

GST and Accounting Standards Updates: Impact on Small Businesses in India

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ABSTRACT

The research investigates how the Goods and Services Tax (GST) together with Accounting Standards Updates (ASU) affect small business operations throughout India. The GST system became operational on July 1, 2017 to establish a single indirect tax system which replaced the previous multiple tax system to enhance business operations through simplified tax compliance. The research applies secondary data methods to analyse 128 sources, which include government reports, academic journals, SSRN working papers, RBI publications, and industry reports from 2015 until 2026. The research shows that small businesses face an average GST compliance cost of Rs. 88,000 each year which equals 2.2 percent of their total revenue, while micro enterprises face higher costs than other businesses. The financial effects of GST implementation have been positive because it eliminates tax duplication through its simplified tax system, yet it creates new operating expenses which affect about 60 percent of companies. The implementation of technology has resulted in a twofold increase in adoption rates while it stands as the most vital factor which determines its effects, yet major disparities between urban and rural areas continue to exist in digital access. The knowledge about accounting standards remains insufficient because less than 40 percent of micro business owners understand the standards which apply to their operations. The research offers 22 evidence-based recommendations which policymakers, the GST Council, ICAI, and additional stakeholders need to follow for compliance simplification, digital infrastructure enhancement, composition scheme transformation, and GST compliance integration with financial reporting systems.

Keywords: *Goods and Services Tax, small businesses, MSMEs, Accounting Standards Update, Ind AS, compliance costs, input tax credit, composition scheme, digital transformation, India*

CHAPTER 1: INTRODUCTION AND LITERATURE REVIEW

1.1 Introduction

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, marking one of the most significant indirect tax reforms in the country's post-independence economic history. GST replaced a complex, multi-layered indirect tax structure encompassing Central Excise Duty, Service Tax, Value Added Tax, Central Sales Tax, Entry Tax, Octroi, and several other state and central levies. Its primary objective was to create a unified national market by eliminating the cascading effect of taxes, simplifying tax administration, and promoting ease of doing business across the Indian economy. The Indian GST operates through a dual model comprising Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for inter-state transactions, a structure designed to accommodate India's federal governance framework while achieving tax harmonisation.

Small businesses form the backbone of the Indian economy, with approximately 63 million micro, small, and medium enterprises contributing nearly 30 percent of GDP and employing over 110 million people (Ministry of MSME). The transition to GST brought both opportunities and challenges for these businesses. The input tax credit (ITC) system and the composition scheme were designed to ease the burden on smaller enterprises; however, mandatory digital compliance through the GSTN portal, the requirement for multiple return filings, and frequent regulatory amendments imposed significant adjustment costs on businesses with limited financial and human resources. Concurrently, the progressive alignment of Indian accounting standards with International Financial Reporting Standards (IFRS) through Indian Accounting Standards (Ind AS), alongside periodic updates to standards applicable to smaller entities, has created an additional compliance dimension intersecting significantly with the GST framework in areas of revenue recognition, inventory valuation, input tax credit accounting, and financial statement presentation.

1.2 Literature Review

The theoretical foundations of this study rest on four complementary frameworks. The Theory of Optimal Taxation, significantly advanced by Ramsey (1927) and Diamond and Mirrlees (1971), provides the conceptual basis for GST: the Diamond–Mirrlees production efficiency theorem establishes that an optimal tax system should not distort production decisions, and that intermediate goods should be exempt to prevent cascading, a principle realised through the ITC mechanism. Compliance Cost Theory, pioneered by Sandford (1973) and Sandford, Godwin, and Hardwick (1989), posits that the costs incurred by taxpayers in meeting tax obligations are significant and tend to be regressive, with compliance costs as a proportion of turnover disproportionately higher for smaller businesses, a prediction validated internationally by Evans, Lignier, and Tran-Nam (2013) in Australia and Hansford and Hasseldine (2012) in the United Kingdom. Institutional Theory (DiMaggio and Powell, 1983) explains the adoption of accounting standards through coercive pressures from regulatory authorities such as the Ministry of Corporate Affairs, mimetic pressures arising from global best practices in financial reporting, and normative pressures from professional bodies including the Institute of Chartered Accountants of India (ICAI). The Resource-Based View (Barney, 1991) explains the heterogeneity of GST impact: firms' ability to navigate compliance depends critically on their access to skilled accounting personnel, technology infrastructure, financial reserves, and managerial expertise.

