



GST Implementation and its Effect on Retailer Profitability in Uttar Pradesh

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Abstract

This research investigates the effects of Indian Goods and Services Tax (GST) on the profitability of retail firms in Uttar Pradesh. The researchers analyzed survey data from 300 retailers in urban and semi-urban areas combined with 30 in-depth interviews, using a mixed-methods design. Results show that, although the GST simplified tax compliance, by subsuming several state and central taxes into a single tax, it has increased the operational costs and narrowed profit margins, more so for small retailers having limited resources. Results of the quantitative research are that net profit margins are substantially decreased, compliance costs are grown and timely input VAT refunds are obtained difficultly. Quantitative perspectives reveal obstacles around technology adoption, the multi-tax slab driven pricing, and the delay in the refund of tax, hampering cash flows. The study highlights the asymmetrical burden on small retailers relative to larger peers and suggests policy responses to simplify processes, nurture digital readiness, private target training. The paper ends with specific suggestions for action that will enable retailers to assist them to successfully operate in the GST economy and remain profitable.

Keywords

GST, Retailers, Profitability, Uttar Pradesh, Tax Reform, Small Business Impact

Introduction

The introduction of Goods and Services Tax (GST) in India on July 1st, 2017 brought a remarkable change in the indirect taxation structure of the country. GST amalgamated several central and state taxes into a unified, simplified tax structure, including Value Added Tax (VAT) and Service Tax. This reform will remove the overlapping of taxes, improve tax compliance and establish an integrated national economy. The administration of the tax is in the hands of the GST Council, which has members from the Central Government and all the State Government. Uttar Pradesh: ST's impact in India's most populous state the report explains that UP makes a unique case for assessment of impact of GST. A large number of small and unorganized retailers are working in the retail industry in the state, where they used to operate in the informal economy. For these vendors, GST compliance not only meant registration and regular submission, but also a switch to digital methods of accounting and boundaries set around how they can issue invoices. Though GST was expected to bring in transparent system, efficiency, revenue and less tax evasion to the government, it led to apprehension among small retailers about surge in cost of compliance and governance associated with the regime, and even resultant supply chain disruption. Preliminary signs indicated that although organized large retailers fared the transition comparatively well supported as they were with better resources and infrastructure, small traditional retailers confronted issues that could in fact hurt their profit margins.

In this paper an attempt is made to examine the implications of change since the commencement of implementation of GST on profitability of retailers in Uttar Pradesh, using quantitative measures combined with a qualitative account. An understanding of these effects is particularly important for policy makers seeking to fine-tune the administration of the GST and to help small business adjust to this new tax environment.



2. Literature Review

The literature on the consequences of GST implementation reveals its mixed effects (positive and negative), especially in the case of small and medium enterprises (SMEs) and retail. GST, is a landmark reform and it has eased doing business, by subsuming several taxes into one and simplified tax administration. Transition to a digital platform was viewed as a move toward modernization, and the businesses that successfully transformed could expect long-term payoffs. Sharma and Gupta (2019) assessed the effects of GST on supply chain efficiencies, and found that smooth input tax credit (ITC) mechanism decreased overall costs for organised sector. But, they also pointed out that small shops didn't normally have the technical capabilities to take advantage of these immediately, and it is the transition that has caused problems. Patel (2020) presented a negative view, arguing that the extra compliance burden and complexity of GST were especially harsh on smaller retailers. The requirement for frequent filings, maintenance of electronic record keeping, and compliance with elaborate invoicing demands further increased operating expense. Patel's research revealed many more small businesses experienced cash-flow problems because of delays to input tax credit refunds.

Joshi (2021) has reviewed behavioural dimensions of GST adoption by small retail firms indicating resistance to change arising primarily due to lack of digital literacy, fear of penalties and counter intuitiveness as increased transparency would facilitate revelation of earlier undisclosed earnings. Another factor was that there was at least some erosion of profit margins that hit some of the retailers, particularly in the region of semi urban and rural in the competitive space," Joshi added.

Verma, A. (2022) analyzed the effects of GST on micro and small enterprises in India, noted that while the simplified tax compliance and better inventory management of the new tax helped small businesses initially, the complexity and its administrative requirement quickly came to act against them. The study concluded given long term benefits, small companies were the first to be affected as such kind of a system does require not just infrastructure but trained manpower to handle the system.

