



Breaking Down the New Tax Order 2.0: Examining GST Transition Issues Among MSMEs in Tirupati District

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Abstract:

GST is essential to the growth of the Indian economy. On July 1, 2017, the Goods and Services Tax (GST) was introduced in India. It replaced a convoluted network of federal and state taxes, signifying a revolutionary change in indirect taxation. The Empowered Committee's establishment in 2000 marked the start of its development, which culminated in the Constitution (101st Amendment) Act, 2016. GST seeks to improve compliance, remove cascading effects, and unify taxation. The E-Way Bill, which is required for goods over ₹50,000 under the Goods and Services Tax (GST), simplifies logistics and prevents evasion. This is particularly important for Tirupati's temple merchandise and handicrafts. Businesses can claim input tax credits through the Input Tax Credit (ITC) mechanism, which lowers their overall tax burden. However, issues like inconsistent invoices and noncompliance can prevent ITC. The aforementioned research paper's primary goal is to highlight the transition challenges that MSMEs in the Tirupati district face. However, Tirupati's tourism, hospitality, and religious institutions are all affected by GST. ITC and streamlined returns (GSTR-3B, GSTR-1) are advantageous to hotels and restaurants, but religious services might be exempt. The goal of reforms such as slab rationalisation, AI-based fraud detection, and e-invoicing is to enhance transparency and streamline operations.

Important Terms: GSTR-3B and GSTR-1 Returns, Tax Compliance and Reforms, Input Tax Credit (ITC), and E-Way Bill System

Introduction:

India's tax system underwent a significant transformation with the introduction of the Goods and Services Tax (GST). The GST, which took effect on July 1, 2017, replaced a complex system of federal and state taxes with a single framework intended to simplify compliance and foster a more cohesive national market. The reform sought to promote the formalisation of businesses nationwide, enhance transparency, and end the cascading effect of taxes.

Not all economic sectors have experienced an equally seamless transition to GST, despite these goals. While adjusting to the new system, Micro, Small, and Medium-Sized Enterprises (MSMEs), which are the foundation of India's industrial ecosystem, have encountered a variety of operational and financial difficulties. Over 110 million people are employed by MSMEs, which account for nearly 30% of India's GDP. MSMEs are particularly crucial to the local economy in places like Andhra Pradesh's Tirupati. In addition to being a significant centre for religious tourism, Tirupati is home to a wide variety of small businesses, such as textile companies, auto component manufacturing, food processing companies, and temple crafts. Nevertheless, a large number of these businesses have limited financial and technological resources. As a result, many small business owners have found it challenging to adjust to GST's digital filing requirements, invoice matching systems, and compliance procedures. MSMEs that already have thin profit margins are under more strain due to problems like delayed refunds, Input Tax Credit mismatches, high compliance costs, and low digital awareness.

Even though the government has implemented a number of reforms, including digital filing platforms, threshold exemptions, and streamlined return systems, many Tirupati businesses still struggle to implement GST regulations. Thus, the purpose of this study is to investigate the particular GST-related difficulties that MSMEs in the Tirupati district face. The study aims to comprehend the discrepancy between the goals of the GST policy and actual business conditions

by examining survey results, stakeholder interviews, and regional economic data. The study also suggests doable changes that could enhance tax compliance and promote the long-term viability of MSMEs in the area.

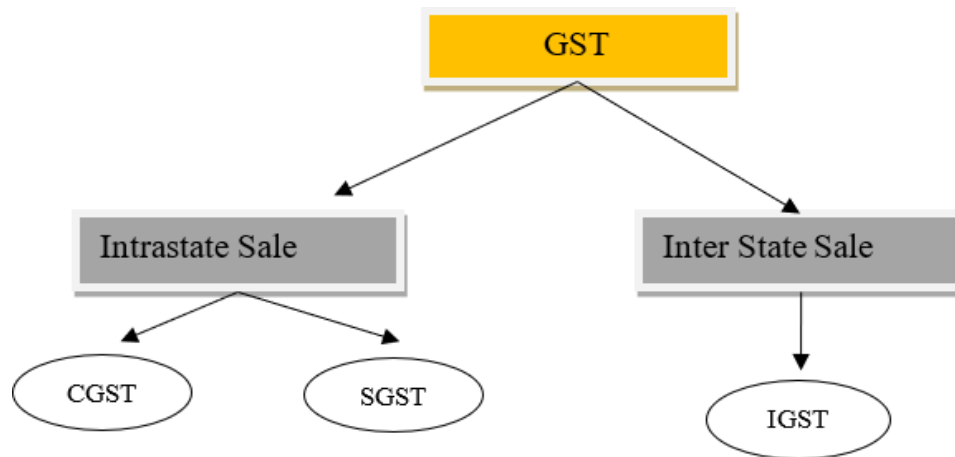
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Evolution of GST in India:

year	Key event/milestone	Description
2017(mar-apr)	GST Bills passed	CGST IGST, UTGST, and GST (compensation to states) Bills passed by parliament and enacted as Acts
2017(1 st July)	GST rollout	GST officially implemented across India; replaces multiple central and state taxes, establishes dual tax system (CGST, SGST, IGST)
2017-2020	Early adjustments	Introduction of TDS provisions, E-way bill, reverse charge mechanism, QRMP scheme, e-invoicing, sector-specific rate revisions
2021-2024	Rate modifications	GST council implements sector-specific GST rate changes, COVID-19 relief rates, adjustments in real estate and goods
2025(22sep)	GST 2.0 reform	Major simplification: 5%,18%,40% slabs; abolished 12% and 28% rates; streamlined classification and compliance procedures

Notes on Pre-GST Taxes (Before 1 July 2017)

- **Central taxes:** Excise Duty, Service Tax, Customs Duty, and Additional Duties.
- [State taxes: VAT, Sales Tax, Entry Tax, Luxury Tax, Entertainment Tax, Advertisement Tax, Taxes on lotteries/gambling](#)
- [Issue: Cascading effect, complex compliance, multiple indirect taxes charged on same products](#)



Literature Review:

Since the GST's implementation in 2017, its effects on MSMEs have been extensively examined in scholarly and policy research. While several studies emphasise the GST's long-term economic advantages, many academics also note that smaller businesses frequently have more difficulty adjusting to the system. Researchers like **Rao and Deshmukh (2023)** stress that many small businesses lack the digital infrastructure and accounting knowledge necessary for GST compliance. MSMEs in Tier-2 and Tier-3 cities frequently lack the financial resources and technological know-how necessary for routine return filing, invoice reconciliation, and e-way bill generation. Similar to this, **Singh and Verma (2024)** point out that the GST framework may put small businesses under immediate financial strain because of the requirement to pay taxes up front and the delayed Input Tax Credit refunds. Refund delays can sometimes last longer than two months, which has an impact on small manufacturers' working capital cycles, according to their research on textile clusters in southern India.

The digital divide between larger cities and smaller towns is another significant topic covered in the literature. Chakraborty (2022) points out that while many businesses in semi-urban areas still use manual bookkeeping procedures, businesses in large cities have embraced automated GST software and digital invoicing systems more quickly. Examined are policy responses to these issues as well. Localised initiatives, like district-level GST facilitation centres and streamlined filing schemes, have improved compliance in some states, according to Mehta and Iyer (2025). These results imply that MSMEs' compliance burden can be considerably lessened by regional support systems. Nonetheless, the majority of current research concentrates on sizable industrial clusters or urban areas. Research on the effects of GST on smaller regional economies, where businesses are strongly associated with local culture, tourism, and traditional crafts, is comparatively scarce. One such distinctive economic setting is Tirupati, which makes it a crucial case study for comprehending how GST impacts MSMEs operating in markets driven by religious tourism.

Cash flow disruptions and financial strain:

According to **Singh & Verma (2024)**, MSMEs' working capital has been strained by GST upfront tax payments and delayed ITC refunds. Refund delays can last up to ninety days, according to their study on textile clusters in southern India, which forces businesses to rely on high-interest loans. Particularly susceptible to such liquidity shocks are Tirupati's temple crafts and food processing facilities, which frequently run on narrow profit margins.