The empirical literature on GST's impact on small businesses is extensive and consistent in its core finding of mixed outcomes. Bhalla, Sharma, and Kaur (2023), analysing 404 MSMEs using partial least square structural equation modelling, found that while GST improved ease of doing business and operational efficiency, the compliance system increased the compliance burden and negatively affected performance. Kashyap (2025) found significant compliance costs and cash flow difficulties persisting despite structural tax simplification. Hussain and Riyaz (2025) identified cash flow constraints, digital literacy challenges, return filing complexities, and compliance expenses as persistent concerns. Vishnuhadevi and Hima Bindu (2022) estimated that GST compliance consumed approximately 50 percent of total internal tax compliance time for micro businesses in Tamil Nadu. Goel and Sharma (2025) highlighted that delays in input tax credit refunds created significant working capital stress, while digitally capable medium-sized firms benefited more substantially from improved interstate trade. On the accounting standards dimension, research across 1,288 companies found that 87 percent showed material changes in shareholders' funds upon transitioning from GAAP to Ind AS (ResearchGate, 2020), demonstrating the substantive financial reporting impact of accounting standards evolution.

CHAPTER 2: RESEARCH GAP, QUESTIONS, AND OBJECTIVES

2.1 Research Gap

Despite the substantial body of research on GST impact, several significant gaps remain. Most existing studies examine individual dimensions, compliance costs, operational efficiency, or sectoral impacts, without integrating them into a single analytical framework capturing their cumulative effect on small business operations and financial performance. The existing literature on accounting standards in India focuses predominantly on large companies subject to Ind AS requirements, with limited research on the implications for small businesses operating under different frameworks and facing distinct resource constraints. Most critically, there is a significant gap in research examining the intersection of GST compliance and accounting standards compliance for small businesses. In practice, small businesses must simultaneously manage both sets of requirements, and their interaction creates unique challenges in revenue recognition, inventory valuation, input tax credit accounting, and financial statement presentation that have not been adequately explored. Additionally, much existing research is based on data from the initial implementation years (2017–2020) and does not reflect the three-phase evolution of the GST framework identified in this study, nor the adaptation patterns that have emerged as the system has matured.

2.2 Research Questions

1. How has GST implementation affected the operational efficiency, compliance costs, and financial performance of small businesses across the three implementation phases from 2017 to 2026?
2. What are the primary challenges faced by small businesses in complying with GST and ASU requirements, and how do they vary across business sectors, sizes, and geographical regions?

3. What organisational capabilities, resources, and support mechanisms are associated with successful adaptation to the GST and ASU frameworks, and what evidence-based policy interventions can enhance small business compliance while maintaining their competitiveness and growth trajectory?

2.3 Research Objectives

1. To analyse the impact of GST implementation on the operational efficiency, compliance costs, and financial performance of small businesses across sectors, sizes, and geographical regions, examining the transition from the pre-GST multi-tax regime to the unified GST framework.
2. To assess the challenges faced by small businesses in adapting to GST and ASU requirements, and to evaluate the impact of Accounting Standards Updates on financial reporting practices, particularly in relation to GST-related accounting treatments including revenue recognition, inventory valuation, and input tax credit accounting.
3. To identify the key organisational, technological, and contextual factors determining successful adaptation to the GST and ASU frameworks, and to provide evidence-based recommendations for policymakers, regulatory bodies, accounting professionals, and small business stakeholders.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

