



Navigating GST Compliance: Unveiling the Experience of Nano-Entrepreneurs in Maharashtra

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Research Report

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Report by
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PREFACE

The Goods and Services Tax (GST), hailed as one of India's most significant tax reforms, has aimed to bring uniformity, transparency and efficiency to the country's indirect tax system. While its benefits for medium and large enterprises have been widely acknowledged, the real test of its inclusivity lies in how it affects the smallest players in the economy - nano enterprises.

Nano enterprises, often operating at the edge of informality, are technically exempt from mandatory GST registration unless they cross a specified turnover threshold. However, market realities often compel them to register voluntarily. GST - registered buyers prefer sourcing from compliant vendors, forcing nano businesses to enter the formal tax regime for survival and growth-even when it brings with it a heavy compliance burden.

This study delves into the lived experiences of nano entrepreneurs as they navigate the complexities of GST compliance. Through a combination of quantitative data and qualitative insights, the study explores the key challenges these enterprises face- ranging from high compliance costs, procedural inefficiencies and digital filing burdens to deeper issues like policy opacity and limited awareness.

By highlighting both the perceived benefits of GST- such as increased market access, credibility, and formalization - and the real-world struggles of compliance, this study aims to present a balanced narrative. The findings are not just academic; they serve as a resource for nano entrepreneurs seeking clarity, for policymakers aiming to simplify regulations and for tax authorities working to improve systemic effectiveness and trust.

At its core, this work is a step toward ensuring that economic reforms like GST do not merely include the smallest businesses in form but also empower them in function.

ACKNOWLEDGEMENT

We express our deepest gratitude to all who contributed to the successful completion of this study, ‘Navigating GST Challenges – Unveiling the Experiences of Nano Enterprises in Maharashtra.’

We extend heartfelt thanks to the nano business owners across Maharashtra who generously shared their experiences and insights, forming the backbone of this research.

We are deeply grateful to the Chartered Accountants of the Institute of Chartered Accountants of India (ICAI), Western Region, for providing critical perspectives that enriched our findings.

Special thanks are due to the office bearers and the collaboration assistance from local business associations and chambers, trade bodies and local networks like Marathwada Association of Small Scale Industries and Agriculture (MASSIA), Tiny Industries Association and Pooja Engineering at Chhatrapati Sambhaji Nagar, Maharashtra Business Club Dadar (MBC), Chamber for Advancement of Small and Medium Business (CASMB), Dalit Indian Chamber of Commerce and Industry (DICCI) and Bombay Industries Association (BIA) at Mumbai and Association of Business Leaders and Entrepreneurs (ABLE) at Navi Mumbai, for their facilitation of the Focus Group Discussions, which were instrumental in engaging business owners and gathering meaningful insights.

We convey our profound gratitude to the management of Chetana Trust for the constant support. A special mention of Shri Shirish Chaudhari, Secretary, Chetana Trust for his continuous encouragement.

We express our special thanks and appreciation to the deAsra Management and the team, especially Dr. Kiran Limaye, Ms Shalmali Akhade, Ms Pradnya Godbole and Ms. Bhushana Karandikar for their unwavering support and encouragement throughout this research endeavour.

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EXECUTIVE SUMMARY

This report examines the experiences of nano enterprises in Maharashtra under India's Goods and Services Tax (GST) regime, highlighting both the perceived benefits and the compliance challenges. Nano enterprises are extremely small businesses (typically <₹1 crore annual turnover and few employees) that drive grassroots economic activity. While GST was introduced as a transformative tax reform to unify and simplify indirect taxes, its impact on the smallest businesses has been mixed. Many nano enterprises are legally below GST turnover thresholds and exempt from mandatory registration, yet market pressures often compel them to register voluntarily – GST-registered clients prefer dealing with compliant vendors, effectively forcing nano businesses into the tax net for survival. This study's objective was to understand how these nano entrepreneurs navigate GST compliance: what motivates them to register, what hurdles they face in registration and filing, and what benefits (if any) they realize from formalization.

The research adopted an exploratory mixed-methods design, combining qualitative and quantitative approaches. 13 focus group discussions (FGDs) across Maharashtra (Mumbai, Pune, Navi Mumbai, Chhatrapati Sambhaji Nagar, including online sessions) was conducted with a total of 62 nano entrepreneurs to capture their perspectives. 30 in-depth interviews with Chartered Accountants (CAs) provided expert insights into compliance issues faced by nano clients. These qualitative insights formed the design of a structured survey of GST-registered nano enterprises. The survey, administered in early 2025, yielded 309 valid responses (out of 400 approached), covering diverse sectors and locations. Quantitative data were analyzed statistically, while qualitative data were coded using grounded theory to extract key themes.

Despite their small scale, nano enterprises reported significant compliance burdens under GST. Complex multi-tier tax rates, hefty late fee penalties and frequent rule changes creating pricing uncertainties were some of the key challenges identified. Many entrepreneurs lack in-house capacity for GST compliance. Business owners described rigid and opaque GST procedures (e.g. no provision to amend mistakes in returns, unpredictable document requirements for registration) and instances of having to deal with bureaucratic delays or even bribe-seeking officials, leading to frustration and a trust deficit in the tax administration.

On the positive side, GST registration does confer tangible benefits for many nano enterprises. Majority of respondents agreed that they benefited overall from GST compliance. The greatest benefit

comes from enhanced market access and credibility, registration enabled them to bid for government or corporate tenders that would otherwise be out of reach. Entrepreneurs also noted improved trust from B2B clients and even banks: GST registration signals reliability and “formal” status, serving as a business KYC that improves their reputation and access to credit. Some businesses observed better financial discipline and record-keeping after joining GST, such as more timely invoicing and an improved understanding of accounts. Input Tax Credit (ITC) is another advantage – eligible firms can offset input taxes, which lowered operational costs especially for those with significant purchases or capital investments. These benefits, however, accrued more to certain segments: businesses with slightly larger turnover (₹81–99 lakh) and those operating in both B2B and B2C markets (“hybrid” firms) reported the highest perceived benefits, likely due to greater exposure to formal contracts and input credits. In contrast, very small firms and purely B2C or B2B firms saw comparatively fewer benefits from GST formalization.

The findings suggest that while GST has begun to integrate nano enterprises into the formal economy, the compliance burden is disproportionately heavy on smaller firms, threatening to undermine the very goal of inclusive growth. Many nano entrepreneurs feel GST’s costs (complex procedures, working capital strain, compliance fees) often outweigh its benefits, especially for those barely above the exemption threshold. Policymakers should note that market-driven formalization is happening – even tiny firms are registering to satisfy supply-chain demands – but policy and procedures have not fully adapted to their scale and capabilities. There is a clear need for simplified compliance processes, better handholding, and perhaps differential treatment for nano enterprises to ensure that the GST system empowers rather than stifles them. This report provides detailed recommendations co-developed with nano entrepreneurs, industry associations, and CAs. Key recommendations include shifting to cash-based GST for micro units (to tax actual receipts), easing return filing frequency, raising threshold limits, rationalizing GST tax rates, and enforcing stricter payment discipline on large buyers to protect small suppliers, among other measures.

As we submit the final report, the Government of India has introduced GST reforms effective September 2025. The major changes include rationalization of the GST tax structure. One of the major reforms include ease of registration – enterprises applying for GST will receive their GST registration number within 7 working days of application, subject to document compliances.

