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GST Return Filing Process and Compliance Challenges in Small Businesses: Evidence from a Chartered Accountancy Practice in Bengaluru, India

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Abstract - The Goods and Services Tax (GST) has transformed India's indirect tax system by introducing a unified, technology-driven framework, yet small businesses continue to face real difficulties in meeting GST return-filing obligations. This study, undertaken during an internship at Nouman Sait & Associates, Chartered Accountants, Bengaluru, examines the GST return-filing process and the compliance challenges faced by small businesses, and situates these firm-level findings within the broader national trend of GST base expansion. A log-linear regression on five years of official GST collection data (FY 2020-21 to FY 2024-25) confirms significant year-on-year growth ($\beta = 0.1635$, $t = 7.531$, $p = 0.0049$, $R^2 = 0.95$), corresponding to an average annual growth rate of approximately 17.8%. Primary data collected from 82 small-business respondents via a structured questionnaire show that 77% rely on an accountant or chartered accountant firm for compliance, 48.7% experience filing difficulty "often" or "always", and Input Tax Credit (ITC) reconciliation is the single most difficult stage of compliance. Chi-square tests of independence find that annual turnover is significantly associated with filing-difficulty frequency ($\chi^2 = 21.611$, $p = 0.042$) and that GST registration scheme is significantly associated with receipt of a GST notice ($\chi^2 = 7.524$, $p = 0.023$), while who manages compliance is not significantly associated with late-fee incidence ($\chi^2 = 0.128$, $p = 0.938$). The findings indicate that GST compliance difficulty is real, statistically linked to firm characteristics, and not fully resolved by outsourcing compliance alone, and the study recommends targeted simplification of the ITC/GSTR-2B reconciliation workflow and compliance support directed at Regular-scheme taxpayers.

Key Words: Goods and Services Tax (GST), GST Return Filing, Small Businesses, GST Compliance, Chartered Accountants, Input Tax Credit.

1. INTRODUCTION

GST, or Goods and Services Tax, was implemented across India from 1 July 2017, replacing a complex structure of central and state indirect taxes with a single, unified, technology-driven tax regime. By subsuming multiple cascading taxes into one system administered largely through an online portal, GST was intended to widen the tax net, simplify taxation, and make indirect tax administration more transparent.

Since implementation, there has been a gradual shift towards a unified, technology-driven compliance system. While large corporations typically maintain dedicated finance staff to manage this transition, small businesses often lack the technical knowledge, staff, or resources to comply effectively — from generating invoices and filing returns to paying taxes on time and keeping pace with frequent regulatory amendments. Industry observation suggests that small business owners continue to face recurring issues with invoice generation, timely payment, and unresolved tax notices, even as national GST revenue collection continues to grow steadily. This study therefore analyses the compliance experience of small enterprises against the backdrop of the overall growth trend in GST revenue collection.

A. Need for the Study

Small businesses form the backbone of the Indian economy but typically operate with limited financial and technical resources, making them more vulnerable to compliance lapses than larger, well-resourced firms. Understanding the practical difficulties small businesses face in the GST return-filing process — and the role played by professional accounting support — is essential for identifying where targeted simplification or support could meaningfully reduce compliance costs.

B. Objectives of the Study

- To analyse the growth in GST collections in India through secondary data and to statistically test the significance of that growth.
- To profile the demographic and commercial characteristics of the small businesses surveyed, including industry, turnover, and GST registration scheme.
- To understand the GST return-filing process as experienced by small businesses.

- To ascertain how small businesses manage GST compliance and the problems they face while filing.
- To examine small-business perceptions of the GST portal, regulatory amendments, and professional assistance.
- To investigate whether firm characteristics — annual turnover and registration scheme — are associated with compliance outcomes such as filing difficulty, late fees, and GST notices.
- To recommend measures for improving GST compliance processes for small businesses.

2. LITERATURE REVIEW

A substantial body of research has examined GST implementation and its consequences for small and medium enterprises. Lourdunathan and Xavier [1] discussed the transitional challenges of GST adoption in India, including limited taxpayer awareness and technological gaps, while noting its long-term potential to improve transparency. Pandit [2] found that although GST introduced a uniform tax structure, compliance costs for small businesses increased considerably due to frequent and mandatory digital filing, and recommended sustained government training support.