This study employs a descriptive and analytical research design based entirely on secondary data. The research philosophy is pragmatism (Creswell and Creswell, 2018), which allows drawing upon multiple types of existing data sources, quantitative government statistics and qualitative case study findings, consistent with the ontological position that GST's impact is shaped by complex interactions between regulatory frameworks, business characteristics, and the broader economic environment. Within this pragmatist framework, the study adopts a positivist orientation for quantitative secondary data analysis and an interpretivist orientation for qualitative synthesis. The research design follows a systematic review approach integrating quantitative data from government databases and statistical reports with qualitative findings from published case studies, interview-based research, and expert commentaries, enabling triangulation across multiple sources to enhance validity and reliability. The study also employs a longitudinal perspective covering 2015 to 2026, capturing the temporal evolution of GST's impact through three identifiable phases: transition and disruption (2017–2019), stabilisation and adaptation (2019–2022), and maturation and optimisation (2022–present).

3.2 Data Collection and Analytical Approach

The study synthesises 128 secondary data sources across six categories: government and regulatory sources including GST Council reports, GSTN data, Ministry of MSME Annual Reports, RBI publications, NSSO data, and MCA notifications; academic journal articles from SSRN, Google Scholar, Scopus, and Web of Science targeting journals including SAGE Open, the Journal of Small Business and Enterprise Development, and Technology in Society; SSRN working papers including key studies by Kashyap (2025), Bhayani (2024), and Prajapati (2025); industry and professional body reports from ICAI, CII, FICCI, ASSOCHAM, World Bank, IMF, and OECD; RBI and statistical publications on credit flow and MSME sector performance; and media sources from the Economic Times, Business Standard, and Mint. Data collection followed a four-stage systematic process of identification and scoping, search and retrieval using Boolean operators with terms including 'GST compliance cost small business,' 'input tax credit MSME,' and 'Ind AS SME impact,' screening against inclusion criteria of relevance, source credibility, and analytical sufficiency, and data extraction into structured spreadsheets and thematic matrices. Quantitative data was analysed using trend analysis, comparative analysis, ratio analysis, and meta-analytical synthesis of compliance cost estimates across studies. Qualitative data was analysed through thematic synthesis following Thomas and Harden (2008) across three stages: line-by-line coding, development of descriptive themes, and generation of analytical themes. Six research propositions, on regressive compliance costs, mixed financial performance, technology moderation, scheme-based differences, accounting standards influence, and size or sector or location moderation, guided the analysis and were tested against the secondary evidence.

CHAPTER 4: ANALYSIS AND INTERPRETATION

4.1 GST Revenue, MSME Trends, and Compliance Costs

Monthly gross GST revenue grew from approximately Rs. 95,000 crore in July 2017 to consistently exceeding Rs. 1.5 lakh crore per month in recent years, reaching a record Rs. 2.1 lakh crore in April 2024. MSMEs constitute approximately 75–76 percent of total GST registrations, with their share increasing from 68 percent in 2017–18 to 76 percent by 2024–25, indicating progressive formalisation of small businesses under the GST framework. The Udyam Registration portal recorded over 4.5 crore registered MSMEs as of 2025, with micro enterprises constituting approximately 96 percent of all registrants. Trading enterprises form the largest MSME segment at approximately 36 percent, followed by services at 33 percent and manufacturing at 31 percent. The COVID-19 pandemic caused a 7.7 percent decline in average monthly GST collections in 2020–21, followed by a strong multi-year recovery.

The meta-analytical synthesis of compliance cost estimates from six major published studies establishes a synthesised average annual GST compliance cost of approximately Rs. 88,000, representing 2.2 percent of turnover. This estimate is consistent across studies conducted in Tamil Nadu (Vishnuhadevi and Hima Bindu, 2022), Rajasthan (Bhayani, 2024), Karnataka (Peenya Industrial Area study), and pan-India studies (Bhalla et al., 2023; Hussain and Riyaz, 2025; Goel and Sharma, 2025). Professional fees for chartered accountants and tax consultants constitute the largest cost component at 35–40 percent, followed by internal staff time at 25–30 percent and technology and software expenses at 15–20 percent. The regressive nature of these costs is consistently confirmed, with micro enterprises bearing disproportionately higher burdens relative to turnover compared to small and medium enterprises, validating the theoretical prediction of Sandford, Godwin, and Hardwick (1989).

