

CONQUERING THE GST COMPLIANCE COST HURDLE: A CASE OF PUNJAB'S TEXTILE TINY TRADERS

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ABSTRACT

This paper tries to figure out the facets which impact the most, small manufacturers of the tiny industry in any form of textile viz. readymade garments, yarn or thread dealer, loose cloth, etc. while complying with the provisions of GST. The "Analytical Hierarchy Process" (AHP) is a research tool that prioritizes the challenges that businesses experience when complying with GST rules. Internal personnel costs are reported to be the most challenging aspect influencing the manufacturer, followed by time costs. It is also observed that Social Cost is the least impacting for the manufacturers in GST compliance. From the various manufacturers of textile industries of Punjab, the AHP questionnaire has been completed. The outcomes and conclusions may vary depending on the region. This study provides insights to the government to simplify the procedure of GST compliance as it has become a big challenge for small manufacturers to incur a lot of costs in compliance of GST.

KEYWORDS: GST, Taxation, Compliance Cost, Analytical Hierarchy Process, Textile Manufacturer.

JEL: G38, H71, K34, L67

Introduction

India saw enormous economic changes after the 1990s that hastened its transformation into a fully integrated world power with appreciable improvements in macroeconomic, geopolitical, and regulatory stability¹. Apart from China, India has experienced one of the fastest economic growth rates in recent decades in the continent of Asia (Paul & Mas, 2016). Taxation policy has a significant impact on a country's economy (Tanzi & Zee, 2001). Direct or indirect taxes collected from residents are the main source of funding for the government. Indirect tax is levied when there is a potential for the burden to be shifted to another individual, as opposed to direct tax, which is levied when the impact and incidence fall on the same person (OECD, 2022). India has had remarkable indirect tax reform throughout the last three decades and has shown economic resiliency by beginning another advancement in July 2017 in the form of introducing GST in the country's indirect tax system. These changes contribute to the country's varied but typically consistent growth story (Chikermane, 2018). After India's economy was liberalized in

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¹ World Bank. (2018). India's development update: India's growth story. *International Surgery Journal*, 8(March), 54. Retrieved from <https://openknowledge.worldbank.org/handle/10986/29515>

1991, the government made a significant adjustment to its tax policy with the introduction of the Goods and Services Tax (GST). As an important and long-overdue indirect tax reform that strives to build one nation, one tax, and one market, India has made significant progress in accepting the GST¹.

Before the introduction of GST, India had a cumbersome indirect tax system with several taxes or duties imposed separately by the Centre and the States, with the Central government imposing Central Excise Duty, Additional Duties on Excise and Customs, Service Tax, etc., and the State government levying State VAT, Central Sales Tax, Entry Tax, etc. With the advent of the GST, all indirect taxes were brought into one structure, creating a seamless national market with a high rate of economic growth.

The acronym 'GST' was first introduced in 2000 by India's then-Prime Minister, and a special committee was formed to establish the country's GST model. The initially scheduled date for imposing GST was April 1st, 2010, as proclaimed by the then Union Finance Minister in the federal budget 2006-07. However, disagreements between the State and the Central government on the finalization of norms on GST delayed the implementation procedure. In the year 2014, the NDA-led government paves the way to implement GST in India. Subsequently, a GST council was constituted with Finance ministers of every state government as a member of the council and the Union Finance Minister serving as Chairperson of it. The first council meeting was held in September 2016 and after several rigorous meetings for framing the laws, rules, and rates of GST, it came into force on 1st July 2017 after the 18th GST Council Meeting.

Four different GST rate bands were proposed at the GST Council's fourth meeting: a lower rate of 5% for goods consumed by marginalized groups of society, standard rates of 12% and 18%, a higher tax slab of 28%, and a cess over and above 28%. One category of commodities, such as food grains, will be exempt from GST.

Review of Literature

Some of the available literature related to compliance cost is in the context of income tax. Although compliance costs could differ in the context of GST but the basic nature of complying with the taxation procedures will remain the same in the case of direct and indirect taxes.

