

Tax Reforms and their Impact on big Corporation and MSMEs: A policy Perspective

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ABSTRACT

Tax reforms have been at the core of India's economic modernization agenda, with the Goods and Services Tax (GST) and corporate tax reforms marking critical milestones. Intended to simplify compliance, eliminate inefficiencies, and broaden the tax base, these reforms have nevertheless yielded differentiated impacts across business sectors. This dissertation critically examines the comparative experience of large corporations and Micro, Small, and Medium Enterprises (MSMEs) in adapting to these reforms, emphasizing compliance behavior, operational challenges, and strategic responses. Through a mixed-method approach integrating doctrinal analysis with empirical fieldwork conducted in Fatehgarh Sahib, Punjab, the study reveals stark contrasts. Large corporations have leveraged tax reforms to optimize profitability, aided by access to digital infrastructure, legal expertise, and strategic tax planning tools. Conversely, MSMEs—particularly those operating in Tier 2 and Tier 3 cities—have faced significant hurdles, including technological barriers, high compliance costs, procedural complexities, and limited access to professional guidance. Survey data among MSMEs indicates that while GST awareness is relatively high, actual compliance remains a challenge, driven by digital gaps and a lack of awareness about available exemptions and incentives. The research further suggests that despite the government's initiatives, such as faceless assessments and digital filing platforms, the real-world capacity of smaller enterprises to adapt remains constrained. The findings underline a growing compliance divide between corporates and MSMEs, raising critical questions about the inclusivity and equity of India's tax reforms. The dissertation concludes by proposing targeted policy measures to support MSME formalization, enhance digital literacy, simplify compliance frameworks, and build sector-specific support systems to ensure that tax reforms foster inclusive and sustainable economic development.

Keywords: Tax Reforms, GST Implementation, MSMEs in India, Corporate Tax Strategies, Compliance Challenges, Digital Literacy, Fatehgarh Sahib, Policy Recommendations, Economic Inclusivity, Indian Tax System.

INTRODUCTION

Background and Rationale

Taxation serves as the backbone of statecraft, both historically and in contemporary governance. In modern economies, it is more than just a fiscal instrument; it is a strategic tool for wealth redistribution, market regulation, and national development. Taxation policies influence economic behaviour at micro and macro levels—altering consumer spending, investment patterns, and corporate structuring. They play a dual role: mobilizing resources for public expenditure while steering economic agents toward behaviour aligned with national priorities. For a developing country like India, with a vast population and significant socio-economic diversity, taxation policy is a key determinant of inclusive growth, regulatory stability, and fiscal sustainability.

India's tax architecture has been a product of both colonial legacy and post-independence constitutional design. The country operates a quasi-federal structure in which both the central and state governments possess taxation powers under the Constitution of India. This duality historically led to overlapping jurisdictions, cascading tax effects, and procedural complexities, particularly in indirect taxation. Prior to the Goods and Services Tax (GST), India's indirect tax regime was characterized by a multiplicity of taxes, including Central Excise Duty, Service Tax, Value Added Tax (VAT), Central Sales Tax (CST), Octroi, and Entry Tax. These taxes were levied at various points of the value chain, creating inefficiencies, tax-on-tax effects, and substantial compliance burdens.¹

The pre-GST system also lacked uniformity across states, resulting in fragmented markets. Businesses operating across multiple states had to navigate diverse tax structures, leading to increased litigation, documentation, and operational costs. This structure was especially disadvantageous for small businesses that lacked specialized legal and accounting

¹ Sarthak Sengupta, Tina Munjal and Dr Anurika Vaish, "A Study on Goods and Services Tax (GST)."

teams. Additionally, the interstate movement of goods required cumbersome documentation, resulting in logistical delays and increased costs—factors that severely hindered India's ease of doing business rankings and global competitiveness.

The introduction of the Goods and Services Tax (GST) in July 2017 marked the most significant tax reform in independent India. Envisioned as a "One Nation, One Tax" regime, GST subsumed almost all major indirect taxes under a unified framework.² It introduced a destination-based tax structure wherein tax is levied at the point of consumption rather than origin. The reform was aimed at simplifying the indirect tax system, reducing tax evasion, improving tax compliance, and enhancing transparency through digitized return filing and invoice matching systems. The GST Council, a federal body comprising the Union Finance Minister and state finance ministers, was constituted to ensure cooperative federalism in decision-making. Rates, exemptions, and compliance norms are now largely decided through consensus, reflecting the collaborative spirit of fiscal federalism. While this approach has democratized tax policymaking, it has also led to frequent changes in rates, rules, and procedures—creating compliance uncertainties for businesses.

