GST 2.0 For MSMEs in India: Reimagining Tax Reforms for Ease of Doing Business and Entrepreneurial Growth

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ABSTRACT

The Goods and Services Tax (GST) has transformed India's indirect taxation system by promoting tax harmonisation, digital governance, and greater business formalisation. Despite these achievements, Micro, Small and Medium Enterprises (MSMEs) continue to encounter challenges such as complex compliance procedures, working capital constraints, and varying levels of digital preparedness. Existing research has primarily examined GST implementation and its economic effects, with limited emphasis on developing a comprehensive policy framework that simultaneously enhances Ease of Doing Business and entrepreneurial growth.

This study proposes an Integrated GST 2.0 Policy Framework (IGF–MSME) to support the next phase of tax reforms in India. Adopting a conceptual research design, the study relies exclusively on secondary data drawn from peer-reviewed literature, government reports, policy documents, and institutional publications. The analysis indicates that while GST has improved transparency, tax compliance, and market integration, procedural complexity and compliance costs continue to affect MSME competitiveness. The proposed framework integrates simplified compliance, intelligent digital tax administration, financial resilience, digital business integration, and adaptive policy governance to create a more efficient, transparent, and enterprise-centric taxation system.

The study contributes to the management and public policy literature by presenting a conceptual roadmap for GST 2.0 reforms and offering directions for future empirical research aimed at strengthening MSME competitiveness and fostering sustainable entrepreneurial growth in India.

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Keywords: Goods and Services Tax (GST), GST 2.0, MSMEs, Ease of Doing Business, Entrepreneurial Growth, Digital Tax Administration, Public Policy.

I. INTRODUCTION

India's Micro, Small and Medium Enterprises (MSMEs) are central to the country's economic development, contributing substantially to employment generation, industrial production, exports, and regional growth. Recognising the need for a more efficient and transparent indirect taxation system, the Government of India introduced the Goods and Services Tax (GST) on 1 July 2017, replacing multiple Central and State taxes with a unified destination-based tax regime. Beyond tax harmonisation, GST represented a structural reform aimed at improving compliance, promoting business formalisation, strengthening digital governance, and creating a common national market.

Since its implementation, the GST framework has undergone continuous policy and technological evolution through initiatives such as the Goods and Services Tax Network (GSTN), e-Way Bills, e-Invoicing, the Quarterly Return Monthly Payment (QRMP) Scheme, and technology-enabled compliance systems. These reforms have enhanced transparency, expanded the taxpayer base, and improved revenue mobilisation. Nevertheless, MSMEs continue to encounter significant operational challenges, including compliance complexity, delayed refunds, working capital constraints, and unequal digital capabilities, limiting the full realisation of GST's intended benefits.

As India's business environment becomes increasingly digital and innovation-driven, there is a growing need to reconsider the future direction of GST reforms. The next phase of policy development should extend beyond administrative efficiency and focus on creating an integrated taxation ecosystem that supports enterprise competitiveness, entrepreneurial development, and sustainable economic growth. In this context, the concept of **GST 2.0** represents a strategic shift towards simplified compliance, intelligent digital governance, financial resilience, and adaptive policymaking tailored to the evolving needs of MSMEs.

Accordingly, this study critically examines the evolution of the GST framework in India, analyses its implications for MSME development, Ease of Doing Business, and entrepreneurial growth, and proposes an **Integrated GST 2.0 Policy Framework (IGF–MSME)** to support the long-term competitiveness of MSMEs within India's evolving taxation ecosystem.

1.1 BACKGROUND AND CONTEXT

Micro, Small and Medium Enterprises (MSMEs) are widely recognised as the backbone of the Indian economy due to their substantial contribution to Gross Domestic Product (GDP), employment generation, exports, manufacturing output, and balanced regional development. According to the Ministry of MSME, the sector contributes nearly one-third of India's GDP, around 45% of manufacturing output, approximately 40% of exports, and provides employment to over 28 crore people, making its competitiveness central to India's long-term economic growth and economic resilience. Consequently, creating a supportive business environment for MSMEs has become a key priority of India's economic and industrial policy.

1.2 SIGNIFICANCE OF THE RESEARCH

This study contributes to the emerging discourse on GST reform by shifting the focus from evaluating implementation outcomes to reimagining the future of India's taxation system through an MSME-centric perspective. It integrates the interrelated dimensions of GST reforms, Ease of Doing Business, entrepreneurial growth, and digital governance into a unified conceptual framework, addressing an important gap in the existing literature.

The proposed **Integrated GST 2.0 Policy Framework (IGF–MSME)** offers a strategic roadmap for policymakers, tax administrators, and business stakeholders to enhance regulatory efficiency, strengthen enterprise competitiveness, and promote sustainable entrepreneurial development. By positioning GST as a catalyst for business facilitation rather than merely a revenue collection mechanism, the study provides both theoretical insights and practical policy directions for the next generation of tax reforms in India.

1.3 THEORETICAL FOUNDATION

This study is primarily grounded in **Institutional Theory**, which explains how organisational behaviour is influenced by regulatory frameworks, governance systems, and institutional environments (DiMaggio & Powell, 1983; Scott, 2014). The introduction of the Goods and Services Tax (GST) transformed India's indirect taxation system by establishing a unified tax structure, digital compliance mechanisms, and standardised governance practices. These institutional reforms require MSMEs to adapt their operational and compliance strategies to remain competitive.