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1 Introduction

1.1 Background of the study

The Goods and Services Tax (GST), launched in 2017, is one of India's most significant tax reforms, subsuming multiple indirect taxes (VAT, service tax, etc.) into a unified nationwide tax. GST was envisioned to bring uniformity, transparency, and efficiency to the tax system, and it has indeed streamlined taxation for many medium and large businesses. However, the impact of GST on micro and nano enterprises – the smallest business units often operating at the edge of informality – is a critical barometer of the reform's inclusivity. Nano enterprises typically refer to tiny businesses (often sole proprietorships) with very low turnover (e.g. under ₹1 crore) and minimal employees. They include local traders, small manufacturers or service providers who form the backbone of the unorganized sector. By law, such nano enterprises are generally exempt from GST registration unless their annual sales exceed a threshold (commonly ₹20 lakh for services, ₹40 lakh for goods). Additionally, a Composition Scheme exists allowing small firms with turnover up to ₹1.5 crore to pay a flat low tax with minimal filing – though this comes with restrictions (e.g. no inter-state sales, no input credit). In theory, these provisions protect very small businesses from compliance burdens.

In practice, market realities often push nano enterprises into the GST system regardless of their size. Larger GST-registered buyers prefer to deal with suppliers who can provide GST invoices (so that they can claim input tax credits). As a result, many nano entrepreneurs voluntarily register under GST to remain competitive and access wider markets. For example, a tiny manufacturer under the threshold may still get a GST number because without it, they lose out on contracts from GST-compliant companies or government agencies. This dynamic has effectively expanded the tax net to include even those enterprises not legally obligated to register. While formalization can bring benefits such as improved market access and credibility, it also exposes nano firms to GST's complex compliance requirements, which were primarily designed with larger businesses in mind. High-frequency return filing, digital invoice uploading, complex multi-rate classifications, and strict penalty regimes can be overwhelming for an owner with perhaps one or two staff and limited technology or accounting know-how.

The period of the study is January to April 2025. The Government of India has since proposed GST reforms effective September 22, 2025. However, the findings of the study remain relevant since the reforms have addressed only the tax rates and not, other aspects, at least not to a great extent.

1.2 Significance of the study

Given the above, it is crucial to investigate how nano entrepreneurs experience GST compliance – do they find value in it, what struggles do they face, and what support or reforms could help them? These smallest businesses contribute significantly to employment and local economies, so their inclusion in GST must be meaningful (not just nominal). Early anecdotal evidence suggested that many micro firms feel burdened by GST procedures and costs, raising concerns that some might revert to informality or curb their growth to avoid crossing tax thresholds. Policymakers need empirical insights into these issues to ensure GST does not inadvertently discourage entrepreneurship at the bottom of the pyramid. This study in Maharashtra – a state with a large number of MSMEs – focuses on nano enterprises operating under GST. It profiles their characteristics, records their perceived benefits from being GST-registered (such as access to new customers or easier access to credit), and critically examines the challenges and pain points in GST registration, filing, and compliance. By highlighting these lived experiences, the report aims to inform policy adjustments that can simplify GST compliance for nano enterprises and enhance their business viability in the formal economy.

1.3 Scope of the study

The scope of this study is deliberately focused on nano enterprises – generally those with under ₹1 crore turnover and fewer than 5–10 employees (many are one-person or family-run units). This category overlaps with the lower end of the “micro enterprise” definition in MSME terms, but we use the term “nano” to emphasize their particularly small scale. The study spans multiple sectors (trading, services, small manufacturing) in Maharashtra, capturing a broad view of GST’s ground-level impact. While the findings are state-specific, many insights likely resonate with the national scenario of micro enterprises under GST.

In the sections that follow, we first review relevant literature – notably studies from Tamil Nadu, another industrial state, for comparative insights on GST compliance among small businesses. We then detail the study’s methodology, present the data analysis and key findings, and discuss their implications. Finally, we offer policy recommendations coalesced from the evidence, targeting regulatory and procedural reforms to ease GST compliance for nano enterprises. The goal is to enable policymakers to fine-tune GST administration so that it fosters inclusion and growth for the smallest entrepreneurs, rather than posing an undue burden.

2 Previous studies on GST: Comparative Insights from Tamil Nadu

Although research on GST's impact is still emerging, especially for nano enterprises, a few studies – particularly from the state of Tamil Nadu – provide useful comparative insights. These studies highlight common patterns of compliance burden and adaptive challenges faced by small businesses under GST, reinforcing the context for the Maharashtra study findings.

A notable work is a Madras School of Economics (MSE) study (Vishnuhadevi & Bindu, 2022) that examined GST compliance costs for small businesses in Tamil Nadu. This study revealed an extremely regressive pattern in GST compliance costs – the smaller the firm, the larger the share of its turnover consumed by compliance expenses. For instance, tiny firms (\leq ₹40 lakh turnover) spent, on average, a much higher proportion of their revenue on GST-related costs (filings, professional fees, software, etc.) compared to larger SMEs; The researchers found even businesses technically below the GST threshold often felt compelled to register to do business with GST-compliant clients, confirming that many micro firms were effectively “forced” into GST registration to maintain B2B relationships. The fallout is that these micro enterprises bear disproportionate compliance burdens despite their limited resources. The MSE study estimated that, overall, 65% of aggregate GST compliance costs in Tamil Nadu were incurred by businesses with turnover $<$ ₹40 lakh, and 90% by those $<$ ₹5 crore, whereas large companies ($>$ ₹500 crore) accounted for a mere ~1.6% of total compliance costs. This stark imbalance underscores how GST compliance can weigh heaviest on the smallest players – a key consideration for policy.

Another recent study by Nagoor (2025) focusing on Tamil Nadu's small businesses echoed similar themes. The study noted that first-time tax filers among small businesses were often overwhelmed by the elaborate digital record-keeping and return filing requirements, similar to observations in other regions. Essentially, Nagoor's findings reinforce the idea that GST's one-size-fits-all approach can inadvertently strain small enterprises, and mitigating measures are needed to ensure these businesses can comply without excessive hardship.

The broader narrative from Tamil Nadu studies indicates that micro and small enterprises share many of the challenges observed in Maharashtra. They are often caught between the necessity to formalize (to access markets) and the difficulties of compliance. It is common to find delayed input tax credits,

cash flow issues due to tax payment timing, and technology hurdles among the top pain points. One analysis noted that the digitalization of tax compliance (e-filing, online portals) under GST, while reducing human interface, also posed a capability challenge for small units not accustomed to such systems. Many have had to hire accountants or consultants, just as in Maharashtra, incurring additional costs even as their revenues remain modest.

In summary, the literature – particularly Tamil Nadu’s experience – suggests that GST’s impact on nano enterprises is ambivalent. On one hand, it encourages formal business practices and can open new opportunities (e.g., access to larger supply chains). On the other, it introduces compliance complexities and costs that small firms struggle with. These studies strengthen the rationale for our Maharashtra-focused research and provide comparative benchmarks. The issues of regressive compliance cost burden, the necessity of voluntary registration, and the need for supportive policies appear to be cross-cutting. This report’s findings will build on these insights, emphasizing policy recommendations that address the specific hurdles identified, while amplifying the benefits of GST for nano enterprises in a sustainable way.