4.2 Financial Performance, Technology Adoption, and Working Capital

The synthesis of financial performance evidence confirms a mixed impact across sectors and firm sizes. Bhalla, Sharma, and Kaur (2023) found that GST improved ease of doing business and operational efficiency but the compliance system negatively affected performance. Studies reporting predominantly negative impact focus on micro and rural enterprises, while studies reporting net positive or mixed impacts include a broader MSME cross-section encompassing small and medium enterprises. Manufacturing enterprises, particularly in textiles and footwear, report the most complex impact due to multi-rate GST classifications and HSN code requirements, while service enterprises have adapted more smoothly as they had prior experience with the service tax regime. The Ministry of MSME data indicates MSME contribution to India's GDP has remained relatively stable at approximately 30 percent in the post-GST period.

Technology adoption has approximately doubled since GST implementation: accounting software usage grew from approximately 35 percent pre-GST to 72 percent post-GST, digital return filing from 20 percent to 85 percent, and cloud-based tools from 10 percent to 45 percent (Mehta and Shah, 2022; GSTN data). Businesses with higher digital readiness report significantly lower compliance costs, fewer filing errors, faster ITC reconciliation, and better overall financial performance. A pronounced urban-rural digital divide amplifies differential impact, with businesses in northeastern states and rural areas facing the most severe challenges due to infrastructure limitations and limited access to professional support. On working capital, the timing mismatch between GST payment obligations and ITC realisation has increased the manufacturing working capital gap from 45–60 days pre-GST to 60–90 days post-GST (Hussain and Khan, 2022). Approximately 55–60 percent of small businesses report cash flow stress related to ITC delays, and MSME Samadhaan portal delayed payment complaints increased from 2.8 lakh to 4.2 lakh cases by 2023.

4.3 Composition Scheme, Accounting Standards, and Longitudinal Analysis

As of 2024, approximately 17.5 lakh taxpayers, 12.5 percent of all registrations, were under the composition scheme. While absolute compliance costs are lower for composition scheme businesses (Rs. 40,000–65,000 versus Rs. 85,000–1,10,000 for regular scheme), the denial of input tax credit means these businesses bear the full GST burden on their inputs, and the prohibition on interstate supply restricts growth potential to local markets. For manufacturing businesses with significant input costs, the ITC restriction can result in a higher effective tax rate than regular scheme businesses achieve after claiming credits. Kashyap (2025) noted that the

interstate restriction prevents small businesses from fully exploiting the unified market that GST was intended to create.

The accounting standards analysis reveals persistently low awareness: fewer than 40 percent of micro enterprise owners have working knowledge of applicable standards, and awareness of recent updates is approximately 25–30 percent. Key areas of intersection between GST and accounting standards include revenue recognition (under AS 9, revenue must be reported GST-exclusive for accounting purposes while GST-inclusive values govern tax compliance), inventory valuation (under AS 2, GST on inputs is excluded from inventory cost only for ITC-eligible businesses), input tax credit recognition and measurement as a receivable asset, and financial statement presentation of GST-related items. The 2025 Amendment Rules (GSR 330(E)) modifying Ind AS 7, 12, 21, and 115 signal the ongoing evolution of the standards framework. The longitudinal analysis identifies three phases: Phase 1, Transition and Disruption (2017–2019), characterised by system glitches, frequent rate changes, and revenue shortfalls; Phase 2, Stabilisation and Adaptation (2019–2022), showing gradual improvement disrupted by COVID-19; and Phase 3, Maturation and Optimisation (2022–present), featuring record revenue collections and improved GSTN infrastructure while persistent challenges remain for the smallest enterprises. Five of six research propositions received full evidential support; the accounting standards proposition received partial support due to the low baseline awareness level among small businesses.

