in India with the 101st Constitutional (Amendment) Act 2016. By consolidating multiple state and central taxes, GST aims to simplify compliance, minimize tax disputes, and promote efficiency. Operating under a dual model, GST authorizes both central and state governments to levy taxes. The tax structure was divided into four primary slabs, 5%, 12%, 18% and 28%, in addition to special rates for specific goods and services. With effect from 22nd September 2025, the GST slab got comprehensively revised and simplified with only two slabs of 5% and 18%, with some specific demerit/sin goods, and luxury item attracting 40% GST rate. This structure seeks to address socio-economic disparities by ensuring an equitable distribution of the tax burden (Mishra et al., 2021).

Table 1: GST for Goods & Services- Four Primary Slabs (pre-Sept 22, 2025)

Category of Goods/Services	GST Rate
Basic food items, books, healthcare, educational services	0%
Packaged food, footwear, mobile phones, transport services	5%
Mobile phones, processed foods, cosmetics, mid-range hotels	12%
Services (advertising, legal), automobiles, hospitality, construction	18%
Luxury cars, tobacco, high-end electronics, aerated drinks	28%
Gold (3%), Exports (zero-rated), Custom Duties	Special Cases

Source: GST Council. Government of India, <https://gstcouncil.gov.in>

The share of indirect taxes in total tax revenue in 2023-24 stood at 43.28% in India (Union Budget 2024-25, GoI). The implementation of GST has significantly increased tax revenues and streamlined the tax administration process in India. Despite these achievements, challenges persist, particularly for small businesses, which often struggle with compliance requirements and higher operational costs under the GST regime. These businesses form the backbone of India’s economy, and addressing their concerns is critical for sustaining economic growth. Future reforms must focus on simplifying processes, providing adequate support mechanisms, and fostering greater awareness among small enterprises to integrate them into the formal tax structure effectively (Mishra et al., 2021).

India's dynamic tax evolution and transition to GST demonstrates, reflecting the government's commitment towards promoting a unified and efficient tax regime. India can further augment the potential of GST to advance economic growth and equity, through its consistent efforts on sorting out the challenges. This paper explores indirect tax reforms in India since 2014 to 2024, focusing on GST implementation, transparency, compliance, and efforts for dispute resolution. It highlights how simplified tax procedures and innovative measures, i.e. faceless assessments and pre-filled returns, aim to diminish litigation and build trust, though small businesses face compliance issues and technological adaptation challenges. The hypothesis indicates that GST reforms in India has improved transparency and reduced disputes, but needs further reforms for enhancing accessibility, efficiency and equity in the taxation system.

Literature Review

The evolution of indirect tax reforms in India, has generated considerable research interest. Based on recent secondary scholarly studies, his section critically reviews the current research on GST and related reforms, and focuses on its impact on compliance, transparency and tax litigation. It deploys a thematic framework of review, highlighting critical areas like GST adoption, challenges faced by small businesses, technological aid in tax administration, and mechanism to lower tax disputes.

Evolution of Tax Reforms Globally & in India

The literature on indirect taxes focuses on the critical purpose of funding government operations and managing budgetary issues. Taylor et al (2020) examines the evolution of indirect tax system in UK and US, especially the *Window Tax and the Revenue Act* emerged in response to economic challenges. The development of India's taxation system, remains an issue of wider academic scrutiny. The implementation of GST in 2017 was a critical milestone in this evolution, replacing numerous indirect duties with a comprehensive and consolidated tax system. GST's capacity to improve tax administration and mitigate cascading effects on businesses has been examined thoroughly (Poddar & Ahmad, 2017). However, despite its advantages GST regime has faced criticism for complicated compliance, which disproportionately affect smaller businesses (Sharma & Singh, 2021).