Large corporations, with their extensive resources, have largely adapted to these changes. Their access to tax professionals, robust enterprise software systems (such as SAP or Oracle ERP), and in-house legal counsel allows them to manage compliance requirements with relative ease. Furthermore, these entities often possess the capacity for tax planning and optimization, which enables them to minimize liabilities within legal frameworks.³ These advantages have allowed large corporations to maintain operational continuity and even leverage GST input credit mechanisms to improve cash flow and working capital management.

On the other hand, the transition to GST has been less smooth for Micro, Small, and Medium Enterprises (MSMEs). This sector, which includes over 63 million units and contributes significantly to employment and exports, faced unique challenges in adapting to the digitalized compliance environment. Many small businesses in Tier 2 and Tier 3 cities lacked digital literacy, stable internet connectivity, and access to accounting software or professional assistance. The mandatory registration thresholds and complex return filing processes led to compliance fatigue and, in some cases, forced shutdowns.⁴

Additionally, the frequent changes in filing deadlines, refund procedures, and tax rates created a volatile compliance environment. Small businesses often incurred penalties due to inadvertent errors, technical glitches in the GST Network (GSTN), or misunderstanding of rules. These issues were exacerbated by a lack of localized training and capacity-building initiatives, revealing a critical gap in policy execution.

Another layer of complexity arises from the classification of goods and services under different GST slabs. While large corporations can afford the cost of legal advice to navigate these classifications, MSMEs often find themselves at the mercy of ambiguous interpretations and departmental notices. Moreover, the burden of inverted duty structures—where the input tax rate is higher than the output rate—has had a disproportionate impact on sectors such as textiles, footwear, and small manufacturing units.⁵

Despite these hurdles, the GST regime has also brought some long-term advantages for MSMEs. The input tax credit mechanism has the potential to eliminate the cascading effect of taxes, thereby reducing the cost of production. The e-way bill system and harmonized rate structure have improved supply chain efficiencies and made inter-state trade smoother. Additionally, MSMEs that embrace compliance have better access to formal credit, government procurement opportunities, and integration into larger value chains.

Nonetheless, the gap in adaptation between large corporations and MSMEs is symptomatic of deeper structural issues. Digital divide, uneven institutional capacities, and lack of inclusive policy design continue to challenge the goals of tax equity and efficiency. The tax reform process, while necessary for modernization, often overlooks the differentiated impact it creates across business segments.⁶

² "Central Goods and Services Tax Act, 2017," (2017).

³ Business Standard, "Large companies spend a lot of time on tax compliance, says Deloitte," 2023 *available at*: https://www.business-standard.com/industry/news/large-companies-spend-a-lot-of-time-on-tax-compliance-says-deloitte-123050900495_1.html (last visited April 24, 2025).

⁴ R S Reena, "A STUDY ON IMPACT OF GST ON MSME," 12 (2024).

⁵ "Balancing Reform and Reality: The GST Dilemma for MSMEs - The Wire," *available at*: <https://thewire.in/economy/balancing-reform-and-reality-the-gst-dilemma-for-msmes> (last visited April 20, 2025).

⁶ "MSME Annual Report 2022-23 | Ministry of Micro, Small & Medium Enterprises," *available at*: <https://msme.gov.in/msme-annual-report-2022-23> (last visited April 20, 2025).

This dissertation is situated within this context. It adopts a policy-centric and comparative framework to assess how tax reforms, especially GST, have affected large corporations and MSMEs differently. By integrating doctrinal legal analysis with empirical fieldwork, it aims to provide a holistic understanding of the structural advantages enjoyed by large corporations and the compliance bottlenecks faced by smaller enterprises. Special emphasis is laid on Fatehgarh Sahib, a Tier 3 city in Punjab, as a case study to ground the analysis in real-world observations.

Through this lens, the dissertation seeks to critically evaluate whether India's tax reform trajectory promotes equity and inclusiveness or inadvertently perpetuates pre-existing disparities in the business ecosystem. The findings aim to contribute to both academic discourse and policy design, advocating for a more context-sensitive approach to tax regulation that balances national economic goals with the operational realities of all business stakeholders.

