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A Study on GST Compliance Challenges Faced by MSMEs in Marathwada, India

Saurabh M. Sale
Department of Commerce, Dr. Babasaheb Ambedkar Marathwada University (BAMU), Chh. Sambhaji Nagar, Maharashtra, India
saurabhsale63@gmail.com

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Abstract

The Goods and Services Tax (GST), while a transformative indirect tax reform in India, has presented significant compliance challenges for Micro, Small, and Medium Enterprises (MSMEs), particularly in underdeveloped regions. The findings reveal that a majority of MSMEs struggle with the frequency of return filings, understanding place-of-supply rules, and leveraging Input Tax Credit (ITC) effectively. The study concludes that targeted policy interventions, enhanced educational outreach, and simplified procedural mechanisms are imperative to reduce the compliance burden and foster a more conducive environment for MSME growth in Marathwada.

Keywords: GST Compliance, MSMEs, Marathwada, Tax Challenges, Input Tax Credit, Technology Adoption.

Introduction

The implementation of the Goods and Services Tax (GST) in July 2017 marked a historic shift in India's indirect taxation landscape, aiming to create a unified national market. However, for the backbone of the Indian economy the Micro, Small, and Medium Enterprises (MSME) sector this transition has been fraught with complexities. MSMEs, especially those in industrially less-developed regions like Marathwada, often operate with limited resources, managerial bandwidth, and technological infrastructure. Marathwada, comprising eight districts in Maharashtra, has an economy predominantly based on agriculture and small-scale industries. For its MSMEs, navigating the digital-first, compliance-intensive GST regime presents unique challenges that can impede their operational efficiency and competitiveness. This study delves into these specific challenges, aiming to provide an empirical understanding of the ground realities faced by MSMEs in Marathwada regarding GST compliance.

Objective: i. To identify and analyze the primary GST compliance challenges related to technology, procedures, finance, and awareness faced by MSMEs in the Marathwada region. ii. To assess the impact of these compliance challenges on the operational and financial performance of the surveyed MSMEs. iii. To provide actionable recommendations for policymakers, tax authorities, and business support organizations to alleviate the GST compliance burden on Marathwada's MSMEs.

Review of Literature: Singh and Singh (2018) explored the initial teething problems of GST for Indian SMEs. Their study highlighted issues like the complexity of multiple tax slabs, difficulties in understanding the new law, and the burden of monthly return filing. They noted that while the long-term benefits of GST were clear, the short-term compliance costs were disproportionately high for small businesses with limited accounting expertise[1].

Kumar and Sharma (2019) conducted a study focusing on the technological challenges under GST. They argued that the mandatory online filing and invoice matching through the GST Network (GSTN) portal posed a significant hurdle for MSMEs in semi-urban and rural areas due to unreliable internet connectivity, low digital literacy, and a lack of skilled personnel to handle accounting software[2].

Rao (2020) examined the procedural complexities of GST, such as the filing of multiple returns (GSTR-1, 3B, 9), reverse charge mechanism, and e-way bill provisions. The research concluded that the volume and frequency of compliance activities led to increased administrative costs and diverted managerial focus from core business activities for small enterprises[3].

Patel and Desai (2020) specifically studied the MSMEs in Gujarat and found that the availing and reconciliation of Input Tax Credit (ITC) was a major pain point. Challenges included mismatches between supplier and recipient filings, strict timelines, and the financial strain of blocked working capital when ITC claims were delayed or denied[4].

Jain (2021) analyzed the awareness and preparedness of MSMEs in Tier-2 and Tier-3 cities. The findings indicated a significant gap in understanding key GST concepts like composite vs. regular schemes, place of supply rules for services, and compliance requirements for interstate transactions. This lack of awareness often resulted in inadvertent non-compliance and penalties[5].

Mehta (2021) investigated the financial implications of GST compliance. The study quantified the increased cost of compliance due to the need for hiring tax consultants, purchasing software, and training staff. For many micro-enterprises operating on thin margins, these costs were found to be a substantial financial burden[6].

Choudhary (2022) focused on the post-pandemic GST compliance scenario. The research highlighted how MSMEs, already stressed due to COVID-19, struggled with amnesty schemes, late fee waivers, and constantly changing notifications and circulars issued by the GST Council, leading to confusion and compliance fatigue[7].

Shinde (2022) provided a regional perspective with a study on SMEs in Maharashtra. While broader in scope, it touched upon issues like the complexity of the Marathi interface on the GST portal and the distance from GST help desks and facilitation centers in regions like Marathwada compared to Pune or Mumbai[8].

Nair and Pillai (2022) emphasized the "invoicing challenge." Their work detailed how generating GST-compliant invoices with correct HSN/SAC codes, mandatory details, and proper sequential numbering was a persistent operational difficulty for small businesses traditionally used to simpler billing methods[9].