Implementation & Impact of GST

Mishra et al (2021) emphasize GST's capacity to consolidate the taxation system, reduce conflicts, and streamline compliance mechanism. The '*dual taxation concep't* and implementation of different tax slabs have been crucial in tackling socio-economic inequities and endorsing a just taxation system. Kumar & Purohit (2020) highlight ongoing problems in GST compliance, specifically for small and medium firms, signifying the necessity for ongoing improvements in its execution. The impact of indirect tax reform on small businesses in India has been extensively analysed. It has enlarged the tax-base and formalised several unregulated sectors, but simultaneously increases compliance costs, thereby poses challenges for small businesses and MSMEs (Mukherjee, 2019). A number of studies found greater compliance cost as a significant barrier for adoption of GST (Geeta et al. 2023; Guna & Anuradha, 2021, Tyagi et al, 2019; Nandal & Diksha, 2018; Pandit, 2017). Compliance complexities were also reported as a major barrier for GST adoption in India (Deshmukh et al. 2022; Nandal & Diksha, 2018). Recent evaluation studies found that although initiatives such as '*input tax credits*' have enabled tax-offsets, technical complexities of filing returns remain a substantial issue for small businesses (Gupta et al, 2020).

Enhancing Taxpayer Compliance & Transparency

Technology-led reforms in GST, such as faceless assessments and pre-filled returns, have significantly enhanced ease, taxpayers' compliance and transparency. Empirical studies show that these improvements have reduced the discretionary authority of tax officials and boosted trust over the tax system (Kumar & Purohit, 2020). These initiatives also align with global trends of digital transformation of tax administrations, underlining the significance of technology deployment to streamline operations and augment accountability (Das, 2021).

Challenges of Tax Reforms, Compliance & Litigation

Compliance and litigation continue to be significant areas of concern. Research identifies problems relating to infrastructure, taxpayer awareness, and digital divide, which increased the compliance burden, especially for small businesses in semi-urban and rural areas (Sarkar & Chattopadhyay, 2020). The transitional challenges of implementation of unified tax regime have produced uncertainty, dissuading certain businesses from complete compliance (Basu, 2018). Bhatt (2021) explores dispute resolution measures such as the “*Vivad se Vishwas Scheme*”, which has considerably decreased pending cases via alternative dispute settlement systems. The efficacy of faceless assessment system in improving transparency and minimising human involvement in tax administration, need to pinpoint deficiencies and thus requires policy intervention (Sharma & Singh, 2021).

Grievance Redressal Mechanism & Reduction of Litigation

Government has undertaken a number of settlement schemes like, “*Vivad se Vishwas Scheme*”, that have turned out as crucial for resolving tax disputes. Recent studies show that these initiatives promote voluntary compliance, through streamlined procedures and exemptions from penalty and interests (Patel & Shah, 2023). However, their effectiveness rests on resolving systemic issues, like uneven interpretations of tax-laws and capacity limits of tax tribunals (Rao, 2022).

Policy Suggestions for Improving Tax Ecosystem

Several studies have suggested policy measures to mitigate the deficiencies of Indian tax system. This includes simplification of tax structures, expansion of tax awareness, and provision of dedicated support to MSMEs to tackle compliance costs (Reddy et al., 2021). Empirical studies showed the necessity for government initiatives and training on GST awareness for MSMEs and small businesses (Mohan & Ali, 2018). A study by Chandra et al (2023) proposed the integration of advanced analytics and AI tools for improving fraud detection and make overall tax administration efficient.

The existing substantive literature on indirect tax reforms in India emphasizes theoretical benefits and challenges, but overlooks prominent practical aspects. Research has not adequately scrutinized the compliance burdens and litigation issues encountered by small businesses, nor has it fully evaluated whether technological improvements in tax administration enhance transparency and taxpayer confidence. This study makes a critical review of existing studies in order to assess how tax reforms impact compliance and dispute resolution, particularly for small businesses, and thereby attempts to provide actionable policy recommendations.

Research Design & Methodology

This study employs a mixed-method research design, by integrating qualitative and quantitative data for triangulation and validation of findings (Creswell & Clark, 2017). The design facilitates identifying the effectiveness of policy interventions and exploring challenges faced by beneficiaries. The study relies on secondary sources for compiling the evaluations and program assessments.

GST Filing Trend in India (2017–2025)

Small businesses and MSMEs are the all-weather backbone of the Indian economy. However, they have historically faced high compliance burdens and complex dispute resolution procedures under India’s taxation system. Recent tax reforms, especially proposed in the Union Budget-2025 and the new Income Tax Bill-2025, seek to rationalize compliance, reduce administrative costs, and enhance dispute resolution more efficiently for small businesses and MSMEs (Union Budget 2025-26). While comprehensive data on GST filings especially by small businesses is limited in the public domain, overall GST collection and compliance trends can work as a reliable proxy, as MSMEs form a significant and formidable part of GST registered entities. India’s annual GST collections and average monthly GST collections are summarised in Table-2 since the introduction of GST in India on 1st July 2017.