The study also draws on the **Resource-Based View (RBV)** (Barney, 1991), which suggests that sustainable competitive advantage depends on developing valuable organisational capabilities. In the GST environment, capabilities such as digital readiness, compliance efficiency, financial resilience, and technology adoption enable MSMEs to improve operational performance and respond effectively to regulatory changes.

Together, these theories provide the conceptual basis for this study. **Institutional Theory** explains the influence of external regulatory reforms, while the **Resource-Based View** highlights the role of internal organisational capabilities in converting these reforms into competitive advantage. Based on this perspective, the proposed **Integrated GST 2.0 Policy Framework (IGF–MSME)** positions GST as a strategic governance mechanism that promotes simplified compliance, digital transformation, institutional coordination, and financial resilience to strengthen **Ease of Doing Business, entrepreneurial growth, and the long-term competitiveness of MSMEs**.

THEORETICAL FOUNDATION

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INSTITUTIONAL THEORY
(DiMaggio & Powell, 1983)

External Regulatory Environment

GST Reforms • GST Council • GSTN
Compliance Rules • Digital Governance

RESOURCE-BASED VIEW
(Barney, 1991)

Internal Organisational Capabilities

Digital Capability • Financial Resilience
Technology Adoption • Compliance Skills

INTEGRATED GST 2.0 POLICY FRAMEWORK

Ease of Doing Business • Entrepreneurial Growth
MSME Competitiveness • Sustainable Growth

II. LITERATURE REVIEW

2.1 Evolution of GST and the Need for GST 2.0

The implementation of the Goods and Services Tax (GST) on 1 July 2017 marked one of India's most significant indirect tax reforms, replacing a fragmented system of central and state taxes with a unified tax framework. The primary objectives of GST were to establish a common national market, reduce cascading taxation, improve tax compliance, enhance transparency, and promote ease of doing business. Existing literature generally agrees that GST has strengthened India's tax administration by digitising compliance processes, increasing the taxpayer base, and improving revenue collection. However, several operational and structural challenges continue to hinder its effectiveness, particularly for Micro, Small and Medium Enterprises (MSMEs).

Deshmukh, Mohan, and Mohan (2022) examined GST implementation using the SAP–LAP–Twitter analytical framework and reported that GST has positively influenced tax collection and expanded the taxpayer base through digital tax administration. Nevertheless, the authors identified persistent issues including tax evasion, a relatively low tax-to-GDP ratio, and negative stakeholder perceptions, suggesting the need for the next generation of reforms.

Similarly, Shome (2021) described GST as one of the world's largest fiscal federal reforms, emphasizing the institutional role of the GST Council in coordinating tax policy across the Union and State Governments. Sharma (2021) further argued that GST strengthened India's cooperative federalism by promoting shared fiscal governance, although policy coordination and institutional certainty remain critical challenges. Together, these studies suggest that while GST has established a robust tax architecture, its long-term success depends upon continuous policy innovation, simplified compliance, and improved administrative efficiency.

2.2 GST Reforms and MSMEs in India

MSMEs constitute the backbone of the Indian economy by contributing significantly to GDP, employment generation, exports, and regional development. Consequently, the impact of GST on MSMEs has become one of the most extensively researched areas within GST literature.

Guna and Anuradha (2021), through a systematic literature review, found that GST has created both opportunities and challenges for MSMEs. On the positive side, GST promoted market integration, improved transparency, and reduced tax cascading. However, the review also highlighted that compliance costs, technological requirements, frequent policy changes, and procedural complexities disproportionately affected small businesses.

Bhalla, Sharma, and Kaur (2023) reported that GST has generally improved MSME business performance by enhancing operational efficiency, tax awareness, technology adoption, and ease of doing business. Their study also found reductions in working capital blockage due to improved input tax credit mechanisms. However, the authors emphasized that compliance requirements continue to impose significant administrative burdens, especially on smaller firms with limited financial and technological resources.

Sector-specific evidence further demonstrates the mixed impact of GST. Manoj and Muraleedharan (2021), studying textile traders in Kerala, observed improvements in tax compliance and logistics efficiency but found limited evidence of enhanced business performance. Likewise, Haldankar et al. (2022) reported improvements in GST revenue performance while acknowledging that compliance-related challenges continue to affect MSME competitiveness.

Overall, the literature indicates that GST has facilitated the formalisation of MSMEs but has not fully achieved its objective of creating a simplified and business-friendly tax environment.

2.3 GST Reforms and Ease of Doing Business

One of the fundamental objectives of GST was to improve India's Ease of Doing Business by eliminating multiple indirect taxes, simplifying interstate trade, and introducing a technology-driven compliance system.

Existing studies indicate that GST has significantly improved market integration and transparency. Deshmukh et al. (2022) argued that GST has strengthened tax administration through digital platforms and enhanced transparency. However, procedural complexity, multiple return filing requirements, and frequent amendments continue to increase compliance costs for businesses.

Majumder, Ray, and Santra (2021) argued that India's multiple GST tax slabs increase administrative complexity and recommended tax rate rationalisation to improve efficiency and business confidence. Kir (2021) similarly suggested that institutional ambiguities within the GST framework could affect long-term policy certainty and investor confidence.

More recent research has increasingly focused on MSMEs. A recent secondary-data study concluded that GST has simplified taxation in principle but that compliance costs, digital literacy gaps, and working capital constraints continue to impede the ease of doing business for smaller enterprises.

Collectively, these findings suggest that future GST reforms should prioritize procedural simplification, tax certainty, and taxpayer-centric governance rather than focusing solely on revenue generation.

