United International Journal of Multidisciplinary Research (UIJMR)
An International Peer-Reviewed and Refereed Multidisciplinary Journal
ISSN: 3048-6726 | Impact Factor: 6.934 (SJIF)
Volume 3, Special Issue -IX, 2026; Website: www.uijmr.in

Compliance Burden and Transaction Costs under GST: Implications for Small Businesses, Start-ups, and the Self-Employed in India

Dr. G. Gangaiah
Lecturer in Commerce Govt. Degree College Puttur, India ggyadav2010@gmail.com
DOI:10.37854/UIJMR.2026.3.3.9.784

i. Abstract

In India, a significant reform to be emphasized was the introduction of the Goods and Services Tax (GST) in 2017, which was supposed to simplify the indirect taxation system and remove cascading taxes and encourage transparency and ease of doing business. Nevertheless, GST has created a lot of compliance burden on businesses, even though these macro-level advantages have a positive impact. This research paper discusses the compliance cost and transaction cost as a result of the GST and evaluates their effects on the small business, start-ups, and the self-employed. The study relies on a descriptive approach to research which utilizes secondary data through government reports, scholarly literature and the industry. According to the results of the study, GST compliance entails several processes, including registration, periodical system of filing returns, matching of invoices, and maintenance of digital records, which make the administration more complex. Also, smaller entities incur higher transaction costs, professional fees, software costs, time and effort, which is relatively burdensome in nature. The paper also points out that small businesses, start-ups, and self-employed employees have even more complicated reasons because of limited finances, insufficient technical skills, and inability to adjust to digital systems. Although GST makes it easy to tax at broader levels, it makes the operations level more expensive to business organizations that are smaller in scale. The research concludes that despite the success of GST to its aim of establishing a harmonized and transparent tax framework, this tax has had an over-imposing compliance cost on smaller players of the economy. Consequently, it is necessary to continuously reform the policies, streamline the process, and support the activities to minimize compliance costs and to make the benefits of GST inclusive in all parts of the economy.

Keywords: GST, compliance burden, transaction costs, small businesses, startups, self-employed, MSMEs, digital taxation, administrative complexity, cost of doing business, tax reform

ii. Introduction

One of the biggest changes in the indirect taxation of India was the introduction of the Goods and Services Tax (GST) on July 1, 2017. GST was a substitute of a complex system of various taxes like excise duty, service tax, value-added tax (VAT) and others with a one tax regime so as to have an easy doing business within one national market. GST was set to make the administration of taxes simple by eliminating cascading taxation, as well as increasing transparency, which would encourage economic growth. Nevertheless, GST has come with significant compliance obligations that have become a huge administrative and financial burden on companies despite its benefits. The GST compliance requires compulsory registration, keeping of digital records, periodical filing of returns, matching of invoices, and the compliance with changing regulatory standards. Such requirements tend to incur high transaction costs such as spending on accounting services, software as well as time wasted on compliance processes. All types of businesses do not experience the same effects of these compliance burdens. This is especially the case in small businesses, start ups and self-employed employees because they have fewer financial resources, lack technical skills, and have less ability to address complicated regulatory standards. To these entities, compliance cost may constitute a large percentage of their overall cost of operation, hence impacting their profitability and potential growth. It is in this respect that the analysis of the implication of the burden of GST compliance and the cost of transaction to these vulnerable groups becomes a necessary task. This paper will examine the obstacles encountered by small businesses, startups, and self-employed people in GST and compare the advantages of the tax overhaul with its costs.

iii. Objectives

This paper will discuss the GST compliance burden and the cost of transactions and study how they affect small businesses, start ups and the self employed workers.

1. To analyze the concept and scope of compliance burden of GST in India, the different requirements that are submitted like registration and filling of returns and maintenance of records.
2. To examine the various elements of the transaction cost under GST, including professional fees, software expenditure, time wasted in complying with it and penalties.
3. To assess how GST compliance affects the small businesses, startups, and self-employed employees, especially regarding financial and operational issues.
4. To establish key challenges that these groups have experienced in adopting GST such as technical illiteracy, digital infrastructure, and awareness.
5. To determine whether GST has brought or diminished the general cost of conducting business particularly to the smaller organizations as opposed to the big firms.

6. To recommend feasible action and policy interventions to minimize compliance burden and enhance easier doing business in GST.

iv. Literature Review

Implementation of the Goods and Services Tax (GST) in India has generated a lot of literature in the academic literature as well as in the policy literature as a significant change in taxation operation through one of the biggest tax reforms in the country to simplify the indirect tax system. As observed by Ehtisham Ahmad and Satya Poddar (2009), GST was meant to be used to get rid of the tax cascading effect and enhance transparency and efficiency. In a similar manner, Kumar (2014) underlined that GST would bring various types of indirect taxes into one system and thus, form a unified national market and make it easier to do business. The main result of these studies is the macro-level advantages of GST, such as the enhancement of tax compliance, tax evasion, and economic integration.

