

# GST Implementation and Its Impact on Tax Compliance Behaviour of Small Traders in Punjab: A Survey-Based Study

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**Abstract**—The Goods and Services Tax, introduced in India in July 2017, represents the most sweeping indirect tax reform since Independence — consolidating over a dozen central and state levies into a unified, technology-driven framework. Seven years after its rollout, the compliance experience of small traders — the kirana store owner, the grain merchant, the cloth dealer, the hardware retailer — remains inadequately documented in the academic literature, particularly at the regional and district level. This study examines GST compliance behaviour among small traders in three major commercial centres of Punjab: Ludhiana, Amritsar, and Jalandhar. Primary data were collected from 220 registered GST traders across these cities through a structured questionnaire measuring GST awareness, perceived compliance complexity, compliance cost burden, e-filing experience, and self-reported compliance levels. Chi-square tests of association and multiple regression were used for analysis. Results reveal that while GST registration compliance is high (92.7%), return filing regularity and Input Tax Credit (ITC) utilisation remain significantly lower, particularly among traders with annual turnovers below INR 40 lakhs. GST awareness level is the strongest predictor of compliance regularity ( $\beta = 0.38$ ), followed by perceived simplicity of the GSTN portal ( $\beta = 0.31$ ). Fear of penalties was significantly associated with registration compliance but not with return filing regularity. The paper offers specific recommendations for improving small trader compliance through GST literacy programmes, simplified return formats, and targeted district-level outreach.

**Index Terms**—GST, tax compliance, small traders, Punjab, GSTN, indirect tax, tax awareness, ITC, return filing, tax reform India

## I. INTRODUCTION

The moment GST was activated at midnight on 30 June 2017, over a crore small traders across India found themselves navigating a tax system that was simultaneously more rational in design

and more demanding in execution than what they had known before. For a textile merchant in Ludhiana's Chaura Bazar, the shift meant moving from a relatively familiar VAT return filed quarterly to a multi-return GST system involving GSTR-1, GSTR-3B, and annual GSTR-9 filings — each with its own deadlines, formats, and reconciliation requirements. For a grain dealer in Amritsar's Grain Market, it meant understanding which commodities were zero-rated, which attracted 5%, and what records were required to claim Input Tax Credit on transport costs. The complexity was real, and for many small traders it arrived before adequate awareness, training, or system readiness could catch up.

Seven years on, the GST system has stabilised considerably. Multiple rounds of simplification — the quarterly filing option for small taxpayers under QRMP, the introduction of e-invoicing, the rationalisation of tax slabs, and the auto-population of GSTR-3B from GSTR-1 — have reduced compliance burden for compliant traders. Yet the question of whether small traders in Punjab's diverse commercial markets have achieved consistent, complete, and voluntary compliance — as opposed to registration-only or partial compliance — remains empirically open. This paper provides direct, primary evidence from three cities that together represent the commercial character of urban Punjab: Ludhiana for its manufacturing and wholesale trade ecosystem, Amritsar for its tourist economy and border trade orientation, and Jalandhar for its sports goods and educational equipment markets.

The study is motivated by a straightforward policy logic: voluntary compliance is the foundation of any self-assessed tax system, and voluntary compliance requires awareness, perceived fairness, manageable compliance costs, and trust in the administering authority. If any of these conditions is substantially absent, registration and filing rates will diverge — traders will register to avoid penalties but will file inaccurately, claim ITC partially, and underreport turnover where detection risk is perceived as low. Understanding which of these compliance determinants is most deficient in the Punjab small trader context enables targeted, efficient policy intervention.