Kaur et al. [3] reported that GST was expected to reduce cascading taxation and improve administrative efficiency, but that businesses would need considerable procedural and technological adjustment. Fadzillah and Husin [4], studying Malaysian taxpayers, found that awareness, perceived fairness, and compliance cost were the strongest determinants of voluntary GST compliance — a finding broadly consistent with the Indian small-business context.

More recent studies point to persistent, unresolved friction. Bhalla, Sharma and Kaur [5], analysing 404 MSME responses, found that GST improved transparency and formalisation but added ongoing compliance costs from recurring return filing. George and Antony [6], studying 90 Bengaluru MSMEs, identified portal reliability, connectivity, and compliance cost as continuing pain points despite recognised long-term benefits. Murari and Chettri [7] similarly found that frequent procedural changes and low digital literacy created continuous uncertainty for MSMEs in Sikkim, recommending targeted digital-literacy and simplification initiatives. Guna and Anuradha [8], in a review of MSME-focused GST literature, noted recurring registration difficulties, filing errors, and Input Tax Credit challenges across studies, alongside continued dependence on tax professionals.

Official sources corroborate these findings from the regulator's perspective: CBIC compliance updates [9] describe continued portal- and ITC-reconciliation-related difficulty despite ongoing system upgrades and taxpayer facilitation measures, while more recent CBIC notifications [10] have introduced compliance relief — such as annual-return exemptions for eligible small taxpayers — reflecting official recognition of the small-business compliance burden.

Sharma and Saini found that small entrepreneurs in Mandsaur city generally possessed adequate knowledge of GST provisions but remained dissatisfied with tax rates and procedural complexity, while crediting GST with curbing corrupt practices and improving transparency. Shinde examined GST's broader economic impact and reported that, alongside improved tax administration and reduced cascading, small entities continued to face difficulties with electronic filing, documentation, and understanding compliance requirements. Nandal and Khera, studying small enterprises in Haryana, found a positive relationship between taxpayers' GST knowledge and their actual compliance behaviour, and observed that limited in-house knowledge drove heavy reliance on external accountants, raising overall compliance cost. Deshmukh, Mohan and Mohan examined GST rollout using a structured qualitative framework and similarly identified persistent procedural and technological adjustment costs alongside the reform's transparency gains.

Taken together, this stream of literature consistently finds that GST has strengthened transparency, formalisation, and indirect-tax administration, while equally consistently identifying frequent regulatory amendment, portal reliability, ITC reconciliation, and limited digital literacy as the recurring sources of small-business compliance difficulty — a pattern this study's own primary data, presented in Section 4, closely mirrors.

. Research Gap

Existing literature confirms that GST has improved transparency and supported formalisation, while consistently flagging regulatory-amendment frequency, portal issues, ITC reconciliation cost, and limited digital knowledge as recurring difficulties. However, most studies approach GST compliance from a taxpayer-survey or policy perspective, with comparatively little attention to the process as experienced by the professional accounting firms that actually prepare and file returns on behalf of small-business clients, or to how compliance experience differs across the Regular, Composition, and QRMP registration schemes. This study

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addresses that gap by combining primary survey data from small-business respondents with first-hand practical exposure gained during an internship at a chartered accountancy firm.

3. RESEARCH METHODOLOGY

A. Research Design

The study adopts a descriptive and analytical research design based on a quantitative approach, combining secondary-data trend analysis with primary survey-based analysis. It is descriptive in profiling the demographic and compliance-related characteristics of small businesses, and analytical in applying log-linear regression to secondary data and the chi-square test of independence to primary data in order to test the stated hypotheses.

B. Population and Sample

The primary-survey population consists of small businesses registered under GST and required to file periodic returns; the secondary-data population is the complete set of nationally recorded GST return-filing transactions. For primary data, 82 valid responses were collected from small-business owners and from accountants/CA firms managing GST compliance on their behalf, using non-probability convenience and purposive sampling, drawn across industries including retail, restaurant and food services, manufacturing, construction, garments, wholesale trading, pharmacy, automobile, textiles, electronics, education, professional services, logistics, healthcare and e-commerce. For secondary data, the complete, publicly available annual gross GST collection figures for FY 2020-21 to FY 2024-25 were used, as released by the Ministry of Finance/GST Council.

