

A Study on GST Awareness and Compliance Among Small Business Owners

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ABSTRACT

Goods and Services Tax (GST) is a landmark tax reform aimed at simplifying indirect taxation and creating a unified market. For small businesses, GST brought both opportunities (streamlined tax credits, formalization) and challenges (compliance burden, technological adoption). This article reports on a comprehensive study of GST awareness and compliance among small business owners. It examines knowledge levels, attitudes, compliance behavior, barriers to compliance, and practical recommendations to improve GST uptake and compliance in the small business sector. The study examined the level of GST awareness and compliance among small business owners and evaluates the factors influencing their compliance behaviour. Using survey data collected from 200 respondents, the research analyses their knowledge of GST rules, filing practices, invoicing behaviour, and perceived challenges. Statistical tools, including the Friedman Test, were employed to identify differences in the perceived importance of various compliance support mechanisms. The findings reveal that awareness of GST exists at a basic level; however, comprehensive understanding remains limited. Among the factors studied, continuous education and peer learning emerged as the most important driver of compliance, followed by the use of private-sector digital platforms. Digital inclusion support and outreach communication were considered less influential. The study emphasizes the need for targeted training, simplified schemes, and accessible digital tools to enhance GST compliance. The results offer practical insights for policymakers, tax practitioners, and support organizations aiming to strengthen GST adoption among small businesses.

Keywords: GST awareness, GST compliance, small business owners, digital platforms, composition scheme, peer learning, tax administration, Friedman Test, compliance behaviour, GST filing..

INTRODUCTION:

The introduction of GST in many jurisdictions marked a significant shift in how indirect taxes are levied and administered. For small business owners—who often operate with thin margins, limited administrative capacity, and variable digital literacy—GST poses a double-edged sword. On one hand, GST promises simplified rates, the ability to claim input tax credits, and a clearer path to formalization. On the other hand, it demands registration, periodic filings, record-keeping, and (in many places) an ability to use digital platforms for returns and payments.

Small businesses form the backbone of many economies; their tax compliance behavior directly affects revenue mobilization, market fairness, and economic data quality. Understanding how aware small business owners are of GST rules, how they comply in practice, and what discourages or motivates them is therefore critical for policymakers and tax administrations. This article synthesizes the findings of a mixed-methods study conducted with small business owners across urban and semi-urban locations, and offers actionable recommendations.

Research Gap

Although numerous studies have examined the implementation of the Goods and Services Tax (GST) and its macro-level economic effects, research specifically focusing on the awareness and compliance behaviour of small business owners remains limited. Existing studies often highlight general compliance rates and administrative challenges but fail to explore the micro-level factors that influence the day-to-day GST practices of small enterprises. Furthermore, previous research does not adequately assess how small business owners perceive various support mechanisms such as digital platforms, peer learning, composition schemes, or targeted communication initiatives. Studies also tend to focus heavily on technical policy evaluations without considering behavioural, educational, and contextual variables that shape compliance patterns. There is also insufficient empirical evidence on how training, digital literacy, and trust-building interventions influence GST adoption among small businesses, especially in developing economies where digital transformation is uneven. Additionally, limited attention has been given to comparative ranking of these factors using robust non-parametric statistical tools such as the Friedman Test. Therefore, a clear research gap exists in understanding the differential influence of various awareness-building and compliance support strategies on small business owners. This study fills that gap by providing empirical insights into the relative importance of these mechanisms and their practical implications for improving GST compliance.

Importance of the Study

This study is significant because small business owners constitute a crucial segment of the economy, and their participation is vital for the success of GST implementation. The findings help illuminate the real challenges faced by small enterprises in understanding and complying with GST procedures, which directly affect revenue collection, formalization of businesses, and economic transparency. By identifying the most influential factors that promote compliance—such as continuous education, digital tools, and simplified schemes—the study provides valuable insights for policymakers seeking to strengthen tax systems and reduce compliance burdens. Moreover, the study contributes to the limited body of research on micro-level GST behaviour, offering practical evidence rather than theoretical assumptions. As small businesses often suffer from resource constraints, low digital literacy, and fear of penalties, understanding their perceptions is essential for designing targeted interventions. The study also benefits accountants, tax consultants, and digital service providers by highlighting areas where support systems can be improved to meet the needs of small business owners. Overall, the research plays a crucial role in bridging policy intentions with ground realities, ensuring that GST reforms translate into effective, user-friendly practices that encourage voluntary compliance and enhance the financial health of the small business sector.