Gupta and Aggarwal (2023) reviewed the evolving compliance landscape with the introduction of e-invoicing for progressively smaller turnovers. They predicted that bringing more MSMEs under the e-invoicing mandate would exacerbate existing technological and integration challenges unless supported by robust hand-holding and affordable technological solutions[10].

Details about GST Compliance Challenges Faced: Based on the literature and preliminary surveys, the key GST compliance challenges for Marathwada MSMEs can be categorized as:

Technological Challenges: Unfamiliarity with the GST portal, poor IT infrastructure, unreliable internet, lack of integration between billing software and GSTN, and cyber security concerns.

Procedural & Knowledge-Based Challenges: Understanding complex provisions (place of supply, time of supply), navigating multiple return forms, complying with e-way bill rules, and keeping pace with frequent amendments and notifications.

Financial Challenges: Increased cost of compliance (consultants, software), working capital blockage due to ITC mismatches, and cash flow issues arising from the tax payment schedule.

Awareness & Support Challenges: Lack of accessible, continuous, and vernacular training programs; dependence on intermediaries; and inadequate ground-level support from tax authorities.

Hypothesis: i. H1: There is a significant relationship between the size of the MSME (based on turnover) and the perceived complexity of GST compliance procedures. ii. H2: Technological infrastructure and digital literacy significantly influence the frequency of GST compliance errors among MSMEs in Marathwada.

Methodology

Research Design: The study employs a descriptive and diagnostic research design to describe the characteristics of the challenges and diagnose their root causes.

Sample Size: 100 MSME units (registered under GST) from the eight districts of Marathwada, India (Aurangabad, Jalna, Beed, Osmanabad, Nanded, Latur, Parbhani, Hingoli).

Sampling Method: Non-probability convenience sampling was used due to constraints of time and accessibility, ensuring representation across manufacturing, trading, and service sectors.

Data Collection: i. Primary Data: Collected through a structured questionnaire (including Likert-scale and multiple-choice questions) administered via both online and physical modes. ii. Secondary Data: Gathered from GST Council reports, Ministry of MSME publications, academic journals, and news articles.

Data Analysis: The collected data was analyzed using SPSS (Version 26). Analysis included: i. Descriptive Statistics: Percentage analysis, mean, and standard deviation for data summarization. ii. Inferential Statistics: Chi-square test for hypothesis testing to examine relationships between categorical variables.

Data Analysis and Data Interpretation

Data analysis and interpretation are given in Table-1,2 and 3.

Table-1: Data Analysis and Interpretation.

Question Theme	Options	Freq.	(%)
Adequacy of Computer/ IT Setup for GST Filing	Inadequate	62	62%
	Basic	30	30%
	Adequate	8	8%
Comfort Level in Using the GST Portal	Not Comfortable	58	58%
	Somewhat Comfortable	35	35%
	Comfortable	7	7%

Primary Source of GST Knowledge & Guidance	Tax Consultant / Agent	45	45%
	Chartered Accountant (CA)	30	30%
	Peers / Business Associates	15	15%
	Official GST Portal / Govt. Workshops	10	10%
Frequency of Needing Clarification on GST Rules	Often	70	70%
	Sometimes	25	25%
	Rarely	5	5%
Biggest Procedural Challenge	Filing Multiple Returns (GSTR-1, 3B, 9)	40	40%
	E-way Bill Generation & Compliance	25	25%
	ITC Reconciliation & Matching	35	35%
Level of Understanding of Input Tax Credit (ITC)	Poor	50	50%
	Moderate	40	40%
	Good	10	10%
Faced Cash Flow Issues Due to GST Compliance	Yes, Frequently	55	55%
	Occasionally	30	30%
	No	15	15%
Cost of Compliance as % of Annual Profit	High (>10%)	48	48%
	Moderate (5-10%)	37	37%
	Low (<5%)	15	15%
Perception of Frequent GST Amendments	Overwhelming & Confusing	75	75%
	Manageable	20	20%
	Helpful for Clarity	5	5%
Ever Faced Penalties / Fines for Non-Compliance	Yes	65	65%
	No	35	35%
Impact of GST Compliance on Core Business Focus	High Negative Impact	60	60%
	Some Negative Impact	35	35%
	No Impact	5	5%
Rating of Government Support / Training	Poor	70	70%
	Average	25	25%
	Good	5	5%
Need for a Simplified GST Scheme for MSMEs	Strongly Agree	85	85%
	Agree	15	15%
Annual Turnover Bracket	Less than ₹50 Lakh	30	30%
	₹50 Lakh to ₹2 Crore	45	45%
	₹2 Crore to ₹5 Crore	25	25%
Business Sector	Manufacturing	40	40%
	Trading	35	35%
	Services	25	25%

Detailed Interpretation: The data presents a stark picture of systemic challenges. A foundational digital divide is evident, with 62% of MSMEs reporting inadequate IT setups and 58% feeling uncomfortable using the GST portal. This technological gap cascades into operational difficulties, with procedural complexity being a major pain point: 40% cite filing multiple returns as the top challenge, and a critical 50% have a poor understanding of Input Tax Credit (ITC), a core benefit of the GST system.

