



An Exploratory Study On The Impact Of Input Tax Credit On Business Operations In Coimbatore City

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Abstract: The Goods and Services Tax (GST), implemented in India in 2017, introduced a unified indirect tax regime. A key feature of this reform is the Input Tax Credit (ITC) mechanism, which allows businesses to claim tax credit on inputs used in operations. This study explores the impact of ITC on business operations in Coimbatore, a significant industrial hub. The study uses a descriptive research design, drawing from primary data collected via a structured questionnaire with 250 respondents and secondary sources. The findings highlight that while ITC improves profitability and compliance, challenges such as technical issues, delayed refunds, and awareness gaps persist. The study recommends targeted training and improved system efficiency to maximize ITC benefits.

Index Terms - GST, Input Tax Credit, Business Operations, Compliance, Coimbatore, SMEs.

I. INTRODUCTION

India's indirect tax structure, replacing a complex system of multiple taxes with a unified framework. A key feature of GST is the Input Tax Credit (ITC) mechanism, which allows businesses to claim credit for taxes paid on inputs, thereby reducing operational costs, improving cash flow, and enhancing profitability. In Coimbatore, a prominent industrial hub of Tamil Nadu, the ITC mechanism has significantly influenced small and medium enterprises (SMEs), offering benefits like tax transparency and cost savings. However, these businesses face challenges such as complex compliance procedures, technical glitches, refund delays, and limited awareness. Despite these hurdles, ITC holds potential for enhancing competitiveness and efficiency by lowering input costs and enabling better pricing strategies. This study investigates the impact of ITC on Coimbatore's business operations, aiming to highlight the practical challenges and opportunities involved, and to suggest measures for optimizing ITC utilization.

II. STATEMENT OF THE PROBLEM

In order to improve business efficiency, reduce tax cascading, and simplify India's indirect tax system, the Goods and Services Tax (GST) and its Input Tax Credit (ITC) mechanism were implemented. However, companies especially SMEs find it difficult to comply with intricate compliance requirements, documentation standards, and frequent technical glitches on the GST portal in industrial centers like Coimbatore, which impacts ITC claim procedures. Cash flows have been strained and operational efficiency has decreased as a result of ITC refund delays. Additionally, mistakes and underutilization of ITC benefits have resulted from SMEs' lack of awareness. In order to determine whether the intended benefits of ITC are actually realized in practice, this study looks into these concerns.

III. SCOPE OF THE STUDY

The main goal of this study is to examine how Coimbatore City's business operations specifically those in the manufacturing, trading, and service sectors—are affected by the Input Tax Credit (ITC). It looks at how ITC affects cost structures, profitability, compliance, and operational effectiveness while pointing out problems like complicated paperwork, technical difficulties, and refund delays. Both large and small businesses are covered in the study, which offers insights into their experiences with ITC under the GST regime. In order to provide businesses and policymakers with practical suggestions to maximize the ITC mechanism and improve its efficacy in Coimbatore's industrial landscape, the study will examine both the advantages and disadvantages of the ITC.

IV. OBJECTIVES OF THE STUDY

- ❖ To analyze the concept and significance of Input Tax Credit under the GST regime.
- ❖ To assess the impact of ITC on the cost structure and profitability of businesses in Coimbatore.
- ❖ To examine the challenges faced by businesses in claiming and utilizing ITC.
- ❖ To explore the role of ITC in enhancing operational efficiency and compliance among businesses.

V. RESEARCH METHODOLOGY

Research Design - Descriptive research design.

Source of Data - Primary data & Secondary data.

Sampling Technique - Convenience Sampling.

Sampling Size - 250 respondents.

Area of the Study – KS ASSOCIATES, Coimbatore.

Tools For Analysis

The research paper involved certain tools like

- simple percentage analysis.
- Correlation.
- Rank analysis.
- Chi-square.
- ANOVA.

VI. LIMITATION OF THE STUDY

- ❖ The study is limited to Coimbatore city, so the following cannot be generalized.
- ❖ The findings of the study are entirely based on primary and secondary data. So, the results are subject to limitations of the both data.
- ❖ Due to time constraints the sample has been limited to 250 respondents.

VII. Data and Sources of Data

Anchit Sureka (2024) “ASSESSMENT OF THE GOODS AND SERVICES TAX COMPLIANCE SYSTEM: AN INVESTIGATION ON THE IMPACT OF ITC NON-COMPLIANCE ON STAKEHOLDERS IN INDIA” The introduction of Goods and Services Tax (GST) in India has marked a major overhaul of the country's indirect tax system. However, input tax credit (ITC) non-compliance has become a major concern for several stakeholders. The objective of this study is to examine how ITC non-compliance affects certain stakeholders of the Indian GST system. The study used a mixed methods technique combining qualitative interviews with quantitative questionnaires. Data were collected from 500 companies across multiple industries and 50 tax professionals through structured questionnaires and semi-structured interviews. Statistical analysis was conducted using SPSS, including SPSS. At $r = -0.68$, $p = 0.001$, the results show a significant negative relationship between ITC non-compliance and company compliance. Furthermore, the study shows that ITC non-compliance explains 46% of the variation in stakeholder satisfaction with the GST system.