The Australian major tax reform includes the introduction of GST on July 1, 2000, by replacing the Wholesale Sales Tax (WST) (Pope & Rametse, 2001a). The authors analyzed the issues related to the cost of compliance and benefits of the GST and PAYG (Pay-As-You-Go) system for small businesses in Australia. The study considers Professional fees like accounting and legal fees, computer hardware and software, the time cost of internal staff, and other physical resources under the compliance cost of the taxation system. Additionally, it divided the costs associated with compliance into two categories: startup costs and ongoing, yearly costs. It was discovered that the intricacy of the new taxation structure worried two thirds of small businesses.

Ching et al., (2017) did a qualitative study on GST implementation in Malaysia in which they conducted a face-to-face semi-structured interview with 9 participants having substantial experience in the retail business of diverse sectors. They focused their research on the Attitude and perception of participants towards the implementation of GST, its readiness, and compliance cost. Initial expenses, ongoing costs, non-compliance costs, psychological costs, and societal costs are all taken into account under the category of compliance costs. Initial cost and recurring costs are found concerning turnover revenue whose cost percentage decreases with the increase in revenue.

Godwin, (1978) in his paper examined the existing body of compliance cost research and evaluated the empirical issues and the importance of compliance costs. Based on existing research, it was found that the compliance costs are extremely variable and considerably there is more burden on small businesses than on big ones. In addition, it was also observed that personal self-employed taxpayers faced substantial compliance costs.

The amount and type of compliance cost of submitting federal and state individual income tax returns were estimated in the research done by J. Slemrod & Sorum, (1984) using data from a survey of Minnesota taxpayers. The various factors of compliance costs undertaken in the study, in terms of time spent were research, record-keeping, return preparation, time spent with an advisor and in terms of monetary expenditure- professional advice and other expenses related to compliance.

¹ Government of India, Ministry of Finance, *The GST Saga* (2017). <https://gstcouncil.gov.in/sites/default/files/The-gst-saga.pdf>

Dana, (1993) did the research with a case study approach to the Canadian system, with some references to other regimes' elements. The switch from Federal Sales Tax (on manufacturing) to GST (on imports and domestic sales) results into less gain for the small business sector as large firms. Their major concern was the cost of administering the tax which includes some tangible and intangible costs viz. additional accounting software and productivity loss respectively. It was suggested in the study that GST-registered small business enterprises are bundled with an inequitable burden.

The compliance costs of the WST, payroll tax, and proposed Goods and Services Tax were compared by Pope, (1993) in one of his articles. He considered the compliance cost in business taxation as accountants' and other consultants' fees, internal resources allocated to collecting and compiling tax information, and interactions with tax authorities, but it does not include overhead costs, which would be incurred irrespective of such considerations.

Rosiati et al., (2015) conducted a study on the implementation of GST in Malaysia which identified the compliance costs of small and medium enterprises in complying with their tax obligations and the preparedness of the companies toward GST implementation. Three different categories of compliance expenses were considered: external, internal, and additional compliance costs, and identified their respective weightage in the total compliance cost as 26.01% (External), 58.87% (Internal), 15.12% (Additional). This study concluded that most SMEs will need to set aside more funds for human resource training during the early stages of the GST implementation, which is seen as a hardship for small and medium businesses.

Musimenta, (2020) used a cross-sectional and correlational design on VAT-registered respondents to examine the indirect effects of compliance costs while examining the relationship between knowledge requirements, tax system complexity, and tax compliance in Uganda. The study indicated that the taxpayers have enough tax knowledge to be able to comply with the law but to comply with complex tax systems, taxpayers must gain additional training as well as seek outside professional counsel which will have a direct or indirect impact on the compliance cost.

Sekgota & Mamaile, (2021) examined the legislative requirements of small business tax compliance with special reference to guesthouse business in Mahikeng town, South Africa, and its impact on local economies. The article suggested that tax compliance is a costly impediment for Mahikeng guesthouses as they have to hire tax practitioners at a hefty charge, reducing their ability to contribute to local economies.

Santoro, (2021) focused his research on the tax compliance behaviour of one thousand entrepreneurs based in Eswatini of Southern Africa. Various factors were considered which determined the non-filing behaviour of entrepreneurs based upon behavioural and neoclassical theories. Economic deterrent, compliance costs, and moral concerns including peer pressure and inner motivation have all been found to be connected with submitting returns.