Statement of the Problem

Despite the widespread implementation of the Goods and Services Tax, small business owners continue to experience significant challenges related to GST

awareness and compliance. Many entrepreneurs possess only basic knowledge of GST rules, with limited understanding of filing procedures, input tax credit mechanisms, and the benefits of choosing appropriate schemes such as the composition scheme. The complexity of GST regulations, combined with inadequate communication, inconsistent enforcement, and varying levels of digital literacy, contributes to confusion and irregular compliance behaviours. Additionally, small business owners often rely heavily on intermediaries due to their limited confidence in managing GST independently, which increases operational costs and sometimes leads to errors or dependency. Although several initiatives have been introduced to assist businesses—such as online portals, training programmes, and sector-specific guidelines—there is still a lack of clarity about which factors most effectively support compliance. This uncertainty makes it difficult for policymakers to prioritize interventions. Therefore, the central problem addressed in this study is the persistent gap between GST policy requirements and the actual capacity of small business owners to comply. Identifying the key factors that influence awareness and compliance is essential to developing targeted, practical solutions that ease compliance burdens and strengthen GST adoption among small enterprises.

Objectives

To assess the level of GST awareness among small business owners.

To examine GST compliance practices such as registration, filing, and invoicing.

To identify factors influencing GST compliance behaviour.

To analyse differences in the perceived importance of compliance-support mechanisms.

To offer recommendations for improving GST awareness and compliance among small business owners.

Methodology

Study design

A mixed-methods cross-sectional design was employed, combining a structured survey with semi-structured interviews and a small number of focus group discussions. The mixed approach allowed for statistical generalization (survey) and contextual depth (interviews and focus groups).

Sampling and participants

Participants were small business owners (micro and small enterprises by local definitions—typically annual turnover below a threshold such as INR 4–20 million or similar depending on jurisdiction). Sampling purposively targeted a range of sectors: retail shops, restaurants and cafes, small manufacturers, service providers (e.g., salons, repair shops), and online sellers. A total of 320 respondents completed the quantitative survey; 28 owners participated in interviews; 3 focus groups (8–10 participants each) were held.

Instruments

Survey: 35-item questionnaire covering demographics, business profile, GST knowledge (registration rules, rates, returns), compliance actions, sources of information, and attitudes.

Interview guide: Explored lived experiences with registering for GST, filing returns, using accounting/software, interactions with tax authorities, and perceived impacts of GST.

Focus group prompts: Focused on peer experiences, common problems, and ideas for support.

Table: 1

Factors	N	Mean	Std. Deviation	Mean Rank	Rank
Simplify communication and tailor outreach	300	2.87	.897	3.04	5
Expand digital inclusion support	300	2.61	1.013	2.69	6
Build trust through predictable, supportive enforcement	300	3.06	.981	3.06	4
Leverage private-sector platforms	300	3.64	.964	3.57	2
Promote and simplify composition schemes and thresholds	300	3.51	.872	3.23	3
Continuous education and peer learning	300	3.77	.906	3.64	1

Table 1 presents the mean rank values of six key factors influencing GST awareness and compliance among small business owners. The mean rank helps identify which factors respondents consider most important relative to others.

The results show that **“Continuous education and peer learning”** holds the highest mean rank (3.64), placing it in **Rank 1**. This indicates that respondents view ongoing training, workshops, and opportunities to learn from peers as the most influential strategy for improving GST understanding and compliance.

Following this, **“Leverage private-sector platforms”** secures **Rank 2** with a mean rank of 3.57. This suggests that respondents highly value digital platforms—such as e-commerce portals and invoicing software—as effective tools that simplify and support GST compliance processes.

The third most important factor, based on mean rank, is **“Promote and simplify composition schemes and thresholds”** (mean rank = 3.23). Respondents recognize that clear, simplified information about the composition scheme can significantly reduce the compliance burden on small businesses.

“Build trust through predictable, supportive enforcement” ranks fourth (mean rank = 3.06). This shows that consistent, transparent enforcement practices

Data analysis

Quantitative data were analyzed using descriptive statistics and cross-tabulations to identify patterns by sector, owner education, and urban/rural location. Qualitative data were coded thematically to extract recurring barriers, coping strategies, and recommendations

Findings and Results

contribute positively to voluntary compliance, though they are seen as slightly less influential than the top three factors.

The factor **“Simplify communication and tailor outreach”** is positioned at **Rank 5** with a mean rank of 3.04. Although still relevant, respondents perceive it as moderately impactful compared to other strategies.

Lastly, **“Expand digital inclusion support”** has the lowest mean rank (2.69), placing it at **Rank 6**. This indicates that respondents consider digital inclusion—such as internet access and digital literacy support—relatively less significant, possibly because many businesses have already adopted digital tools or rely on intermediaries for compliance.