C. Instrument and Data Analysis

Primary data were collected using a structured questionnaire administered through Google Forms, covering business-profile items, compliance-management items, a 5-point Likert opinion battery, and a multiple-response item on measures to improve compliance. Secondary data were sourced from official Government of India publications (Ministry of Finance/PIB press notes, GST Council revenue statistics, and the Open Government Data platform). Secondary data were analysed using a log-linear (semi-logarithmic) regression model to estimate the compound annual growth rate and test the significance of the trend slope; primary data were analysed using descriptive statistics and the chi-square (χ^2) test of independence at $\alpha = 0.05$. All computations were performed using Python's pandas, NumPy and SciPy libraries.

D. Hypotheses

H1 (secondary data): There is significant growth in gross GST collection in India between FY 2020-21 and FY 2024-25 (trend slope $\beta > 0$).

$H0_1$ (primary data): There is no significant association between who manages GST compliance (self, accountant, or CA firm) and whether the business has paid late fees or interest.

$H0_2$ (primary data): There is no significant association between annual turnover and the frequency of difficulty experienced while filing GST returns.

$H0_3$ (primary data): There is no significant association between the GST registration scheme adopted (Regular, Composition, QRMP) and whether the business has received a GST notice.

E. Limitations

The 82-respondent primary sample was drawn through non-probability sampling and is not statistically representative of the entire small-business population; the secondary-data regression is limited to five years of data; and the primary survey relies on self-reported perceptions, which may be subject to recall or social-desirability bias. These limitations are addressed further alongside the results below.

4. RESULTS AND DISCUSSION

A. Secondary Data: Growth in GST Collection

Gross GST collection in India rose from ₹11.37 lakh crore in FY 2020-21 to ₹22.08 lakh crore in FY 2024-25 (Table 1). A log-linear regression, $\ln(\text{GST Collection}_t) = \alpha + \beta \cdot t$, was fitted to this series.

Table 1. Gross GST Collection in India (FY 2020-21 to FY 2024-25)

Financial Year	t	Collection (₹ Lakh Crore)
2020-21	0	11.37
2021-22	1	14.83
2022-23	2	18.08
2023-24	3	20.18
2024-25	4	22.08

The fitted equation is $\ln(\text{GST Collection}_t) = 2.4973 + 0.1635 \cdot t$ ($R^2 = 0.9498$). The slope corresponds to an average annual growth rate of $e^{0.1635} - 1 \approx 17.8\%$. Testing H1 against $\beta \leq 0$

gives t = β/SE(β) = 0.1635/0.0217 = 7.531 (df = 3), with a two-tailed p ≈ 0.0049 (< 0.05); H0 is rejected, confirming statistically significant growth in gross GST collection over the period. This growth rate is inflated by the low, pandemic-affected base of FY 2020-21 — officially reported year-on-year growth moderated from +30.5% (FY 2021-22) to +9.4% (FY 2024-25) — but the underlying trend confirms a sustained, structural expansion of the GST base and, by extension, of the compliance obligations facing an expanding pool of registered businesses, including small businesses. Extrapolating the fitted trend forward suggests collection could reach approximately ₹62.35 lakh crore by FY 2030-31, though this is best read as an illustrative upper-bound trend rather than a firm forecast, since actual growth is more likely to moderate further.

B. Primary Data: Profile and Compliance Experience

The 82-respondent sample is dominated by retail, restaurant/food-service and manufacturing businesses, with turnover concentrated between ₹20 lakhs and ₹5 crore and 61% registered under the Regular scheme. Table 2 summarises the key compliance-experience indicators from the survey.

Table 2. Key Primary-Data Compliance Indicators (N = 82)

Indicator	Share
Compliance managed by accountant/CA firm (vs. self)	77%
Report filing difficulty "often" or "always"	48.7%
Cite ITC reconciliation as most difficult stage	35.4%
Have paid GST late fees/interest at some point	73.2%
Have received a GST notice	42.7%
Registered under the Regular scheme	61%

Among the four opinion-battery statements, professional assistance from Chartered Accountants is the most strongly endorsed (mean = 4.20 on a 5-point scale), while the simplicity of the filing process itself is rated lowest (mean = 2.88), suggesting that respondents value professional support precisely because they do not find the underlying process simple. This pattern is consistent with the reliance rate above: businesses appear to substitute professional assistance for process simplicity rather than experiencing the two as complementary.