2.4 Digitalisation, GST Compliance, and MSME Competitiveness

Digital transformation has become a defining feature of India's GST regime through online registration, e-invoicing, e-way bills, and electronic return filing. These initiatives have improved transparency and strengthened tax administration while encouraging business formalisation.

Ahmed and Sur (2021) found that although demonetisation and the COVID-19 pandemic significantly accelerated digital adoption among rural MSMEs, GST itself had only a limited direct influence on digitalisation. Their findings suggest that taxation reforms alone are insufficient to promote digital transformation without complementary technological support and capacity-building initiatives.

Kumar et al. (2022) demonstrated that ICT adoption significantly enhances organizational performance among Indian MSMEs. However, regulatory frameworks remain an important barrier to technology utilisation. Similarly, Roy and Khan (2021) cautioned that rapid digitisation of taxation systems may unintentionally exclude small enterprises that lack adequate technological infrastructure and digital capabilities.

Emerging technological studies propose innovative approaches for GST administration. Pasha et al. (2021) introduced **GSTChain**, a blockchain-enabled taxation network designed to improve transparency, reduce fraud, and automate tax verification. Such technological innovations indicate that the future evolution of GST should move beyond simple digitisation towards intelligent tax governance supported by artificial intelligence, blockchain, and predictive analytics.

2.5 GST Reforms and Entrepreneurial Growth

Entrepreneurship plays a central role in India's economic development strategy, and the taxation environment significantly influences entrepreneurial decision-making. A simplified, transparent, and predictable tax system reduces entry barriers, lowers compliance costs, and encourages business formalisation.

Ramesha (2021) highlighted that MSMEs continue to be major contributors to employment, exports, and inclusive economic development despite facing regulatory and financial constraints. Similarly, Amrita et al. (2024) emphasized that government support, institutional assistance, and policy interventions remain essential for strengthening women entrepreneurship within MSMEs.

Although these studies do not directly evaluate GST reforms, they imply that a simplified GST regime can positively influence entrepreneurial activity by reducing administrative burden, improving liquidity, and enhancing business confidence. Consequently, GST 2.0 should not be viewed merely as a tax reform but as an important component of India's entrepreneurial ecosystem.

2.6 Towards GST 2.0: Emerging Policy Directions

Recent academic and policy discussions indicate a shift from evaluating GST implementation towards designing the next generation of tax reforms. The concept of **GST 2.0** emphasizes tax simplification, rationalisation of tax slabs, intelligent compliance systems, faster refund mechanisms, greater digital integration, and MSME-focused policy support. Recent discussions also highlight GST 2.0 as a means to improve ease of doing business, strengthen MSME competitiveness, and support entrepreneurship through simplified compliance and better liquidity.

These emerging perspectives indicate that future GST reforms should integrate digital governance with business-friendly policies that reduce compliance burdens while supporting innovation and sustainable economic growth.

Existing studies have rarely conceptualised GST as an integrated governance mechanism that simultaneously addresses taxation efficiency, enterprise competitiveness, and institutional coordination. Consequently, there remains a need for a comprehensive policy framework that aligns future GST reforms with the broader objectives of Ease of Doing Business, entrepreneurial growth, and sustainable MSME development. This gap provides the foundation for the present study

2.7 Research Gap

The existing literature has extensively examined GST implementation, revenue performance, digital tax administration, fiscal federalism, and sector-specific impacts of GST. Several studies have also investigated the opportunities and challenges experienced by MSMEs under the current GST framework. However, three significant gaps remain.

First, most existing studies focus on evaluating the outcomes of GST implementation rather than developing a comprehensive **GST 2.0 policy framework** specifically designed for MSMEs. Second, the relationships among **GST reforms, ease of doing business, and entrepreneurial growth** have largely been examined independently, with limited efforts to integrate these dimensions into a unified conceptual perspective. Third, although recent studies acknowledge the importance of digitalisation, insufficient attention has been given to how emerging technologies such as artificial intelligence, blockchain, intelligent compliance systems, and data-driven tax administration can reshape the future GST ecosystem for MSMEs.

Accordingly, this paper addresses these gaps by proposing a conceptual **GST 2.0 framework** that reimagines tax reforms to enhance ease of doing business, strengthen entrepreneurial growth, and improve the competitiveness of MSMEs in India.

III. RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a **conceptual research design** based entirely on secondary sources to critically examine the evolution of the Goods and Services Tax (GST) framework in India and its implications for the growth and development of Micro, Small, and Medium Enterprises (MSMEs). The study aims to synthesise existing academic knowledge, policy developments, and institutional evidence to understand the impact of GST reforms on Ease of Doing Business and entrepreneurial growth while proposing a conceptual **GST 2.0 policy framework**. As the study is conceptual in nature, it does not involve primary data collection, surveys, interviews, questionnaires, or statistical analysis. Instead, it develops its arguments through a critical review and synthesis of existing literature and official policy documents.

3.2 Data Sources

The study relies exclusively on secondary data collected from credible academic and institutional sources. Peer-reviewed journal articles were reviewed from recognised academic databases, including **Scopus, Web of Science, ScienceDirect, SpringerLink, Taylor & Francis Online, Emerald Insight, Wiley Online Library, and Google Scholar**. In addition, official reports, policy documents, annual reports, statistical publications, and notifications issued by the **GST Council, Ministry of Finance, Government of India, Ministry of Micro, Small and Medium Enterprises (MSME), Reserve Bank of India (RBI), NITI Aayog, Economic Survey of India, Central Board of Indirect Taxes and Customs (CBIC),** and other government agencies were consulted to obtain reliable information on GST reforms, MSME development, tax administration, and policy initiatives.