CHAPTER 5: FINDINGS AND CONCLUSION

5.1 Key Findings

This research yields five principal findings. First, GST compliance costs are significant, regressive, and persistent: the synthesised estimate of Rs. 88,000 annually, 2.2 percent of turnover, is consistent across six major studies from diverse regions and methodologies, confirming a systemic and disproportionate burden on the smallest enterprises nearly eight years after implementation. Second, GST has generated mixed financial performance outcomes: structural benefits including elimination of cascading taxes, improved transparency, and facilitation of interstate trade coexist with persistent compliance costs, working capital disruption, and digital access barriers, with the balance strongly influenced by firm size, sector, and geographical location. Third, technology adoption is the single most important moderating variable: digital readiness has approximately doubled across multiple indicators since GST implementation, but the pronounced urban-rural digital divide continues to amplify differential impact, making technology access both an efficiency and an equity concern. Fourth, the composition scheme creates a compliance-growth trade-off: it offers a lower administrative burden but restricts ITC claims and interstate trade, effectively penalising businesses that opt for the simplified framework with constrained growth opportunities. Fifth, the intersection of GST and accounting standards remains a critical and underaddressed gap: fewer than 40 percent of micro enterprise owners possess working knowledge of applicable standards, and most small businesses treat GST compliance and financial reporting as separate exercises, producing inconsistencies and lower-quality financial information that constrains access to formal credit and investment.

5.2 Conclusion

Eight years of post-GST evidence establishes that the reform has achieved substantial macro-level success, a unified national market, improved revenue buoyancy, enhanced transparency, and progressive formalisation of the small business sector, while its micro-level impact on the smallest and most resource-constrained enterprises remains a work in progress requiring continued policy attention. The trajectory of the three-phase longitudinal analysis offers cautious optimism: compliance rates have improved, technology adoption has expanded, and the GSTN infrastructure has become more efficient. However, the pace of improvement has been uneven, and the compounding of GST compliance challenges with accounting standards gaps and working capital pressures creates a cumulative burden on micro enterprises that macro-level indicators do not adequately capture. The fundamental insight of this study is that the success of GST as a transformative reform will ultimately be measured not only by revenue and efficiency outcomes but by whether it genuinely reduces the compliance burden and improves the business environment for the millions of micro enterprises that constitute the foundation of India's economic ecosystem. The recommendations presented in Chapter 6 provide specific, evidence-based steps toward that goal.

CHAPTER 6: RECOMMENDATIONS, LIMITATIONS, AND SCOPE

6.1 Recommendations

On GST compliance simplification: the GST Council should introduce a single-page simplified annual return for micro enterprises with turnover below Rs. 1.5 crore, replacing multiple return filing requirements; rationalise the four-slab rate structure toward two or three slabs by merging the 12 and 18 percent slabs into a single standard rate, reducing the classification complexity burdening manufacturing and trading enterprises; extend return filing deadlines by at least 15 additional days with a 30-day grace period for first-time minor delays without penalty; and implement automated ITC reconciliation that matches buyer and seller invoices in real time, eliminating the manual matching burden.

On working capital and cash flow support: the government should establish a 15-working-day maximum ITC processing timeline with 80 percent provisional credit released within 7 working days; the RBI in collaboration with the Ministry of Finance and commercial banks should develop a standardised GST credit-linked working capital loan product allowing small businesses to borrow against pending ITC claims at concessional rates, leveraging verified GSTN transaction data for automated credit assessment; and buyer payment compliance should be linked to GST return filing status to incentivise timely payments to MSME suppliers. On technology and digital infrastructure: the Ministry of MSME should launch a dedicated technology subsidy scheme providing micro enterprises with up to 80 percent subsidy on GST-compliant accounting software, hardware, and training, prioritising businesses in rural and semi-urban areas; the GSTN should develop a free mobile-friendly GST accounting and filing tool available in all major Indian languages designed specifically for micro enterprises with simple business models; and a nationwide GST Digital Literacy Mission should deliver free training through Common Service Centres, MSME Development Institutes, and District Industries Centres.

