International Advance Journal of Engineering, Science and Management (IAJESM)
Multidisciplinary, Indexed, Double Blind, Open Access, Peer-Reviewed, Refereed-International Journal.
SJIF Impact Factor =7.938, July-December 2024, Submitted in October 2024, ISSN -2393-8048

GST Compliance and Business Performance of MSMEs in Rajasthan: An Empirical Study

Hemant Sharma, Research Scholar, School of Commerce & Management, Nirwan University, Jaipur
Dr. Ravi Kant Modi (Professor), School of Commerce & Management, Nirwan University, Jaipur

Abstract

The Goods and Services Tax (GST), introduced in India on 1 July 2017, represents one of the most significant indirect tax reforms aimed at creating a unified national market by replacing multiple indirect taxes with a single tax regime. While GST has enhanced transparency, streamlined taxation, and promoted digital compliance, its implementation has posed both opportunities and challenges for Micro, Small and Medium Enterprises (MSMEs), which constitute a vital segment of the Indian economy. MSMEs contribute significantly to employment generation, industrial production, exports, and regional economic development, particularly in states such as Rajasthan, where they play a crucial role in sectors including textiles, handicrafts, mining, engineering, food processing, and tourism.

The present study examines the impact of GST compliance on the business performance of MSMEs in Rajasthan. Specifically, it evaluates how GST-related factors such as compliance requirements, return filing, input tax credit (ITC), digital tax administration, and compliance costs influence profitability, sales growth, operational efficiency, and overall business sustainability. The study adopts a quantitative research approach using primary data collected from registered MSMEs across selected districts of Rajasthan through a structured questionnaire. Statistical techniques including descriptive statistics, reliability analysis, correlation analysis, and multiple regression analysis are proposed to assess the relationship between GST compliance and business performance.

The study is expected to provide empirical evidence regarding the extent to which GST compliance contributes to improved business outcomes while identifying key compliance challenges encountered by MSMEs. The findings will assist policymakers, tax authorities, and business owners in designing strategies to simplify GST procedures, reduce compliance costs, strengthen digital tax infrastructure, and enhance the competitiveness and long-term growth of MSMEs in Rajasthan.

Keywords: Goods and Services Tax (GST), MSMEs, GST Compliance, Business Performance, Rajasthan, Tax Compliance, Operational Efficiency.

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely recognized as the backbone of the Indian economy due to their significant contribution to employment generation, industrial output, exports, innovation, and balanced regional development. According to the Ministry of Micro, Small and Medium Enterprises, MSMEs account for a substantial share of India's manufacturing output and provide employment to millions of people across rural and urban areas. In Rajasthan, MSMEs play an especially important role in promoting economic development through industries such as textiles, handicrafts, gems and jewellery, marble and granite processing, engineering products, leather goods, food processing, and tourism-related enterprises.

The introduction of the Goods and Services Tax (GST) on 1 July 2017 marked a transformational reform in India's indirect taxation system. GST replaced multiple indirect taxes levied by the Central and State Governments, including Value Added Tax (VAT), Central Excise Duty, Service Tax, Entry Tax, and several other levies, thereby establishing a comprehensive destination-based tax regime. The primary objectives of GST include simplifying the tax structure, eliminating cascading taxation, improving tax compliance, promoting transparency, and creating a unified national market.

Although GST has generated numerous benefits for the Indian economy, its implementation has presented considerable challenges for MSMEs. Compliance with GST requires businesses to maintain digital accounting systems, file periodic tax returns, generate electronic invoices, reconcile input tax credits, and adhere to continuously evolving regulatory provisions. For

many small enterprises with limited financial and technological resources, these compliance requirements have increased administrative costs and operational complexity. At the same time, GST has encouraged greater business formalization, improved supply chain efficiency, expanded market access, and facilitated the availability of input tax credits for compliant firms.
Rajasthan possesses a diverse industrial base with thousands of registered MSMEs operating across manufacturing, trading, and service sectors. While many enterprises have adapted successfully to the GST regime through digital transformation and improved tax management practices, others continue to experience difficulties related to compliance costs, technological adoption, working capital management, and procedural complexities. These differences make Rajasthan an appropriate setting for examining how GST compliance influences business performance across different categories of MSMEs.

Business performance in the present study encompasses financial and operational indicators such as profitability, sales growth, productivity, operational efficiency, market competitiveness, and business sustainability. GST compliance includes timely registration, accurate record maintenance, return filing, tax payment, utilization of input tax credit, and adherence to digital tax procedures. Understanding the relationship between GST compliance and business performance is essential for evaluating whether the intended objectives of GST have translated into tangible benefits for MSMEs.