3.3 Literature Selection Criteria

The literature was selected based on its relevance to the objectives of the study. Priority was given to peer-reviewed research articles and official government publications that examined GST reforms, MSMEs, Ease of Doing Business, entrepreneurship, digital tax administration, and public policy in the Indian context. The selected literature primarily covered the period **2017–2026**, corresponding to the implementation and evolution of the GST framework in India. Earlier publications were referred to only where necessary to explain the pre-GST indirect taxation system.

Table 1. Inclusion and Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
Peer-reviewed journal articles	Blogs, opinion articles, newspaper reports, and non-academic websites
Official government reports and policy documents	Sources lacking academic or institutional credibility
Publications focusing on GST, MSMEs, Ease of Doing Business, entrepreneurship, and digital tax administration	Studies unrelated to the objectives of the study
Publications published between 2017 and 2026	Duplicate publications
English-language publications	Publications with insufficient relevance to the Indian GST framework

3.4 Analytical Approach

The selected literature was analysed using a **thematic analysis** approach. Information obtained from academic studies, government reports, and policy documents was systematically reviewed, compared, and synthesised to identify recurring themes, policy developments, challenges, and emerging opportunities associated with the GST framework. The analysis was organised according to the four research objectives: (i) evolution of the GST framework and its implications for MSMEs; (ii) the influence of GST on Ease of Doing Business and entrepreneurial growth; (iii) challenges and emerging opportunities under the current GST regime; and (iv) the development of a conceptual GST 2.0 policy framework. Rather than summarising individual studies, the analysis integrates evidence from multiple sources to develop a comprehensive and critical understanding of the subject.

3.5 Development of the Conceptual GST 2.0 Framework

Based on the synthesis of the reviewed literature and policy evidence, the study proposes a **Conceptual GST 2.0 Framework** for MSMEs in India. The proposed framework integrates major themes emerging from the literature, including tax simplification, digital governance, compliance efficiency, MSME support mechanisms, entrepreneurial development, and institutional reforms. The framework aims to provide a policy-oriented perspective for strengthening Ease of Doing Business, promoting entrepreneurial growth, and enhancing the long-term competitiveness of MSMEs within India's evolving taxation ecosystem.

3.6 Scope and Limitations

This study is limited to the analysis of secondary data obtained from peer-reviewed literature and official government publications. Since no primary data were collected, the findings are conceptual and interpretative rather than empirical. Nevertheless, the integration of evidence from diverse and credible sources provides a comprehensive understanding of GST reforms and supports the development of practical policy recommendations for the future evolution of the GST framework in India.

IV. RESEARCH OBJECTIVES

RO1: To critically examine the evolution of the Goods and Services Tax (GST) framework in India and its implications for the growth and development of Micro, Small, and Medium Enterprises (MSMEs).

RO2: To analyse the influence of the existing GST framework on Ease of Doing Business and entrepreneurial growth among MSMEs in India.

RO3: To identify the key challenges and emerging opportunities associated with the current GST regime that affect the operational efficiency and competitiveness of MSMEs.

RO4: To propose a conceptual GST 2.0 policy framework that enhances Ease of Doing Business, strengthens entrepreneurial growth, and supports the long-term competitiveness of MSMEs in India

5.1 Evolution of the GST Framework in India and Its Implications for MSMEs (RO1)

The implementation of the Goods and Services Tax (GST) on **1 July 2017** fundamentally transformed India's indirect tax system by replacing multiple Central and State taxes with a unified destination-based tax structure. The reform aimed to simplify taxation, improve tax compliance, eliminate cascading taxes, create a common national market, and promote formalisation of businesses. For MSMEs, GST was expected to reduce regulatory barriers, improve market access, and enhance operational efficiency. Rather than remaining a static tax reform, GST has continuously evolved through policy simplification and digital transformation. Key reforms introduced between **2017 and 2026** are summarised in **Table 2**.

1. Table 2 (Major GST Reforms)

This table is conceptually correct, but I recommend a few refinements.

Year	**Major Reform**	**Key Implication for MSMEs**
2017	Implementation of GST	Unified indirect tax system and creation of a common national market
2018	Nationwide e-Way Bill System	Faster movement of goods and improved logistics efficiency
2020	e-Invoicing (phased implementation)	Improved invoice transparency and Input Tax Credit (ITC) verification
2021	QRMP Scheme	Simplified return filing and reduced compliance burden for eligible MSMEs
2022–2025	GSTN upgrades, AI-based risk management, enhanced digital compliance	Improved digital governance, fraud detection, and compliance efficiency
2025–2026	GST 2.0 reform discussions and GST Council rationalisation initiatives	Greater focus on MSME-friendly, technology-driven tax administration

Source: Compiled by the author based on notifications and publications of the GST Council, Central Board of Indirect Taxes and Customs (CBIC), Goods and Services Tax Network (GSTN), and Ministry of Finance, Government of India

2. Table 3 (Gross GST Collections)

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Financial Year	**Gross GST Collection (₹ Lakh Crore)**
2017–18	**7.41**
2018–19	**11.77**
2019–20	**12.22**