3 Methodology

The study adopted an exploratory mixed-methods approach, integrating both qualitative and quantitative methods to understand how nano entrepreneurs navigate GST compliance, their motivation to register to GST, challenges and benefits of GST. The following table outlines the detailed methodology:

Table 3.1 Methodology

Component	Description
Research Design	The qualitative phase (focus group discussions and interviews) informed the design of the quantitative survey, allowing integration of insights for comprehensive understanding.
Study Period and Location	The study was conducted across major business hubs of Maharashtra—including Mumbai, Pune, Navi Mumbai, Aurangabad, and Nagpur—from late 2024 to mid-2025.
Qualitative Phase – Focus Group Discussions (FGDs)	A total of 13 FGDs were held with nano entrepreneurs representing manufacturing, trading, and service sectors. Sessions were distributed across Mumbai (5), Pune (1), Navi Mumbai (1), Aurangabad (3), and online (3).
Qualitative Phase – Chartered Accountant (CA) Interviews	30 semi-structured interviews were conducted with practicing CAs, primarily based in Mumbai, who assist nano and micro enterprises in GST compliance. Interviews explored compliance challenges, filing practices, costs, and policy recommendations.
Quantitative Phase – Survey of Nano Enterprises	Insights from the qualitative phase guided the development of a structured survey. The questionnaire included sections on enterprise profile, GST registration details, perceived benefits, challenges, and overall experience. The survey was administered between February and April 2025, through both online forms and paper-based formats via local business associations.
Sampling and Response	The survey reached 400 nano entrepreneurs through association networks and referrals, yielding 309 valid responses (77% response rate). Respondents represented diverse sectors and geographic locations, with approximately 25% women-owned enterprises.

Component	Description
Data Analysis Quantitative	– Quantitative data were analyzed using SPSS, employing descriptive statistics (frequencies, means, percentages) and cross-tabulations across variables such as business type & turnover category.
Data Analysis Qualitative	– Qualitative data (FGD and interview transcripts) were analyzed using thematic analysis grounded in open and axial coding. Codes were clustered into broader categories to identify major themes.
Integration of Findings	Findings from both phases were integrated to build a comprehensive, triangulated understanding of the GST compliance ecosystem faced by nano entrepreneurs.
Ethical Considerations	All participants provided informed consent. Confidentiality and anonymity were maintained, and multilingual facilitation ensured participants' comfort and openness during discussions.

By triangulating the quantitative results with qualitative insights, a rich understanding of the situation was developed. The quantitative findings offer breadth and the qualitative findings offer depth, with both complementing each other in this report.

4 Data Analysis and Findings

The surveyed nano enterprises in Maharashtra span a variety of demographics and business types, which helps contextualize their GST experiences.

4.1 Profile of Business Owners (Survey)

Table 4.1 Profile of Business Owners

Variable	Category	% of Respondents
Age Group	Under 34 years	24%
	35–44 years	57%
	Above 45 years	19%
Gender	Male	93%
	Female	7%
Education Level	Undergraduate/Postgraduate	62%
	SSC / HSC / IIT	38%
Formal GST/Tax Training	Received training	13%
	No formal training	87%

4.2 Business Profile of Nano Entrepreneurs

Table 4.2 Business Profile of Nano Entrepreneurs

Variable	Category	% of Respondents
Business Type	Business-to-Consumer (B2C)	50%
	Business-to-Business (B2B)	28%
	Hybrid (B2B & B2C)	22%
Sector	Services	42%
	Trading	23%
	Manufacturing	14%
	Restaurants	3%
	Others (Consultants/Freelancers)	18%
Establishment Age	< 5 years	26%
	6–10 years	27%
	11–15 years	18%

Variable	Category	% of Respondents
	> 15 years	29%
GST Transition	Migrated from VAT regime to GST	40%

4.3 Structure, Scale and GST Registration Profile of Nano Enterprises

Table 4.3 Structure, Scale and GST Registration Profile of Nano Enterprises

Variable	Category	% of Respondents
Ownership Structure	Sole Proprietorship	73.5%
	Partnership	10.7%
	LLP	1.6%
	Pvt Ltd Co	10%
	One Person Company	4.2%
Employment Size	≤ 5 employees (including owner)	65%
	6 to 10 employees	22.3%
	11 to 15 employees	6.8%
	Over 15 employees	5.8%
Annual Turnover	Upto ₹20 lakh	29.8%
	₹21 – ₹40 Lakh	19.1%
	₹41 – ₹60 Lakh	15.2%
	₹61 – ₹80 Lakh	14.9%
	₹81 – ₹99 Lakh	12.60%
	Over ₹1 crore	8.4%
Primary Reason for GST Registration	Enhancing business credibility	43.8%
	Meeting client requirements	37.5%
	Crossing turnover threshold	32.8%

The table above indicates put most respondents at or below the GST threshold (₹40 lakh for goods businesses) All surveyed firms *were* GST-registered – emphasizing that many registered voluntarily despite being under threshold, or were compelled by circumstances or rules.

4.4 GST Compliance Profile of Nano Enterprises

Table 4.4 GST Compliance Profile of Nano Enterprises

Variable		Category	% of Respondents
Return Frequency	Filing	Quarterly filing (including QRMP scheme)	60.5%
		Monthly filing	39.50%
Predominant Rate Slabs (Sales)*	GST	Upto 5% Slab	48.20%
		12% Slab	25.20%
		18% Slab (manufacturers)	24.60%
		28% Slab	1.90%
Invoice Volume per Month	per	Fewer than 50 invoices	73%
		More than 50 invoices	27% (approx.)
Mode of Filing Returns	Filing	CA or GST Consultant	84%
		Self	16%

* These rates were prevalent at the time of the survey (January to April 2025)

Almost all respondents opted for the Regular GST scheme rather than Composite Scheme, because many were engaged in inter-state supplies or needed input tax credit – composition scheme (with lower tax and simple returns) was seldom used except by a handful of very local traders. In summary, the profile shows that the respondents are small, lean enterprises, often voluntarily in the GST net due to business pressures rather than size alone. They are largely owner-operated, spread across sectors, with moderate educational background but little formal tax training.

4.5 Chartered Accountant (CA) Profile and Engagement with Nano Enterprises

Table 4.5 Chartered Accountant (CA) Profile and Engagement with Nano Enterprises

Variable		Category	% of Respondents
Number of Nano Enterprises Handled		More than 30 nano clients	32%
		10–30 nano clients	46%
		Fewer than 10 nano clients	22%
Sectoral Distribution of Nano Clients		Retail/Trading and Services	Majority
		Manufacturing	Fewer clients
Experience in Practice		More than 10 years (Pre- and Post-GST Era)	57%

The demand for professional services from small businesses has increased, as many who never needed an accountant for VAT (due to being unregistered) now need one for GST. This highlights an implicit compliance cost of GST for nano firms: outsourcing tax compliance.