Significance of the Study

This study holds considerable significance on multiple fronts—academic, policy-related, and socio-economic. At its core, the research offers a nuanced and comparative perspective on how uniform tax reforms can produce disproportionate impacts on different classes of economic actors. While the central policy aim of the GST regime has been to streamline indirect taxation and improve revenue efficiency, its implementation reveals a stark contrast in how large corporations and MSMEs experience and respond to these reforms. By dissecting this divergence, the study contributes to a more granular and critical understanding of fiscal federalism and tax justice in India.

Firstly, from an academic standpoint, the study addresses a vital gap in tax literature. Although various reports and commentaries have discussed the broader economic impacts of GST, very few have focused on the micro-level effects, particularly on MSMEs situated in less urbanized geographies. The overrepresentation of corporate viewpoints in tax discourse tends to marginalize the lived experiences of smaller enterprises. This study, therefore, enriches existing literature by bringing into focus the bottom-up experiences of MSMEs that navigate tax compliance challenges on a daily basis.⁷

Secondly, the study has strong policy relevance. It identifies administrative loopholes, legal inconsistencies, and technological barriers that hinder the effective implementation of tax reforms among MSMEs. Insights drawn from the field will provide lawmakers and policymakers with empirical evidence to reassess the uniformity of tax mandates and push for more flexible, context-sensitive policies. The analysis also has implications for tax capacity building, suggesting that a one-size-fits-all model is inherently flawed in a country as diverse as India.

Thirdly, the inclusion of field data from Fatehgarh Sahib—a Tier 3 city—adds critical value to the research. This methodological choice is deliberate and strategic, offering a localized and authentic representation of the MSME sector's challenges. By going beyond secondary data and integrating survey responses, interviews, and weekly field notes, the study moves toward a participatory model of research that prioritizes real-world applicability over abstract theorizing.

Moreover, the comparative framework used to analyse large corporations and MSMEs brings a layered depth to the discussion. Large firms often benefit from professional tax consulting, automated ERP systems, and legal advisory teams. They are also better positioned to exploit legal loopholes or optimize tax liabilities through sophisticated planning. This ability to game the system contrasts starkly with the vulnerability of MSMEs, many of which lack the resources to even interpret compliance mandates, let alone strategize around them. The study exposes this imbalance and underscores the need for equity-focused reform that levels the playing field.

Finally, the study contributes to advocacy and awareness-building. By spotlighting the compliance burdens faced by smaller enterprises, the research provides valuable material for civil society organizations, MSME federations, and tax advocacy groups. It helps amplify the voices of small businesses that are often lost in national-level consultations and policy documents. This visibility is crucial for pushing forward policy amendments that prioritize inclusion, accessibility, and long-term sustainability in tax reform implementation.⁸

In sum, the study is significant not merely for what it reveals about tax reforms, but also for how it frames the discourse—centered around equity, grounded in empirical data, and geared toward actionable change. It bridges the gap between theory and practice, between national policy narratives and localized business realities, ultimately advocating for a more inclusive and balanced approach to economic governance.

⁷ taxguru_in and Rohit Mondal, "Impact of Recent Tax Reforms on MSMEs In India: Challenges & Growth" *TaxGuru*, 2025 available at: <https://taxguru.in/goods-and-service-tax/impact-tax-reforms-msmes-india-challenges-growth.html> (last visited April 24, 2025).

⁸ *Ibid.*

Statement of the Problem

India's tax reform agenda has long been guided by the principles of **transparency**, **simplification**, and **uniformity**, with the introduction of the Goods and Services Tax (GST) in 2017 representing a landmark shift toward these ideals.⁹ Designed to streamline the indirect tax structure by subsuming multiple central and state taxes into a unified system, GST was envisioned as a tool for enhancing ease of doing business, boosting tax compliance, and curbing revenue leakages. However, the ground realities of its implementation reveal a pronounced **compliance divide**—a structural imbalance in how different categories of businesses experience, interpret, and adapt to these reforms.