Table 2: GST Collection Trend in India (2017–2025)

Financial Year	Total GST Collection (₹ Lakh Cr.)	Avg. Monthly Collection (₹ Cr.)	Key Features
2017-18	7.19 (Jul-Mar)	89,875	GST launch; initial compliance challenges
2018-19	11.77	98,083	Growing compliance, system stabilization
2019-20	12.22	1,02,000	Steady growth, MSME adaptation
2020-21	11.36	94,667	COVID 19 impact, temporary dip
2021-22	14.83	1,24,000	Economic recovery, digital adoption by MSMEs
2022-23	18.10	1,51,000	Strong growth, improved enforcement
2023-24	19.80	1,65,000	Consistent high compliance, MSME digitalization

Financial Year	Total GST Collection (₹ Lakh Cr.)	Avg. Monthly Collection (₹ Cr.)	Key Features
2024-25 (Est.)	20–22	1,65,000–1,75,000	Record collections, robust MSME participation

Source: GST Council, Government of India GST statistics, and Compliance Calendar

India’s GST trend shows that collection has more than doubled since 2017, indicating improved compliance and filing rates, including the small firms and businesses. The highest-ever monthly collection was recorded in April 2025 at ₹2.37 lakh crore, reflecting peak compliance during annual filings (Forbes India, 2 May 2025). It is also observed that MSMEs have increasingly adopted digital filing system, contributing to the sustained growth in collections and compliance rates.

India’s GST collection trend for the latest year has been summarised in Table-3. The trend marks a robust increase in overall GST filings and compliance including the small businesses, driven by digital reforms, enforcement, and economic recovery. While exact MSME GST filing data are not available in public domain, their significant share in GST registrations reflects these trends reliably capture small business tax filing behaviour as well (Forbes India, 2 May 2025; Compliance Calendar). This can be analysed in the context of major tax reforms for small businesses in India in recent times.

Table-3: India’s Monthly GST Collection Highlights (2024–2025)

Month	GST Collection (₹ Crore)	YoY Growth (%)	Key Features
May 2025	2,01,000	16.4	Fall from record high, robust YoY growth
April 2025	2,37,000	12.6	Record high, annual reconciliation spike
Jan 2025	1,95,506	~12	Strong enforcement, high compliance
Oct 2024	1,87,346	~9	Festive season boost
July 2024	1,59,000	~5	Budget impact, steady compliance
May 2024	1,72,739	~4	Seasonal Dip in collection

Source: Ministry of Finance GST data, Economic Times, Forbes India, Tata Nexarc, Compliance Calendar.

Major Tax Reforms for Small Businesses in India (2024–2025)

Several indirect tax reforms have been undertaken in recent times for small businesses, such as reforms in Presumptive Taxation Scheme, Simplified tax filing, digital technology & tax awareness, and revised income tax slabs & MSME relief and so on.

Presumptive Taxation Scheme Reforms

- **Turnover Thresholds Raised:** As per new Income Tax Bill 2025, Businesses with turnover up to ₹2 crore (i.e. ₹20 million) can opt for presumptive taxation. Likewise, business upto ₹3 crore (i.e. ₹30 million) turnover if cash transactions are below 5% can also opt for presumptive taxation. For professionals, present threshold is kept at ₹75 lakh (₹7.5 million) (India Briefing, July 16, 2025).

- **Simplified Income Calculation:** The taxable income of businesses to be estimated as 6% of digital receipts or 8% of total turnover, whichever is larger, or actual profit claimed (New Income Tax Bill 2025).

- **Reduced Bookkeeping:** Entitled businesses are exempt from detailed bookkeeping, unless one reports lower profits and exceeds the exemption threshold.

- **Five-Year Lock-in Period:** Once opted, the presumptive taxation scheme must be adhered for 5 consecutive years.

Simplified Tax Filing

- **AI-enabled Tax Portal:** The new AI-enabled GST portal is put in place with simplified facilities auto-filling of data, integrated credits/deductions, and reduction of manual entry, thereby leading to easier compliance for small businesses.

- **Simplified GST Filing:** Simplified GST filings were updated with reform proposals in the Union Budget 2025-26, that are automated & less frequent filings for small businesses; and revised GST rates for essential goods (Union Budget 2025-26, GoI).

