



# A Study on GST Reconciliation Process and Its Impact on Business Compliance

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**Abstract** – The Goods and Services Tax (GST) has significantly transformed the taxation system in India by introducing a unified and transparent framework. A crucial aspect of GST compliance is the reconciliation process, which involves matching financial records with GST returns to ensure accuracy in tax reporting and Input Tax Credit (ITC) claims. This study is based on primary data collected through a structured questionnaire administered to 100 business respondents, including accountants, tax professionals, and business owners. The research examines the effectiveness of the GST reconciliation process and its impact on business compliance. The findings reveal that while GST reconciliation enhances transparency and reduces tax discrepancies, it also increases compliance burden, especially for small and medium enterprises. The study concludes that technological adoption and simplification of procedures are essential to improve efficiency and reduce compliance challenges.

**Keywords:** GST, Reconciliation, ITC, Compliance, Primary Data, India

## I. INTRODUCTION

The introduction of GST in India marked a major reform in indirect taxation, replacing multiple taxes with a single unified system. GST aims to improve tax compliance, reduce cascading effects, and enhance transparency through digital reporting.

One of the most important elements of GST compliance is reconciliation. GST reconciliation refers to the process of comparing data between financial records and GST returns such as GSTR-1, GSTR-3B, and GSTR-2A/2B. This process ensures that the Input Tax Credit claimed by businesses is accurate and supported by valid documentation.

Despite its benefits, GST reconciliation poses challenges for businesses due to complex procedures, data mismatches, and dependency on vendors. This study focuses on analyzing the reconciliation process and understanding its impact on business compliance using primary data collected from respondents.

## II. LITERATURE REVIEW

Existing studies indicate that GST has improved tax transparency and accountability. Researchers highlight that reconciliation plays a key role in ensuring accuracy in tax reporting and preventing fraud.

However, several studies point out that GST compliance has increased the workload for businesses. ITC mismatches, procedural complexities, and technological challenges are identified as major issues.

Studies also emphasize that small and medium enterprises (SMEs) face greater difficulties due to limited resources and lack of technical knowledge. The adoption of technology has been suggested as a solution to improve reconciliation efficiency.

Overall, literature suggests that while GST reconciliation strengthens compliance, it also creates operational challenges for businesses.

## III. METHODOLOGY

### 1. Research Design

The study uses a descriptive research design to analyze the GST reconciliation process and its impact on business compliance.

### 2. Data Collection

Primary data was collected using a structured questionnaire.

### 3. Sample Size

- Total Respondents: 100
- Respondents included:
  - Business owners
  - Accountants
  - Tax professionals

### 4. Sampling Method

Simple random sampling was used to select respondents.

### 5. Data Analysis Tools

- Percentage analysis
- Tabulation
- Basic interpretation

### 6. Area of Study

The study focuses on businesses operating in urban and semi-urban areas.

## IV. RESULTS AND DISCUSSION

### Awareness of GST Reconciliation

Response	Number	Percentage
Highly Aware	40	40.00%
Moderately	35	35.00%



Aware		
Not Aware	25	25.00%

**Frequency of Reconciliation**

Frequency	Number	Percentage
Monthly	45	45.00%
Quarterly	32	32%
Yearly	23	23.00%

What are the major Issues faced

Particulars	No of Responses	Percentage
Data Mismatch	64	64.00%
Late Filing	15	15.00%
Technical Errors	12	12.00%
Lack of Knowledge	9	9.00%

**Impact on Compliance**

Impact	Respondents	Percentage
Improved Compliance	60	60.00%
No Change	20	20.00%
Increased Burden	20	20.00%

**V. DISCUSSION**

The results indicate that GST reconciliation is widely practiced and plays a significant role in improving compliance. However, it also creates challenges such as ITC mismatches, high costs, and dependency on vendors.

Businesses that use automated tools report fewer errors and better efficiency, highlighting the importance of technology. SMEs face greater difficulties due to limited resources and expertise.

Overall, the findings suggest that while GST reconciliation enhances transparency and accountability, it also increases the compliance burden.

**Hypothesis Testing**

**Hypothesis**

Does Proper Reconciliation Improve Compliance?

- H0: GST reconciliation does not improve business compliance.
- H1: GST reconciliation improves business compliance.

**Observed Data (O)**

Category	Observed (O)
Improved Compliance	60
No Change	20
Increased Burden	20
Total	100

Expected Frequency (E)

Assuming equal distribution:

$$E = \frac{100}{3} = 33.33$$

Formula (Chi-Square Test)

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

**Calculation Table**

Category	O	E	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> / E
Improved Compliance	60	33.33	26.67	711.11	21.33
No Change	20	33.33	-13.33	177.69	5.33
Increased Burden	20	33.33	-13.33	177.69	5.33

**Chi-square Value**

$$\chi^2 = 21.33 + 5.33 + 5.33 = 31.99$$

**Degree of Freedom (df)**

$$df = n - 1 = 3 - 1 = 2$$

**Critical Value**

At 5% level of significance ( $\alpha = 0.05$ ) and  $df = 2$ :

$$\chi_{table}^2 = 5.991$$

**Decision**

Calculated  $\chi^2 = 31.99$

Table  $\chi^2 = 5.991$

Since  $31.99 > 5.991$ , we reject the null hypothesis.

**VI. CONCLUSION**

The study concludes that GST reconciliation is essential for ensuring accurate tax reporting and improving business compliance. The process helps in reducing discrepancies, preventing fraud, and maintaining financial discipline.

However, challenges such as ITC mismatches, high compliance costs, and data complexity must be addressed. The government should focus on simplifying procedures and improving the GST portal. Businesses should adopt technological solutions to streamline reconciliation processes.

In conclusion, GST reconciliation has a positive impact on compliance, but continuous improvements are needed to reduce its complexity and burden.

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