Nonetheless, a number of scholars have indicated that GST has raised the compliance cost especially on small enterprises. As Nayyar and Singh (2018) have noticed, the necessity of returning filing frequently, invoice matching, and the digital record-keeping has grown the workload of administration significantly. Das (2017) discovered that small and medium enterprises (MSMEs) experience a higher level of difficulties that is caused by the shortage of finances and technical skills. The paper has also reported that compliance costs like the cost of employing tax consultants, purchasing software, and the cost of maintaining the digital systems are relatively high among small firms compared to large organizations. Purohit (2018) also highlighted that transaction costs within GST such as time and financial costs have gone up, and the burden is retrogressive in nature.

Secondly, research on startups and self-employed workers exposes the unique problem in these categories of workers in GST. According to Sharma (2019), startups have the advantage of simplified taxation in the long term but in the initial stages, they experience difficulties on the complexities of the procedures and unawareness. Gupta (2020) pointed out that self-employed people tended to rely on the help of external professionals to comply with its regulations, which adds to their expenses. Also, other problems like delays in refunding of input taxes credit, and frequent alteration of GST regulations as well as technical setbacks in the GST portal complicate the process of compliance. On the whole, the literature indicates that although GST has fulfilled its aim of simplifying and transparency taxes, it has also added another burden on compliance and costs of transactions, especially to small business, start-ups, and self-employees.

v. Methodology

1. Research Design

The current research is founded on descriptive research design that seeks to offer a systematic and in-depth description of the GST compliance burden and transaction costs and its consequences on small business ventures, startups, and self-employed Indian workers. The research type that is suitable in this study is descriptive research, as it aims at definition of the current situation, practices, and difficulties without any manipulation of variables. The GST system has several procedures that a business ought to follow which include; registration, periodic filings (monthly, quarterly and annual), matching invoices, e-way bill, and electronic records. Such requirements result in an organized framework under which business works and hence this study tries to outline how such processes lead to compliance burden. The design is also useful in addressing real world scenarios, including the time spent on compliance work, the number of filings, and the complexity of the procedures, which give a true picture of implementation of GST.

2. Sources of Data

The paper is founded solely on the secondary data gathered by numerous valid sources in order to make it accurate and comprehensive. Such sources consist of governmental documents like the GST Council reports, the documents of the Ministry of Finance, and Economic Surveys that present official data and policy observations. Scholarly articles and studies provide theoretical and empirical insights on the GST compliance and transaction costs. Reports of industries and business publications offer practical information on the challenges that businesses encounter. In addition, information collected on online sites like tax advisory sites, and financial portals, have been utilized to gain insight into the real-life compliance issues. The application of a variety of sources also makes sure that the study involves policy-level facts and ground-level facts.

3. Data Collection Method

The study data has been gathered by a methodical and organized literature review and document study regarding GST. This was done by identifying the keywords that included relevant information like GST compliance, transaction costs, MSMEs, startups and taxation burden. On the basis of these keywords, the sources related to them were identified and examined. Data were gathered on the different compliance exercises like registration of GST where the business is expected to obtain a GST Identification Number (GSTIN); filing of returns which can be several returns per year; matching of invoice which is used to ensure the input tax credit application is accurate and; generation of e-way bills is used to move goods. Also, extensive data on transaction cost was recorded such as direct costs (consultant fees, software cost, training cost), and indirect costs (time

used, opportunity cost of resources, and delays in refunds). The data collected was further grouped into categories to use in systematic analysis.

4. Method of Analysis

The analysis method applied to the study is a descriptive method analysis that consists of structuring and organizing the acquired data in a meaningful way. The analysis is aimed at outlining the different elements of GST compliance burden and transaction cost in details. Indicatively, the research describes the impact of frequenting of return filing on the administrative workload, the strain of digital demands on small businesses, and the cost of compliance across the different categories of entities. A comparative descriptive design is also utilized to point out the differences among compliance burden of small enterprises, startups, self-employed workers, and large firms. This will allow the comprehension of whether smaller entities have a more difficult time with GST compliance. The discussion is backed up with the examples and the results of the previous research to make it more valid.

- **Scope of the Study**

The study will be limited to the description of GST compliance burden or transaction costs in the Indian economic environment. It targets, in particular, small businesses, startups, and self-employed workers as those are more susceptible to compliance issues because of insufficient financial resources, technical skills, and digital literacy. The paper discusses different issues of compliance with GST, such as administration, monetary expense, and difficulties of operations. It also takes into consideration compliance burden effect to business performance, including cost of doing business is high and efficiency is great. Sector-specific analysis and primary data collection are not incorporated in the study, however.