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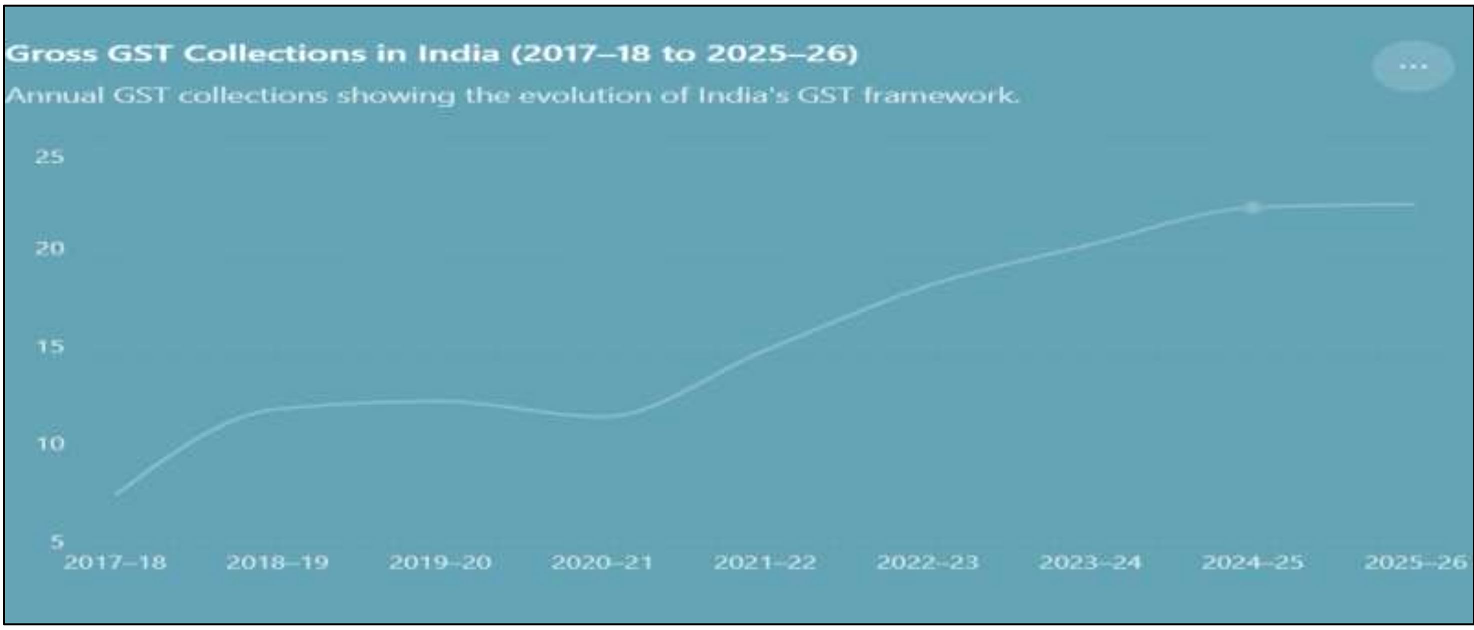
Financial Year	Gross GST Collection (₹ Lakh Crore)
2020–21	11.37
2021–22	14.83
2022–23	18.08
2023–24	20.18
2024–25	22.08
2025–26	22.27 (Provisional)

Source: Central Board of Indirect Taxes and Customs (CBIC), *Annual Reports* (various years); Ministry of Finance, Government of India, *Economic Survey* (various years); Goods and Services Tax Network (GSTN), *GST Statistics Dashboard*.

The evolution of the GST framework is reflected in the consistent growth of gross GST collections since its implementation in 2017. Collections increased from **₹7.41 lakh crore in FY 2017–18** to **₹22.08 lakh crore in FY 2024–25**, while **provisional collections for FY 2025–26 reached ₹22.27 lakh crore**. This sustained growth indicates improvements in taxpayer compliance, digital tax administration, and the gradual formalisation of economic activity. However, higher revenue collections should not be interpreted solely as evidence of policy success, as they may also reflect broader economic growth, inflation, and expanded consumption. Therefore, GST performance should be evaluated alongside indicators such as compliance efficiency, Ease of Doing Business, and MSME competitiveness.



The steady increase in GST collections, particularly after the COVID-19 period, reflects stronger tax compliance, wider taxpayer participation, and the effectiveness of digital tax administration. It also indicates the increasing formalisation of economic activities, creating a more transparent business environment for MSMEs.

Despite these achievements, the benefits of GST have been uneven across MSMEs. The literature indicates that interstate trade has become more efficient, Input Tax Credit (ITC) has reduced cascading taxation, and digital compliance has improved business transparency. These reforms have enhanced MSMEs' access to organised markets and formal financial systems. However, frequent policy changes, complex return filing, ITC reconciliation, delayed refunds, and limited digital capabilities continue to increase compliance costs, particularly for micro and small enterprises. These challenges reduce working capital availability and constrain business expansion.

Critical Analysis

The evolution of GST demonstrates significant progress in tax modernisation and digital governance. However, the analysis indicates that policy reforms have primarily improved administrative efficiency rather than reducing compliance complexity for MSMEs. While large enterprises have adapted successfully to digital tax administration, many smaller businesses continue to face financial and technological constraints. Therefore, the next phase of reform should prioritise

simplified compliance, faster refund mechanisms, AI-enabled taxpayer assistance, and MSME-specific policy support rather than additional regulatory requirements.

Key Finding (RO1)

The analysis confirms that GST has successfully transformed India's indirect taxation system by improving transparency, formalisation, and digital governance. Nevertheless, persistent compliance burdens and liquidity challenges continue to limit the full benefits for MSMEs. These findings justify the need for **GST 2.0**, which should focus on simplifying compliance, strengthening digital inclusion, and improving the competitiveness of MSMEs.