5 GST Compliance Challenges for Nano Enterprises

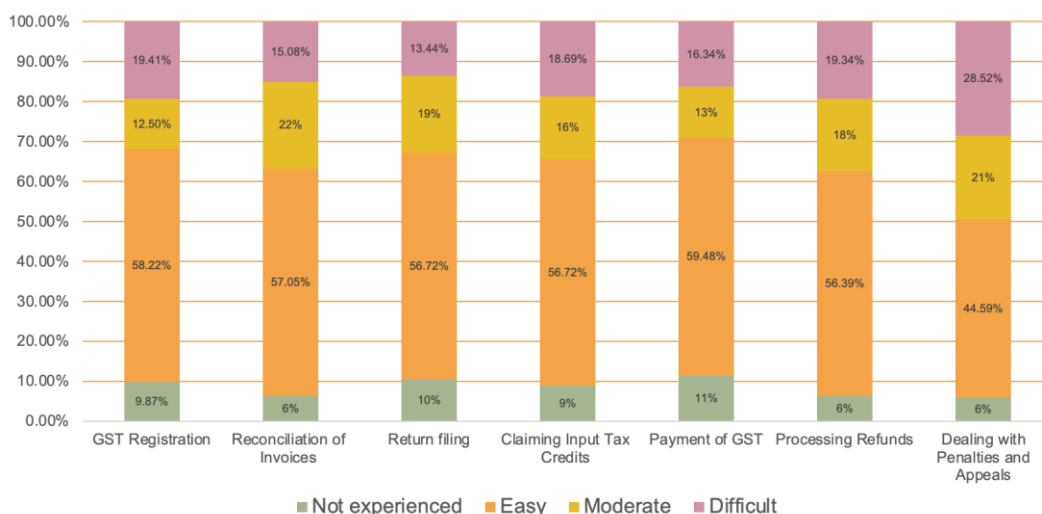
Despite entering the GST system with hopes of growth and formalization, nano entrepreneurs face a host of compliance challenges that can be onerous relative to their scale of business. Our findings reveal challenges at multiple stages: GST registration, ongoing return filing, payment of taxes, and general regulatory compliance.

5.1 Findings from the survey

5.1.1 Challenges in the GST compliance process

While getting a GSTIN is a one-time process, many participants recounted difficulties during registration. Procedural pains included frequent rejections of applications for minor discrepancies and redundant document requirements.

Figure 5.1 Challenges in the GST compliance process

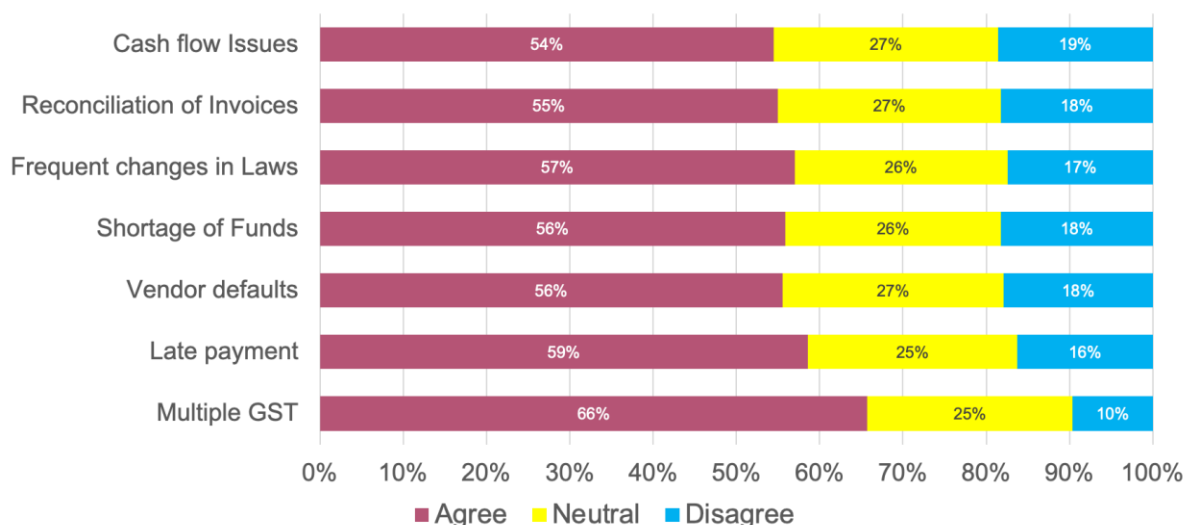


Overall, while most eventually obtained their GSTIN, the initial experience for some was cumbersome and intimidating, especially for those not used to bureaucratic processes

5.1.2 Challenges in GST compliance

The analysis (Figure 5.2) highlight some of the major challenges related to GST experienced by nano enterprises include multiple GST filings (66%), late payment of fees (59%) , frequent changes in laws (57%), cash flow issues (54%), invoice reconciliation (55%).

Figure 5.3 Challenges of GST compliance



The inability to access input tax credit (ITC) if the supplier hasn't paid GST (as per rules, a buyer can claim ITC only if the seller has filed the invoice in their return and paid the tax) also frustrates nano businesses. Some have lost ITC because their suppliers failed to comply, thus essentially paying tax twice. All these contribute to a sentiment that GST compliance is financially unforgiving for small firms that operate on tight margins and cannot easily buffer these requirements.

GST is administered through an online portal and requires digital skills. A number of nano entrepreneurs struggled with the digital interface. Common issues included: difficulties in registering on the portal, occasional portal downtime near filing deadlines, errors in uploading invoice data, and complexity in using the offline Excel tools.

5.1.3 Reliance on consultants:

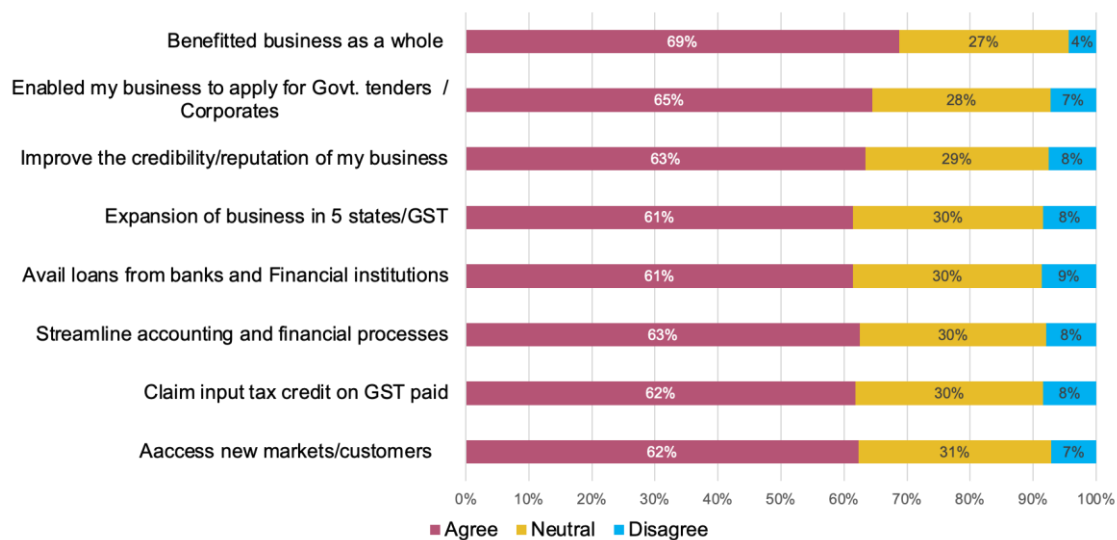
As mentioned, 84% of the respondent use CAs – while this helps ensure compliance, it also means added costs and dependency. The survey found that about half (51%) of nano enterprises spend under ₹10,000 per year on GST accounting services, but the rest spend more, with some paying ₹2,000–₹5,000 per month for comprehensive accounting. For a business with, say, ₹30 lakh turnover and thin profit margins, even ₹30-40k annual compliance cost is significant. Hiring consultants is seen as a necessity, but one that eats into profits. Interestingly, the primary reason respondents gave for hiring a consultant was “to save time and avoid complexity” (65% cited lack of time to do it themselves) and “it's cost-effective to hire expertise” (55% said paying a professional is better than possibly incurring penalties). In essence, they prefer paying a predictable fee to avoid unpredictable fines and

6 Perceived Benefits of GST and Formalization

Amidst the challenges, the research also uncovered several perceived benefits and positive outcomes of GST compliance for nano enterprises. The key benefits as reported by respondents, along with analysis of which types of businesses are realizing these benefits more are given below:

6.1 Findings from the survey

Figure 6.1 Perceived benefits of GST compliance



6.1.1 Access to markets and improved credibility:

One of the clearest benefits of GST registration is access to markets (69%) that were previously off-limits to unregistered firms. 65% of respondents said GST compliance enabled them to bid for and obtain contracts they otherwise could not. Nano enterprises, after registering under GST, found doors opening which was impossible when it was unregistered. They could list their products on online marketplaces (e.g., Amazon, Flipkart) or B2B platforms thereby expanding their customer base beyond local markets. They were able to secure inter-state orders for the first time because GST smoothed interstate and their compliance made buyers comfortable. This kind of market access is a major formalization dividend – it potentially helps nano businesses grow by tapping into larger supply chains.