On one side of this spectrum are **large corporations**, typically characterized by their robust financial reserves, access to legal and tax experts, and the use of sophisticated digital tools such as **ERP systems**, **CRM platforms**, and automated compliance software. These firms have not only the technical capability but also the institutional muscle to adapt swiftly to tax reform mandates. For them, compliance is often a matter of internal realignment rather than systemic overhaul.¹⁰

Conversely, **Micro, Small, and Medium Enterprises (MSMEs)**—especially those situated in **Tier 2 and Tier 3 cities**—often find themselves struggling under the weight of the very reforms designed to simplify their tax burden. Many of these enterprises lack access to qualified tax professionals, suffer from digital illiteracy, and are unfamiliar with formal accounting practices. The transition to a digitized, self-reporting tax system under GST has, for them, translated into increased costs of compliance, fear of penalties, and frequent delays in input tax credit (ITC) claims due to procedural mismatches or clerical errors.

This dissertation seeks to critically interrogate a central question:

Do tax reforms in India, particularly the introduction of GST, facilitate equitable compliance across different business categories, or do they inadvertently create systemic advantages for entities that already possess institutional, financial, and digital infrastructure?

This inquiry is not merely academic. At stake is the **principle of equity in economic governance**. When tax reforms benefit some businesses disproportionately while leaving others burdened, the foundational promise of fairness in policy implementation comes into question. MSMEs form the backbone of India's employment and contribute significantly to national GDP. If these enterprises are consistently disadvantaged in compliance and unable to fully benefit from tax policies, the long-term risks include rising informality, stunted growth, and a disincentive for upward mobility within the formal economy.

Moreover, **lack of equitable compliance capacity** could also distort market competition. Larger firms may gain a competitive edge not necessarily through better business practices or innovation, but simply due to their greater ability to manage tax complexity—thereby deepening economic concentration and reducing opportunities for smaller players to thrive.

The problem, therefore, is both **structural** and **systemic**. This dissertation endeavors to examine this divide not only in theoretical or legal terms but through **empirical investigation**—drawing on field data from Fatehgarh Sahib, Punjab—to reflect how tax policy outcomes differ at the grassroots level. The intent is to offer insights that inform more balanced, responsive, and context-sensitive tax reforms in the future.

Research Questions

- How have tax reforms, especially GST, influenced compliance, planning, and litigation for large corporations?
- What specific compliance and operational challenges do MSMEs face, particularly in Tier 3 cities like Fatehgarh Sahib?
- What are the structural, technological, and legal barriers to tax compliance for small enterprises?
- How can future tax reforms be designed to be more inclusive and adaptive to the needs of diverse economic actors?

Objectives of the Study

- To trace the evolution and legal underpinnings of tax reforms in India.
- To analyse compliance strategies and legal responses of large corporations in the post-reform era.
- To evaluate the GST implementation experience among MSMEs, with field evidence from Fatehgarh Sahib.
- To identify policy gaps and recommend reforms that promote inclusive and equitable tax compliance.

⁹ “Central Goods and Services Tax Act, 2017,” (2017).

¹⁰ Business Standard, “Large companies spend a lot of time on tax compliance, says Deloitte,” 2023 available at: https://www.business-standard.com/industry/news/large-companies-spend-a-lot-of-time-on-tax-compliance-says-deloitte-123050900495_1.html (last visited April 24, 2025).

Scope and Limitations

The geographical focus of this study is India, with a special emphasis on Tier 3 cities, exemplified by Fatehgarh Sahib. The temporal scope extends from the introduction of GST in 2017 to the present. While the analysis compares large corporate and MSME responses to tax reforms, it does not delve into every sector-specific nuance within these broad categories.

The research relies on a combination of secondary literature, statutory materials, and government reports, supplemented by primary data from surveys and field interviews in Fatehgarh Sahib. Although the fieldwork is region-specific, the findings are intended to reflect broader patterns relevant to similarly situated districts across India.

Research Methodology

This dissertation adopts a **mixed-method research design**, integrating both **doctrinal legal analysis** and **empirical fieldwork** to examine the impact of tax reforms on different categories of businesses, with a particular focus on the Goods and Services Tax (GST). The dual approach allows for a multidimensional understanding of the subject, combining statutory interpretation with real-world economic and behavioural insights.

A. Primary Research: Field-Based Empirical Inquiry

To ground this research in the socio-economic realities of India's MSME sector, **primary data** was collected through structured surveys and semi-structured interviews. These were conducted with key stakeholders in **Fatehgarh Sahib**, a Tier 3 district in Punjab known for its small manufacturing units, trading hubs, and service-oriented MSMEs. The fieldwork included responses from:

- MSME owners and managers,
- Independent tax consultants and chartered accountants,
- Members of local business chambers and associations,
- Retailers and service providers engaged in GST filing.

