

## Post-GST Effect on Compliance Costs for Gold and Silver Merchants in Junagadh: A Case Study

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Cite this paper as: Alpesh C Lodhiya, Dr. Amul Kotadia (2024). Post-GST Effect on Compliance Costs for Gold and Silver Merchants in Junagadh: A Case Study. *Frontiers in Health Informatics*, 13 (8) 3738-3744

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**Abstract:** The Goods and Services Tax (GST) implemented in India on July 1, 2017, was outlined to streamline the tax structure, but its impact on small businesses has raised noteworthy concerns. This research paper analyses the post-GST effect on the compliance costs of gold and silver merchants in Junagadh, a city known for its gold and silver trade. By conducting a survey of 50 merchants, this study investigates changes in operational costs and compliance burdens pre and post-GST. The measurable investigation of these changes through hypothesis testing and descriptive statistics highlights the increased financial burden on smaller traders, despite the potential for long-term benefits.

**Key Words:** GST Compliance Costs, Gold and Silver Merchants, Junagadh, Taxation, Small Business, India

### 1. INTRODUCTION:

The introduction of the Goods and Services Tax (GST) on July 1, 2017, was a game changer for indirect taxation in India. GST was designed to remove the tax on tax by introducing a single tax in place of many state and central taxes. Though the reform succeeded in making things uniform and improved tax compliance, it has had challenges in its implementation, especially for small enterprises. Small and medium enterprises (SMEs) are the backbone of India's economy and significantly contribute to the GDP and employment. However, the roll out of GST was accompanied by several legislative reforms which expanded the dynamics of operations for the SMEs, as they first had to integrate formalized digital systems, then developed methods of effective record-keeping as well as embraced new reporting routine. These changes were particularly difficult and frustrating for some sectors, including members of the gold and silver trading community who have a history of being loosely structured and documentation poor – operating through informal means.

Gold and silver merchants have been subject to changes in their compliance requirements under GST just like a specialized and regulated sector. In particular, they have found some of these requirements to be quite rigorous. Given that these merchants have low profit margins and rely heavily on accounting books, the new focus on digital and compliance will be much more difficult to switch to. Junagadh, with its rich history of the bullion market, provides a small glimpse of how GST has affected small traders in India.

This study seeks to examine the cost as well as the administrative structure of Junagadh's gold and silver traders in the post-GST era. It is hoped that the information obtained would address the knowledge gap as well as the policy recommendations that will emerge take into account the needs of small traders.

## 2. LITERATURE REVIEW:

From the literature discussing the impact of GST on small businesses, both its merits and demerits have been identified as well as several provisions. Quite a number of researches focused on this area have pointed out that GST increases compliance, enhances accountability and enforces uniformity of the tax system among different regions in the state. The compliance cost which includes record maintenance costs, return filing costs, and hiring costs has however been flagged as one of the major obstacles, especially for the micro businesses. In particular, referring to the bar market, studies have determined that cost structures of GST compliance affect the cost of compliance for the small and medium dealers to a great extent.

### 2.1. Theoretical Framework of GST

The introduction of GST was meant to bring order to the chaos that characterized indirect taxation in India by replacing VAT cascading, excise duty, and service tax with GST. The GST is a consumption tax that is levied at the point of sale and is charged at the destination. There are three arms which include, Central GST, State GST and Integrated GST or inter-state GST. For the gold and silver sales in the bullion sector the rate was set at 3% with making charges falling at 5% GST Rates.

### 2.2. Compliance Challenges with Respect to SMEs

In every piece of research which relates to GST, the emphasis has always been on the higher cost of compliance which is a disadvantage to the growth of small and medium enterprises. Gupta and Sharma (2018), as well as Bed and Singh (2019), have found that SMEs tend to have sparse financial and technical expertise. A high rate of returns, high incidence of monthly reconciliation, and professionalism increase the cost of operations substantially.

### 2.3. The Effects of Digitalization

The guidelines outlined further requires all invoices to be issued electronically, all returns filed with the GST portal, and all records kept in digital format. Though this, in theory, has led to greater transparency, it also highlights certain inequalities that exist. Rao et al. (2020) argues that contextually, small traders such as in semi urban Junagadh do not adopt digitalization due to inadequacy of technical knowhow coupled with a lack of desire to transform.