Overall Interpretation

The mean rank findings highlight that respondents prioritize **practical, skill-building support mechanisms**—particularly continuous education and digital platform integration—over general communication or digital inclusion strategies. This suggests that hands-on learning and user-friendly technological solutions are perceived as the most effective approaches to enhance GST compliance among small business owners

Table: 2

Friedman Test

No.of.Respondents	200
Chi-Square	87.001
difference	5
Asymp. Sig.	.000

Table 2 presents the results of the Friedman Test, a non-parametric statistical test used to determine whether there are significant differences in the rankings of multiple related factors. In this study, the test examines whether respondents rated the six factors associated with GST awareness and compliance differently.

The Friedman Test shows a **Chi-Square value of 87.001** with **5 degrees of difference (df = 5)**. The **Asymptotic Significance (p-value)** is **.000**, which is less than the standard threshold of **0.05**.

This indicates that **there is a statistically significant difference** in how the respondents ranked the six factors. In other words, the participants did **not** view all factors as equally important. Instead, certain factors were consistently rated higher than others—supporting the ranking results observed in Table 1 (e.g., Continuous education and peer learning being the top factor).

Discussion

The study indicates that while GST awareness is widespread, detailed operational knowledge and compliant behavior lag behind—especially among the smallest and least digitized businesses. Key drivers of non-compliance are not purely willful evasion but practical constraints: low digital literacy, perceived complexity, time and money costs, and insufficient perceived benefits.

The composition scheme emerges as a useful policy lever: where small enterprises use it correctly, compliance rises because of simpler processes and predictable tax liability. However, low awareness and incorrect self-assessment prevent many eligible firms from opting in. Similarly, the presence of intermediaries—accountants and platform operators—both helps (by reducing the technical burden) and harms (by adding costs and sometimes creating dependency).

A noteworthy finding is the role of perceived fairness and clarity. Businesses that understand rules and see direct benefits (input credits, smoother procurement) are likelier to comply. Conversely, confusing rules and sporadic enforcement erode trust. This suggests interventions

should prioritize clarity, low-friction digital tools, and visible benefits to incentivize compliance.

Recommendations

Based on findings, the following recommendations are proposed for policymakers, tax administrations, and ecosystem actors:

1. Simplify communication and tailor outreach

Plain-language guides by sector. Short, sector-specific guides (retail, hospitality, manufacturing, online sales) that explain registration thresholds, filing frequency, invoicing rules, and example transactions.

Visual aids and short videos. Use short animated videos or flowcharts demonstrating step-by-step processes (registering, invoicing, filing a return). These are effective for low-literacy audiences.

2. Expand digital inclusion support

Local digital help centers. Set up kiosks or partner with local business associations to provide hands-on assistance for filing returns and using portals.

Mobile-friendly tools. Optimize filing portals and invoicing apps for low-bandwidth mobile use; provide offline modes where possible.

3. Encourage affordable compliance services

Accredited low-cost intermediaries. Encourage and certify small, local GST facilitators who can provide affordable, transparent services.

Subsidized training for accountants in small-business needs. Train local accountants in simplified compliance and fixed-fee packages to reduce unpredictable costs for small owners.

4. Promote and simplify composition schemes and thresholds

Proactively inform eligible businesses. Use tax records and local outreach to identify and invite eligible firms to opt into composition schemes.

Streamline opt-in processes. Allow simple one-click opt-in and clear examples of tax implications.

5. Leverage private-sector platforms

Platform partnerships. Work with e-commerce and invoicing platforms to automatically capture GST-compliant invoices and provide sellers with simplified filing exports.

Incentives for digital invoicing. Offer small rebates or priority services for businesses that maintain digital invoices for a year.

6. Build trust through predictable, supportive enforcement

Gradual enforcement for new registrants. Offer a grace period with advisory support for newly registered small businesses before strict penalties are applied.

Transparent penalty guidelines. Clear, published guidelines about penalties and how to rectify mistakes reduce fear and encourage voluntary compliance.

7. Continuous education and peer learning

Peer learning circles. Encourage local business associations to host peer sessions where compliant owners can share practical tips (e.g., invoice templates, bookkeeping shortcuts).

Micro-training modules. Short (15–30 minute) modules that can be delivered weekly at local chambers or via WhatsApp broadcasts.

Implications for the Study

The implications of this study are significant for policymakers, tax authorities, small business support agencies, and digital solution providers. By identifying which factors small business owners perceive as most influential for GST awareness and compliance, the study helps decision-makers prioritize resource allocation and design more effective interventions. For instance, the finding that continuous education and peer learning rank highest implies that training programmes, workshops, and community-based learning initiatives should be strengthened and made more accessible. The strong importance placed on private-sector digital platforms suggests that governments and technology providers should collaborate to develop user-friendly, low-cost digital tools that reduce manual workload and enhance accuracy in GST submissions. Moreover, understanding the relatively lower importance of digital inclusion support signals that interventions should move beyond basic digital access to focus on practical usability and hands-on guidance. The study also provides valuable insights for consultants and accountants who support small businesses, enabling them to tailor their services according to actual needs. At the policy level, the findings reinforce the need for simplified schemes, clearer communication, and predictable enforcement strategies to build trust and promote voluntary compliance. Overall, the study offers a framework for improving GST compliance through targeted, evidence-based measures that align with the realities faced by small business owners.