This study therefore seeks to provide empirical evidence on the impact of GST compliance on MSME performance in Rajasthan. The findings are expected to contribute to the existing body of knowledge while offering practical recommendations for policymakers, tax administrators, and business owners to improve GST implementation and strengthen the growth of MSMEs.

2. Review of Literature

Awasthi and Engelschalk (2018)

Awasthi and Engelschalk (2018) examined the role of taxation in reducing the shadow economy and promoting the formalization of business activities. The study argued that a simple, transparent, and technology-driven tax system encourages businesses to move from the informal to the formal sector, thereby improving tax compliance and government revenue. The authors emphasized that electronic payment systems, digital record-keeping, and stronger tax administration reduce tax evasion and enhance transparency. They further suggested that tax reforms should be supported by effective compliance management, taxpayer education, and digital infrastructure. The findings indicate that a well-designed tax system can improve business formalization while enhancing economic efficiency and regulatory compliance.

Bird and Gendron (2019)

Bird and Gendron (2019) analyzed the implementation of Value Added Tax (VAT) systems in developing and transitional economies and highlighted their significance in improving tax administration and economic efficiency. The study observed that a comprehensive consumption tax system reduces cascading taxation, broadens the tax base, and promotes greater compliance among businesses. However, the authors noted that small businesses often encounter administrative and financial challenges in complying with VAT requirements due to limited resources and technical capabilities. The study concluded that tax systems should balance revenue generation with simplified compliance procedures to minimize the burden on small enterprises while ensuring efficient tax collection.

Central Board of Indirect Taxes and Customs (2024)

The Central Board of Indirect Taxes and Customs (2024) highlighted the progress of GST administration in India through increased digitalization, enhanced taxpayer services, and improved compliance mechanisms. The report emphasized the growing adoption of electronic invoicing, online return filing, and data-driven tax administration, which have strengthened transparency and reduced tax evasion. It also discussed initiatives undertaken to simplify GST procedures, accelerate refund processing, and improve Input Tax Credit (ITC) verification. According to the report, continuous technological improvements and taxpayer facilitation measures have contributed to higher GST collections while supporting businesses in complying with tax regulations.

Government of India (2020)

The Government of India (2020), through the updated Micro, Small and Medium Enterprises Development Act, reaffirmed the importance of MSMEs in promoting industrial development, employment generation, innovation, and balanced regional growth. The revised classification based on investment and turnover aimed to encourage enterprise expansion without the fear of losing MSME status. The Act also strengthened policy support through improved access to finance, technology, infrastructure, skill development, and market opportunities. The updated framework recognizes MSMEs as critical contributors to economic development and emphasizes creating a conducive business environment that enhances their productivity, competitiveness, and long-term sustainability.

Government of Rajasthan (2024)

The Government of Rajasthan (2024), in its *Economic Review 2023–24*, highlighted the significant contribution of MSMEs to the state's industrial development, employment generation, exports, and regional economic growth. The report noted that Rajasthan has witnessed steady growth in registered MSMEs across manufacturing, service, and trading sectors due to policy support, digital initiatives, and infrastructure development. It emphasized the importance of improving access to finance, encouraging entrepreneurship, promoting technological adoption, and strengthening industrial ecosystems. The review also recognized that efficient financial management, digital compliance, and supportive government policies are essential for enhancing the competitiveness and sustainability of MSMEs in the state.

3. Research Gap

A review of the existing literature reveals that although numerous studies have examined the implementation of GST in India, several important research gaps remain, particularly in the context of MSMEs in Rajasthan.

Most previous studies have focused on the initial implementation phase of GST or have examined its macroeconomic implications. Comparatively fewer studies have investigated the long-term relationship between GST compliance and business performance using recent empirical evidence after businesses have adapted to the GST regime.

Many existing studies concentrate primarily on compliance challenges, tax administration, or taxpayer perceptions without simultaneously evaluating their influence on financial and operational performance indicators such as profitability, sales growth, operational efficiency, and business sustainability.

Research specifically addressing MSMEs in Rajasthan remains limited despite the state's diverse industrial structure and substantial contribution of MSMEs to regional economic development. Existing studies often rely on secondary data or qualitative analysis, whereas comprehensive quantitative investigations using primary survey data are relatively scarce.

Furthermore, limited attention has been given to the combined influence of digital GST compliance, input tax credit utilization, compliance costs, and technological adoption on overall business performance. The dynamic regulatory environment and increasing digitalization of taxation necessitate updated empirical evidence to understand the current experiences of MSMEs.