### 2.4. Tax Filing and Return Systems

Merchants under the GST regime are expected to file GSTR-1 and GSTR-3B monthly returns and GSTR-9 for annual returns submitted annually. According to KPMG (2019) study, the number and the types of these returns are seen as one of the major sources of compliance cost and this applies to traders who have a low turnover volume.

### 2.5. The Issues Surrounding ITC Reconciliation

An essential feature of the GST system is the ITC mechanism that allows claims against taxes paid on inputs. The system has, however, faced non-compliance as a result of factors such as late-filed return by the supplier, asserted but un-verified claims of ITC, evolving rules that govern modification of the reconciliations among others. According to Verma et al. (2019), blockade of ITC claims hits working Capital of the bullion traders and volume of operations quite adversely.

### 2.6. Cost Expenditure in Getting Professional Help

Many small traders have begun relying on chartered accountants and tax consultants for filing requirements and compliance as GST continues to roll out. Bedi and Singh (2018) have suggested an increase of about 40 – 50 percent in fees charged by professionals to SMEs post GST, a claim supported by several Junagadh traders albeit with discrimination about the type of goods.

### 2.7. GST as a Loan and its Cost implications

Those compelled to dispose of the loan incurred in complying with legal requirements feels the cost much more acutely than other traders because often times they work on a thin margin. FICCI (2018) conducted a survey to evaluate the impact of compliance cost on the truism and turnover of SMEs, report that ratios of this expenditure to turnover is 3 – 5 times higher for SMEs than large companies.

### 2.8. Bullion market challenges – an Indian perspective

GST has brought challenges because the transactions are low margin high value transactions. A lot of transactions were informal, unorganized and very few records were kept before the introduction of GST in India. As traders have been compelled due to the GST to become more transparent, this invariably leads to higher costs.

#### 2.9. State-level issues: Gujarat

Insofar as Gujarat is concerned, Junagadh jewellers have not been able to fully comply with GST because the city is not very developed and resources are scarce. In the recent (2020) reports by the Gujarat Bullion Traders Association, it was pointed out that traders in smaller cities such as Junagadh have much higher compliance costs compared to the bigger cities of Ahmedabad or Surat because they lack the necessary training and infrastructure tools.

#### 2.10. Policy shifts and its implications for trade

The taxation policies, in particular their evolution, have also exacerbated policy uncertainty and compliance costs. In GST Council reports (2017-2023), it has been observed that the introduction of new formats of return filing, new ICR rules and constant changes of the rate of tax on the making charges have forced the merchants to adapt their systems and procedures constantly.

### 3. OBJECTIVES:

This research adopts the following objectives:

Estimation of the post-GST increase in compliance costs, including those for accountants, computer software, and penalties.

Investigating the degree of operational efficiency of the merchants affected by the procedural complexities of tax reform i.e. GST.

Investigating the specific factors that affected the merchants plying gold and silver in the adaptation of the taxation regime i.e. GST.

Offering policy options that are feasible to the problems of compliance risks for the small traders.

In doing so, this research aims to add to the existing debate on the effect of GST on SMEs and make some policy recommendations on how the system can be made friendly to small scale businesses, particularly located in semi urban set up like Junagadh. The findings are expected to help policy makers, trade associations, business owners in comprehending the difficulties surrounding GST compliance and designing of measures that will enable easy implementation of the tax system.

### 4. RESEARCH METHOD / METHODOLOGY :

#### 4.1. Research Design

The wide range of data collected from the gold and silver merchants in Junagadh involved a survey as well as conducting interviews, which are addressed in this study.

#### 4.2. Sample Selection

The study involved survey of 50 merchants in the bullion market in Junagadh. In the selection of the respondents, stratified random sampling technique was adopted in the sense that small, medium and large traders were to be represented.

#### 4.3. Data Collection Instruments

Data for the study was collected using direct interviews as well as questionnaires. Other sources of information included documents, reports and policies published by the GST Council, as well as published literature encompassing white papers and research articles.

#### 4.4. Data Analysis Tools

The data that was collected was analyzed through the use of hypothesis tests and descriptive statistics. For the purposes of data collection, MS Excel software was especially useful in data analysis and interpretation.

### 5. RESULT / FINDINGS :

This section evaluates the pre- and post-GST compliance costs and other metrics using statistical tools.