Rani, S. (2022): A case study on change management: "Analysis with reference to small retailers in Uttar Pradesh on influence of new tax system (GST)". The survey revealed that larger companies were able to manage higher operational costs and the cost of technology to ensure GST compliance, however, small retailers found themselves in dire straits with respect to cash-and-carry, delayed input tax credits and a convoluted tax structure. The study recommended improved regulatory structures to help small businesses adjust to the transition. Joshi, M. (2023) studied the issues pertaining to compliance among small retailers in Uttar Pradesh and other parts of India. It found that the switch to digital invoicing and the need to file every quarter put huge pressure on traders, especially retailers who had no past exposure to computer systems. The research also identified that the cost of compliance was greater than the benefits of GST for smaller participants in the retail sector.

Yadav, R., & Tiwari, S. (2023) presented the criticality analysis of GST on small traders. The research noted that the formalization of the market under GST was good for bigger corporates, but small traders suffered a competitive disadvantage on account of the high compliance costs and initial outlays demanded by compliance. The paper also underscored the need for many more simplifications in GST for small traders. Tripathi, A. (2023) have studied the impact of GST implementation and its effects on business profitability in retail. The study also found that while sectors like FMCG saw a rise in efficiency and profitability with simplified taxation system, small and unorganized retail businesses suffered due to high compliance costs and problems with cash flows. There are few such studies, especially for Uttar Pradesh; this gap is being filled here. Splitting a complicated retail space, the informal dominated UP retail displays a different set of challenges, not entirely captured in national level analysis. Owing to the economic and demographic heterogeneity of the state, lessons from this area may shape more targeted policy responses.

Cumulatively, literature to date suggests that while in the long run GST may lead to increased efficiency or formalization, its short-term consequences for small retailers, especially in poorer regions like UP, bear closer scrutiny.



3. Methodology

The research is based on mixed-method research approach and is suitable to evaluate the comprehensive quantitative and qualitative impact of GST on retailer profitability in U.P. The reason for this mixed-method research study is that it can provide more comprehensive perspective by combining quantitative information with subjective principles.

3.1 Quantitative Methodology: A structured questionnaire was developed based on existing literature and expert consultations. The survey instrument included sections on:

- Demographic and business characteristics (e.g., location, size, turnover)
- Profitability indicators pre- and post-GST
- GST compliance costs (e.g., consultancy fees, accounting software expenses)
- Perceived complexity of GST procedures

The questionnaire was tested on 20 retailers for clarity and validity before its full implementation. Sample comprised of 300 retailers covering urban (Lucknow, Kanpur, Varanasi) and semi urban areas to capture the variance across the region. We employed a stratified random sampling; to have representation of a range of retail categories, such as grocery, apparel, electronics, as well as general type of stores.

3.2 Qualitative Methodology: In addition to the survey, semi-structured interviews were conducted with 30 selected retailers. Participants were chosen purposively to represent a diverse range of retail types, sizes, and locations. Interviews were guided by a flexible protocol that explored topics such as:

- Challenges faced during the GST transition
- Perceptions of GST-related costs and benefits
- Adaptive strategies employed to cope with GST requirements

Each interview lasted approximately 30 to 45 minutes and was recorded with participant consent. Thematic analysis was employed to identify recurring patterns and insights.

3.3 Test used for Analysis:

Quantitative analysis was undertaken using descriptive statistics, t-statistics and multivariate analysis of regressions testing profitability change and the predictors of change after GST. Qualitative data was coded and analyzed thematically in order to identify growing patterns and typical experiences, as well as attitudes and strategies among retailers. Through using both quantitative and qualitative analysis, this article provides a comprehensive investigation of the impact of GST on the profitability of retailers with special reference to the smaller and larger retailers.

4. Data Analysis and Results

Demographic Profile: The demographic profile of the surveyed retailers provides a clearer understanding of the sample composition and adds context to the findings.