- **Limitations of the Study**

Although the study gave an analytical insight, it has certain limitations. Being a secondary data-based report, it might not be capable of capturing the latest changes in GST policies or live experiences of businesses. The lack of primary data including surveys or interviews restricts the opportunity to collect the first-hand information about the taxpayers. Also, inconsistencies in data quality and reporting in various sources can have an impact. Nevertheless, the fact that several credible sources are used contributes to reducing these shortcomings and can guarantee the credibility of the study.

- **Justification of the Methodology**

The descriptive research method is very appropriate in this study because it enables to present the GST compliance burden and transaction costs in a detailed and systematic manner. It allows the researcher to explain what is going on, what problems are crucial, and give a general picture of the subject without the use of complicated statistical methods. This strategy comes in handy especially on research oriented on policies where

the aim is to comprehend practical problems and recommend some solutions. The methodology also makes the study focused, structured and to the point.

vi. Results and Findings

- **GST Compliance Burden and Administrative Complexity**

The results of the research show clearly that the introduction of GST has intensively added compliance pressure to the businesses, especially to small businesses, start-ups and self-employed workers. In the GST system, the taxpayers will have to undertake various compliance related tasks that include registration, keeping of proper invoices, filing of periodical returns (monthly, quarterly and annual), matching of input tax credit through invoice matching, and issue of e-way bills to be used when moving goods. The demand built in these requirements is constant observation, precision and submission on time which enhances the administrative burden. To small businesses, which run with few resources and staff, it becomes significant to deal with such complicated compliance processes. Small entities do not have specific accounting and taxation departments like large organizations do, and there are few individuals or external professionals who are required in the small entities. More so, the changes in GST rules and procedures are common and therefore it proves hard to keep abreast with the changes. The burden on the mental and functioning of the business owners is also augmented by the necessity to comprehend the legal requirements and keep the necessary records. Discovery: GST has resulted in a strong administrative burden and compliance cost, and a greater burden on smaller and resource-intensive organizations is felt.

- **Transaction Costs and Financial Implications under GST**

The paper shows that compliance in GST is costly in terms of transaction costs, which can be categorized into both direct and indirect costs. The direct costs involve the costs which are incurred when hiring tax consultants or accountants, buying and maintaining accounting programs which are GST compliant in addition to training the employees on how to carry out compliance procedures. Examples of possible indirect costs are the time to file the returns, reconcile invoices, and comprehend constantly-varying GST regulations, and opportunity costs due to diversion of resources to non-core business activities. Small business enterprises and the self-employed people find these costs especially heavy because they make a greater percentage of the total earnings than the big companies. Moreover, there are fines on filing late, incorrect returns or lack of obedience which also add to the financial cost. Compliance activities force many small businesses to take a large share of their scarce resources and this impacts their profitability and growth potential. These costs are regressive, and this is seen in the fact that smaller entities have to shoulder a relatively more significant burden in comparison with their turnover. Discovery: The transaction costs in GST are high and regressive and they

impose a disproportionate financial burden on small businesses and self-employed workers.

- **Impact on Small Enterprises, Startups, and Self-Employed Workers**

The burden of GST compliance falls on various types of economic participants in varied degrees but this burden has been experienced most by small businesses, startups, and self-employed people. The challenges that small enterprises have to deal with include limited financial ability, the absence of technical skills, and the inability to transition to digital systems. Due to delays in the refund of input tax credits, they also tend to have problems with keeping the records, making returns on time, and cash management flows. The situation is even worse in the case of startups, especially at tender stages of their development since they are required to use the limited resources on compliance rather than on innovation and business growth. Their burden is also enhanced by the GST procedures being complex and additional to lack of experience. Self-employed employees such as freelancers, small service providers have their own challenges since they do not have much knowledge on the rules concerning GST and rely much on the services of external professionals to be able to comply. This adds more money and more reliance to them. The compliance demands to many of these people seem to be excessive in relation to their size of operations and income. Discovery: The small enterprises, startups, and self-employed workers bear the disproportionate and more pronounced burden of the GST compliance, as it has an effect on the efficiency of their operations and financial stability.