The highest level of agreement was observed for the statement that GST has increased transparency and reduced tax evasion (69%), followed by perceptions that GST improves business credibility (65%) and enhances compliance discipline (63%). Essentially, GST registration acts as a proof of

business existence and scale, which can be important in gaining client trust and accessing services. In fact, some nano entrepreneurs found that after GST, banks and financial institutions were more willing to offer loans or credit facilities, because filing GST returns regularly provided verified financial information.

6.1.2 Input Tax Credit (ITC) and cost savings:

Another tangible benefit of being in the GST system is the ability to claim Input Tax Credits (62%) on purchases. GST allows them to offset the taxes paid on inputs against their output tax liability.

6.1.3 Streamlining and formal record-keeping:

Another benefit observed was that GST compliance forced nano businesses to adopt more disciplined accounting and record-keeping practices. A majority of respondents (62%) agreed that GST compliance has helped streamline accounting and financial processes, indicating improved record-keeping, better transaction tracking, and enhanced financial discipline among nano entrepreneurs.

Further analysis revealed that hybrid Businesses (B2B + B2C), Service and trading enterprises perceive significantly greater benefits compared to manufacturing firms. Higher turnover nano enterprises (towards ₹1 crore) perceive greater benefits. Those in the ₹81–99 lakh turnover bracket showed a significant positive association with perceived benefit levels.

6.2 Insights from the FGD

The cloud visually represents prominent themes such as ITC (Input Tax Credit), reputation, loans, transparency, billing, and credibility, reflecting how GST positively impacts business operations, financial compliance, and professional image. Enhanced Market Reach and Client Confidence, access to credit, increased trust and client confidence, enhanced overall efficiency were key themes that emerged from the FGDs as benefits of GST compliance which were in line with the findings of the survey.

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7 Key Findings

Bringing together the quantitative and qualitative results, the key findings of the study regarding GST compliance among nano entrepreneurs in Maharashtra are summarized below

7.1 Voluntary Formalization Under Market Pressure:

Many nano enterprises that are below mandatory turnover thresholds have nevertheless obtained GST registration to meet business demands.

7.2 Hybrid and Service-Oriented Firms See Greater Benefits:

Business type influences perceived outcomes. Hybrid businesses (both B2B & B2C) and those in services/trading sectors report greater benefits from GST compliance than pure manufacturers.

7.3 “Threshold Band” Firms (₹81–99L turnover) Face Most Complexity:

Businesses in the ₹81–99 lakh turnover band reported significantly more compliance difficulties than smaller peers—likely due to complex exposure (full GST rate, no composition, more transactions) without the economies of scale of larger SMEs. Notably, this same band also perceived more benefits (strong positive association with benefit scores), indicating they stand to gain if challenges are managed. This threshold band (<₹1 crore) is where policy fine-tuning (e.g., incremental slabs, targeted support) could have outsized impact.

7.4 Established Firms Cope Better than New Startups:

Business experience mitigates compliance challenges. Firms operating >10 years reported significantly fewer GST difficulties, suggesting that accumulated know-how and systems help navigate compliance. In contrast, younger businesses (startups and those <5 years) struggle more—they lack established compliance routines and buffer resources. It signals a need to support newer entrepreneurs through the learning curve of formalization.

7.5 Widespread Difficulties in GST Procedures:

The majority of nano enterprises find GST procedures challenging. Over 50% of respondents reported moderate to high difficulty with various aspects of GST compliance. The specific pain points include:

- Multiple tax slabs and classifications.
- Late fees and penalties
- Frequent rule changes

- Invoice and payment reconciliation
- Technical/digital hurdles
- Reliance on Consultants Due to Complexity

7.6 Key Qualitative Challenges – Policy and Process Gaps :

The Focus Group discussions highlighted systemic issues

- Absence of flexibility
- Procedural inefficiencies and opacity
- Trust deficit and fear
- Working capital strain
- GST, while conceptually positive, currently acts more as a compliance burden than a business facilitator for nano firms.

7.7 Notable benefits of GST registration and compliance:

The study identified key benefits of GST compliance:

- Enhanced market access for nano enterprises
- Credibility and formal recognition
- Input tax credit and cost savings
- Operational formalization
- Stimulus for growth

In summary, the nano entrepreneurs' experience with GST is a mix of significant opportunities and acute pains. On one side, formalization under GST has opened doors to new markets, improved credibility, and enabled input tax savings, particularly benefiting slightly larger or growth-oriented micro firms. On the other side, compliance processes are daunting and costly, disproportionately straining smaller and newer businesses. Challenges like multi-rate complexity, rigid procedures, cash flow stress, and heavy reliance on consultants indicate a misalignment between GST's design/implementation and the capacities of nano enterprises. Yet, the fact that most perceive net benefits or at least future promise in being GST-registered is encouraging – it means the effort to comply is seen as worthwhile if the system could be made more supportive.

These findings point to the need for targeted policy and administrative interventions to simplify GST compliance and reduce its burden on nano enterprises while preserving and enhancing the benefits they gain from formal participation.

8 Discussion

The findings of this study underscore a fundamental tension in India's GST regime: the push for broad-based formalization and tax compliance versus the capacity and realities of nano enterprises. Nano entrepreneurs in Maharashtra, much like their counterparts in Tamil Nadu and other states, sit at the crossroads of the formal and informal economies. GST has been a double-edged sword for them – offering new avenues for growth and legitimacy on one hand, and imposing heavy compliance burdens and financial strains on the other. For policymakers, the message is clear: if GST is to be a truly inclusive reform that benefits the “bottom of the pyramid” businesses, its implementation must be calibrated to the scale of those businesses.

8.1 Formalization vs. Burden

This study confirms that nano enterprises are willing to formalize – evidenced by many entrepreneurs registering for GST voluntarily to meet market needs. This is encouraging from a policy standpoint, as it aligns with goals of widening the tax base and integrating the informal sector into the formal economy. However, the fact that so many small firms feel overwhelmed by compliance costs and complexity raises concern. There is a risk that, without intervention, the burdens could stifle the very enterprises that formalization aims to empower. For instance, if compliance costs (time, money) eat significantly into nano enterprises' slim profits, it could discourage entrepreneurship or push businesses back into informality/avoidance. Some participants hinted that if not for client pressures, they might have preferred staying informal due to high compliance hassle – a worrying thought for tax authorities.