Review of Literature (at a Glance)

Table 1

Authors' Name	Title	Factors/Costs
Sapiei et al., (2017)	<i>"Compliance Costs and the Behaviour of SMEs with the Implementation of GST in Malaysia"</i>	<ul style="list-style-type: none"> • Internal staff costs • external advisers' fees • software costs • incidental costs
MYOB, (2015)	<i>"The Hidden Costs of GST Hitting Small Business Hardest"</i>	<ul style="list-style-type: none"> • time cost • money cost • psychological cost
Pope & Rametse, (2001b)	<i>"Small Business and the Goods and Services Tax: Compliance Cost Issues and Estimates"</i>	<ul style="list-style-type: none"> • Professional fees (accounting and legal fees, computer hardware and software) • time cost of internal staff • start-up compliance cost • recurrent or annual compliance cost

Evans et al., (2014)	<i>"Small business and tax compliance costs: A cross-country study of managerial benefits and tax concessions"</i>	<ul style="list-style-type: none"> • internal costs • external costs
Ching et al., (2017b)	<i>"GST compliance and challenges for SMEs in Malaysia"</i>	<ul style="list-style-type: none"> • initial costs (IT infrastructure) • recurring costs (salary to accounting staff) • non-compliance costs (penalties including a jail sentence and non-support from the government) • psychological costs (stress and anxiety) • social costs (unexpected business closure)
Matarirano et al., (2019)	<i>"Tax compliance costs and small business performance: Evidence from the South African construction industry"</i>	<ul style="list-style-type: none"> • external or explicit costs • internal or implicit costs • non-labour costs
Rosiati et al., (2015b)	<i>"Compliance Costs of Goods and Services Tax (GST) among Small and Medium Enterprises"</i>	<ul style="list-style-type: none"> • external compliance cost, • internal compliance cost • additional compliance cost

Objectives of the Study

- To identify various costs incurred by the small textile manufacturers while complying the GST provisions.
- To develop the priority in various costs in a manner which affects the textile manufacturers most.

Research Methodology

- Only the manufacturers of Punjab are taken into consideration as respondents for the study.
- The manufacturer is limited to the manufacturers who are doing business in any form of textile viz. readymade garments, yarn or thread dealer, loose cloth, etc.
- No matter where the unit is located, an industry is considered tiny scale if it has invested less than Rs. 25 lakhs in equipment and machinery.¹
- The survey only includes manufacturers whose plant and machinery investments total less than Rs. 25 lakhs.
- Data will be collected from 150 respondents.
- The "Analytical Hierarchy Process" (AHP) technique will be used to assess the prominent elements of the challenges faced by manufacturers.
- The AHP technique, one of the tools for multi-criteria decision-making, was created by Prof. Thomas L. Saaty in 1977. This technique is useful in arranging the criteria or factors in a hierarchical structure, comparing the criteria with their relative importance and making decisions and synthesis of interest.
- AHP questionnaire will be filled from 150 manufacturers throughout hubs of Punjab viz. Ludhiana, Jalandhar and Amritsar.
Following steps were followed in AHP technique:
 - **Step 1:** Identification of various factors through literature review and with the consultation of experts.

¹https://msmedildh.gov.in/policy_for_miniand_tiny_enterprises.html

- **Step 2:** AHP questionnaire filled from the manufacturers of tiny industry in pair wise comparison matrix using the scale described by Saaty. Example scale for comparison (Saaty & Vargas, 1987) is given in Table 1.

Table 2: Comparison Scale in AHP

Scale	Degree of Preference
1	Equal Weightage
3	Moderate Weightage for one factor over the other
5	Strong or Essential Weightage
7	Very Strong Weightage
9	Extreme Weightage
2, 4, 6, 8	Intermediate Values
Reciprocals	For inverse comparisons

- **Step 3:** Normalise the matrix by computing the Normalised Inputs (Priority/Eigen Vector)
- **Step 4:** Consistency of data is checked by calculating "Consistency Ratio" (CR):

$$CR = \frac{CI}{RI}$$

Where CI means Consistency Index calculated as follows:

$$CI = \frac{\lambda_{\max} - n}{n - 1}$$

And RI means Random Index and value of random index was taken from Table (Saaty, 1980):

Table 3: Random Index Table

<i>n</i>	1	2	3	4	5	6	7	8	9	10
<i>RI</i>	0.00	0.00	0.58	0.90	1.12	1.24	1.32	1.41	1.46	1.49

Random Index is taken for $n=8$

A CR of 0.1 or less is typically regarded as acceptable and assumed that the data is consistent.