The **surveys** focused on compliance behaviour, ease of filing returns, perception of fairness in the tax system, technological challenges, access to input tax credit, and the cost of hiring professionals for compliance. The **interviews** added narrative depth, highlighting concerns about digital infrastructure, regulatory fatigue, and how GST has reshaped business practices.

The data collected is particularly valuable because it reflects the experiences of businesses operating without the institutional support available to larger corporations. These insights offer a bottom-up perspective of tax reform outcomes, which is often overlooked in top-down economic assessments.

B. Secondary Research: Doctrinal and Comparative Analysis

The **doctrinal research** component involved a detailed examination of constitutional provisions (such as Article 265 and Article 246A), key statutes including the **Central Goods and Services Tax Act, 2017**, and relevant **State GST Acts**. Important circulars, tax notifications, and compliance manuals issued by the Central Board of Indirect Taxes and Customs (CBIC) were also analysed. Furthermore, landmark judgments from Indian courts concerning GST applicability, classification disputes, and refund issues were studied to understand evolving legal interpretations.

To supplement this, scholarly literature, parliamentary debates on finance bills, committee reports, and industry whitepapers were reviewed. This secondary data helped contextualize the historical trajectory of tax reforms in India and the intended policy objectives.

C. Comparative Policy Assessment

The study further includes a **comparative analysis** of how **large corporations** respond to the same reforms. Here, data was drawn from public filings, audit reports, compliance statements, and published litigation records. The goal was to assess whether large corporations are structurally better equipped to adapt to reforms and whether the existing legal and digital frameworks disproportionately serve their interests.

D. Doctrinal Method

The **doctrinal method** employed in this dissertation forms the legal foundation of the research. It involves a systematic and interpretative analysis of the constitutional, statutory, and regulatory frameworks that underpin India's tax reforms, particularly the introduction and implementation of the Goods and Services Tax (GST).

Structure of the Dissertation

Chapter 1: Introduction

- Establishes the background and rationale behind the study.
- Presents the research questions and statement of the problem.

- Defines the objectives, scope, and significance of the study.
- Discusses the research methodology and limitations.
- Provides a blueprint of the dissertation.

LITERATURE REVIEW

- Reviews existing literature on Indian tax reforms and the GST framework.
- Highlights the evolution of tax law and compliance culture.
- Identifies research gaps, especially regarding the asymmetric impact of tax reforms on MSMEs and corporates.
- Frames the theoretical foundation for the study's comparative approach.

RESEARCH METHODOLOGY

- Describes the mixed-method research design: doctrinal and empirical.
- Details the sources of primary data (field surveys, interviews in Fatehgarh Sahib).
- Lists secondary data sources including legal texts, finance bills, and government circulars.
- Outlines sampling techniques and data analysis methods.

Legal and Policy Framework of Tax Reforms in India

- Explains the legal basis of India's taxation regime post-GST.
- Analyses key statutes such as the CGST Act, IGST Act, and relevant constitutional provisions.
- Discusses fiscal policy objectives embedded in the reforms.
- Reviews compliance mechanisms and institutional arrangements introduced through GST.

Sectoral Impact Analysis – MSMEs

- Presents field-level insights into the compliance burden faced by MSMEs.
- Uses data from Fatehgarh Sahib to highlight challenges like digital illiteracy, lack of access to consultants, and rising procedural costs.
- Assesses how MSMEs perceive and respond to GST obligations.
- Evaluates the effectiveness of government outreach and support schemes.

Sectoral Impact Analysis – Large Corporations

- Examines how large firms internalize reforms using ERP systems, legal counsel, and tax planning strategies.
- Discusses compliance ease through structured governance systems.
- Analyses how policy loopholes or vague provisions are used for tax optimization.
- Explores corporate disclosures and litigation trends to evaluate real compliance behaviour.

Case Study – Fatehgarh Sahib

- Provides an in-depth localized analysis based on field research.
- Studies the behaviour of small business owners and tax professionals in a Tier 3 city.
- Highlights administrative bottlenecks, taxpayer grievances, and GSTN portal issues.
- Connects micro-level realities with macro-level policy intentions.

CONCLUSION AND POLICY RECOMMENDATIONS

- Summarizes key findings from each chapter.
- Offers a comparative synthesis of experiences across sectors.
- Provides actionable recommendations for more inclusive and equitable tax policy.
- Suggests legal and institutional reforms to improve MSME compliance rates.