IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

IMPACT OF GOODS AND SERVICES TAX (GST) ON BUSINESS PERFORMANCE AND TAX COMPLIANCE IN INDIA

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Abstract

The Goods and Services Tax (GST) is one of the most significant reforms in India's indirect tax system. Introduced on 1 July 2017, GST sought to integrate multiple central and state indirect taxes into a common destination-based framework. This article examines the influence of GST on business performance, tax compliance, transaction transparency, working-capital management and formalization of enterprises in India. The study uses a conceptual and secondary-data approach based primarily on official Government of India and GST Council materials. The analysis indicates that GST has strengthened invoice-based reporting, encouraged digital record keeping, reduced cascading through input tax credit and supported inter-state trade. At the same time, enterprises continue to face challenges related to compliance complexity, reconciliation, regulatory changes, classification and technology dependence. The article argues that the long-term effectiveness of GST depends not only on tax-rate rationalisation but also on stable rules, simple procedures, effective grievance redressal and taxpayer-oriented digital systems. It concludes with recommendations for policymakers and businesses to improve compliance efficiency and strengthen the contribution of GST to sustainable economic development.

Keywords: Goods and Services Tax, GST, Tax Compliance, Input Tax Credit, Business Performance, Digital Taxation, Formalization, India.

1. Introduction

Tax policy directly affects the cost structure, competitiveness and administrative environment of businesses. Before GST, India's indirect tax system included several central and state levies such as central excise duty, service tax, state value added tax and central sales tax. Differences in tax bases and procedures created fragmentation across jurisdictions. GST was introduced to establish a more integrated system based on taxation of the supply of goods and services.

GST became operational on 1 July 2017 through a constitutional and legislative framework involving the Central GST Act, Integrated GST Act and corresponding State and Union Territory legislation. The GST Council provides a cooperative federal forum for recommending rates, exemptions, rules and major policy measures.

Digitalization is a central feature of GST. Registration, return filing, payment and several compliance processes are conducted electronically. E-invoice and e-way bill mechanisms have also increased transaction-level visibility. The GST Council records that e-way bills and e-invoices have been integrated with GST returns, supporting self-reporting and trade facilitation.

The impact of GST is not uniform. Large enterprises may have specialized tax teams and integrated software, while smaller enterprises may experience higher relative compliance costs. Consequently, GST should be evaluated not only as a revenue instrument but also as a business-environment reform.

2. Background and Institutional Framework

GST is a value-added tax imposed on supplies of goods and services. For intra-state transactions, CGST and SGST are generally applicable, while IGST is generally applicable to inter-state supplies and imports, subject to the governing provisions. The input tax credit mechanism is central to the architecture because eligible tax paid on inputs can generally be utilized against output tax, subject to statutory conditions.

The GST Council is the principal policy forum. Its voting structure reflects cooperative federalism: the Central Government has one-third of the weighted votes and the States together have two-thirds; where a vote is taken, a proposal requires at least three-fourths of the weighted votes of members present and voting.

GST has evolved continuously since 2017. The Council has undertaken rate rationalization, procedural reforms, trade facilitation and clarifications. Official Council records contain continuing amendments to CGST rate notifications and circulars.

Recent policy developments confirm that GST remains dynamic. The 56th GST Council meeting in September 2025 recommended changes in tax rates and other facilitation measures. Academic discussions should therefore distinguish the enduring principles of GST from rules and rates that may change through subsequent notifications.

3. Problem Statement

Although GST was introduced to simplify India's indirect tax structure, enterprises continue to face practical difficulties in compliance, classification, reconciliation and working-capital management. The research problem is to understand whether the benefits of tax integration, input tax credit and digital transparency outweigh the administrative and operational costs faced by businesses.

The issue is particularly important for small and medium-sized enterprises. A small firm may need accounting software, trained personnel, invoice controls, vendor reconciliation and regular monitoring of statutory changes. These requirements can improve internal discipline but can also create short-term administrative costs.

4. Research Questions

- How has GST influenced the business operating environment in India?
- To what extent has GST strengthened tax compliance and transaction transparency?
- What are the major benefits of GST for business performance and inter-state trade?
- What compliance and working-capital challenges continue to affect enterprises?
- What policy and managerial measures can improve the effectiveness of GST?

5. Objectives of the Study

- To examine the conceptual and institutional framework of GST in India.
- To analyze the relationship between GST and business performance.
- To assess the role of GST in improving tax compliance and formalization.
- To identify major operational challenges associated with GST compliance.
- To propose practical recommendations for policymakers and businesses.

6. Review of Literature

The literature on GST in India generally examines tax reform, revenue mobilization, compliance, economic integration and business effects. Studies after implementation have highlighted the transition from multiple indirect taxes to a common framework and the increasing importance of digital compliance.

A major theme is tax neutrality and input tax credit. The theoretical advantage of a value-added tax is that tax is collected at successive stages while eligible input tax is credited, reducing cascading. This can improve production and distribution efficiency when credit is available smoothly and rules are predictable.

