

Evaluating GST Return Filing Efficiency and Compliance Behavior among SMEs in India: Challenges, Insights, and Future Pathways

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Abstract

Since its implementation in 2017, the Goods and Services Tax (GST) in India has redefined indirect taxation through a unified structure aimed at increasing transparency and reducing tax cascading. Central to this system is the periodic filing of returns—critical for revenue collection, compliance monitoring, and input tax credit (ITC) flow. This study assesses the effectiveness and behavioral patterns surrounding GST return filing among small and medium enterprises (SMEs), emphasizing practical challenges like ITC mismatches, digital limitations, and filing complexity. A mixed-methods approach combining a primary survey of 75 GST-registered businesses and secondary literature reveals persistent gaps in portal usability, regulatory understanding, and filing accuracy. Based on these findings, the study offers evidence-based recommendations to streamline compliance, such as user-centric portal redesign, quarterly return options for small taxpayers, and integrated real-time reconciliation tools. The paper concludes with implications for policymakers and tax administrators to drive long-term GST efficiency.

Keywords: GST, Tax Compliance, Input Tax Credit, Digital Filing, SMEs, GSTR-1, GSTR-3B, Indian Tax Reform, Taxpayer Behavior, Portal Usability

Introduction

The introduction of the Goods and Services Tax (GST) aimed to simplify India's indirect tax landscape by merging multiple taxes into a single structure. Among the foundational mechanisms of GST is the periodic filing of returns—essential not only for statutory compliance but also for the tracking of tax liabilities and flow of input tax credit (ITC). These returns, including GSTR-1, GSTR-3B, and GSTR-9, require precision and timely submission, failing which taxpayers may face penalties or ITC disruptions.

However, the compliance process remains challenging, particularly for small and medium enterprises (SMEs), who often operate with limited resources and low digital proficiency. This paper evaluates the actual ground-level impact of GST return filing on SMEs, with an emphasis on technical, regulatory, and operational obstacles.

Objectives of the Study

The study aims to bridge empirical gaps in understanding GST compliance, focusing on SMEs:

1. To assess taxpayer awareness and behavior concerning GST return filing.
2. To identify practical challenges encountered in the GST return submission process.
3. To examine the impact of return filing on overall business operations.
4. To evaluate the utility of technology platforms in easing the compliance burden.

5. To propose actionable strategies for improving the return filing process.

Literature Review

In recent years, significant scholarly and policy attention has focused on GST compliance behavior, portal efficiency, and the tax burden on SMEs in India. This section synthesizes relevant literature aligning with the study's objectives.

1. Taxpayer Awareness and Compliance Behavior

- Nair and Mehta (2020) found that many SMEs lack structured tax compliance frameworks and often rely on informal sources of information. This contributes to delays in filing and increased reliance on consultants.
- Singh and Malhotra (2022) confirmed that taxpayer behavior is influenced more by penalty avoidance than intrinsic motivation for compliance, which impacts timely return filing.
- Agarwal and Saxena (2021) noted that limited access to expert guidance makes return filing cumbersome for small taxpayers.

2. Challenges in Return Filing

- Patel and Khanna (2021) reported that GSTR-2A reconciliation was the most frequent challenge, especially due to non-compliance or delays from suppliers.
- World Bank (2022) emphasized that in emerging economies like India, compliance challenges are not only technological but also procedural due to frequent regulatory changes.
- Jain et al. (2022) emphasized systemic mismatches in GSTR-2A and GSTR-3B filings as a major source of taxpayer grievances.
- Sharma and Menon (2023) found the GST portal stable yet insufficiently intuitive, especially during high-load periods.
- Rathi and Verma (2021) highlighted higher compliance costs for SMEs who must often outsource return filing to external consultants.

3. Impact on Business Operations

- Kumar and Rao (2023) documented how recurring return mismatches and delays in ITC credits often cause working capital shortages among SMEs.
- Bhattacharya and Choudhary (2021) found that GST compliance adds 8–10 hours monthly to administrative overhead for small firms, impacting business productivity.

4. Role of Technology and Digital Platforms

- Gupta (2023) examined tax automation and found that although platforms like ClearTax or Tally increase efficiency, their high costs deter widespread adoption.
- Ernst & Young (2022) noted the lack of system integration between supplier and buyer systems as a key technological limitation.

5. System Reform Recommendations

- OECD (2023) and ICAI (2023) suggested incorporating AI-based reconciliation, automated reminders, and taxpayer segmentation (e.g., quarterly vs. monthly filers) to enhance compliance.