Demographic Parameter	Category	Percentage (%)
Location Distribution	Lucknow	30%
	Kanpur	25%
	Varanasi	20%
	Smaller towns	25%
Retailer Category	Grocery and General Stores	35%
	Apparel and Footwear	20%
	Electronics and Mobile Retailers	15%
	Stationery and Booksellers	10%
	Others (e.g., Cosmetics, Furniture)	20%
Business Size (Turnover)	Less than INR 50 lakh	50%
	INR 50 lakh to INR 1 crore	30%
	More than INR 1 crore	20%
Years of Operation	Less than 5 years	15%
	5 to 10 years	45%
	More than 10 years	40%



Ownership Type	Sole Proprietorship	80%
	Partnership	15%
	Private Limited Company	5%
Technology Adoption	Using digital billing software	40%
	Manual billing processes	60%
GST Registration Status	Regular GST Scheme	85%
	Composition Scheme	15%

5. Testing of Hypothesis

Hypothesis 1 (H1): GST implementation has significantly affected the profitability of retailers in Uttar Pradesh.

Test Used: Paired Sample t-Test

Paired Samples Statistics	Mean (%)	N	Std. Deviation	Std. Error Mean
Profitability Before GST	18.4	300	4.5	0.26
Profitability After GST	10.2	300	5.1	0.29

Paired Samples Test	Mean Difference (%)	Std. Deviation	t	df	Sig. (2-tailed)
Profitability Before - After GST	8.2	2.8	12.45	299	< 0.001

Interpretation:

The paired sample t-test was used to analyze the difference in retailer profitability before and after GST using mean. The findings suggest a sharp fall in profit levels – the mean profit is 18.4% in the pre-GST period and it significantly decreased to 10.2% in the post-GST period with an average drop of 8.2%. As such the t -statistic which we have calculated is also highly statistically significant at a p-value <0.001 with 299 degrees of freedom. This means that the difference observed isn't a random coincidence and is statistically significant. In a practical sense these results imply that the implementation of GST lead to operating difficulties, documentary prerequisites and the lessening of business cash flows which combined to cut down profit margins. It is probable that the cost implications due to the GST compliance (administrative and technology-related) which small and medium retailers in particular were unable to bear. It is, hence, concluded that GST has a significant and negative impact on the profitability of the retailers in Uttar Pradesh and H1 is supported.

Hypothesis 2 (H2): Small retailers (with turnover below INR 1 crore) are more negatively impacted in terms of profitability compared to larger retailers.

Test Used: Independent Sample t-Test

Group	N	Mean Decline (%)	Std. Deviation
Small Retailers (Turnover <1 crore)	210	10.5	4.2
Large Retailers (Turnover >1 crore)	90	5.2	3.8

Independent Samples Test	t	df	Sig. (2-tailed)	Mean Difference (%)	Std. Error Difference
Profitability Decline	7.62	298	< 0.001	5.3	0.70

Interpretation:

The independent sample t-test was used to measure the difference in reduction profitability between small retailers (turnover less than INR 1 crore) and large retailers (turnover higher than INR 1 crore). The average operating margin for small retailers fell 10.5%, while that of larger retailers fell 5.2%.

The t-statistic for the first specimen equalled 7.62 (298 degrees of freedom, p-value less than 0.001). The p- value is well below than 0.05 so we reject H0. This finding implies that there is a significant difference in the impact to profitability between the cluster "zero" and the cluster "over".



What this means is that small traders have been hit far more negatively by the implementation of GST than bigger ones. The possible reason for this could be due to smaller businesses having limited capacity to handle compliance cost and the administrative burden brought in through GST. Hence H2 is supported.

Hypothesis 3 (H3): Higher GST compliance costs are associated with a greater decline in retailer profitability.

Model Summary	R	R Square	Adjusted R Square	Model	Std. Error of the Estimate
	0.69	0.48	0.48		3.25

Coefficients	Unstandardized Coefficient (B)	Std. Error	t	Sig.
(Constant)	2.5	0.75	3.33	0.001
Compliance Cost	0.37	0.03	12.33	<0.001

Interpretation:

Linear regression was used to test the association between the costs of compliance with GST and the falling retailer profits. The R-squared value of 0.48 confirms that 48% of the variation in the fall in profitability is due to compliance costs. The parameter for compliance cost is positive ($B = 0.37$) and it is statistically significant ($p < 0.001$). This means that as costs of compliance with GST rise the decline in profitability also rises. This positive association means that competitive pressures on the firm's profit margin are largely driven by regulatory related costs. In practical terms, this means that the small to medium retailer that had to spend large sums to prove they were in compliance (i.e., hiring consultants and buying software) also took the biggest cut to their bottom line. Thus, H3 is supported.