Kawatwar, Ruchita Ajay (2023) “A Study on impact of indirect tax system on micro small and medium enterprises with the special reference to Palghar taluka of Maharashtra”. The study examines the tax newline compliance behaviours and perceptions of MSMEs from the perspectives of three newline major players associated with MSME operators, tax practitioners, and business newline experts' views will also be included as they assist MSMEs with tax filing and tax newline planning. newline This study is primarily undertaken to determine the impact of the Indirect Tax System newline on the MSME business operating in Palghar.

Dr. Shobha N S, 2023, "The Impact of GST Implementation on Business Operations and Tax Compliance in India" This paper analyzes the effects of GST implementation on business operations and tax compliance in India, emphasizing the role of ITC in simplifying tax structures and reducing the overall tax burden on businesses.

TABLE 4.1
UNDERSTANDS ITC PROCESS

S. No	Understands ITC process	No. of Respondents	Percentage (%)
1	Fully understand	83	33.2
2	Partially understand	80	32
3	Do not understand	87	34.8
Total		250	100

(Source: Primary Data)

INTERPRETATION

Table 4.1 shows that 33.2% of the respondents were understands ITC process is Fully understands, 32% of the respondents were understands ITC process is Partially understand and 34.8% of the respondents were understands ITC process is Do not understand. **Majority 34.8% of the respondents were understood ITC process is Do not understand.**

TABLE 4.2
DIFFICULTIES IN RECONCILING ITC CLAIMS

S. No	Difficulties in reconciling ITC claims	No. of Respondents	Percentage (%)
1	Yes, frequently	67	26.8
2	Sometimes	69	27.6
3	Rarely	62	24.8
4	Never	52	20.8
Total		250	100

(Source: Primary Data)

INTERPRETATION

Table 4.2 shows that 26.8% of the respondent's difficulties in reconciling ITC claims is Yes, frequently, 27.6% of the respondent's difficulties in reconciling ITC claims is Sometimes, 24.8% of the respondent's difficulties in reconciling ITC claims is Rarely and 20.8% of the respondent's difficulties in reconciling ITC claims is Never. **Majority 27.6% of the respondent's difficulties in reconciling ITC claims is Sometimes.**

TABLE 4.3
ANOVA COMPARISON OF ITC'S IMPACT ON PROFITABILITY ACROSS DIFFERENT BUSINESS TYPES

H_0 = There is no statistical difference in ITC's impact on profitability across different business types.

H_1 = There is a statistical difference in ITC's impact on profitability across different business types.

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.601	3	.200	.271	.846
Within Groups	181.723	246	.739		
Total	182.324	249			

(Source: Primary Data)

INTERPRETATION

In the above table, with the degrees of freedom (3) and an F-value of 0.271, Sig. (3, 0.271) = 0.846, which is greater than 0.05. Therefore, we conclude that there is no significant difference in ITC's impact on profitability across different business types.

Thus, H_1 is rejected & H_0 is accepted.

TABLE 4.4
ANOVA COMPARISON OF ITC'S IMPACT ON OPERATIONAL EFFICIENCY ACROSS DIFFERENT BUSINESS SIZES

H_0 = There is no statistical difference in ITC's impact on operational efficiency across different business sizes.
 H_1 = There is a statistical difference in ITC's impact on operational efficiency across different business sizes.

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.891	3	.964	1.410	.240
Within Groups	168.073	246	.683		
Total	170.964	249			

(Source: Primary Data)

INTERPRETATION

In the above table, with the degrees of freedom (3) and an F-value of 1.410, Sig. (3, 1.410) = 0.240, which is greater than 0.05. Therefore, we conclude that there is no significant difference in ITC's impact on operational efficiency across different business sizes.

Thus, H_1 is rejected & H_0 is accepted

TABLE 4.5
COMPARISON BETWEEN YEARS OF OPERATION AND CHALLENGES IN CLAIMING ITC

H_0 = There is no association between years of operation and challenges in claiming ITC.

H_1 = There is an association between years of operation and challenges in claiming ITC.

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	10.972 ^a	12	.531
Likelihood Ratio	11.017	12	.527
N of Valid Cases	250		

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 9.35.

(Source: Primary Data)

INTERPRETATION

In the above table, with the degrees of freedom = 12 and a significance value (p = 0.531), which is greater than the significance level (0.05), so we conclude that there is no association between years of operation and challenges in claiming ITC.

Thus, H_1 is rejected, and H_0 is accepted.