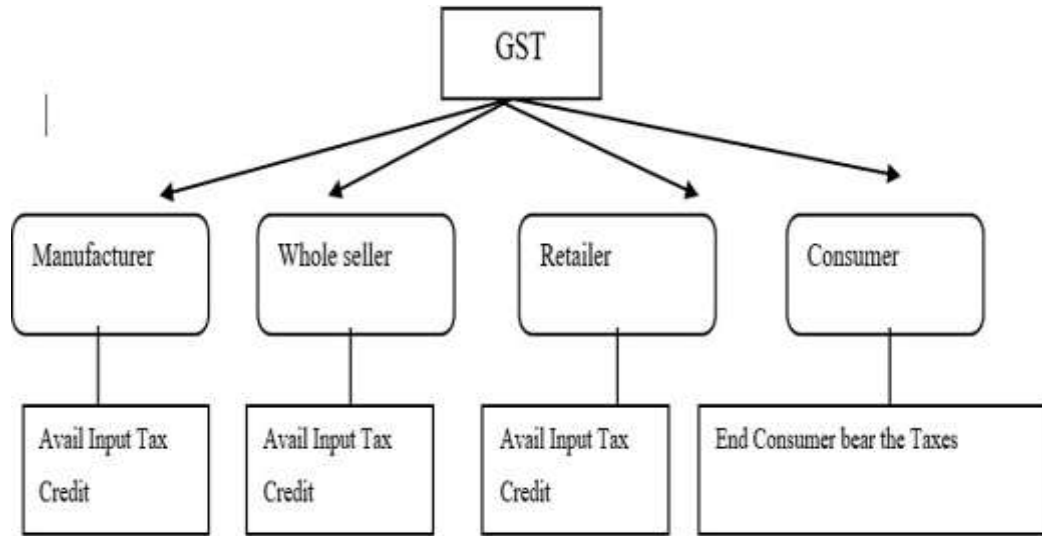


Figure 2. New Indirect Tax Regime (Goods and Services Tax)

Source: [8]

Digital Divide and Regional Disparities:

One major obstacle to the adoption of GST is the digital divide between urban and semi-urban MSMEs. According to Chakraborty (2022), smaller towns lag behind larger cities in adopting automated compliance tools and e-invoicing because of poor internet access and low-tech literacy. In Tirupati, where a large number of MSMEs are family-run and depend on manual bookkeeping, this insight is especially pertinent.

Models of Reform and Policy Reactions:

Several states have experimented with GST compliance-easing reforms in response to these difficulties. These interventions have decreased audit disputes and increased filing rates, indicating that localised support can greatly improve MSME resilience.

Tax structure in the old and new GST regime:

Category	Old GST Rate	New GST Rate	Impact
Small cars	28%	18%	Affordable upgrades in the auto sector
Airconditioners, televisions	28%	18%	Lower cost for big-ticket electronics
Insurance premiums	18%	15% or Nil	Reduced financial burden for households
Daily-use essentials	5%	Nil	Basic items may become tax-free
FMCG & packaged foods (chips, namkeen, ketchup, pasta, butter, ghee, cheese, juices, milk-based beverages)	12% or 18%	5%	Grocery bills set to reduce

Research Gap:

Despite the growing number of studies on GST and MSMEs, there is limited research focused on economies driven by religious tourism, such as Tirupati. The city's unique combination of artisanal industries, agro-processing units, and temple-related businesses creates distinct challenges and opportunities that are not well explored. This paper aims to

address that gap by providing a region-specific analysis of GST's impact and suggesting targeted reforms.

Objectives:

1. To study the challenges of GST faced by MSMEs.
2. To identify the major operational and compliance challenges faced by MSMEs during the transition from the previous tax system to GST.

Research Methodology:

1. Research Design:

This study uses a mixed-methods approach, combining quantitative and qualitative techniques to capture the complex impact of GST on MSMEs in Tirupati. The design is both exploratory and descriptive, focusing on uncovering local challenges and assessing the effectiveness of suggested reforms.

2. Data Sources:

Primary Data:

- Structured Surveys: Carried out among 100 MSME owners in industries like temple crafts, textiles, food processing, etc.
- Semi-Structured Interviews: Carried out among 15 stakeholders, such as GST consultants, tax officers, and MSME association leaders.
- Focus Group Discussions: Carried out among small business owners in Chandragiri and Renigunta industrial zones.

Secondary Data:

- Government reports from the Ministry of MSMEs and GST Council.

Here is a well-structured Research Methodology section tailored for your conference paper on "Breaking Down the New Tax Order: GST Challenges for Tirupati MSMEs". This version balances academic rigour with practical relevance and is designed to fit.

GST on MSMEs:

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the economic growth of India. In the Union Budget 2025, Finance Minister Nirmala Sitharaman announced an important change in the new classification of MSMEs. She announced an increase in the investment limit by 2.5 times and doubled the existing limits in the new classification of MSMEs. This new classification is likely to take effect on April 1, 2025.

3. Sampling Technique:

- Purposive Sampling: MSMEs were selected based on sectoral relevance and turnover range of ₹20 lakh to ₹5 crore.
- Stratified Sampling: MSMEs were selected across both Urban (Tirupati city) and Peri-urban (Chandragiri, Renigunta zones).