C. Hypothesis Testing: Chi-Square Results

The chi-square test of independence, $\chi^2 = \Sigma[(O - E)^2/E]$, was applied to the three primary-data hypotheses at α = 0.05 (Table 3).

Table 3. Chi-Square Test Results for Primary-Data Hypotheses

Hypothesis	χ^2	df	p	Result
$H0_1$: Manager × Late Fee	0.128	2	0.938	Not rejected
$H0_2$: Turnover × Difficulty	21.611	12	0.042	Rejected
$H0_3$: Scheme × Notice	7.524	2	0.023	Rejected

There is no statistically significant association between who manages GST compliance and whether the business has paid late fees or interest ($\chi^2 = 0.128$, $p = 0.938$), indicating that outsourcing compliance to a professional does not, by itself, eliminate late-fee risk. Annual turnover is significantly associated with the frequency of filing difficulty ($\chi^2 = 21.611$, $p = 0.042$). GST registration scheme is significantly associated with receipt of a GST notice ($\chi^2 = 7.524$, $p = 0.023$): businesses under the Regular scheme show a markedly higher notice-incidence (56%) than those under Composition (21%) or QRMP (33%).

A supplementary ordinal logistic regression of filing-difficulty frequency on four standardised opinion predictors (professional support, regulatory amendments, portal issues, process simplicity) was not statistically significant overall (LR χ^2 = 3.717, df = 4, p = 0.446), and no individual predictor reached significance. Read alongside the chi-square results, this suggests that objective firm characteristics — turnover and registration scheme — are more reliable predictors of a small business's compliance experience than its subjective attitudes toward the portal or professional support.

D. Discussion

- Secondary data confirm significant, sustained growth in gross GST collection (~17.8% annually), reflecting a structurally expanding taxpayer base and, with it, an expanding pool of small businesses newly required to navigate GST compliance.
- Primary data show that compliance difficulty is common and concentrated in ITC reconciliation, and

that professional support — while highly valued — does not by itself eliminate late-fee risk.

- Firm characteristics (turnover, registration scheme) are more strongly and reliably linked to compliance difficulty and notice incidence than subjective opinions about the portal or regulatory change.
- Regular-scheme taxpayers show disproportionately higher notice incidence than Composition or QRMP taxpayers, suggesting scheme-specific compliance risk.

E. Implications

Academic: The study contributes primary, micro-level evidence on GST compliance costs among small businesses and links it to macro-level secondary evidence of national GST base expansion — a combination not commonly found together in existing compliance-cost literature.

Managerial: For small-business owners, the findings suggest that outsourcing compliance to a professional, while valuable, is not by itself sufficient to avoid late fees; internal record-keeping discipline and proactive use of reconciliation tools remain necessary.

Policy: For policymakers and GSTN, the significant association between registration scheme and notice incidence, together with the concentration of difficulty in ITC matching and the confirmed rapid growth of the GST base, suggests that targeted simplification of the ITC/GSTR-2B matching interface could yield disproportionate compliance-cost relief as the taxpayer base continues to expand.

5. CONCLUSION AND RECOMMENDATIONS

This study examined the GST return-filing process and compliance challenges faced by small businesses, combining secondary data on national GST collection trends with primary data from 82 small-business respondents. The secondary analysis confirms that GST collection — and, by extension, the compliance obligations of an expanding taxpayer base — has grown significantly and rapidly since FY 2020-21. Against this backdrop, the primary data show that small businesses continue to face real, statistically linked compliance friction, concentrated most acutely around ITC reconciliation, and carrying tangible financial cost in the form of late fees, interest, and notices.

Based on these findings, the study recommends: (a) prioritising simplification and automation of the ITC/GSTR-2B reconciliation workflow; (b) developing affordable, checklist-based micro-advisory services for very small businesses that currently self-manage compliance; (c) introducing plain-language, business-specific alerts for regulatory amendments; and (d) directing targeted compliance-support outreach toward Regular-scheme taxpayers, who show a markedly higher incidence of GST notices than Composition or QRMP taxpayers. A longer secondary time series, a larger probability-based primary sample, and longitudinal tracking of the same businesses across multiple filing cycles are suggested directions for further study.

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