A second theme is compliance behavior. Digital registration and return systems increase transaction traceability. However, digitalization does not automatically mean simplicity: taxpayers must understand classifications, invoice requirements, return procedures and reconciliation. Technology can therefore reduce manual work while increasing the need for accounting capability.

Research on small enterprises commonly identifies compliance cost as an important concern. Small firms may have limited accounting staff and may depend on external tax practitioners. Frequent regulatory changes can increase uncertainty and training costs.

Official GST Council materials demonstrate that the system continues to evolve through rate changes, clarifications and trade-facilitation measures. The Council's circular database includes clarifications on rates, classification, vouchers, online services and other matters.

7. Conceptual Framework

This study proposes that GST affects business performance through five principal mechanisms: input-tax-credit efficiency, compliance digitalization, transaction transparency, market integration and formalization. These mechanisms can influence operating costs, working capital, managerial control and access to wider markets.

GST Dimension	Expected Business Effect
Input Tax Credit	Reduction of cascading and improved tax-cost management
Digital Compliance	Greater automation and record discipline
Invoice/E-way Bill Traceability	Improved transaction transparency
Inter-state Tax Integration	Lower procedural fragmentation in national trade
Formalization	Greater visibility and potential access to formal markets and finance

8. Hypotheses

• H1: GST implementation has a positive relationship with business performance.

• H2: Input tax credit efficiency has a positive relationship with cost management.

• H3: Digital GST compliance has a positive relationship with transaction transparency.

• H4: GST has a positive relationship with the formalization of business activities.

• H5: GST-related compliance complexity has a negative relationship with small-business operating efficiency.

• H6: Greater GST knowledge and accounting capability are positively associated with compliance quality.

9. Research Methodology

The study uses a conceptual and secondary-data research design. It does not use a primary questionnaire and does not report fabricated survey statistics. Evidence is drawn mainly from GST legislation, official GST Council publications, government circulars and established academic perspectives on indirect taxation and compliance.

The unit of analysis is the business environment created by GST, with particular attention to enterprises operating in India. The analysis is descriptive and analytical rather than econometric. Evidence is organized around business performance, compliance, digitalization, transparency, formalization and operational challenges.

Official sources are prioritized because GST rates, procedures and notifications are dynamic. The GST Council website provides rate notifications, circulars and policy recommendations.

10. GST and Business Performance

GST can influence business performance through direct and indirect channels. The most important direct channel is input tax credit. When eligible credits are available and properly documented, tax does not accumulate at every stage. This can reduce embedded tax costs and improve pricing decisions.

A second channel is market integration. GST created a common architecture for inter-state supplies through IGST and digital documentation. This can support businesses operating across several states by reducing the need to manage separate state-level indirect tax structures.

A third channel is information quality. GST requires systematic invoicing and reporting. For businesses using accounting software effectively, these requirements can improve sales records, purchase records, receivables monitoring and audit trails. Thus, controls developed for tax compliance can also strengthen management information.

The effect depends on implementation. If credits are delayed, documentation is inaccurate or suppliers fail to comply, expected efficiency gains may not be realized. GST performance effects therefore depend partly on internal controls and supply-chain compliance.

11. GST and Tax Compliance

Compliance is one of the most visible outcomes of GST. Registration, return filing, tax payment, invoice reporting and several procedures have moved into a digital environment. This creates an electronic trail that can support risk-based administration and reduce opportunities for concealment.

Businesses must maintain accurate invoices, classify supplies correctly, monitor input credits and reconcile records. GST compliance is therefore not merely a tax-department activity; it is an accounting and internal-control function.

The GST Council has introduced measures intended to facilitate compliance. Its official record identifies trade-facilitation initiatives involving return procedures, payment modes and appeal mechanisms.

The central policy challenge is balancing enforcement and ease of doing business. Strong digital controls can improve revenue protection, but complex procedures can increase compliance costs. Stable and predictable rules are therefore essential.

12. GST and Small and Medium-Sized Enterprises

SMEs are particularly important in assessing the practical effects of GST. Smaller firms may benefit from a common market and input tax credit but may also face disproportionate compliance costs. Accounting software, professional fees and employee training can represent significant expenses.

The composition scheme is one policy response intended to provide a simplified tax-payment and compliance framework for eligible taxpayers. Eligibility and thresholds are governed by the law and notifications applicable at the relevant time. Businesses should verify current rules rather than rely on historical threshold figures. Official CBIC material documents the statutory framework and amendments to registration and composition provisions.

For SMEs, GST readiness should include digital accounting, invoice discipline, vendor-compliance monitoring and periodic reconciliation. These capabilities can convert compliance from a reactive task into an integrated business-control process.

13. GST, Digitalization and Transparency

GST has accelerated the digital transformation of tax administration. Electronic registration, return filing, invoice reporting and e-way bill systems reduce reliance on physical documentation. The GST Council has specifically recognized integration of e-invoices with e-way bills and GST returns as a measure supporting self-reporting and ease of doing business. □cite□turn0search9□

Digitalization can improve transparency because invoice-level data creates structured transaction records, electronic matching can identify inconsistencies, and digital records can make internal audits more systematic.