Research Methodology

Design: Descriptive and analytical

Location: Raipur, Chhattisgarh

Sample: 75 GST-registered enterprises, selected via random sampling

Data Collection Methods:

- *Primary:* Structured questionnaire (Google Forms + in-person interviews)
- *Secondary:* GST Council documents, academic journals, policy reports

Tools for Analysis: Excel and SPSS for percentage analysis and cross-tabulations

Data Analysis and Interpretation

Respondent Profile

- **Enterprise Size:** Small (58%), Medium (29%), Large (13%)
- **Sectors:** Manufacturing (47%), Services (36%), Trading (17%)
- **Returns Filed:** GSTR-3B (92%), GSTR-1 (78%), GSTR-9 (44%)

Filing Timeliness

- 68% filed returns within deadlines
- 32% missed deadlines in the past six months

Key Challenges

- ITC mismatches (45%)
- Technical glitches (39%)
- Incomplete understanding of return types (27%)
- Frequent corrections post-filing (31%)

Digital Support and Dependency

- 66% used tax software (e.g., Tally, ClearTax)
- 70% engaged third-party consultants for return filing

Business Impact

- 52% experienced ITC delays affecting cash flow
- 46% noted operational disruptions due to compliance tasks

Findings

The analysis reveals a mixed scenario. While compliance rates are improving, particularly with the GSTR-3B form, SMEs continue to face hurdles due to limited digital literacy, ambiguous filing processes, and over-dependence on third parties. The monthly return mandate, although essential for data transparency, imposes a considerable burden on resource-strapped businesses. The system's rigidity fails to accommodate sectoral or size-based flexibility.

The GST portal's digital ecosystem, although robust in theory, still lacks dynamic support tools such as live AI reconciliation, predictive filing alerts, and multilingual assistance. Real-time ITC validation, if implemented, could significantly reduce mismatch errors.

Objective 1: To assess the awareness and compliance level of taxpayers regarding GST returns

- High awareness, with 92% of respondents filing GSTR-3B and 78% filing GSTR-1.
- However, only 44% filed GSTR-9, suggesting reduced awareness or motivation for annual compliance.
- 27% reported confusion about different return types, especially among first-time filers and micro-enterprises.

Objective 2: To identify the common challenges faced during the GST return filing process

- 45% encountered ITC mismatches, mainly due to errors in supplier filings or unreported invoices.
- 39% faced portal issues, including slow load times, downtime during peak filing periods, and login failures.
- 31% needed to revise or correct returns post-submission, increasing administrative workload.
- Lack of guidance and interpretation of rules was cited by smaller businesses as a major barrier.

Objective 3: To evaluate the impact of GST return compliance on business operations

- 52% of businesses experienced ITC delays, directly affecting cash flow and vendor payments.
- 46% indicated that GST return-related activities reduced focus on core operations, especially during monthly filing periods.
- Some firms even reported temporary halts in operations during filing due to system errors or missing data.

Objective 4: To analyze the role of technology and digital platforms in easing return filing

- 66% of firms used third-party accounting software, yet few utilized its full automation potential.
- 70% of SMEs outsourced return filing, citing limited in-house capabilities and confidence.
- Most users appreciated digital platforms but found them too technical or expensive without professional help.

Objective 5: To recommend measures for enhancing the GST return system's efficiency

- Respondents favored the introduction of:
 - Quarterly return filing for all small taxpayers
 - Automated ITC reconciliation tools
 - Simplified return formats with fewer data entry fields

- Live helpdesk or AI-based chatbot support integrated into the GST portal

Conclusion

GST return filing is a cornerstone of India's indirect tax compliance ecosystem, but its complexity presents substantial challenges for small and medium enterprises. This study confirms that while digitalization has advanced compliance in many respects, the lack of simplified processes, real-time error resolution tools, and taxpayer support continues to hinder efficiency.

The study affirms that while the GST system has brought structural tax reform, its success hinges on ease of compliance. Current return filing processes, especially for SMEs, involve significant procedural and technological friction. Return mismatches, lack of real-time guidance, and overdependence on third parties remain key deterrents to efficient compliance.

Going forward, streamlining filing structures, enabling real-time reconciliation, and investing in taxpayer education can substantially improve outcomes. Building a future-ready GST ecosystem requires a partnership between policymakers, tech developers, and taxpayers.

Mismatch errors, portal usability issues, and frequent procedural updates make self-compliance difficult for SMEs, pushing them toward reliance on costly third-party services. The findings call for a taxpayer-centric compliance model that is adaptive, intuitive, and inclusive.

Key takeaways emphasize the importance of integrating AI for reconciliation, expanding quarterly return options, and improving portal responsiveness. Addressing these gaps will be critical for realizing the GST framework's vision of ease of doing business, transparency, and automated compliance.

Recommendations

1. **Simplified Return Formats:** Merge GSTR-1 and GSTR-3B for small taxpayers into a unified form.
2. **AI-Based Reconciliation Tools:** Introduce predictive matching tools that flag potential ITC mismatches before filing.
3. **Quarterly Return Option:** Extend quarterly return filing to more categories of SMEs to reduce compliance load.
4. **Tax Literacy Initiatives:** Launch localized digital literacy campaigns and interactive filing tutorials.
5. **Enhanced Portal UI/UX:** Redesign GSTN interfaces with real-time assistance and adaptive layouts.
6. **Grace Period for SMEs:** Introduce a compliance relaxation period with reduced penalties during system updates.
7. **Integrated Compliance Dashboards:** Let businesses track pending filings, ITC status, and mismatch alerts in a consolidated view.

Future Implications

Policymakers can use the findings to structure targeted reforms, such as AI-led compliance assistance or simplified return regimes. For researchers, this study opens avenues to examine sector-specific filing behavior and the role of automation in compliance. Tax technology firms may consider developing modular solutions tailored to MSME

needs, while government agencies could prioritize multilingual helplines and regional training programs. A more nuanced, taxpayer-centric GST framework would enhance trust and long-term compliance rates.

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