5.2 Influence of the Existing GST Framework on Ease of Doing Business and Entrepreneurial Growth among MSMEs (RO2)

The effectiveness of the GST framework extends beyond tax administration and can be assessed through its contribution to **Ease of Doing Business (EoDB)** and entrepreneurial development. For MSMEs, an efficient tax system should minimise regulatory costs, improve business accessibility, facilitate market expansion, and create a predictable business environment.

GST has improved the business ecosystem by reducing procedural barriers associated with interstate trade and enabling a uniform taxation structure across the country. The digital integration of tax services has reduced paperwork, shortened processing time for registrations and return filing, and improved transparency in business transactions. These reforms have strengthened the operational environment for MSMEs, particularly those seeking expansion into organised and interstate markets.

Table 4. Influence of GST on Ease of Doing Business

Business Dimension	Influence of the Existing GST Framework
Business Registration	Faster and transparent online registration
Interstate Trade	Removal of tax barriers and improved market access
Tax Compliance	Standardised digital compliance procedures
Business Transparency	Improved financial documentation and credibility
Supply Chain Efficiency	Better integration with organised markets

Source: Compiled by the author based on Deshmukh et al. (2022); Guna and Anuradha (2021); Ministry of MSME (2024); Economic Survey (2024–25).

The existing GST framework has also contributed to entrepreneurial growth by encouraging business formalisation. GST registration enhances enterprise credibility, enabling MSMEs to access institutional finance, participate in government procurement, and integrate into formal supply chains. The growth in Udyam registrations and digital business adoption further indicates increasing participation of MSMEs in the formal economy.

However, the positive impact on entrepreneurship has been moderated by several operational challenges. Compliance costs remain relatively high for micro and small enterprises due to frequent procedural changes, delayed Input Tax Credit (ITC) settlements, refund delays, and dependence on professional tax support. These factors increase operational expenditure and reduce liquidity, particularly for resource-constrained enterprises.

Table 5. GST and Entrepreneurial Growth

Positive Outcomes	Constraints
Improved market access	High compliance costs
Greater business formalisation	Working capital blockage due to refund delays
Better access to institutional finance	Digital capability gaps among micro enterprises
Enhanced business credibility	Frequent regulatory changes

Source: Compiled by the author based on Bhalla et al. (2023); Ramesha (2021); Ministry of MSME (2024).

Critical Analysis

The analysis indicates that GST has created a more transparent and integrated business environment that supports enterprise formalisation and market expansion. However, improvements in Ease of Doing Business have been greater for medium-sized and digitally capable enterprises than for micro businesses with limited financial and technological resources. Consequently, while GST has strengthened the institutional environment for entrepreneurship, implementation-related complexities continue to reduce its overall effectiveness for MSMEs.

Key Finding (RO2)

The existing GST framework has positively influenced Ease of Doing Business and entrepreneurial growth by improving market integration, business transparency, and formalisation. However, compliance complexity, liquidity constraints, and digital capability gaps continue to limit these benefits. Therefore, future GST reforms should prioritise **simplified compliance, faster refund mechanisms, AI-enabled taxpayer services, and MSME-specific policy support** to create a more inclusive entrepreneurial ecosystem.

5.3 Key Challenges and Emerging Opportunities Affecting the Operational Efficiency and Competitiveness of MSMEs (RO3)

The analysis indicates that despite improvements in India's indirect tax administration, several operational constraints continue to influence the competitiveness of MSMEs. The most significant concern is the **disproportionate compliance cost** borne by smaller enterprises. According to the Ministry of MSME, **over 99% of India's registered enterprises are micro and small businesses**, many of which operate with limited financial and technological resources. Consequently, recurring compliance requirements increase administrative expenditure and reduce managerial focus on core business activities.

Working capital remains another major constraint affecting operational efficiency. MSMEs generally depend on continuous cash flow for inventory procurement, production, and wage payments. Delays in the settlement of **Input Tax Credit (ITC)** and export-related refunds reduce liquidity, particularly for manufacturing and export-oriented enterprises. The RBI has consistently identified delayed receivables and limited working capital as critical barriers to MSME productivity and business continuity.

Digital readiness also varies considerably across enterprises. According to the Annual Survey of Unincorporated Sector Enterprises (ASUSE) and MSME reports, a significant proportion of micro enterprises continue to have low levels of digital adoption compared with medium enterprises. Limited digital literacy, inadequate technological infrastructure, and cybersecurity concerns reduce the effective utilisation of technology-enabled tax systems, particularly in rural and semi-urban regions.

Table 6. Data-Driven Assessment of Key Challenges

Challenge	Evidence	Impact on MSME Competitiveness
Compliance Cost	Micro enterprises constitute over **99%** of registered MSMEs and have limited administrative capacity	Higher operating costs and lower productivity
Working Capital	Delays in ITC/refund processing affect business liquidity (RBI; MSME reports)	Reduced investment and slower business expansion
Digital Readiness	Lower digital adoption among micro enterprises compared with medium enterprises (ASUSE/MSME reports)	Reduced operational efficiency and technology utilisation
Regulatory Stability	Frequent procedural modifications require continuous business adaptation	Increased compliance uncertainty and planning costs

Source: Compiled by the author using Ministry of MSME Annual Report (2024); Reserve Bank of India (2024, 2025); National Statistical Office (ASUSE, 2024).

While these challenges constrain competitiveness, recent technological developments also create opportunities for structural improvement. The integration of **Artificial Intelligence (AI), predictive analytics, automated return validation, blockchain-enabled invoice verification, and real-time data processing** has the potential to reduce compliance costs, minimise human intervention, improve refund efficiency, and strengthen tax transparency. These technologies can also support risk-based compliance management, allowing genuine taxpayers to experience faster processing with reduced administrative burden.