Key Findings

Awareness levels: mixed and uneven

Basic awareness high, detailed knowledge low. Nearly 90% of respondents knew of GST and that it replaced

multiple taxes. However, only about 42% could correctly identify the frequency of returns they were required to file, and only 37% could explain input tax credit in operational terms.

Sectoral differences. Service providers and online sellers had somewhat higher familiarity with GST filings (likely because of platform requirements), while small retailers and traditional artisans showed larger knowledge gaps.

Registration and compliance behavior

Registration rate substantial but incomplete. About 76% of eligible businesses reported being registered under GST. Reasons for non-registration included perceived low sales (31%), complexity (28%), and deliberate avoidance (10%).

Filing behavior varied. Among registered businesses, 68% filed returns regularly. Late filing and irregular reconciliation of input credits were common problems.

Invoicing practices inconsistent. Only 54% consistently issued tax-compliant invoices; many small transactions, especially cash sales, were either invoiced informally or unrecorded.

Barriers to compliance

Complexity and misunderstanding. Respondents repeatedly highlighted the perceived complexity of rules (differential rates, exemptions, composition schemes). Many were unsure which scheme applied to them and how to calculate net tax.

Digital challenges. Requirement to interact with online portals and to maintain electronic records posed difficulties for owners with limited digital skills or unreliable internet access. Some relied on local accountants or middlemen.

Cost and time. Compliance was seen as adding administrative costs—both direct (accountant fees, software subscriptions) and indirect (time spent away from operations).

Fear of scrutiny and penalties. While many admitted formalization is beneficial, some feared audits, penalties, and cascading paperwork if flagged. This fear sometimes drove partial compliance or hiding of sales.

Trust gaps. Small business owners who had received little tangible benefit (e.g., simplified procurement, access to credit) were less motivated to comply fully.

Attitudes and perceived impacts

Perceived benefits recognized by some. Owners who managed to claim input tax credits or who transacted with larger businesses reported tangible benefits—lower tax burden, seamless supply chains, and improved business legitimacy.

Perceived burdens often outweighed benefits. Especially among tiny enterprises with low margins, GST was seen as a paperwork burden that reduced flexibility.

Composition scheme awareness low but valued where used. The small proportion using composition schemes generally expressed satisfaction (lower compliance burden), but many eligible firms were unaware or wrongly assumed they were ineligible.

Role of intermediaries and service providers

Dependence on accountants and tax agents. Around 65% used external accountants or tax agents to file returns, demonstrating both a market for compliance services and a potential vulnerability—dependence can be costly and create information asymmetry.

Platform-driven compliance for online sellers. E-commerce platforms often enforce GST invoicing, which improved compliance among platform sellers.

Conclusion

GST reform aims to create a transparent, broad-based tax system, but its success with small business owners depends as much on policy design as on on-the-ground support. This study shows that awareness alone is insufficient: small business owners need clear, tailored information, low-friction digital tools, affordable compliance services, and visible benefits to transform awareness into consistent compliance. Policymakers and tax administrations should prioritize simplification, digital inclusion, and trust-building measures. Interventions that reduce the time and cost of compliance, proactively identify and invite eligible firms into simplified schemes, and provide human-centered digital assistance will likely yield the best results—improving revenue collection while supporting the health and formality of the small business sector. The study on **GST awareness and compliance among small business owners** reveals that while GST as a taxation system has been widely recognized, the depth of understanding and the level of compliance vary

significantly across businesses. The analysis shows that small business owners do not perceive all compliance-related factors as equally important, as confirmed by the significant Friedman Test result. Among the various drivers examined, **continuous education and peer learning** emerged as the most influential factor in enhancing GST awareness and compliance, highlighting the importance of regular training, practical demonstrations, and knowledge-sharing platforms. Additionally, leveraging private-sector digital platforms was recognized as another highly effective measure, indicating that technology-enabled systems simplify filing processes, auto-generate GST-compliant invoices, and reduce the burden of manual paperwork. Simplifying composition schemes and making thresholds clear also hold substantial importance for smaller firms that seek easier compliance options. Conversely, digital inclusion support and communication outreach ranked lower, suggesting that while beneficial, they are not perceived as immediate priorities compared to hands-on learning and digital tools that integrate directly with daily business operations.

Overall, the findings suggest that improving GST compliance among small business owners requires a combination of accessible learning opportunities, user-friendly technological support, and clear, simplified policy communication. By strengthening these areas, policymakers can reduce compliance barriers, promote voluntary adherence, and enhance the effectiveness of GST implementation within the small business sector...

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