The regressive nature of GST compliance costs highlighted in both the current study and the Tamil Nadu study suggests current one-size-fits-all requirements might be inequitable. A ₹50/day late fee or the administrative effort of filing 12-20 returns a year is trivial for a large firm but substantial for a tiny one. There may be a need for differentiated compliance regimes – simpler, less frequent requirements for the smallest firms – to ensure that formalization is not punitive.

8.2 Market-Driven Compliance and Its Upsides

One positive insight from this study emerges that market forces can induce compliance behaviour more effectively than enforcement alone. Nano enterprises registered for GST largely because it helped their business (credibility, market access) – a sort of “carrot” rather than “stick” approach. This implies that if the benefits of compliance are made evident and accessible, small businesses will come on board willingly. For example, government e-Marketplace (GeM) and tender portals requiring GSTIN have drawn many micros into GST so they can participate. Similarly, the availability of input credit serves as an incentive. Policymakers can leverage this by enhancing the rewards of being compliant: priority in government schemes, easier loan approvals (some banks already use GST data for lending decisions), public recognition programs for compliant MSMEs, etc.

8.3 Capacity Building and Awareness

The study exposed a significant knowledge and capacity gap among nano entrepreneurs regarding GST. With 87% having no formal training on GST, many rely wholly on consultants. This suggests a role for targeted education and support initiatives. Policy could encourage or fund more GST clinics, helpdesks, and workshops tailored for nano businesses (perhaps in local languages, during non-peak hours to suit business owners). The fact that women entrepreneurs felt more empowered after formalization indicates that inclusive outreach (including to women-led micros) could boost formalization and compliance with broader social benefits. Government partnering with NGOs for door-step GST training – could be valuable. Essentially, hand-holding small businesses through the compliance process will increase compliance rates and reduce errors.

8.4 Simplification and Systemic Reforms

One of the suggestions include providing an option to file a “provisional” return or a one-time revision window could reduce anxiety. The late payment fee on ‘nil’ returns may be waived. Further, for nano enterprises the maximum limit of late fee may be reduced to Rs. 1000 from the existing Rs. 5,000. Similarly, the per day late fee may be kept at a nominal Rs. 10 for each day of default.

8.5 Prompt payment enforcement:

The study highlights that late payments by large buyers to small suppliers is undermining GST's benefits and causing nano firms cash pain. Policymakers could consider mechanisms such as mandating disclosure of MSME payment delays in GST returns (as suggested by participants), or integrating TReDS (Trade Receivables Discounting System) with GST to finance invoices.

8.6 Return filing and penalty relaxation

Many nano enterprises fear making errors because of stringent rules (no revisions, high penalties). Policymakers could introduce a concept of a "GST Lite" return or a presumptive tax scheme for the smallest businesses – e.g., allowing a simple annual or biannual filing stating total turnover and a fixed tax due (like composition scheme but perhaps with higher threshold and without restrictions).

8.7 Simplifying GST rate structure

With 66% of the respondents were confused by multiple rates, the case for a simpler rate structure (fewer slabs, clearer definitions) is strong. While macro-level tax policy is beyond individual businesses, their feedback adds weight to ongoing debates on simplifying GST rates. Even a move to two primary rates (say 5% and 15%) or clearer exemption lists could help. Clarity and stability in rates are as important as the number of rates – frequent changes undermine small businesses' ability to plan, so policymakers should aim for rate stability and advanced notice of any changes to allow micros to adapt. *The GST 2.0 has taken into cognizance the multiple rates and there has been a rationalization in the rates.*

8.8 Administrative approach

The anecdotes of bribery and adversarial interactions suggest a need to sensitize GST officials to the circumstances of nano enterprises. A more "educate and assist" approach over "penalize" for first-time or minor errors would build trust. For example, rather than slapping a fine immediately, the department could issue a warning and guidance for correction for small taxpayers. India could consider models like tax ombudsman or mediation channels especially for MSMEs, to resolve issues without litigation. Building trust is key – currently, a trust deficit leads to compliance by compulsion, not cooperation.

8.9 Insights for Broader Policy Goals

The experiences in this study tie into larger policy goals of financial inclusion, digital inclusion, and MSME development. Formalization via GST can unlock formal credit and growth opportunities for nano enterprises, contributing to their graduation into small and medium enterprises. However, if mismanaged, it could also contribute to the “shrinking of the unorganized sector” in a negative way (i.e., small firms shutting down or shedding jobs due to inability to cope). Our study’s finding that over 50% of firms reported turnover declines after GST (from FGDs, though we didn’t quantify it, several mentioned loss of some local customers who didn’t want to pay tax) echoes that concern. This is a critical point: formalization via GST doesn’t automatically equate to growth; it must be accompanied by a supportive ecosystem. Otherwise, we risk a scenario where only the more resilient small businesses survive and the really nano ones either go informal (below radar) or out of business, which can have socio-economic consequences (loss of livelihood for owners and their few employees).

8.10 Gender and inclusion

Another angle is that improving GST ease for nano enterprises can particularly help women entrepreneurs and marginalized groups, who often operate at nano scales and have less bandwidth for complex compliance. For example, simpler rules could encourage more women-led home businesses to register, partake in formal markets, and scale up. Some recommendations like a dedicated grievance portal for women entrepreneurs and recognition schemes for GST-compliant women-owned businesses aim to address the unique challenges and encourage their formal participation.

8.11 Comparative insight from Tamil Nadu and others

The comparative lens shows Maharashtra’s situation is not unique – Tamil Nadu research indicates similar regressive cost burdens and forced compliance. This suggests that the solutions must be systemic and nationwide, not just local. The GST Council and central/state tax authorities should consider MSME-focused amendments applicable across states (e.g., raising the exemption threshold uniformly or special composition-like schemes for service providers, which currently don’t exist meaningfully). Tamil Nadu’s working paper also quantified compliance costs as a share of turnover, and found it dramatically higher for smallest firms. This provides evidence to justify demands from industry bodies that GST compliance needs rationalization for micro units – something even the GST Council has periodically discussed.

In conclusion, the discussion highlights that nano enterprises represent both the success and the stress points of GST implementation. They have embraced formalization in large numbers, unlocking benefits for themselves and contributing to the tax system. Yet, they are straining under a regime largely designed for bigger operations. If India is to realize GST's full promise of creating a common market with broad taxpayer participation, it must adapt its tax administration to be inclusive of nano and micro businesses. This means reducing complexity, providing flexible options, strengthening support systems, and enforcing complementary policies (like payment discipline) that protect small players in the formal supply chain.

The next section translates these insights into concrete policy recommendations, many of which emanate directly from the nano entrepreneurs, business associations, and CAs who participated in this study. These recommendations are aimed at simplifying GST compliance, reducing procedural and financial burden, and enhancing the support framework – ultimately to ensure that GST becomes a tool of empowerment for nano enterprises, not an impediment.