In addition, greater integration between GST databases, digital financial services, and MSME support programmes can facilitate quicker credit assessment, improve access to formal finance, and strengthen enterprise resilience. Such data-driven governance can enhance productivity while enabling evidence-based policymaking tailored to MSME requirements.

Table 7. Emerging Opportunities for MSME Competitiveness

Opportunity	Expected Outcome
AI-enabled compliance systems	Lower compliance time and fewer filing errors
Automated refund processing	Improved cash flow and liquidity
Blockchain-based invoice verification	Greater transparency and fraud prevention
Data-driven policymaking	Targeted MSME support and better policy effectiveness
Integration with digital financial ecosystems	Improved access to institutional credit and business resilience

Source: Developed by the author based on Roy and Khan (2021); Kumar et al. (2022); Pasha et al. (2022); CBIC Digital Initiatives.

Critical Analysis

The findings demonstrate that the competitiveness of MSMEs depends not only on tax policy but also on the efficiency of its implementation. Current challenges primarily arise from operational complexity, liquidity constraints, and unequal digital preparedness rather than from the GST framework itself. Therefore, future reforms should prioritise intelligent automation, simplified compliance architecture, and data-driven taxpayer services to improve operational efficiency while reducing the cost of regulatory compliance.

Key Finding (RO3)

The analysis reveals that the existing GST regime presents both structural constraints and technological opportunities for MSMEs. Addressing compliance costs, improving liquidity management, and accelerating digital capability through AI-enabled and data-driven tax administration are essential to enhancing operational efficiency and long-term competitiveness. These findings provide the foundation for the proposed **GST 2.0 policy framework** developed under **RO4**.

5.4 Proposed Integrated GST 2.0 Policy Framework for MSMEs (RO4)

The findings of the preceding analysis indicate that although the current GST framework has strengthened tax administration and improved business formalisation, significant challenges remain in achieving a truly MSME-friendly taxation ecosystem. Existing reforms have primarily focused on improving compliance and revenue mobilisation, while comparatively less emphasis has been placed on reducing regulatory costs, improving liquidity, strengthening digital capabilities, and promoting enterprise competitiveness. Therefore, a next-generation policy approach is required.

Based on the evidence synthesised in this study, an **Integrated GST 2.0 Policy Framework for MSMEs (IGF–MSME)** is proposed. The framework is designed to shift GST from a **compliance-oriented taxation model** to a **growth-oriented business facilitation model**. Rather than treating taxation solely as a revenue collection mechanism, the framework positions GST as a strategic policy instrument for improving business productivity, supporting entrepreneurship, and enhancing MSME competitiveness.

The Integrated GST 2.0 Policy Framework (IGF–MSME) comprises five interdependent strategic pillars that collectively transform GST from a compliance-oriented system into an enterprise-enabling governance framework. The proposed framework synthesises evidence emerging from the literature review, thematic analysis, and policy documents. Rather than introducing isolated policy recommendations, the framework integrates complementary strategic dimensions into a unified governance architecture for MSME-oriented GST reforms

Table 8. Integrated GST 2.0 Policy Framework (IGF–MSME)

Strategic Pillar	Policy Intervention	Expected Outcome
Simplified Compliance	Single simplified return for MSMEs, stable filing calendar, rationalised compliance requirements	Lower compliance cost and improved regulatory efficiency
Smart Digital Tax Administration	AI-assisted return validation, automated refund processing, predictive risk assessment and intelligent taxpayer support	Faster service delivery, improved accuracy and reduced administrative burden

Strategic Pillar	**Policy Intervention**	**Expected Outcome**
MSME Financial Resilience	Real-time ITC settlement, time-bound refunds, GST-linked working capital support	Improved liquidity and business continuity
Integrated Digital Business Ecosystem	Integration of GST with Udyam Registration, GeM, digital lending platforms and Account Aggregator framework	Improved access to finance, public procurement and formal markets
Adaptive Policy Governance	Continuous stakeholder consultation, evidence-based policy evaluation and data-driven GST reforms	Responsive policymaking and long-term institutional effectiveness

Source: Developed by the author.

The proposed framework recognises that MSME competitiveness depends not only on tax compliance but also on the interaction between taxation, finance, technology, and institutional support. Consequently, GST 2.0 should adopt a **whole-of-ecosystem approach**, where tax administration becomes an enabler of enterprise growth rather than merely a regulatory function.

Unlike the existing GST architecture, which largely follows a reactive compliance model, the proposed framework advocates **predictive and intelligent tax governance**. Artificial Intelligence and advanced analytics can automate routine compliance, identify genuine taxpayers through risk-based assessment, reduce manual verification, and accelerate refund processing. This transition would significantly reduce compliance costs while improving transparency and taxpayer confidence. The framework also emphasises **financial resilience** as a core policy objective. Since liquidity constraints remain a major barrier to MSME growth, integrating GST data with formal credit assessment systems can improve access to collateral-free finance and reduce information asymmetry between financial institutions and enterprises. Such integration would strengthen investment capacity and support business expansion.

Another distinctive feature of the framework is the creation of an **integrated digital business ecosystem**. Linking GST with platforms such as **Udyam Registration**, the **Government e-Marketplace (GeM)**, and digital lending infrastructure would enable seamless information sharing across institutions. This integration can reduce administrative duplication, improve service delivery, and enhance MSME participation in formal economic activities.

Finally, the framework proposes an **adaptive governance mechanism**, where policy decisions are guided by real-time data, stakeholder feedback, and periodic policy evaluation. Such an approach would improve regulatory certainty, reduce policy volatility, and ensure that future GST reforms remain responsive to the evolving needs of MSMEs.