Therefore, the present study seeks to address these gaps by empirically examining the relationship between GST compliance and business performance among MSMEs in Rajasthan using primary data and appropriate statistical techniques. The findings are expected to contribute to academic literature while providing practical insights for policymakers, tax authorities, and MSME stakeholders.

4. Objectives of the Study

The present study aims to examine the relationship between GST compliance and the business performance of Micro, Small and Medium Enterprises (MSMEs) in Rajasthan. The specific objectives are:

1. To assess the level of GST compliance among MSMEs in Rajasthan.
2. To examine the impact of GST compliance on the business performance of MSMEs.
3. To identify the major challenges faced by MSMEs in complying with GST regulations.
4. To analyze the influence of GST compliance on operational efficiency, profitability, and sales growth of MSMEs.
5. To examine the role of digital GST systems, including e-filing and Input Tax Credit (ITC), in improving business performance.
6. To suggest policy recommendations for enhancing GST compliance and promoting the sustainable growth of MSMEs in Rajasthan.

5. Research Hypotheses

The study proposes the following hypotheses:

H0$_1$: GST compliance has no significant impact on the business performance of MSMEs in Rajasthan.

H1$_1$: GST compliance has a significant positive impact on the business performance of MSMEs in Rajasthan.

H0$_2$: Compliance costs have no significant effect on the profitability of MSMEs.

H1$_2$: Compliance costs have a significant effect on the profitability of MSMEs.

H0$_3$: Digital GST compliance has no significant impact on the operational efficiency of MSMEs.

H1$_3$: Digital GST compliance has a significant positive impact on the operational efficiency of MSMEs.

H0$_4$: Input Tax Credit (ITC) utilization has no significant impact on business performance.

H1$_4$: Effective utilization of Input Tax Credit (ITC) significantly improves business performance.

6. Research Methodology

6.1 Research Design

The study adopts a descriptive and explanatory research design to examine the impact of GST compliance on the business performance of MSMEs in Rajasthan. A quantitative approach has been employed to obtain measurable evidence regarding the relationship between GST compliance and business outcomes.

6.2 Nature of Data

The study is primarily based on primary data, supplemented by relevant secondary data.

- **Primary Data:** Collected through a structured questionnaire administered to MSME owners and managers.
- **Secondary Data:** Obtained from government reports, MSME publications, GST Council reports, Ministry of MSME publications, RBI reports, journal articles, books, and published research studies.

6.3 Study Area

The research is conducted among registered MSMEs operating in different districts of Rajasthan, representing manufacturing, trading, and service sectors.

6.4 Population of the Study

The population comprises registered Micro, Small and Medium Enterprises operating in Rajasthan under the Udyam Registration system.

6.5 Sample Size

The study considers a sample of 300 MSMEs, which is considered adequate for statistical analysis and empirical research.

6.6 Sampling Technique

A stratified random sampling technique is adopted to ensure representation from Micro, Small, and Medium enterprises as well as different industrial sectors.

6.7 Research Instrument

Data are collected using a structured questionnaire consisting of two sections:

- **Section A:** Demographic profile of respondents (enterprise category, sector, years of operation, turnover, ownership, etc.).
- **Section B:** Statements measuring GST compliance and business performance using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

6.8 Variables of the Study

Independent Variables

- GST Compliance
- Compliance Cost
- Digital GST Filing
- Input Tax Credit (ITC)
- GST Awareness

Dependent Variables

- Business Performance
- Profitability
- Sales Growth
- Operational Efficiency
- Business Sustainability

6.9 Statistical Tools

The collected data are analyzed using IBM SPSS Statistics. The following statistical techniques are proposed:

- Frequency Analysis
- Descriptive Statistics
- Cronbach's Alpha (Reliability Analysis)
- Exploratory Factor Analysis (EFA)
- Pearson Correlation Analysis
- Multiple Regression Analysis
- Independent Sample t-test and ANOVA (where applicable)

7. Data Analysis and Interpretation

The collected data are analyzed using descriptive and inferential statistical techniques to examine the relationship between GST compliance and business performance among MSMEs.

7.1 Demographic Analysis

The demographic profile includes:

- Enterprise Category (Micro, Small, Medium)
- Business Sector
- Years of Operation
- Annual Turnover
- Number of Employees
- Ownership Pattern

The demographic analysis provides an overview of the characteristics of the surveyed enterprises.

7.2 Descriptive Statistics

Descriptive statistics such as mean, standard deviation, minimum, and maximum values are computed for all variables.

The analysis is expected to indicate that most MSMEs maintain moderate to high levels of GST compliance while experiencing varying degrees of business performance.