Data Collection and Analysis

In order to attain the objectives of the study, primary data had been collected from 150 respondents (Manufacturers from the tiny industry whose total investment in Plant & Machinery is less than 25 lakhs) within the region of Punjab (India). These respondents are chosen for this purpose as they are such a small manufacturer who thinks various times before spending any expenditure which is not contributing to their profits. Hence, the compliance cost of GST is one of them. AHP questionnaire is filled from them as shown in Table 4 and the filled questionnaire could be observed from Table 5.

Table 4: AHP Questionnaire

AHP Questionnaire							
	Internal staff Cost	External advisers' fees	Software Cost	Hardware Cost	Psychological Cost	Time Cost	Social Cost
Internal staff Cost	1						
External advisers' fees	x	1					
Software Cost	x	x	1				
Hardware Cost	x	x	x	1			
Psychological Cost	x	x	x	x	1		
Time Cost	x	x	x	x	x	1	
Social Cost	x	x	x	x	x	x	1

Table 5: Pairwise Comparison Matrix

Pairwise Comparison Matrix							
	Internal staff Cost	External advisers' fees	Software Cost	Hardware Cost	Psychological Cost	Time Cost	Social Cost
Internal staff Cost	1.00	7.32	8.18	6.98	7.20	4.89	8.79
External advisers' fees	0.14	1.00	2.91	0.22	0.31	0.28	6.70
Software Cost	0.12	0.34	1.00	0.20	0.25	0.26	2.01
Hardware Cost	0.14	4.61	5.03	1.00	0.37	0.29	5.23
Psychological Cost	0.14	3.23	4.02	2.72	1.00	0.25	4.30
Time Cost	0.20	3.61	3.91	3.48	3.93	1.00	6.09
Social Cost	0.11	0.15	0.50	0.19	0.23	0.16	1.00
Total	1.86	20.27	25.55	14.78	13.29	7.13	34.11

In the Pairwise comparison matrix, mean of all the responses were taken. Then value of each cell is divided by the sum of that respective column to yield its normalized score. The normalized score so derived is put in the Normalisation matrix as shown in

Table : In the table 6, Consistency Index (CI) is calculated with the help of following formula:

$$CI = \lambda_{\max} - n / n - 1$$

λ_{\max} = Average of consistency measure

Table 6: Normalisation Matrix

Normalisation Matrix										
	Internal staff Cost	External advisers' fees	Software Cost	Hardware Cost	Psychological Cost	Time Cost	Social Cost	Total	Normalised Principal Eigenvector (Average)	Consistency Measure
Internal staff Cost	0.54	0.36	0.32	0.47	0.54	0.69	0.26	3.18	0.45	8.85
External advisers' fees	0.07	0.05	0.11	0.01	0.02	0.04	0.20	0.51	0.07	7.05
Software Cost	0.07	0.02	0.04	0.01	0.02	0.04	0.06	0.25	0.04	7.42
Hardware Cost	0.08	0.23	0.20	0.07	0.03	0.04	0.15	0.79	0.11	8.11
Psychological Cost	0.07	0.16	0.16	0.18	0.08	0.04	0.13	0.81	0.12	8.76
Time Cost	0.11	0.18	0.15	0.24	0.30	0.14	0.18	1.29	0.18	9.09
Social Cost	0.06	0.01	0.02	0.01	0.02	0.02	0.03	0.17	0.02	7.52
									CI	0.10
									RI	1.41
									CR	0.07

Excel's matrix multiplication function is used to determine consistency measures. The consistency ratio (CR), which is less than 0.1 and is generally regarded as satisfactory, is 0.07. It indicates that the data or preference ratings were consistent.