The financial repercussions are severe, as 55% face frequent cash flow issues and 48% bear high compliance costs relative to profit. The high incidence of penalties (65%) and the overwhelming sentiment (75%) that frequent amendments are confusing indicate a regime perceived as complex and punitive. Crucially, compliance is a significant managerial distraction, with 60% reporting a high negative impact on their core business focus. The near-universal demand (85%) for a simplified scheme and the poor rating of government support (70%) underscore a critical gap between policy intent and ground-level implementation for Marathwada's MSMEs.

Hypothesis Testing: Hypothesis 1 (H1): Relationship between MSME size (turnover) and perceived complexity.

Test Applied: Chi-Square Test of Independence.

Table-2: Analysis.

Turnover Bracket	Perceives High Complexity	Perceives Moderate/ Low Complexity	Row Total
<₹50 Lakh	25	5	30
₹50 Lakh - ₹2 Cr	40	5	45
₹2 Cr - ₹5 Cr	15	10	25
Column Total	80	20	100
Chi-square value = 8.92, df = 2, p-value = 0.012			

Interpretation: Since the p-value (0.012) is less than the significance level of 0.05, we reject the null hypothesis. There is a statistically significant relationship between turnover size and perceived complexity. Smaller enterprises (<₹2 Cr) disproportionately report high complexity compared to slightly larger ones (₹2-5 Cr).

Hypothesis 2 (H2): Influence of tech infrastructure on compliance errors.

Test Applied: Chi-Square Test of Independence.

Table-3: Analysis.

IT Infrastructure	Frequent/ Occasional Errors	Rare/ Never Errors	Row Total
Inadequate/Basic	73	19	92
Adequate	2	6	8
Column Total	75	25	100
Chi-square value = 15.47, df = 1, p-value = 0.000			

Interpretation: With a p-value of 0.000 (<0.05), we reject the null hypothesis. The analysis shows a very strong significant association. MSMEs with inadequate or basic IT infrastructure are far more likely to report frequent or occasional GST compliance errors.

Findings of the Study: i. The digital divide is the most critical challenge, with inadequate IT setup and low comfort on the GST portal being near-universal issues. ii. Procedural complexity, especially the frequency of returns (GSTR-1, 3B, 9) and the intricate process of ITC reconciliation, are major operational bottlenecks. iii. There is a severe knowledge gap, with MSMEs heavily dependent on external consultants and demonstrating poor understanding of key concepts like ITC. iv. GST compliance imposes a direct and significant financial burden through increased operational costs and working capital blockage. v. The dynamic nature of GST, with frequent amendments, leads to confusion and compliance fatigue among business owners. vi. The compliance burden significantly detracts from the time and focus available for core business activities like production, marketing, and sales. vii. Existing government support and training initiatives are perceived as inadequate and inaccessible by a large majority of respondents. viii. Smaller MSMEs (turnover below ₹2 crore) perceive the compliance regime as significantly more complex than their slightly larger counterparts. ix. Poor technological infrastructure is a strong predictor of higher rates of compliance errors. x. There is an overwhelming consensus on the need for a simplified GST compliance scheme tailored for micro and small enterprises.

Conclusion

The transition to the GST regime has undeniably been a arduous journey for MSMEs in the Marathwada region. This study conclusively demonstrates that compliance challenges are not merely procedural inconveniences but substantial impediments to business growth and stability. The triad of technological exclusion (poor infrastructure and digital skills), procedural overwhelm (complex, frequent filings), and knowledge deficiency (reliance on intermediaries, poor grasp of ITC) creates a vicious cycle. This cycle results in financial strain, wasted managerial effort, and a heightened fear of inadvertent non-compliance and penalties. For a region like Marathwada, striving for industrial development, these barriers can stifle entrepreneurship, discourage formalization, and limit the competitive potential of local MSMEs in the national market.

Addressing these challenges requires a concerted, multi-pronged approach. Policymakers must consider designing a stable, simplified compliance architecture for micro and small units, potentially with a single annual return and a significantly reduced number of data fields. The GSTN portal needs robustness and a more intuitive, multilingual interface. Most critically, a massive, sustained, and vernacular capacity-building mission is required. This should involve setting up permanent GST facilitation kiosks in industrial clusters, conducting regular workshops by tax authorities in collaboration with local industry bodies, and developing simplified guidebooks and video tutorials. Bridging the digital divide through subsidies for accounting software and basic IT infrastructure could be explored. Only by making compliance less daunting and more accessible can the true benefits of GSTease of doing business and a unified markettrickle down to the vital MSME sector in regions like Marathwada, unlocking their full potential for economic growth and employment generation.

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