- **Digital Compliance Challenges and Overall Cost of Doing Business**

GST system is more or less digital-based and businesses have to apply all the compliance-related activity online. Although this digitalization enhances transparency and minimal tax evasion, it poses great challenges to businesses that have low technological capacity. Small businesses and independent employees usually experience challenges in accessing GST portal because of their digital illiteracy, low internet accessibility and technical problems like system crashes and network interruptions. These problems are also complicated by the intricacy of the online system and the constant changes in software. Also, the frequentness of return filing demands of businesses adds to the time load and businesses have to redirect their focus to their main operations. Consequently, the general expenses of conducting business escalate, both in financial terms and time and effort. Although GST eases the tax system on large scale, the micro-level effect of the system makes it costly in terms of compliance and operation to small organizations. Conclusion: The existence of digital dependency and the large number of compliance requirements that companies must handle under the GST leads to the increased financial and non-financial cost, which results in an overall higher cost of conducting business amongst smaller organizations.

vii. Discussion

The results of the research show that implementation of GST has greatly complicated the compliance burden of small business and start-ups, as well as self-employed workers. The aspect of conducting various compliance tasks including registration, filing of returns, matching invoices, and maintenance of digital records has complicated the aspect of taxation at a working level. In case of smaller entities, it is hard to handle these procedures because there is little manpower, technical knowledge and specialized accounting systems. Consequently, the compliance process takes a lot of time and effort, causing a diversion to the main business processes.

Another important aspect of the study is that, transaction costs experienced under GST, not only comprise of monetary costs, but also non monetary costs which are time, effort, and administrative work load. Sole proprietorships and small businesses must rely on the services of external professionals to provide compliance services which adds to their financial burden. Simultaneously, the constantly updated regulations of GST and the frequent filing requirements pose extra burden. This results in a scenario that the smaller bodies are disproportionately burdened more than the large companies in terms of their effectiveness, profitability, and business sustainability.

Moreover, GST compliance has both opportunities and challenges because it is digital in nature. On the one hand, digitalization enhances transparency and administrative ease in an organisation at a macro-level, whereas on the other hand, it poses a challenge to businesses with low digital literacy and technological infrastructure. The process is further complicated by technical problems like errors in portals and inefficiencies in the system. On the whole, the discussion indicates that despite the macro simplified tax system with the GST system, the tax system has complicated compliance and costs at the micro level especially among smaller economic players.

viii. Conclusion

The paper finds that the introduction of the Goods and Services Tax (GST) has introduced some dramatic structural transformation to the Indian taxation system through the harmonization of various indirect taxes into a single system and enhancement of transparency. Nevertheless, these macro level benefits are outweighed by the result that GST has incremented compliance burden and transaction costs in small enterprises, start-ups and self-employed employees. The need of multiple filings, digital record maintenance, and the incessant compliance with the regulatory procedures have complicated the process of compliance especially on organizations with fewer resources and technical knowledge.

The paper also points out that both financial and non-financial costs of transacting costs in GST such as time and administrative overheads are disproportionately more expensive to smaller entities. This has a retrogressive effect of having the small

businesses bearing a bigger burden as compared to their ability. Moreover, the digital compliance requirements, despite the benefits of transparency, are not very convenient to people who do not have sufficient technological infrastructure and are not digitally literate. However, a combination of all these makes the entire cost of conducting business to go up and reach the operational efficiency of the smaller economic players.

To sum it all up, even though GST has been able to attain its goal of establishing a clear and homogenous tax system, it has given rise to issues at the grassroots. Consequently, it is necessary to constantly reform, simplify compliance processes, and have facilitating factors like training and awareness efforts to ease the load on small businesses, start-ups, and self-employed employees. An even-handed policy is necessary to make sure that the advantage of GST is not exclusive and made available to all sectors of the economy.

References

Ahmad, E., & Poddar, S. (2009). *GST reforms and intergovernmental considerations in India*. Asia Research Centre, London School of Economics.

Ahuja, P., & Gupta, S. (2021). GST compliance burden on small businesses: A critical analysis. *Journal of Indian Taxation, 8*(1), 45–59.

Das, A. (2017). Impact of GST on small and medium enterprises in India. *International Journal of Research in Economics and Social Sciences, 7*(9), 231–240.

Garg, S., & Bansal, A. (2020). GST and Indian SMEs: A study of readiness and adaptability. *International Journal of Trade and Global Markets, 13*(3–4), 213–227.

Gupta, R. (2020). GST compliance challenges among self-employed individuals in India. *Journal of Business and Economic Studies, 12*(2), 78–89.

Maddileti, S., & Gautami, S. (2026). Compliance complexity under GST: Challenges faced by micro and small enterprises in India. *Advances in Consumer Research, 3*(1), 1503–1509.

Nayyar, A., & Singh, I. (2018). A comprehensive analysis of Goods and Services Tax (GST) in India. *Indian Journal of Finance, 12*(2), 7–15.

Purohit, M. C. (2018). Goods and Services Tax in India: An assessment of transaction costs. *Economic and Political Weekly, 53*(37), 67–75.

Rai, A., & Upadhayay, Y. (2025). Impact of GST on financial performance and compliance burden of SMEs in India. *Journal of Applied Studies in Accounting and Research, 10*(2).

Sharma, P., & Sharma, J. (2026). Impact of GST on small and medium enterprises (SMEs) in India. *International Journal of Academic Excellence and Research, 2*(1), 48–58