9 Policy Recommendations

Drawing on the findings and direct stakeholder suggestions from nano entrepreneurs, business associations, and tax practitioners, a set of policy recommendations has been proposed to make GST compliance more accessible and less burdensome for nano enterprises. These recommendations are oriented toward regulatory changes and procedural reforms that can be considered by the GST Council and supporting institutions. They focus on simplifying the GST regime for micro businesses, mitigating cash flow strains, providing better support, and enhancing compliance through positive incentives. Implementing these measures would help preserve the benefits of formalization for nano enterprises while significantly reducing their compliance pains. For clarity, the recommendations have been grouped into key thematic areas:

9.1 Easing the Cash-Flow Burden and Payment Cycles

One of the most critical issues for nano enterprises is the timing mismatch between GST tax obligations and actual receipt of payment from customers. The following measures aim to alleviate working capital stress and encourage timely payments in B2B transactions:

- **ITC reconciliation issues** – IMS may simplify work of the Dept but has created a lot of additional backend reconciliation issues for MSMEs. The Department expects businesses to do accounting as per GST portal and not as per Accounting Standards.
- **GST Payment Deferral for Small Businesses:** Currently, the GST system for nano enterprises is ‘monthly payments and quarterly returns. To ease their liquidity, the payment of tax could be on quarterly basis in line with the quarterly returns.
- **Digital Tracking of B2B Payments:** Leverage GSTN data, e-invoicing, and e-way bill systems to monitor payment timelines on B2B transactions and send automated alerts. For instance, if an e-invoice issued by a micro enterprise remains unpaid (as indicated by no payment reference) beyond the agreed credit period, the system could auto-generate reminders to the buyer and flags to tax officials.

9.2 Simplifying GST Compliance and Reducing Procedural Complexity

To make GST friendlier for nano enterprises, the compliance process itself should be simplified. These recommendations aim to streamline registration, filing, and tax structure for the smallest taxpayers:

- **Recognize Nano Enterprises as a Distinct Category:** Formally recognize “nano” and micro enterprises as a separate category in GST administration. This major step would pave the way for tailored rules. For example, compliance requirements could be tiered by turnover slabs (not just normal vs. composition). Acknowledging that a ₹10 lakh turnover business is not the same as a ₹10 crore one is key, similar to the Income tax return forms currently based on
- **Increase GST Threshold Limits:** Consider raising the turnover threshold for mandatory GST registration (especially for service providers). For instance, increase threshold to ₹50 lakhs for services and ₹1 crore for goods supply. Many nano service providers (like single-person consultants) get pulled into GST at ₹20L which is relatively low; a higher threshold (with voluntary opt-in still allowed) would keep the tiniest businesses out of the net until they are slightly bigger and more able to comply. This reduces the compliance population to those with some capacity or necessity.

9.3 Simplify return filing – ‘GST lite for nanos’:

Develop a simplified compliance track for nano enterprises.

- **Reduce form complexity:** Allow nano enterprises to file a single summary return of sales/purchases with tax due, rather than multiple forms.
- **Enable a “payable return” mechanism:** A nano enterprise can file a declaration of tax liability without immediate full documentation, and the tax authority can raise demand for any shortfall without heavy penalties. This could work like: they declare X tax for a period, pay what they can; any discrepancy found later can be collected but not fined as fraud – treating it as a self-assessment to be adjusted.
- **Reduction in late fee:** Ensure the late fee and penalty structure is relaxed for small taxpayers. For example, cap the late fee for firms under ₹1 crore turnover at a lower amount per return period, or allow first-time mistakes to be waived.

- **One-Time Revision/Amnesty Windows:** Introduce a facility for nano enterprises to correct mistakes in returns. For instance, allow one revised return filing within the financial year without penalty for small taxpayers (something not currently allowed under GST). Additionally, periodic amnesty schemes for clearing up past minor non-compliances (waiving late fees, etc.) help reset and encourage them to come back into compliance. The psychological relief of knowing one can fix errors would reduce fear significantly.
- **Unified and Consistent Documentation Process:** Standardize GST registration/documentation requirements across the board and train GST officers to follow uniform processes. Small applicants face hassles due to varying local documentation demands. A centralized approval mechanism or a “single-window” online validation could help – e.g., if Udyam registration and PAN/KYC are provided, no additional local documents like Gram Panchayat letter should be asked (as raised by entrepreneurs). Also, consider auto-approval of registration within a defined time if no query is raised, to prevent long waits. A smoother registration builds confidence at the first step of formalization.
- **Simplify GST Rate Structure:** Advocate within GST Council for fewer and more uniform GST rates, as a broader reform that disproportionately benefits small businesses who lack resources for complex classification. While major rate rationalization is a larger issue, even interim steps like issuing simple guides for common small business goods/services and ensuring clarity on rate applicable can reduce confusion. This could mitigate errors stemming from misclassification. This has been taken care of in GST 2.0.

9.4 Strengthening Support Systems and Infrastructure

Reducing compliance burden is not only about changing rules, but also about providing support to help nano enterprises comply. The following recommendations focus on building a more supportive infrastructure:

- **Enhanced Helpdesks and Local Facilitation:** Establish 24x7 GST helpdesk hotlines and expand local GST facilitation centers (perhaps at district industry centers or through partnerships with industry associations). The idea is that a nano entrepreneur can easily access real-time help for filing or resolving issues. These help desks should be manned by trained personnel who can speak local languages and specifically assist small taxpayers. Mobile help vans or periodic camps in market clusters could also be explored to reach those who can’t navigate online help.

- **Improve Digital Infrastructure & Accessibility:** Acknowledge and address the digital divide. Invest in improving the GST portal's user-friendliness and uptime; create a mobile app for GST filing with a very simplified interface for small traders (leveraging smartphone penetration). For rural or less literate users, consider allowing SMS-based or offline simple return filings for nil returns or composition taxpayers. Additionally, improve rural internet access as a broader goal, because poor connectivity should not be a reason for non-compliance.
- **Multi-Channel Communication of Notices:** To tackle the issue of missed communications, tax authorities should not rely solely on the GST portal for sending notices or information. Implement an alert system via SMS/email and even post (for critical notices) to registered taxpayers for any important action required. This will reduce inadvertent non-compliance due to ignorance and build trust that the department is trying to reach them, not ambush them with penalties later.
- **Dedicated Grievance Redressal for Micro/ Women Entrepreneurs:** Create a special grievance redressal mechanism for nano enterprises, possibly an ombudsperson or fast-track mediation channel for resolving GST issues (registration stuck, refunds delayed, harassment complaints).
- **Empathetic and Inclusive Administration:** Train GST field officers and auditors in MSME-sensitive practices. Encourage an “education first, enforcement later” approach for nano taxpayers. For example, issue advisory letters for first mistakes instead of fines, conduct awareness visits to small business clusters not just raids.
- **Infrastructure and Compliance Support Initiatives:** Government in collaboration with trade bodies can introduce initiatives like free GST return filing clinics at markets on due dates, “GST Mitra” volunteers (similar to tax return preparers) to help nano filers, and localized GST Seva Kendras in areas with concentration of small businesses. Moreover, simplifying allied processes – e.g., make Udyam (MSME) registration linked with GST registration so that when a nano business registers as MSME they are guided on GST if applicable, and perhaps given a “starter kit” of info and contacts for help.