4. Data Collection Tools:

- Survey Questionnaire: Likert-scale questions were used to collect information on GST awareness, ease of compliance, refund processes, and digital readiness.
- Interview Schedule: Interview questions were designed to collect information on procedural issues, policy gaps, and reform recommendations.

- Observation Checklist: This was used to collect information during on-site visits to MSMEs.

5. Data Analysis Techniques:

- Quantitative Data Analysis:

- Descriptive statistics like mean, standard deviation.
- Cross-tabulations.
- Regression analysis to identify predictors of complaints.

- Qualitative Data Analysis:

- Thematic analysis of interview transcripts using NVivo.

- Comparative Data Analysis:

- Comparison of findings in Tirupati with similar Tier-2 cities like Madurai and Mysuru. Compliance Patterns and Filing Behaviour:

The survey results showed that the majority of MSMEs in Tirupati, i.e., 72%, are using the Quarterly Return Monthly Payment (QRMP) scheme, whereas the remaining 28% are using the monthly scheme. Among the users of the QRMP scheme, 61% experienced ease of compliance.

Interpretation: The QRMP scheme has been successful in simplifying the compliance procedures for small businesses. The monthly filers, mostly medium-sized businesses, are facing issues in the reconciliation process and errors in the portal.

2. Input Tax Credit and Refund Delays:

A large number of MSMEs, i.e., 57%, experienced delays in the receipt of Input Tax Credit (ITC) refunds, which took more than 45-60 days. Export-oriented units, particularly those in temple crafts and food processing industries, are facing issues.

Interpretation: The results are consistent with the national-level studies that showed that the issues faced by MSMEs include the delay in refunds.

3. Digital Infrastructure and Tech Adoption:

Only 46% of MSMEs surveyed reported using dedicated GST software or mobile apps. Others rely on manual record-keeping and engage the services of chartered accountants. Among the non-users, 70% reported cost and lack of local language support as major obstacles.

Interpretation: Despite the digital push in the GST ecosystem, MSMEs in the Tirupati region continue to experience the digital divide.

4. Qualitative Insights from Stakeholders:

Interactions with MSME owners and tax consultants identified the following issues:

- Compliance fatigue because of the changing regulations and the GST portal's stability issues.
- Mismatch in GST rates applicable to different sectors. For example, temple crafts face a 18% GST rate for inputs and 5% for output. This results in the accumulation of Input Tax Credits (ITC).

Interpretation: This reveals the disparity between the GST policy and the reality faced by MSMEs in Tier-2 towns like

Tirupati.

Key Findings :

1. Administrative Complexity and Compliance Fatigue:

- MSMEs in Tirupati continue to face significant challenges in dealing with GST-related issues such as frequent errors on the GST portal, reconciliation issues, and changing formats of GST returns.
- Despite the introduction of the QRMP scheme, confusion among businesses about eligibility and support from tax consultants remains a concern.

Insight: The procedural complexities involved in GST compliance continue to be a deterrent for MSMEs to achieve full compliance, particularly for micro and family-owned businesses with low financial literacy.

2. Liquidity Constraints Due to Refund Delays:

- Input Tax Credit (ITC) refunds for MSMEs take longer than 45-60 days for exporters.
- This has resulted in a higher dependence on informal sources of credit.

Insight: The inefficiencies in GST refunds have a direct bearing on MSME liquidity, affecting their growth and competitiveness in export-oriented industries such as temple crafts and agro- processing.

3. Policy Implications:

The analysis of the data indicates that although the national-level reforms have started bearing fruit with the implementation of QRMP, the MSMEs in Tirupati need localised interventions in the form of sector-specific rates, faster refunds, and technology adoption.

Strategic Recommendations for GST Reform in Tirupati MSMEs:

A. Regulatory Simplification:

- GST slabs should be simplified to avoid confusion among MSMEs. A two-slab GST structure would be ideal: 5% and 18%.
- The classification of sectors should be clearly defined, especially concerning temple crafts and food processing.

B. Compliance Relief Measures:

- The scope and ease of enrolling under the QRMP should be expanded to more micro businesses.
- GST returns should be pre-filled for small businesses with standardised invoices.

C. Digital Enablement:

- A GST mobile app should be designed and launched in regional languages such as Telugu.
- Free or subsidised cloud accounting software should be made available to MSMEs with a turnover below ₹2 crores.