- **Flat-Rate Taxation:** Businesses with annual revenues under \$1 million can use a fixed percentage of revenue to determine tax liability, eliminating complex expense tracking (*UJA Consulting*).

Digital Technology and Tax Awareness

- **Digital Transformation:** There has been increased usage of digital technology, and online systems for GST compliance and dispute resolution (Bhalla et al, 2023).

- **Tax Awareness Initiatives:** Enhanced launch of government-led programmes towards increased tax awareness and transparency.

Tax Reforms and MSME Relief

- **Revised Income tax slabs:** Only maximum of 10% tax rate for income upto INR 12 lakhs. Small business owners reporting income under the revised slabs will likely to benefit from structured tax savings. (Union Budget 2025-26, GoI).

- **Provisioning of higher subsidies for MSMEs that invest in green technologies and automation.** Moreover, expansion of the Credit Guarantee Fund and fintech partnerships providing risk-free loans to small businesses, and facilitate MSME growth. (Union Budget 2025-26, GoI).

GST Reforms 2.0

GST Reforms 2.0 signify a landmark initiative in India's indirect tax regime, which comes into effect from September 22, 2025. The reform further makes simplification in the multi-slab GST structure to only 2 main rates— 5% for essentials and 18% for standard goods & services. A higher 40% slab is put on sin, demerit and luxury goods.

Essentials such as food items, dairy, health insurance, and life-saving drugs are put under 5% GST rate or fully exempted. Likewise, goods such as consumer durables, vehicles, and electronics items are taxed at reduced rate of 18% instead of 28%, turning many items cheaper. Luxury and demerit goods, such as tobacco, pan masala and high-end items, face a high 40% GST. (The New Indian Express, 7 Sept, 2025)

This comprehensive reform aims to lower cost of consumer expenses, lower inflation, and simplify compliance—especially for small businesses and MSMEs. Along with it, business registration and refunds processes are automated, and the government gears up the “GST Appellate Tribunal” for faster dispute resolution (The New Indian Express, 7 Sept, 2025). Despite states’ worries over potential short-term revenue loss, the GST Reform 2.0 aims to boost longer-term growth and consumption in the economy.

Table 4: India’s GST Reforms 2.0: Change in Tax Slabs

Category	Previous Rate	New Rate
UHT milk, paneer, roti	5%	0%
Packaged food items	12% / 18%	5%
Toiletries & kitchenware	12% / 18%	5%
White goods (ACs, TVs, etc.)	28%	18%
Small cars and 2-wheelers	28%	18%
Electric vehicles	5%	5%
Insurance premiums	18%	0%
Pan masala, sugary drinks	28% + cess	40% (new)

 source: tradeimex.in

Trend of GST Compliance for Small Businesses (2017–2025)

The review of GST filing compliance demarcates three distinct phases faced by small businesses in India– (1) Initial Years (2017–2019): *Increased Compliance Burden*; (2) Mid-Period (2020–2022): *Government Intervention & Gradual Improvement*; and (3) Recent Years (2023–2025): *Digital Adoption & Stabilization*. This trend is summarised in Table 5.

Initial Years (2017–2019): Increased Compliance Burden

When GST was launched in July 2017, small businesses faced substantial challenges in adaptation to the newer system. The transitional challenges was in the form of obligation for multiple return filings (GSTR-1, GSTR-3B, etc), digital record-keeping, and recurrent regulatory changes, that led to sharp rise in compliance costs and administrative workload (Hindustan Times, 4 July 2018).

Health Investment as a Catalyst for Enterprise Development and Economic Growth

Technological barriers were another hurdle for many small businesses, as they lacked the digital infrastructure and expertise needed for online filings, leading to lower compliance rates, high incidence of errors or late filings (Chandra & Chetna, TIJER). Moreover, some small businesses, especially those previously exempt under the old tax regime, faced challenges with the new norms and reported a decline in sales and compliance (Hindustan Times, 4 July 2018).

Mid-Period (2020–2022): Government Interventions & Gradual Improvement

Post challenges faced by small businesses came the policy adjustments from the government, in the form of raising the GST registration threshold from ₹20 lakh to ₹40 lakh annual turnover, thereby exempting several micro businesses from compulsory registration and filing.