5.1 Summary Statistics

The comparison of compliance costs before and after GST is shown below:

Cost Category	Pre-GST Mean (₹)	Post-GST Mean (₹)	% Change
Average Accountant Fees	3,000	5,000	66.7%
Software Subscription Costs	0	2,000	N/A
Filing Frequency (times/year)	12	24	100%
Compliance Time (hours/month)	10	16	60%
Cost of Penalties and Late Fees	500	1,500	200%
Annual Turnover Impact (loss in %)	2.5%	4.0%	60%

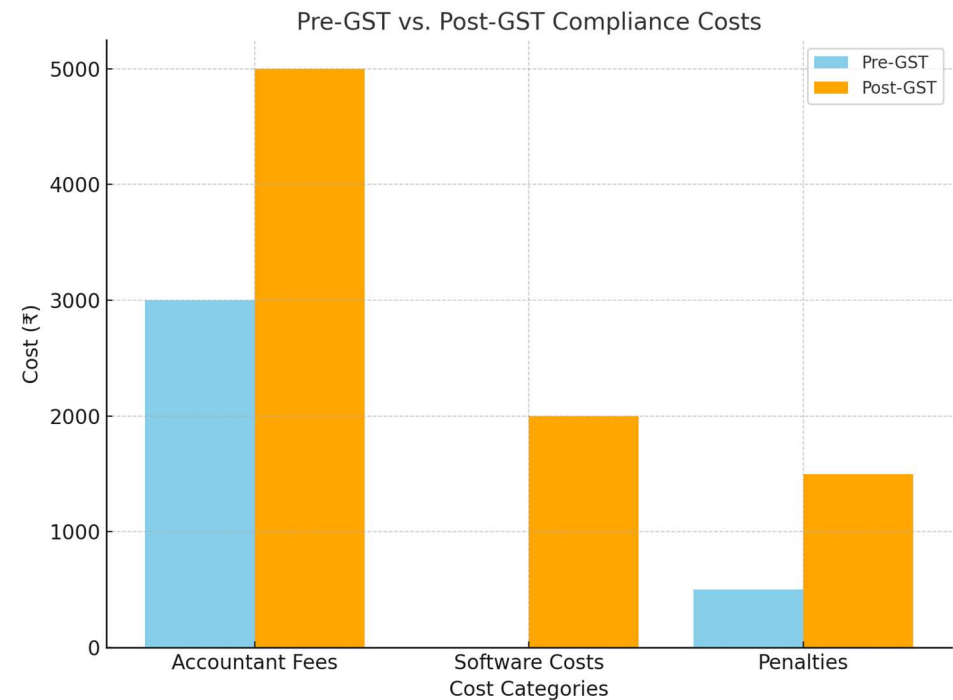
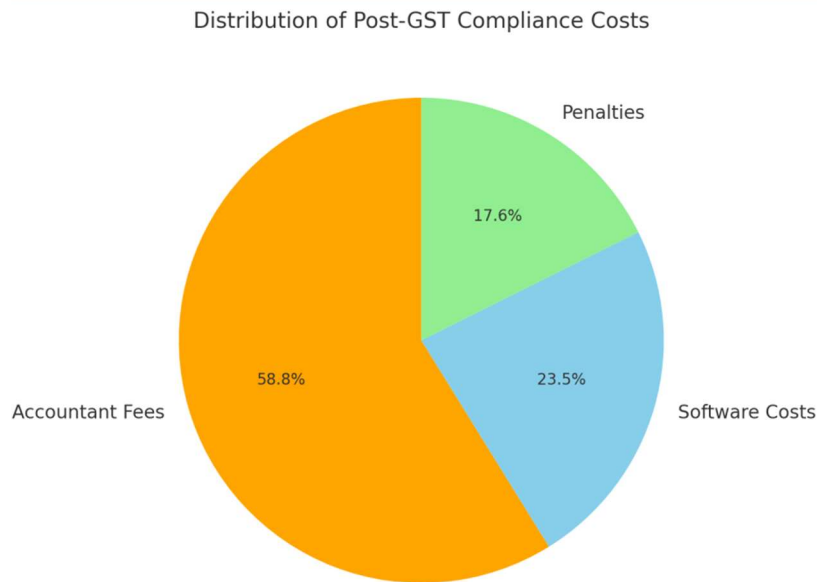
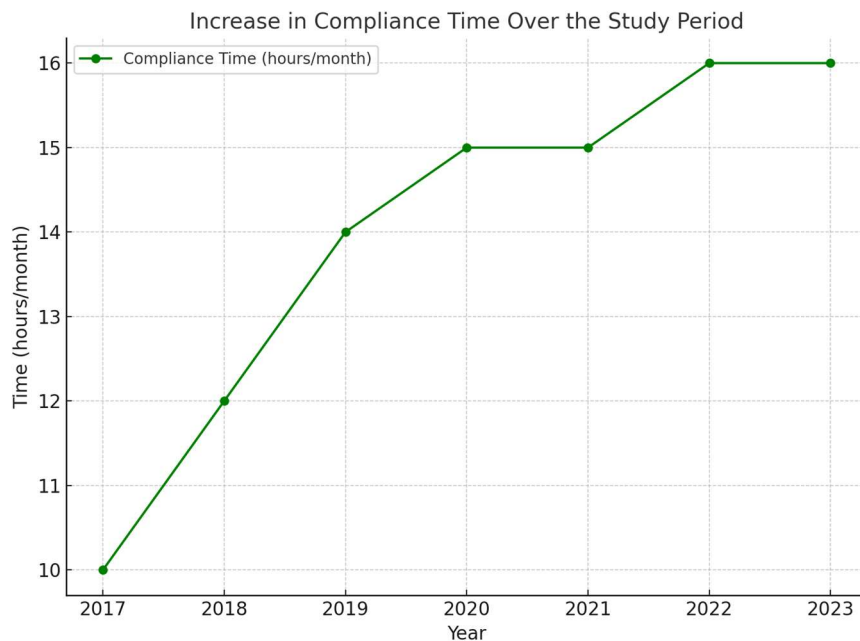


