

THE FINANCIAL CHALLENGES ON GST FACED BY STARTUPS IN THE DIGITAL BUSINESS ENVIRONMENT

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Abstract

In the rapidly growing digital economy, startups increasingly depend on online platforms and digital technologies to operate and expand their businesses. However, the implementation of the Goods and Services Tax (GST) has introduced several financial and compliance challenges for these startups. This study examines the major financial difficulties faced by startups in the digital business environment due to GST regulations. The research focuses on issues such as GST compliance costs, cash flow constraints, input tax credit management, and the complexity of filing procedures. Primary data is collected through structured questionnaires distributed among startup entrepreneurs, while secondary data is obtained from journals, articles, and government reports. Analytical tools such as percentage analysis and basic statistical methods are used to interpret the data. The findings reveal that GST compliance requirements often increase operational costs and create financial strain for startups. The study suggests simplifying GST procedures and providing policy support to ensure sustainable growth of digital startups.

Keywords: *GST, Digital Startups, Financial Challenges, Input Tax Credit, Cash Flow Management*

Introduction

The emergence of the digital economy has significantly transformed the business landscape, enabling startups to operate through online platforms, digital payment systems, and e-commerce channels. In India, many startups rely on technology-driven models such as online marketplaces, fin tech services, and digital marketing platforms. While these innovations have created numerous opportunities for entrepreneurs, regulatory frameworks such as the Goods and Services Tax (GST) have also introduced new financial and compliance challenges. GST was introduced in India to simplify the indirect tax system by replacing multiple taxes with a unified tax structure. Although GST aims to create transparency and efficiency in taxation, startups—particularly those operating in digital environments—often struggle to adapt to its requirements. Compliance with GST regulations involves costs related to tax filing, accounting software, professional services, and maintaining accurate financial records. For startups with limited financial resources, these additional expenses can become a significant burden.

Another major issue faced by digital startups is cash flow management. GST requires businesses to pay tax on invoices even before receiving payments from customers, which can create liquidity problems. Moreover, delays in claiming input tax credit (ITC) and complicated filing procedures further increase financial pressure on startups. In addition, digital businesses frequently operate across multiple states, which requires GST registration in different jurisdictions and increases administrative complexity. This situation often results in higher compliance costs and operational challenges for startups. Therefore, understanding the financial challenges associated with GST is essential for identifying strategies that can support the growth and sustainability of startups in the digital business environment.

Statement of the Problem

Startups operating in the digital business environment face numerous financial and operational challenges due to the implementation of GST. While GST was designed to simplify taxation and improve transparency, its compliance requirements often create difficulties for small and emerging businesses. Many startups struggle with high compliance costs, frequent filing requirements, complex tax procedures, and delays in claiming input tax credits. These challenges can lead to cash flow constraints, increased operational costs, and reduced financial stability. Since startups play a crucial role in innovation and economic development, it is important to examine how GST affects their financial performance and growth. This study aims to analyze the financial challenges faced by startups under GST and identify possible measures to reduce these difficulties.

Objectives of the Study

- To analyze the financial challenges related to GST faced by startups in the digital business environment.
- To identify issues such as GST compliance costs, cash flow constraints, and input tax credit management faced by startups.
- To examine how GST-related challenges affect the financial stability and growth of digital startups.

Scope of the Study

This study focuses on startups operating in the digital business environment, including online service providers, e-commerce businesses, and technology-based enterprises. The research mainly examines the financial challenges arising from GST implementation, such as compliance costs, filing procedures, tax payment issues, and input tax credit management. The study aims to understand how these challenges influence the financial performance and sustainability of startups. The findings may help policymakers and entrepreneurs identify practical solutions to improve GST compliance and support startup growth.

Research Methodology

This study adopts a descriptive research design to analyze the financial challenges of GST faced by startups in the digital business environment. Both primary and secondary data sources are used in the research. Primary data is collected through structured questionnaires distributed among startup entrepreneurs and digital business owners. Secondary data is obtained from academic journals, government publications, reports, and relevant online resources.