GST 2.0 POLICY FRAMEWORK

IDENTIFIED CHALLENGES
- Compliance Burden
- Liquidity Constraints
- Complex Procedures
- Digital Capability Gap
- Regulatory Uncertainty

STRATEGIC POLICY PILLARS
1. Compliance Simplification
2. Smart Digital Tax Administration
3. Liquidity Enhancement
4. Digital Business Integration
5. Data-Driven Governance

IMPLEMENTATION TOOLS
- AI & Automation
- Simplified Returns
- Automated Refunds
- Digital Platform Integration
- Continuous Policy Monitoring

EXPECTED OUTCOMES
- Reduced Compliance Cost
- Improved Liquidity
- Better Digital Readiness
- Enhanced MSME Competitiveness
- Entrepreneurial Growth
- Ease of Doing Business
- Sustainable Economic Growth

Source: Developed by the Author

FRAMEWORK CONTRIBUTION

The principal contribution of this study is the development of the **Integrated GST 2.0 Policy Framework (IGF–MSME)**, which offers a comprehensive conceptual roadmap for future GST reforms in India. Unlike previous studies that have primarily examined GST implementation, compliance, or sector-specific outcomes independently, the proposed framework integrates regulatory simplification, digital governance, financial resilience, institutional coordination, and enterprise competitiveness within a unified policy model. By repositioning GST as a strategic enabler of **Ease of Doing Business**, entrepreneurial growth, and sustainable MSME development, the framework provides a novel conceptual foundation for future policy formulation and empirical research.

6. THEORETICAL CONTRIBUTIONS

This study advances the taxation and management literature by extending the understanding of GST beyond its conventional role as an indirect tax reform. It conceptualises GST as a strategic governance mechanism capable of enhancing enterprise competitiveness and sustainable MSME development.

The proposed **Integrated GST 2.0 Policy Framework (IGF–MSME)** contributes to theory by integrating regulatory efficiency, digital governance, financial resilience, and institutional coordination into a single conceptual model. This multidimensional perspective broadens existing GST research, which has largely examined these dimensions independently.

Furthermore, the study establishes a conceptual foundation for future empirical research by identifying key policy constructs that can be examined across different industries, enterprise categories, and institutional contexts.

7. POLICY IMPLICATIONS

The findings suggest that future GST reforms should prioritise enterprise facilitation alongside revenue administration. Policymakers should simplify compliance procedures, establish predictable regulatory mechanisms, and strengthen MSME-oriented support systems to reduce administrative complexity.

Investment in intelligent digital tax infrastructure, including AI-enabled taxpayer services, automated refund processing, and integrated digital platforms, can improve service efficiency and regulatory transparency. Greater institutional coordination among taxation authorities, financial institutions, and MSME development agencies would further strengthen policy implementation and promote a more competitive business environment.

The framework may also support future GST Council deliberations by providing a structured basis for evaluating MSME-oriented reforms.

8. MANAGERIAL IMPLICATIONS

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The proposed framework highlights the importance of integrating tax management into broader business strategy. MSMEs should strengthen digital capabilities, financial planning, and compliance management to improve operational resilience within an evolving regulatory environment.
Business managers should leverage digital taxation systems to enhance financial transparency, strengthen institutional credibility, and improve access to formal finance and organised markets. Continuous capability development and proactive adaptation to regulatory changes will be critical for sustaining long-term competitiveness.

9. FUTURE RESEARCH AGENDA

Future research should empirically validate the proposed **Integrated GST 2.0 Policy Framework (IGF–MSME)** across different MSME categories, industries, and regional contexts. Comparative studies involving GST/VAT systems in other emerging economies may provide broader theoretical insights into taxation-driven enterprise development. Further investigations may also examine the role of Artificial Intelligence, blockchain, predictive analytics, and digital public infrastructure in strengthening tax governance, enterprise performance, and policy effectiveness.

10. LIMITATIONS

This study is conceptual in nature and relies exclusively on peer-reviewed literature, government reports, policy documents, and other authoritative secondary sources. Consequently, the proposed framework has not been empirically validated through primary data or statistical modelling. In addition, the analysis is limited to India's GST ecosystem and MSME sector, which may restrict the broader applicability of the findings. As taxation policies continue to evolve, future legislative and technological developments may require further refinement of the proposed framework.

11. CONCLUSION

This study demonstrates that the future of GST reform should extend beyond tax administration towards building a business-oriented governance ecosystem that strengthens MSME competitiveness. While the existing GST framework has improved transparency, digital governance, and market integration, persistent compliance complexity and liquidity constraints continue to limit its effectiveness for smaller enterprises.
To address these challenges, the study proposes the **Integrated GST 2.0 Policy Framework (IGF–MSME)**, which integrates simplified compliance, intelligent digital governance, financial resilience, institutional coordination, and adaptive policymaking into a unified conceptual model. By positioning taxation as a strategic enabler of **Ease of Doing Business**, entrepreneurial development, and sustainable enterprise growth, the framework offers a forward-looking roadmap for next-generation GST reforms.
The study contributes to the management and public policy literature by providing a novel conceptual perspective that aligns taxation policy with enterprise development objectives. It also offers practical guidance for policymakers and business stakeholders seeking to strengthen the long-term resilience and competitiveness of India's MSME sector.
Accordingly, the proposed framework positions taxation not merely as a fiscal instrument but as a strategic capability for enterprise development and national economic competitiveness.

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DECLARATION

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