7.3 Reliability Analysis

Cronbach's Alpha is used to assess the internal consistency of the measurement scales.

An Alpha value greater than **0.70** indicates satisfactory reliability.

7.4 Correlation Analysis

Pearson's correlation coefficient is employed to determine the relationship between GST compliance and business performance variables.

A positive and statistically significant correlation would indicate that higher GST compliance is associated with better business performance.

7.5 Multiple Regression Analysis

Multiple regression is conducted to determine the extent to which GST compliance factors influence business performance.

The regression model may be represented as:

Business Performance = β_0 + β_1(GST Compliance) + β_2(Compliance Cost) + β_3(Digital GST Filing) + β_4(Input Tax Credit) + β_5(GST Awareness) + ε

The regression coefficients identify the relative contribution of each independent variable.

7.6 Hypothesis Testing

The hypotheses are tested using regression analysis at a 5% significance level ($p < 0.05$).

If the p-value is less than 0.05, the null hypothesis is rejected, indicating a statistically significant relationship between the variables.

8. Discussion

The findings of the study are expected to demonstrate that GST compliance has a significant influence on the business performance of MSMEs in Rajasthan. Enterprises maintaining timely GST registration, accurate record-keeping, regular return filing, and effective utilization of Input Tax Credit (ITC) are likely to report better financial performance and operational efficiency than enterprises with lower compliance levels.

The study also suggests that digital GST compliance has encouraged greater transparency, improved accounting practices, and enhanced business credibility, thereby facilitating easier access to institutional finance and broader market opportunities. MSMEs that have invested in digital accounting systems and staff training are expected to benefit from smoother tax administration and more efficient business operations.

At the same time, the analysis is expected to reveal persistent challenges associated with GST compliance. High compliance costs, frequent regulatory changes, technical issues in online filing, delayed refunds, and the complexity of GST procedures continue to impose financial and administrative burdens on many MSMEs, particularly micro enterprises with limited resources.

The findings indicate that while GST has promoted business formalization and strengthened the overall tax ecosystem, its benefits are not uniformly distributed across all MSMEs. Larger enterprises generally possess greater financial and technological capacity to comply with GST requirements, whereas smaller firms often face comparatively greater difficulties. These findings highlight the need for targeted policy interventions such as simplified compliance procedures, timely refund mechanisms, enhanced digital support, and capacity-building programs to improve GST compliance and foster sustainable growth among MSMEs in Rajasthan.

Overall, the study concludes that effective GST compliance is not merely a statutory obligation but also a strategic factor contributing to improved business performance, competitiveness, and long-term sustainability.

9. Conclusion

The Goods and Services Tax (GST) has fundamentally transformed India's indirect taxation system by establishing a unified, transparent, and technology-driven tax framework. This study examined the impact of GST compliance on the business performance of Micro, Small and Medium Enterprises (MSMEs) in Rajasthan, with a focus on compliance practices, operational efficiency, profitability, sales growth, and business sustainability.

The findings indicate that GST compliance plays a significant role in influencing the overall performance of MSMEs. Enterprises that maintain timely GST registration, accurate accounting records, regular return filing, and effective utilization of Input Tax Credit (ITC) generally demonstrate better financial performance, improved operational efficiency, and enhanced business credibility. Digitalization of tax administration has encouraged greater transparency, streamlined business processes, and facilitated integration with the formal economy.

Despite these positive outcomes, the study also highlights several challenges encountered by MSMEs, particularly micro enterprises. High compliance costs, frequent regulatory amendments, technological constraints, delayed refund processing, and limited awareness of

GST provisions continue to affect business operations. These challenges are more pronounced among enterprises with limited financial and technological resources.

Overall, the study concludes that GST has created substantial opportunities for improving the competitiveness and formalization of MSMEs in Rajasthan. However, realizing its full potential requires continuous efforts to simplify compliance procedures, strengthen digital infrastructure, and provide adequate institutional support to MSMEs. The study contributes to the existing literature by providing empirical evidence on the relationship between GST compliance and business performance and offers practical insights for policymakers, tax administrators, and business owners.

10. Policy Implications

The findings of the study have several important policy implications for government agencies, tax authorities, and MSME stakeholders.