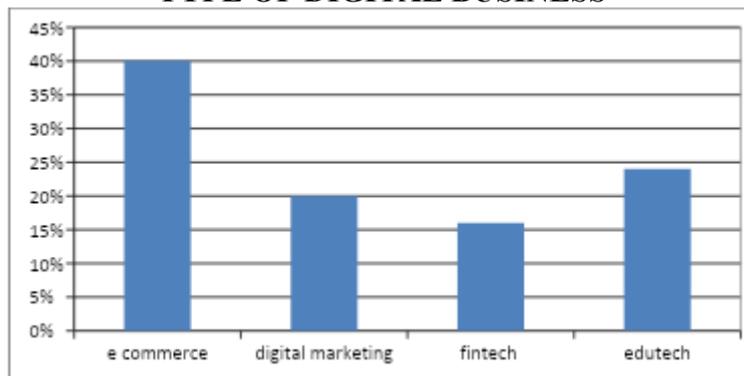
A convenient sampling method is used to select respondents for the study. The collected data is analyzed using simple percentage analysis and statistical techniques to understand the financial impact of GST on startups. The research aims to provide meaningful insights into the challenges faced by digital startups and suggest possible improvements in the taxation system.

Review of Literature

Several studies have examined the impact of GST on businesses, particularly small enterprises and startups. According to GARG (2018), GST has improved tax transparency but has increased compliance costs for small businesses due to frequent filing requirements and documentation procedures. Similarly, Kumar and Sharma (2019) observed that startups often experience difficulties in managing input tax credits and maintaining proper accounting records under the GST system. Another study by Singh (2020) highlighted that digital businesses operating across multiple states face additional compliance burdens due to the need for multiple GST registrations. The research also indicated that many startups lack adequate knowledge about GST rules and regulations, which further complicates tax compliance. Overall, previous research suggests that while GST has simplified the indirect tax system in India, startups continue to face financial and administrative challenges in adapting to the new taxation framework.

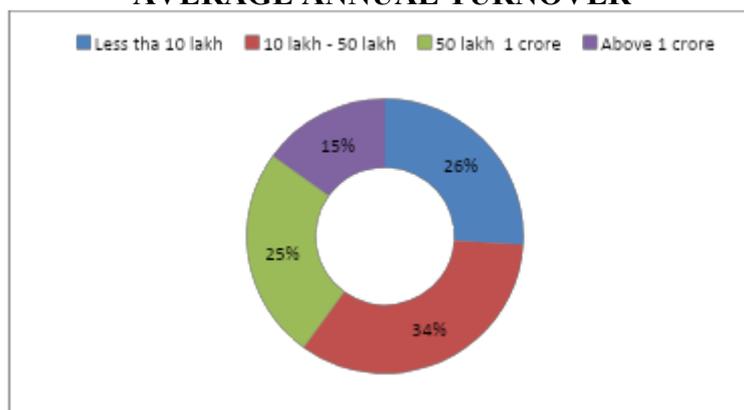
Data Analysis and Interpretation

TYPE OF DIGITAL BUSINESS



E-commerce startup segment holds the largest sector.

AVERAGE ANNUAL TURNOVER



Majority of (34%) earns over 10 lakhs to 50 lakhs annually

Results and Discussion

The study indicates that GST compliance poses several financial challenges for startups operating in the digital business environment. One of the major issues identified is the high cost of compliance. Startups often need to hire tax professionals or purchase accounting software to manage GST filing and reporting requirements. These additional expenses increase operational costs and reduce profitability. Another significant challenge is cash flow management. Since GST payments are required to be made at the time of invoice generation, startups may face liquidity issues if customers delay their payments. This situation affects the working capital and financial stability of startups.

The study also highlights difficulties in managing input tax credits. Delays in ITC claims and mismatches in invoices can create financial strain and increase administrative workload. Furthermore, startups operating in multiple states must comply with different GST registration requirements, which increases complexity and costs. Overall, these challenges indicate that startups require better support systems, simplified tax procedures, and increased awareness programs to effectively manage GST compliance.

Conclusion

The implementation of GST has significantly transformed the taxation system in India. While it aims to simplify tax structures and improve transparency, startups in the digital business environment continue to face several financial challenges in adapting to GST regulations. Compliance costs, cash flow constraints, and difficulties in managing input tax credits are among the key issues affecting startups. Addressing these challenges is essential for promoting innovation and supporting entrepreneurial growth. Simplifying GST procedures, improving digital filing systems, and providing training programs for startups can help reduce compliance burdens. Policymakers should also consider introducing supportive measures specifically designed for startups to enhance their financial sustainability and

growth. In conclusion, overcoming GST-related challenges will enable startups to fully utilize digital opportunities and contribute more effectively to economic development.

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