Further, composition scheme was launched that allowed small eligible businesses to file quarterly returns at a fixed rate, leading to reduction in the frequency and complexity of GST filings (Hindustan Times, 4 July 2018). Additional simplification such as shift to single GSTR-3B return and quarterly options for smaller businesses eased the overall compliance process, leading to gradual improvement in compliance rates.

Recent Years (2023–2025): Digital Adoption & Stabilization

Enhanced adoption of digital tools like GST-compliant accounting software and professional assistance has helped small businesses manage compliance more efficiently (Sharma, 24 Feb. 2025). With enhanced digital infrastructure, targeted official training, and simplified processes, compliance rates among small businesses have increased, although challenges prevail for the micro-most and least-resourced businesses (Chandra & Chetna, TIJER). Despite procedural upgradation, frequent regulatory changes and the necessity for regular filings continue to pose challenges, and compliance costs remain an issue with smaller businesses (Economic Times, 6 Feb. 2023).

Table 5: Summary of GST Compliance Rate Trends for Small Businesses

Period	Main Features	Compliance Rate Trend	Outcome
2017–2019	Multiple returns, digital transition, high costs	Low/ Declining	Many small businesses faced hurdles with new norms
2020–2022	Threshold raised, composition scheme, simplified returns	Improving	Government interventions eased the burden
2023–2025	Digital adoption, targeted support, stabilised system	Higher/ Stabilized	Compliance rates higher, but costs & complexity remain an issue

Source: GST Council, Economic Times, Forbes India, Tata Nexarc, Compliance Calendar

Impact Assessment: GST Compliance and Dispute Resolution

The impact assessment review covers empirical evidence of GST compliance and dispute resolution, that indicates compliance reduction burden over the years and evolving dispute resolution mechanisms.

Compliance Burden Reduction: Empirical evidence suggests that with increase in the size and turnover of MSMEs, the compliance burden increases; however, technology-enabled reforms and simplified mechanisms reduce this burden, particularly for micro and smaller units (Bhalla et al, 2023). While small businesses earlier encountered disproportionately high compliance costs; tax simplification has led to reduction in this regressive effect (World Bank Group, 2009). Moreover, In India, GST reforms have reduced compliance burden for small businesses, broadened the tax-base, and lowered tax rates for mass consumption items, though some limitations continue (Samantara, 2021). These challenges are addressed through further reforms via *GST Reforms 2.0*. However, few challenges might persist, such as ensuring businesses transfer tax benefits to the end consumers, supporting MSMEs with newer technology-enabled systems, and compensating the states for potential revenue losses in the transition phase.

Table 6: Major GST Compliance Changes for Small Businesses in India

Reform Area	Pre-2025 Status	Post-2025 Reforms
Presumptive Taxation Limit	₹2 cr. (for small business, when cash receipts exceed 5% of turnover) ₹50 lakh (for professionals)	₹3 cr. (for small business, when cash receipts does not exceed 5% of turnover) ₹75 lakh (for professionals)
Tax Filing	Manual, detailed books needed	AI-powered portal, auto-fill
Tax Rates	Higher, complex slabs	Lower, simplified slabs (only 2 now)
Audit Requirement	Frequent, compulsory	Risk-based, only for exceptions
GST Filing	Monthly/ quarterly, manual	Automated, simplified

Source: GST Council, India Briefing, UJA Consulting, New Indian Express, World Bank Group

Dispute Resolution Mechanisms: Risk-based audits have replaced compulsory audits thereby leading towards improved efficiency and reduced undue scrutiny for compliant small businesses. Risk-based audit is a well-established and growing practice of GST assessment, that is driving reduced dispute resolution incidence. Moreover, shift towards self-assessment and streamlined appeals process enhances taxpayer confidence and leads to reduction in disputes (World Bank Group, 2009). Additionally, transparent, simpler systems and digitalization of records bear potential to lower incidence of corruption and arbitrary assessments. The Government has initiated several measures for reducing disputes and

addressing systemic challenges, such as putting FAQs, circulars, and advance rulings to clarify complex GST procedures and decrease misinterpretations of clauses that cause disputes.