9.5 Inclusive Policy Design and Outreach

For policy to truly address ground realities, inclusion of nano enterprise voices in policy-making and strong outreach/education are vital. These recommendations focus on engaging stakeholders and building awareness:

- **Stakeholder Consultation in GST Policy:** Institute a mechanism to include nano/MSME representatives and local trade associations in GST policy design and feedback loops. This ensures that when new rules or changes are proposed, their impact on the smallest businesses is considered and policies are not made in isolation of grassroots realities.
- **Nationwide GST Awareness Campaigns:** Launch large-scale public awareness campaigns to demystify GST for small businesses. Similar to the successful “Mutual Funds Sahi Hai” campaign in the investments domain, a campaign (through TV, radio, social media) can tackle GST-phobia by educating on basics, benefits of compliance, and rights of taxpayers. The campaign should use simple language and success stories of nano entrepreneurs who benefited from formalization, aiming to change perception from GST being a bogeyman to being a tool for growth (with the caveat that support is available to deal with it).
- **Grassroots Training and Capacity Building:** Implement widespread GST training programs for nano entrepreneurs. The government can partner with ICAI, trade associations, and NGOs to conduct free workshops at city and town levels. Similar to how investor education is done via certified trainers, create a cadre of certified “GST facilitators” who can train and guide small businesses in their communities. These could be retired tax officers, CA students, etc., roped in to extend outreach.
- **Reward and Recognize Compliant Nano Enterprises:** Introduce recognition programs to incentivize compliance culture. For instance, a “GST Compliance Champion” badge/certificate for nano and especially women entrepreneurs who have a track record of timely filings. This badge (potentially displayed on their shop/website) can enhance their credibility. Governments (state/MSME ministry) could also hold annual awards for best compliant MSMEs region-wise. Such positive reinforcement can motivate others to improve compliance, seeing that it’s valued and acknowledged. It changes the narrative to celebrating honest taxpayers rather than only penalizing defaulters.

- **Link Compliance to Support Schemes:** Build linkages where timely GST compliance unlocks access to certain government benefits. For example, schemes like MSME subsidy, mudra loans, or procurement programs could prioritize businesses that are GST-registered and filing regularly.
- **Encourage Joint Certification and Integration with E-Commerce:** A specific suggestion from stakeholders was to have “joint certification” for nano enterprises selling via e-commerce. This could mean a simplified combined onboarding process where getting onto an e-commerce platform also helps them get GST-compliant (or vice versa) with minimal friction

These recommendations, taken together, form a comprehensive agenda to reduce GST compliance frictions for nano enterprises and enhance the enabling aspects of formalization. Policymakers should treat this as an integrated package – tackling regulatory, procedural, and support dimensions in tandem. By implementing these changes, the government can significantly improve the ease of doing business for the smallest entrepreneurs, thereby fostering a more inclusive tax regime.

The ultimate goal is that a nano entrepreneur – even with minimal turnover – can comply with GST with minimal cost and hassle, and in return fully reap the benefits of being part of the formal economy (access to markets, finance, growth opportunities). This alignment of formalization benefits over costs will drive further voluntary compliance, broaden the tax base responsibly, and contribute to economic formalization without leaving the smallest businesses behind.

10 Conclusion

The experience of nano entrepreneurs in Maharashtra with GST is a microcosm of India's broader journey towards formalization. The study finds that GST, as a transformative tax reform, has indeed brought nano enterprises into the fold of the formal economy, offering them unprecedented access to markets and legitimacy, but it has also burdened them with compliance demands that often feel overwhelming. Policymakers face the challenge – and opportunity – of refining the GST framework to ensure that it becomes truly “Good and Simple” for all businesses, regardless of size.

In summary, this report concludes the following:

- GST has consolidated and simplified the indirect tax structure at a macro level, replacing a web of state and central taxes (VAT, Service Tax, etc.) with a single nationwide tax. This has improved transparency and removed the cascading of taxes, which, in principle, benefits businesses including nano enterprises by creating a level playing field.
- Nano enterprises often register for GST out of necessity – either legal (crossing turnover thresholds of roughly ₹20–40 lakh) or business-driven (client and market requirements). GST registration is frequently compulsory for survival in formal supply chains, not just a choice. Even the smallest businesses are drawn into GST when they seek growth beyond a very local scale.
- One of the most valued aspects of GST by nano entrepreneurs is the Input Tax Credit (ITC) mechanism, which allows them to offset taxes paid on inputs. ITC has reduced operational costs for many, particularly those that are more capital or input-intensive.
- GST registration enhances business credibility and access to opportunities. Nano entrepreneurs uniformly reported that having a GSTIN improved their standing with customers, large buyers, and financial institutions. In essence, GST compliance acts as a trust signal that opens doors.
- Formal compliance has driven internal improvements in nano enterprises' operations. By forcing timely invoicing, record-keeping, and an understanding of taxes, GST has nudged nano entrepreneurs toward greater financial literacy and discipline.
- Despite these positives, the study finds that nano enterprise owners often feel GST compliance is overly complex, costly, and difficult to understand. The consequence of this complexity is

increased compliance cost: nano enterprises must hire CAs and pay fees to handle routine GST work.

- The research showed that because filing errors are hard to fix and penalties are stiff, nano entrepreneurs ‘err on the side of caution by outsourcing compliance, which raises their cost of doing business.
- GST procedural pain-points identified include cumbersome registration processes, inconsistent document requirements, and discretionary power in the hands of GST officers which sometimes led to rent-seeking behaviour.
- The study also highlighted that GST’s benefits like input credit are sometimes undermined by systemic issues – for instance, nano enterprises struggled with cash flow because their ability to claim ITC depended on customers uploading invoices and paying GST on time. Many nano entrepreneurs faced cash crunches and working capital problems due to such delays, effectively financing GST out of pocket while waiting for payments.
- On balance, nano entrepreneurs agree GST has improved their credibility and access to finance to some extent, but they also voice that the system currently feels coercive rather than facilitative.
- Formalization through GST did not translate into labour formalization or other broader benefits within their firms – for example, they didn’t see improvements in worker welfare or ease of other compliances; it was largely about tax compliance. They appreciate the intent of “one nation, one tax” and being recognized as part of the formal economy, but they urge that “inclusion in form must be matched by empowerment in function”.

In conclusion, this study paints a picture of GST as a work in progress for nano enterprises – a reform with undeniable advantages for market connectivity and transparency, yet currently encumbered by compliance design and administration issues that disproportionately strain the smallest businesses. The findings and voices of entrepreneurs call for a re-calibration of GST’s implementation: simplifying processes, providing flexibility (like return revisions or cash accounting options), enhancing support, and enforcing complementary measures (like timely payments) to ensure nano enterprises are not just formally included but truly empowered to leverage GST for growth.

If the recommended policy measures are adopted, it would lead to simpler compliance and better support, reduce fear and costs for nano enterprises, leading to higher voluntary compliance and

formalization. As more nano businesses confidently join and remain in the GST regime, the tax base broadens in a healthy, sustainable way – aligning with the twin policy goals of revenue augmentation and MSME development. Crucially, easing nano entrepreneurs’ GST journey will enable them to focus more on their core businesses – innovating, competing, and expanding – rather than being preoccupied with tax paperwork and deadlines.

For policymakers and regulators, the message is that an inclusive tax system is one that recognizes the diversity of its taxpayers. Nano entrepreneurs are not just “small versions” of large companies; they have distinct challenges and limited resources. Designing GST procedures and rules with the smallest in mind will make the system more robust and fair for everyone. As India continues to refine GST, the nano enterprise perspective must be kept front and centre.

By implementing the changes suggested in this report – from cash-based GST options and simplified returns to improved helpdesks and stricter enforcement of payment timelines – GST can be transformed from a heavy compliance burden into a catalyst for the formal growth of nano enterprises making it truly a “good and simple tax” for all strata of the economy.

In summary, the key insight is that enabling nano-entrepreneurs to comply with ease is both a necessary and a worthwhile endeavor. It supports livelihoods, encourages entrepreneurship, and ultimately contributes to a more equitable and expansive economic growth. Navigating GST compliance should no longer be an arduous journey for nano enterprises; with thoughtful reforms, it can become a smoother path that leads them to greater opportunities and success in the formal economy.

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