D. Financial Support and Refund Acceleration:

- MSMEs involved in exports and seasonal businesses should have priority refunds.
- Interest-free loans should be offered to MSMEs in temple craft exports to avoid delays in refunds.

Evolution of GST in India:

YEAR	MILESTONE
2000	Empowered Committee of State Finance Ministers formed
2006	GST was proposed in the Union Budget
2011	Constitution (115th Amendment) Bill introduced
2014	Constitution (122nd Amendment) Bill introduced
2016	Constitution (101st Amendment) Act passed
2017	GST launched on July 1st

Key GST Schemes:

1. E-Way Bill System:

FEATURE	DETAILS
Purpose	Track the movement of goods across states.
Applicability	Mandatory for goods worth > ₹50,000
Benefits	Reduces tax evasion, improves logistics.
Tirupati Impact	Streamlined transport for Tirupati's temple goods, handicrafts, and tourism-related merchandise

2. Input Tax Credit (ITC):

Feature	Details
Purpose	Avoid cascading taxes by allowing credit on inputs.
Eligibility	Businesses registered under GST
Challenges	ITC blockage due to mismatched invoices or non-compliance
Tirupati Impact	Local businesses (hotels, retailers, artisans) benefit from reduced tax burden if compliant.

GST in Tirupati: Local Relevance:

Sector	GST Impact
Tourism	Hotels and travel operators benefit from ITC and simplified tax filing.
Handicrafts	E-Way Bill ensures smoother interstate transport of Tirupati souvenirs.

Religious Institutions	GST exemptions apply to certain services; compliance is needed for commercial activities
Food & Hospitality	Restaurants follow 5% or 18% GST slabs, depending on ITC eligibility.

Below is a complete list of the deep history of GST in India, including various schemes such as the E-Way Bill and Input Tax Credit (ITC), in relation to Tirupati. I have used tables and presented the matter in a concise manner for better impact.

The shift in the taxation system from the existing ones to the Goods and Services Tax has revolutionised the taxation system in the country. However, the challenges and difficulties faced by the Micro, Small, and Medium Enterprises in the regional area of Tirupati are of significant concern. The present study aims at emphasizing the fact that the Goods and Services Tax has made the taxation system simpler and more conducive for the growth of the Micro, Small, and Medium Enterprises in the country. However, the present system of the Goods and Services Tax has made the taxation system more complicated and challenging for the Micro, Small, and Medium Enterprises in the regional area of Tirupati, which is a significant contributor to the industrial growth of Andhra Pradesh.

. By making GST policy more relevant to the operational context of MSMEs in Tirupati, policymakers can maximise tax compliance, financial viability, and development inclusiveness.

Finally, the GST policy must transcend uniformity and move towards sensitivity. The case of Tirupati is a compelling one in this regard, illustrating how localised policy interventions can transform a national policy into a regional empowerment tool.

Challenges & Reforms:

Issue	Reform Direction
Complex filing	Introduction of simplified returns (GSTR-3B, GSTR-1)
ITC mismatches	E-invoicing and auto-matching tools
Fake invoicing	AI-based fraud detection and audits
Multiple slabs	Ongoing discussions to rationalise rates

CONCLUSION:

It has been an attempt to create economic efficiency." However, in Tirupati, where artisanal, agro-processing, and temple-related industries are prevalent, the GST rollout has been anything but smooth.

This research paper has shown that, although the government has implemented policies such as the QRMP scheme and input tax credit mechanisms, their effectiveness is hampered by region-specific challenges. For MSMEs in Tirupati, procedural complexities, refund-related problems, etc., not only create difficulties in the overall GST regime but also put the very viability of MSMEs in Tirupati at risk.

This research paper has shown that GST has the potential to not only address the problems of MSMEs in Tirupati but also to create an environment that would help MSMEs in Tirupati to prosper.

The Goods and Services Tax (GST), introduced in India, has revolutionised the indirect tax system in the country. The GST rollout has, however, exposed the structural and operational issues faced by the Micro, Small, and Medium Enterprises (MSMEs), particularly in the regional economies such as Tirupati. The present study reveals that the GST system, introduced for the ease of doing business and the formalisation of the Indian economy, is putting an undue burden on small businesses.

The MSMEs in Tirupati, specialising in temple crafts, textiles, and agro-based industries, are facing issues such as delays in refunds, inverted duties, digital exclusion, and a lack of support infrastructure. The issues are not only affecting the



growth of these businesses but also limiting their scope for innovation and competitiveness in the region, which contributes significantly to the overall industrial output of Andhra Pradesh.

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