TABLE 4.6

CORRELATION BETWEEN CONFIDENCE IN ITC CLAIMS AND IMPROVED COMPLIANCE

H_0 = There is no relationship between confidence in ITC claims and improved compliance.

H_1 = There is a relationship between confidence in ITC claims and improved compliance.

		Confidence in ITC Claims	Improved Compliance
Confidence in ITC Claims	Pearson Correlation	1	-.003
	Sig. (2-tailed)		.959
	N	250	250
Improved Compliance	Pearson Correlation	-.003	1
	Sig. (2-tailed)	.959	
	N	250	250

(Source: Primary Data)

INTERPRETATION

In the above table, the significance value ($p = 0.959$) is greater than the significance level (0.05). Therefore, we conclude that there is no significant relationship between confidence in ITC claims and improved compliance.

Thus, H_1 is rejected, and H_0 is accepted.

TABLE 4.7

CORRELATION BETWEEN IMPACT ON BUSINESS COSTS AND IMPACT ON PROFITABILITY

H_0 = There is no relationship between the impact on business costs and the impact on profitability.

H_1 = There is a relationship between the impact on business costs and the impact on profitability.

		Impact on Business Costs	Impact on Profitability
Impact on Business Costs	Pearson Correlation	1	.084
	Sig. (2-tailed)		.183
	N	250	250
Impact on Profitability	Pearson Correlation	.084	1
	Sig. (2-tailed)	.183	
	N	250	250

(Source: Primary Data)

INTERPRETATION

In the above table, the significance value ($p = 0.183$) is greater than the significance level (0.05). Therefore, we conclude that there is no significant relationship between the impact on business costs and the impact on profitability.

Thus, H_1 is rejected, and H_0 is accepted.

TABLE 4.8
RANK ANALYSIS OF ITC CHALLENGES FACED BY BUSINESSES

FACTORS	I	II	III	IV	V	TOTAL	RANK
Complex documentation and compliance requirements	41 (5)	59 (4)	53 (3)	48 (4)	46 (5)	740	II
Technical issues with the GST portal	47 (5)	57 (4)	55 (3)	54 (2)	36 (1)	714	V
Mismatch in GSTR-2A and GSTR-2B filings	51 (5)	53 (4)	50 (3)	52 (2)	42 (1)	725	IV
Delay in receiving ITC refunds	49 (5)	50 (4)	44 (3)	55 (2)	51 (1)	756	I
Lack of clarity on eligible and ineligible ITC claims	59 (5)	45 (4)	52 (3)	39 (2)	54 (1)	731	III

(Source: Primary Data)

INFERENCE:

Majority of the respondents were ranked Delay in receiving ITC refunds has ranked as I.

VIII. FINDINGS

PERCENTAGE ANALYSIS:

- Majority 34.8% of the respondents were understood ITC process is Do not understand.
- Majority 27.6% of the respondent's difficulties in reconciling ITC claims is Sometimes.

ANOVA:

- There is no significant difference in ITC's impact on profitability across different business types.
- There is no significant difference in ITC's impact on operational efficiency across different business sizes.

CHI-SQUARE:

- That there is no association between years of operation and challenges in claiming ITC.

CORRELATION:

- There is no relationship between confidence in ITC claims and improved compliance.
- There is no relationship between the impact on business costs and the impact on profitability.

RANK ANALYSIS:

- Majority of the respondents ranked "Delay in receiving ITC refunds" as the most significant challenge in claiming Input Tax Credit (ITC).

IX. SUGGESTIONS:

- ❖ Study ITC usage in different industries like textiles and manufacturing.
- ❖ Simplify ITC claim processes for small businesses.
- ❖ Conduct awareness programs on ITC rules and claims.
- ❖ Create digital tools or workshops for GST portal issues.
- ❖ Link ITC benefits to business improvements like tech upgrades.
- ❖ Promote cooperation between businesses and tax officials to solve ITC problems.
- ❖ Use accounting software to automate ITC claims and reduce errors.
- ❖ Frame GST policies to suit Coimbatore's major industries.
- ❖ Track ITC's effect on product pricing and market competition.
- ❖ Do follow-up studies on ITC's impact on business growth and tax habits.

X. CONCLUSION

Based to the study's findings, Coimbatore City's business operations have been greatly impacted by the GST's Input Tax Credit (ITC), which has improved cash flow, decreased tax cascading, and increased competitiveness. Its full potential is, however, hampered by issues like complicated compliance, delayed refunds, and low SME awareness. Businesses can be empowered to effectively utilize ITC with the help of a clear and straightforward ITC mechanism and focused awareness campaigns. In order to ensure that ITC becomes a catalyst for economic efficiency and long-term business resilience in the region, policymakers and businesses must work together to refine GST frameworks by addressing sector-specific barriers and coordinating ITC benefits with operational strategies.

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