Results and Discussion

From the Normalisation Matrix table, it shows that Internal Staff Cost (with 45 per cent weightage) is the most important factor which the most challenging factor for the manufacturer of tiny industry to comply with the GST provisions, followed by Time Cost with 18 per cent weightage. It is also interpreted that Social Cost is least challenging for the manufacturer which means the manufacturer believes that it will not cost to the society even if his business gets shut down due to GST compliance cost.

The weightage of each factor and the comparison of them can be seen in the Figure 1:

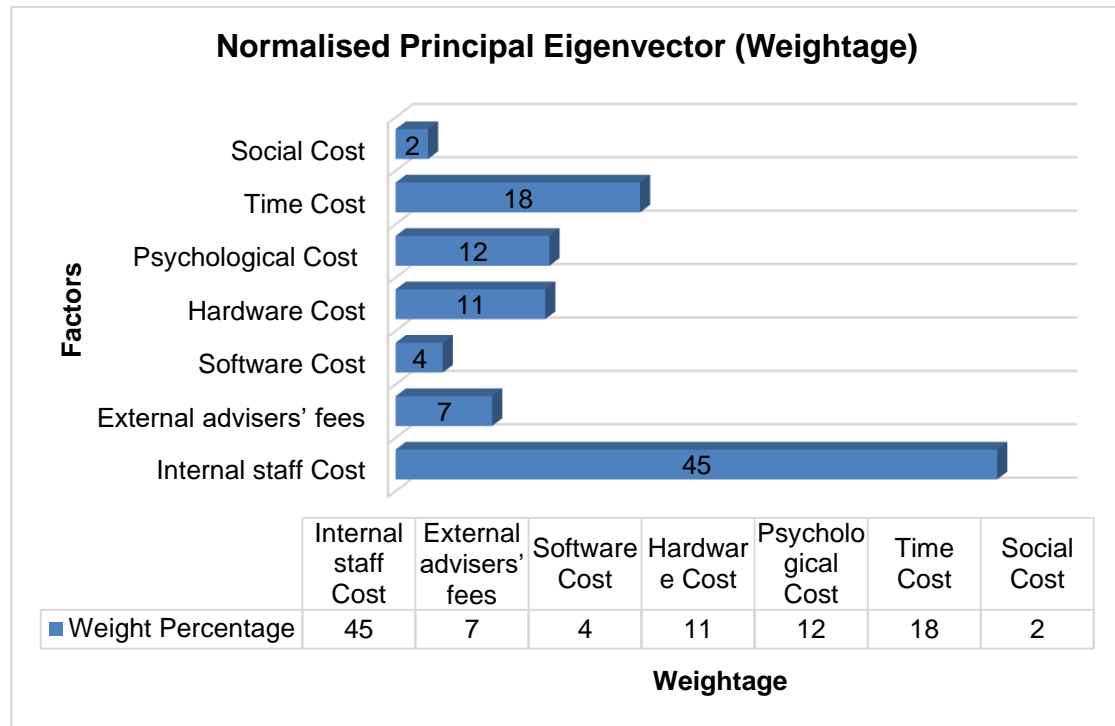


Figure 1: Normalised Principal Eigenvector (Weightage)

Findings and Conclusion

The study investigated the different types of costs or challenges for the manufacturers of tiny industry when they are supposed to follow the provisions of GST system in their recording of all the transactions of their business in books of accounts. In this regard, seven challenges namely, Internal Staff Cost, External Advisors' Fees, Software Cost, Hardware Cost, Psychological Cost, Time Cost, and Social Cost were identified through literature review and with the consultation of chartered accountants. On the basis of these challenges, an AHP questionnaire was filled from the manufacturers of tiny traders who are dealing in any form of textile viz. readymade garments, yarn or thread dealer, loose cloth etc. The result of the study indicates that "Internal Staff Cost", "Time Cost" and "Psychological Cost" are the most challenging factors for the textile manufacturers of tiny industry followed by "Hardware Cost", "External Advisors' Fees", "Software Cost", and "Social Cost".

This study provides the insights to the government to work upon the simplification of the provisions of GST compliance so that it could reduce the burden of small manufacturers. It will also give manufacturers with information to help them understand the various expenses associated with complying with GST laws and determining which costs are borne primarily by small manufacturers in the textile industry.

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