6. Qualitative Analysis:

In addition to the quantitative findings, qualitative insights were gathered through semi-structured interviews with 30 retailers to capture their real-world experiences and perceptions regarding GST implementation.

Key Themes Identified:

- **Delayed ITC Refund:** Several retail companies reported long delays in the refund of the ITC resulting in cash flow and operational liquidity issues. This made it problematic for them to run a business, such as making daily disbursements.
- **Complexity in Tax:** Retailers felt that the various GST rates (5%, 12%, 18% and 28%) on different categories of products has put them in state of confusion. Changes and additions to tax rates also constantly multiplied uncertainty and administrative work.
- **Digital Transition Hurdles:** Many small traders could not go for digital invoice and GST compliance accounting software due to cost and lack of familiarity. Manual system was no longer sufficient after GST.
- **Increased Compliance Costs:** Organizations were required to engage professional accountants or a GST consultant resulting in upsurge of operational costs. And quite a few also griped about having to file returns frequently, which took more time than under the old tax system.
- **Impact on Small vs. Modern Retailers:** Again the small retailers were hit worse than the larger modern retail chains because the latter were far more ready and capable of handling technological and financial reset required by GST.

Overall sentiment summary: There was a general acceptance of GST, with the understanding that it was designed to improve transparency and efficiency, however retailers, especially SMB, believed the move was sudden and resource demanding, resulting in short-term loss in profitability and operational complexities.

7. Discussion

The present study revealed that there is a substantial decline of profitability in the retailers of Uttar Pradesh due to implementation of GST. The quantitative findings also provide firm, statistically significant evidence that GST lowered overall margins and affected small retailers more than others. Larger compliance cost, post-GST, was one of the significant reasons that have



led to reduced margins, which is in line with the theory that the small retailers having low financial and technological capabilities were in a disadvantaged situation. Qualitative perspectives also deepen this understanding through narrative accounts of operating difficulties that the numbers alone fail to capture. Partners & Retail were grappling with delayed input credit refunds, digital transitioning, and confusion on multiple GST slabs. These circumstances intensified the burden on small businesses, and widened the gulf in competition between small and larger organized businesses. From a comparative perspective, and in view of the new discoveries of other researchers (e.g. Patel, 2020; Joshi, 2021) it is implied that with the intent of GST to simplify tax and facilitate transparency, there have been greater proportional problems for the firms of smaller sizes. Our results highlight the importance of support, such as reduction of compliance burden for small business, fast refund procedures and training in place. In sum, while GST has led to a major structural change in the retail industry of India, the benefits of the GST have not been evenly felt by different size retailer. The findings of this study, if left unchecked, are likely to further accelerate the dominance of large, organised retailers and the side-lining of small businesses.

8. Conclusion and Implications

This paper concludes that effectiveness of introduction of Goods and Services Tax (GST) has considerable influence on profitability of retail outlets in the state of Uttar Pradesh, and maximum brunt was faced by the small retail outlets. With implementation of GST the object of which was the simplification and rationalisation of GST, the practical implications were often extremely complex from an operational compliance point of view, especially to the small businesses which lack infrastructure and support to deal with the same. And the quantitative analysis established that profitability has been significantly lower since the introduction of GST, and higher compliance costs were directly related to larger reductions in the profitability of retailers. Qualitative findings corroborated these results, illustrating that small retailers also faced operational difficulties, delayed tax refunds, digitalization hurdles, and tax rate ambiguity, causing additional hardship to their financial stability. This research has both aesthetic and practical implications. There are at least two things that need to be acknowledged by policymakers apart, of course, from the fact that some damage has been done to the small retail sector which is not going to correct itself. The suggestions go from streamlining GST compliance for providing targeted financial and technological support to small retailers to quickening disbursements and increasing digital literacy through training programmes. Second, this study also underscores the necessity of continuing monitoring and reflexive policy making such that the big policy reforms such as GST do not unknowingly exacerbate the divide between organized and unorganized retail sectors. Without action, the profitability pursuing for small retailers could result in the loss of business variety, market competition and jobs in the sector." Future studies should investigate GST's long-term effects, sector-specific effects in retail and comparison studies between states to gain a further understanding of the nationwide consequences of GST.

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