However, digital compliance creates risks involving system errors, data quality, cyber security and dependence on software or professional support. Digital tax reform should therefore be accompanied by user-friendly systems, clear guidance and responsive grievance mechanisms.

14. Challenges of GST Implementation

• Compliance complexity: Multiple forms, rules, classifications and procedures can be difficult for smaller firms.

• Frequent changes: Amendments and clarifications require continuous monitoring and staff training.

• Working-capital pressure: Delays or disputes in credit availability can affect liquidity.

• Classification disputes: Different interpretations of goods and services can create uncertainty.

• Technology dependence: Weak digital capabilities can increase compliance costs.

• Professional dependence: Small firms may need external accountants or tax practitioners.

• Supply-chain compliance: One party's reporting or documentation failures can affect another party's credit and reconciliation.

15. GST and Formalization

Formalization refers to the movement of economic activity into systems where transactions, taxation, accounting and business identities are more visible to public institutions and financial markets. GST can contribute to formalization because registered businesses generally operate through documented supplies and tax invoices.

Formalization can create wider economic benefits. Better transaction records may support credit assessment, supplier relationships and participation in organized supply chains. Businesses with systematic accounts can also make better decisions about pricing, inventory and profitability.

Formalization should not be equated with compulsory compliance alone. Sustainable formalization requires that the benefits of participating in the formal system—market access, credit, digital services and predictable administration—are sufficiently valuable to businesses.

16. Discussion

The evidence reviewed suggests that GST has produced both efficiency gains and adjustment costs. Its strongest structural contribution is a common indirect-tax architecture supported by input tax credit and digital reporting. This combination can reduce cascading, strengthen documentation and facilitate inter-state transactions.

Adjustment costs are more visible at the enterprise level. Businesses must continuously monitor tax rules, reconcile data and maintain accurate documentation. The burden is greater where firms lack trained accounting personnel or integrated software. Therefore, GST's effect on business performance is neither simply positive nor negative; it depends on firm capabilities, sector characteristics and regulatory stability.

The continuing work of the GST Council is important because the system remains evolutionary. Official records show ongoing changes in rates, exemptions, circulars and trade-facilitation measures.

17. Managerial Implications

• Integrate GST compliance with the accounting and finance function rather than treating it as a separate clerical activity.

• Use accounting software capable of maintaining accurate tax codes, invoices and reconciliation records.

• Create a monthly GST checklist covering invoices, input credits, outward supplies, payments and reconciliations.

• Monitor the compliance status of major suppliers because supplier-side errors can affect credit and reconciliation.

• Train finance staff whenever significant notifications or procedural changes are introduced.

• Maintain documentation for classifications, exemptions and major tax positions to reduce dispute risk.

18. Policy Recommendations

• Continue simplifying GST procedures for micro and small enterprises without weakening revenue safeguards.

• Improve clarity and consolidation of notifications, circulars and explanatory guidance.

• Provide stronger taxpayer education in regional languages and through sector-specific examples.

• Strengthen digital grievance redressed and communication so taxpayers can resolve technical issues quickly.

• Use data analytics for targeted enforcement rather than unnecessary compliance burdens on low-risk taxpayers.

• Promote interoperability between accounting systems and GST compliance tools to reduce manual reconciliation.

• Review rate structures periodically with attention to simplicity, neutrality and administrative feasibility.

19. Limitations

The study is based on secondary and conceptual analysis and therefore does not estimate causal effects using firm-level survey or panel data. The article intentionally does not present primary questionnaire results. GST rules and rates are subject to continuing amendments; specific statutory provisions should therefore be checked against the latest official notification before practical application.

Business effects also differ by sector, firm size, state, digital capability and supply-chain structure. Future empirical research can address these differences using longitudinal and firm-level data.

20. Future Research

Future studies may examine GST using primary data from manufacturing, retail, services and start-up firms separately. Researchers can test relationships between GST compliance costs and profitability, working capital, productivity and formalization. Panel studies can compare business outcomes before and after major reforms, while state-level studies can examine differences in digital readiness and administrative effectiveness. Another promising area is the use of artificial intelligence and automated accounting for GST compliance.

21. Conclusion

GST has fundamentally reshaped India's indirect taxation environment. By combining a common tax framework, input tax credit and digital reporting, it has the potential to improve tax neutrality, transaction transparency, market integration and formalization. The GST Council's continuing policy work shows that the system is being refined rather than remaining static.

For businesses, GST benefits are strongest when tax compliance is integrated with sound accounting, digital systems and internal controls. The main challenges arise from compliance complexity, regulatory changes, reconciliation and technology dependence. Policymakers should therefore preserve the strengths of GST while reducing avoidable administrative burdens.

Overall, GST should be viewed not merely as a tax collection mechanism but as an important component of India's digital economic infrastructure. A stable, transparent and taxpayer-friendly GST regime can support enterprise competitiveness and contribute to sustainable economic growth.

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