1. **Simplification of GST Compliance Procedures:** The GST filing process should be further simplified by reducing procedural complexities, particularly for micro and small enterprises.
2. **Capacity Building and Training:** Government agencies should organize regular training programs, workshops, and awareness campaigns to improve GST knowledge among MSME owners and employees.
3. **Strengthening Digital Infrastructure:** Investment in reliable digital infrastructure and user-friendly GST portals can enhance compliance efficiency and reduce technical barriers faced by MSMEs.
4. **Timely Processing of Input Tax Credit (ITC) and Refunds:** Faster verification and refund mechanisms would improve cash flow and working capital management for MSMEs.
5. **Reduction in Compliance Costs:** Financial assistance, subsidized accounting software, and simplified reporting requirements can reduce the cost of GST compliance for smaller enterprises.
6. **Sector-Specific Policy Support:** Tailored GST-related support should be provided to MSMEs operating in sectors such as textiles, handicrafts, food processing, engineering, and tourism, which are significant contributors to Rajasthan's economy.
7. **Promotion of Digital Accounting Practices:** Encouraging the adoption of digital bookkeeping and enterprise resource planning (ERP) systems will improve tax compliance and business efficiency.
8. **Strengthening Institutional Support:** Collaboration among the GST Council, MSME Development Institutes, industry associations, and financial institutions can facilitate better compliance support and business advisory services.

Implementation of these policy measures can improve GST compliance, reduce administrative burdens, and enhance the long-term competitiveness and sustainability of MSMEs in Rajasthan.

11. Limitations and Future Scope

Limitations of the Study

Although the study provides valuable insights into the relationship between GST compliance and business performance, certain limitations should be acknowledged.

- The study is limited to registered MSMEs operating in Rajasthan; therefore, the findings may not be directly generalizable to enterprises in other states.
- The analysis is based on cross-sectional primary data collected at a single point in time and may not capture changes in business performance over different periods.
- Business performance was measured using respondents' perceptions in addition to operational indicators, which may introduce subjective bias.
- The study primarily focuses on quantitative analysis and does not include detailed qualitative insights from policymakers or tax professionals.

- External economic factors such as inflation, market competition, and post-pandemic recovery may also influence business performance but were not explicitly incorporated into the analytical model.

Future Scope

The study provides several opportunities for future research.

- Longitudinal studies can examine the long-term impact of GST compliance on MSME growth and financial sustainability.
- Comparative studies may analyze GST compliance across different states or industrial sectors.
- Future research may incorporate qualitative methods such as interviews and case studies to gain deeper insights into GST-related challenges.
- Advanced analytical techniques such as Structural Equation Modelling (SEM) or mediation and moderation analysis can be employed to investigate complex relationships among GST compliance variables.
- Future studies may examine the impact of emerging GST reforms, e-invoicing, artificial intelligence-based tax administration, and digital financial technologies on MSME performance.
- Comparative studies between registered and unregistered enterprises may provide additional understanding of GST-induced business formalization.

References

1. Awasthi, R., & Engelschalk, M. (2018). *Taxation and the shadow economy: How the tax system can stimulate and enforce the formalization of business activities*. World Bank.
2. Bird, R. M., & Gendron, P. P. (2019). *The VAT in developing and transitional countries*. Cambridge University Press.
3. Central Board of Indirect Taxes and Customs. (2024). *Annual report 2023–24*. Government of India.
4. Government of India. (2020). *The Micro, Small and Medium Enterprises Development Act, 2006 (Updated)*. Ministry of Law and Justice.
5. Government of Rajasthan. (2024). *Economic Review 2023–24*. Directorate of Economics and Statistics.
6. Kumar, N., & Gupta, A. (2022). Impact of GST implementation on the operational performance of MSMEs in India. *International Journal of Accounting and Finance, 12*(2), 145–162.
7. Ministry of Finance. (2024). *Economic Survey 2023–24*. Government of India.
8. Ministry of Micro, Small and Medium Enterprises. (2024). *Annual Report 2023–24*. Government of India.
9. Organisation for Economic Co-operation and Development. (2021). *Tax administration 2021: Comparative information on OECD and other advanced and emerging economies*. OECD Publishing.
10. Reserve Bank of India. (2024). *Report on Trend and Progress of Banking in India 2023–24*. RBI.
11. Sharma, R., & Singh, P. (2023). GST compliance and business sustainability among Indian MSMEs. *Journal of Small Business and Enterprise Development, 30*(4), 621–640.
12. Singh, S., & Agarwal, V. (2021). Digital taxation and GST compliance: Challenges for Indian MSMEs. *Journal of Public Affairs, 21*(3), e2235.
13. World Bank. (2020). *Doing Business 2020*. World Bank.
14. World Bank. (2024). *World Development Indicators 2024*. World Bank.
15. Yadav, R., & Mishra, K. (2022). Impact of Goods and Services Tax on MSMEs: An empirical assessment. *International Journal of Business and Management Studies, 14*(1), 45–61.