## II. REVIEW OF LITERATURE

### 2.1 Tax Compliance: Theoretical Anchors

The economic theory of tax compliance originates with Allingham and Sandmo (1972), whose model predicted that compliance is a function of audit probability and penalty severity — rational individuals comply when the expected cost of non-compliance (probability of detection  $\times$  penalty) exceeds the benefit of evasion. While influential, this deterrence-only model has been consistently found inadequate in explaining observed compliance patterns, which tend to be higher than the model predicts in low-audit-probability environments. The enriched framework that has emerged from subsequent research — incorporating tax morale (Kirchler, 2007), procedural fairness (Tyler, 1990), and perceived complexity (Kastlunger et al., 2013) — provides the theoretical basis for this study. In essence, compliance is a function not merely of deterrence but of awareness, trust, and the practical feasibility of compliance itself.

## 2.2 GST Compliance in India: Existing Evidence

India's GST literature is growing rapidly but remains concentrated in its geographical and institutional scope. Gupta (2019) surveyed 150 traders in Delhi and found that GST awareness was the single strongest predictor of correct compliance behaviour, with traders who had attended even one awareness workshop demonstrating significantly higher return filing regularity. Sehrawat and Dhanda (2015), writing in the pre-GST period, documented the compliance challenges anticipated by small traders under the proposed unified tax system, flagging digital infrastructure, accounting capacity, and frequent policy changes as the three most critical concerns. Post-implementation, Agarwal and Chakraborty (2020) found that compliance burden perceptions were highest among traders with turnovers below INR 50 lakhs — the segment that overlaps substantially with the Composition Scheme threshold. No published study has focused specifically on Punjab's small trader compliance experience across multiple commercial districts, which is the gap this paper addresses.

### III. RESEARCH METHODOLOGY

A cross-sectional, descriptive-inferential research design was adopted. The target population comprised all GST-registered small traders — defined as those with annual turnover below INR 1.5 crore — operating in the retail and wholesale segments of three urban markets: Ludhiana (Chaura Bazar, Ghumar Mandi), Amritsar (Hall Bazar, Lawrence Road), and Jalandhar (Model Town Market, Phagwara Gate). Traders were approached through systematic sampling within each market area; 260 questionnaires were distributed, of which 220 were fully completed and retained (response rate: 84.6%). The questionnaire comprised 38 items across seven sections: trader profile (7 items), GST registration details (4 items), GST awareness and knowledge (8 items), compliance behaviour — return filing, ITC claiming, invoice issuance (8 items), perceived compliance complexity (5 items), compliance cost burden (3 items), and relationship with the GST authority (3 items). All attitudinal items were on a 5-point Likert scale; compliance behaviour items were factual and categorical. Chi-square tests examined associations between trader characteristics and compliance outcomes; multiple regression identified predictors of return filing regularity as the primary compliance measure.

### IV. RESULTS AND ANALYSIS

#### 4.1 Respondent Profile

Characteristic	Category	Frequency	Percentage
City	Ludhiana	88	40.0%
	Amritsar	72	32.7%
	Jalandhar	60	27.3%

Annual turnover	Below INR 20 lakhs	74	33.6%
	INR 20–40 lakhs	91	41.4%
	INR 40 lakhs–1.5 crore	55	25.0%
GST scheme	Regular taxpayer	148	67.3%
	Composition scheme	72	32.7%
Education	Below class 10	31	14.1%
	Class 10–12	98	44.5%
	Graduate and above	91	41.4%
GST experience (years)	2–4 years	68	30.9%
	4–6 years	94	42.7%
	More than 6 years	58	26.4%

#### 4.2 Compliance Behaviour: Key Findings

Compliance Dimension	% Compliant / Positive	Mean Rating (/5)	Observation
GST registration	92.7%	—	High — fear of penalty effective
Monthly GSTR-3B filing (regular)	71.4%	—	Moderate — late filing common
GSTR-1 filing accuracy (self-rated)	58.2%	3.14	Below average — data entry challenges
ITC claimed regularly	54.1%	—	Significant underutilisation
Proper tax invoice issued always	63.6%	—	Informal billing still prevalent

GST awareness (self-rated)	—	3.08	Moderate — slab confusion persists
GSTN portal ease of use	—	2.71	Below average — digital barrier
Trust in GST administration	—	3.24	Moderate — improving gradually

The compliance profile that emerges from these data has a characteristic shape that will be recognisable to tax administrators: registration compliance is high because the penalty for non-registration is immediate and visible, but filing quality and ITC utilisation — which require ongoing engagement with the GSTN portal and some accounting sophistication — lag substantially behind. The gap between registration rate (92.7%) and accurate GSTR-1 filing (58.2%) is 34 percentage points — a number that represents both revenue leakage and compliance burden, since traders who file inaccurately create reconciliation discrepancies that trigger notices and further compliance costs.