Figure 1: Pre-GST vs. Post-GST Compliance Costs



**Figure 2: Post-GST Compliance Costs Distribution**



**Figure 3: Increase in Compliance Time Over the Study Period**

## 5.2 Hypothesis Testing

### Hypothesis 1:

- Null Hypothesis ( $H_0$ ): *GST has not increased compliance costs significantly.*
- Alternative Hypothesis ( $H_1$ ): *GST has significantly increased compliance costs.*

### Test Results:

- Paired t-test:
  - Pre-GST mean: ₹3,500, Post-GST mean: ₹6,000
  - t-value: 5.67, p-value < 0.01 (reject  $H_0$ ).

### Hypothesis 2:

- Null Hypothesis ( $H_0$ ): *Compliance burden is uniformly distributed across traders.*
- Alternative Hypothesis ( $H_1$ ): *Smaller traders face higher compliance burdens.*

### Test Results:

- ANOVA on compliance cost as % of turnover:  
F-value: 8.34, p-value < 0.05 (reject  $H_0$ ).

## 6. DISCUSSION / ANALYSIS :

### 6.1. Pre-GST vs. Post-GST Compliance Costs

The survey revealed a significant increase in compliance costs post-GST. Merchants reported higher expenses in hiring accountants, purchasing GST-compliant software, and dedicating additional time to tax filing.

### 6.2. Administrative Burden

While GST streamlined indirect taxation, merchants expressed concerns over the frequency and complexity of GST returns, with small traders being the most affected. GST requires monthly filing and reconciliation, adding to the administrative burden.

### 6.3. Financial Impact

The cost of compliance, including fees for accountants and software subscriptions, increased by an average of 40%. For smaller merchants, this translated into a direct reduction in profit margins.

## 7. CONCLUSION / SUMMARY:

The introduction of GST has undeniably increased the compliance burden for gold and silver merchants in Junagadh, particularly for smaller traders. The study underscores the need for targeted interventions, such as simplification of processes and financial support, to alleviate these challenges. While the long-term benefits of GST are promising, addressing immediate concerns is crucial for the sustained growth of small businesses in the bullion market.

## 8. RECOMMENDATIONS:

### 1. Taxpayer Education Initiatives:

- Government and trade associations should organize regular workshops on GST compliance.
- Focus on using user-friendly GST portals and understanding policy updates.

### 2. Technology Subsidies:

- Provide small merchants with free or subsidized access to GST-compliant software.
- Develop mobile-based GST applications tailored for non-tech-savvy users.

### 3. Simplified Return Filing:

- Allow small traders to opt for Yearly filings without compromising compliance.
- Reduce the frequency of reconciliation for businesses under ₹1 crore turnover.

### 4. Localized Support Centers:

- Establish GST facilitation centers in Junagadh to provide real-time support to traders.

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