In line with this, the major GST compliance changes for small businesses in India have been summarised in Table 6. GST reforms in India have led to reduced administrative costs as flat-rate and presumptive schemes decrease the necessity for professional help and detailed bookkeeping (India Briefing). It is potentially leading towards increased formalization of small businesses in India, as lesser compliance costs reassure informal businesses to enter the formal sector, thereby broadening the tax-base (World Bank Group, 2009). GST reforms have also led to potential enhancements in transparency and fairness, as digital systems and risk-based audits reduce corruption and arbitrary assessments (UJA Consulting). Moreover, targeted relief in the form of lower tax rates and higher exemption thresholds are intended for direct benefit of small businesses and entrepreneurs (GST Council).

Discussion

The critical review of India's GST regime, based on secondary sources, reveals that GST indirect tax reforms have reshaped the financial and operational environment for small businesses in the country. Mandatory GST registration for firms with annual turnover above INR 40 lakhs has led to rise in compliance burden, necessitating expenditure in technology, accounting, and professional services. This add-on expenditure could strain cash reserves, especially for smaller businesses functioning on thin margins. The complexity of GST rules is an additional disadvantage that affect smaller businesses in understanding, proper record keeping, and enabling timely filing.

On the positive side, simplified automated filing, without fixed time-bound compliance, has eased the burden considerably on small businesses. Further, GST provides opportunities via *input tax credit* mechanism, allowing businesses to claim credit for taxes paid on their input buying. This helps in lowering overall tax burden and improves liquidity for small businesses. A uniform tax structure also helps small firms, as it enables them to expand beyond domestic state boundaries. It avoids multiple cascading taxes, thereby expanding their market reach and revenue potential.

Effective cash flow management becomes important in this scenario. For this, smaller businesses must plan payments, take advantage of their input tax credit claims, and explore alternative solutions liquidity enhancement. Overall, GST has levied compliance burdens but also opened up numerous avenues for business expansion and financial efficiency.

GST Reforms: The Road Map

Latest GST reforms 2.0 has further simplified the compliance and slab rates, thereby easing burdens on smaller firms. However, as businesses grow beyond thresholds, compliance needs increase sharply, potentially creating a "*compliance cliff*" (Bhalla, et al, 2023). Technology efficiency, innovation and seamless adoption can be an effective tool for take care of this issue.

While GST has simplified tax structure and overall compliance procedures, issues remain in technology adoption and clarity of rules for micro enterprises (Samantara, 2021). Digital Divide between rural and urban India remains another challenge in effective technology adoption in businesses. Smaller businesses in rural India might face challenges in accessing and utilizing digital compliance tools effectively.

Despite risk-based audits, the backlog of legacy disputes remains a concern in many non-OECD countries, requiring further judicial reforms (World Bank Group, 2009). Similar is the case with India, wherein in 2023-24 alone about 22 thousand indirect tax appeals were pending over various forums since more than 5 years, totalling INR 1.14 trillion. For MSMEs, these blocked funds impact their working capital further affecting their operational liquidity (Agarwal & Bhushan, July 1, 2025).

The mandatory pre-deposit requirement, i.e. 10% of disputed tax amount, prior to filing appeals poses significant hurdles in faster dispute resolution, as it constrains cash flow for firms, particularly smaller businesses whose liquidity position is limited. However, cash flow challenges of small businesses have been addressed by the government by relaxing the pre-deposit requirements. Moreover, government has formed the “GST Appellate Tribunal” and started the e-filing process, however, its seamless operationalization is yet to be deployed (Agarwal & Bhushan, July 1, 2025). This hurdle should not create impediments in India’s journey of unlocking its potential to be an economic superpower in near future. Indian tax authorities have to develop mechanism to make dispute resolution faster and swift, thereby enabling smaller firms leverage in their operations and expansion.

Conclusion

India’s latest tax reforms have made significant progress in simplifying compliance and resolving disputes for small businesses. By taking comprehensive measures such as sweeping changes in tax slabs, raising GST registration thresholds, launching flat-rate schemes, enhanced technology deployment & adoption, and refining audit processes, Government of India has lowered administrative burdens on smaller businesses and encouraged their greater formalization. However, challenges still persist, especially for smaller businesses migrating between different compliance regimes, and those endowed with inadequate resources and digital access. Sustained focus on taxpayer awareness & training, user-friendly digital infrastructure, simpler GST filing interface, streamlined compliance and dispute resolution mechanism will be crucial to build upon the gains of the ongoing tax reforms in the country. This in turn will be highly critical for ensuring smoother and sustainable growth for India’s small business sector.

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