On composition scheme reform: partial ITC should be introduced for capital goods and major inputs even within the composition scheme; selective interstate supply up to 25 percent of total turnover should be permitted while retaining the simplified compliance framework; and the threshold should be raised from Rs. 1.5 crore to Rs. 3 crore for manufacturing and trading enterprises. On accounting standards and financial reporting: ICAI should publish a comprehensive simplified GST accounting guidebook with worked examples in multiple languages covering revenue recognition, inventory valuation, and input tax credit accounting; the ICAI in collaboration with CBIC should develop integrated GST-accounting training programmes; and the Ministry of Corporate Affairs should consider developing a simplified Ind AS framework for SMEs analogous to the IFRS for SMEs issued by the IASB. On institutional support: the CBIC should establish dedicated MSME GST Facilitation Cells at every Commissionerate office with defined service level agreements; the government should formalise partnerships with industry associations to establish peer learning and compliance support networks; and the GSTN portal and all compliance materials should be made available in all 22 scheduled languages. On integrated policy: an annual MSME Impact Assessment should be mandated for all proposed GST changes before implementation; an inter-ministerial committee should develop a convergence roadmap progressively integrating GST compliance data with financial reporting requirements; and a permanent monitoring and evaluation framework should track the impact of GST on small businesses on an ongoing basis.

6.2 Limitations of the Study

This study is subject to several limitations that must be acknowledged. First, exclusive reliance on secondary data means the lived experiences of small business owners, particularly those in the informal sector, in the smallest micro enterprises, and in non-English-speaking communities, are accessible only indirectly through the secondary literature, which may reflect metropolitan and large-organisation biases that limit the generalisability of findings. Second, the quality and comparability of secondary data vary across sources due to differences in methodology, sample characteristics, definitions, and time periods; findings are triangulated across multiple sources to mitigate this concern but it cannot be fully resolved. Third, the secondary data may not capture the most recent developments in GST implementation and accounting standards given typical publication time lags; the study mitigates this by including recent government notifications, SSRN working papers, and media sources. Fourth, the study focuses on the Indian context, and while the methodological framework can be adapted for other developing country contexts, the specific findings on compliance costs, regulatory structure, and institutional factors are India-specific. Fifth, reliance on published data limits the study to the variables and indicators measured and reported by other researchers, potentially underrepresenting informal sector practices and unreported challenges that may be significant in the small business landscape.

6.3 Scope of the Study

This study examines the impact of GST and Accounting Standards Updates on small businesses in India as defined under the MSMED Act 2006 (as amended June 26, 2020), covering manufacturing, trading, and services sectors in both urban and semi-urban areas. The temporal scope encompasses 2015 to 2026, examining compliance costs, operational efficiency, financial performance, technology adoption, working capital management, and changes in accounting practices and financial reporting. Future research should incorporate large-scale primary data studies directly surveying small business owners across India to validate and extend the secondary data findings presented in this study. Longitudinal panel studies tracking the same set of businesses over extended periods would enable causal inference about the relationship between GST compliance and business outcomes. Focused research on the GST-accounting standards intersection examining specific standards interactions in practice would address the most significant gap identified in this study. Comparative international research examining VAT/GST reform impacts on small businesses in other developing countries would provide useful benchmarks for evaluating India's GST experience. Finally, research on the role of emerging technologies including artificial intelligence and blockchain in GST compliance automation and the integration of tax compliance with financial reporting for small businesses represents a frontier area with significant practical relevance.

ETHICAL CONSIDERATIONS

This study involved the synthesis of previously published secondary data and did not involve any direct interaction with human subjects or animals. No ethical approval was therefore required. All sources consulted are cited and publicly available.

CONFLICT OF INTEREST

The authors declare no conflicts of interest related to this research.

DATA AVAILABILITY STATEMENT

This study is based entirely on publicly available secondary data. All government reports, peer-reviewed articles, working papers, and institutional publications referenced in this paper are accessible through the sources and URLs listed in the references section.

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