Composition scheme traders (32.7% of sample) show systematically lower GSTN portal familiarity ( $M = 2.31$ ) than regular taxpayers ( $M = 2.97$ ), partly because their filing requirements are simpler — a single quarterly return — which reduces their exposure to and practice with the portal's full functionality, paradoxically making them more vulnerable when any complexity does arise.

#### 4.3 Regression Results: Predictors of Return Filing Regularity

Predictor Variable	$\beta$ (Std.)	t-value	p-value	Significance
GST Awareness Level	0.381	7.12	< 0.001	*** Strongest
GSTN Portal Ease of Use	0.312	5.83	< 0.001	***
Education Level of Trader	0.241	4.49	< 0.001	***
Compliance Cost Burden (inverse)	-0.198	3.71	< 0.001	***
Annual Turnover Size	0.187	3.49	0.001	***
Fear of Penalty	0.094	1.77	0.078	n.s.
Trust in GST Authority	0.143	2.67	0.008	**

Notes:  $p < 0.001$ ,  $p < 0.01$ , n.s. = not significant.  $R^2 = 0.584$ , Adjusted  $R^2 = 0.568$ ,  $F(7,212) = 42.74$ ,  $p < 0.001$ . Dependent variable: return filing regularity (self-reported monthly/quarterly filing compliance score).

The finding that fear of penalty is not a significant predictor of return filing regularity ( $p = 0.078$ ), despite being the most commonly cited reason for GST registration, is analytically important. It confirms that the deterrence mechanism operates selectively: it drives the visible, one-time act of registration but does not sustain the ongoing, effort-intensive behaviour of regular, accurate return filing. For that, awareness, digital capability, and trust in the system are the operative levers — and all three can be addressed through targeted administrative action.

## V. DISCUSSION AND CONCLUSIONS

The evidence from 220 small traders across Ludhiana, Amritsar, and Jalandhar consistently points toward a compliance profile shaped more by capability and awareness constraints than by deliberate evasion intent. The traders who file regularly and claim ITC correctly are not morally distinct from those who do not — they are better educated, more digitally confident, and more GST-aware. This has a straightforward policy implication: investing in awareness and digital literacy programmes for small traders will yield compliance dividends that penalty-intensification cannot achieve, because the primary compliance barrier is not motivation but capability.

Three specific interventions are recommended. First, the GST Council and Punjab's State Tax Department should design a district-specific GST literacy programme — delivered through trade associations, Chamber of Commerce networks, and markets' gentry organisations — targeting traders with turnovers below INR 40 lakhs, who show the greatest awareness and filing compliance gaps. Second, the GSTN should introduce a guided, simplified filing interface for traders with fewer than 50 monthly invoices — a subset-facing version of the portal that eliminates the cognitive overhead of features irrelevant to small-scale trade. Third, the Composition Scheme's scope and benefits should be actively communicated to eligible traders, with a specific focus on the reduced compliance burden it offers, since 41.4% of regular taxpayers in the turnover range eligible for composition have not made the transition.

This study has several limitations. Self-reported compliance measures are subject to social desirability bias — traders may overstate their filing regularity and ITC utilisation when responding to a researcher. Future studies should cross-reference self-reported compliance with GSTN administrative data, which is now available to researchers through NIPFP and similar research institutions under data-sharing agreements. Longitudinal designs tracking the same trader population over three to five years would also allow assessment of how compliance behaviour evolves as GST familiarity increases and system complexity reduces.

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