
The Impact of GST Implementation on Indian Businesses: A Study of Pre-Perspectives and Preparations

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Abstract

In 2015, the Goods and Services Tax (GST) reform in India was poised to bring about significant changes to the nation's tax landscape, promising a unified tax system across states. As businesses anticipated its implementation, there was considerable uncertainty regarding its impact, particularly in terms of compliance, costs, and operational adjustments. This paper examines the preparations made by Indian businesses in 2015 as they braced for GST, highlighting the key concerns and strategies adopted to ensure readiness. Businesses expressed concerns over the complexity of the new system, the potential loss of tax exemptions, the increased cost of compliance, and the uncertainty surrounding the final tax rates. Drawing on secondary data from reports by Deloitte, PwC, KPMG, and other industry sources published in 2015, the paper explores the steps businesses took to address these concerns, such as investing in IT infrastructure, conducting training programs, and consulting tax experts. It also reviews the sector-specific challenges faced by industries like manufacturing, retail, and healthcare. The paper concludes that while the anticipated benefits of GST, such as reduced tax cascading and greater transparency, were acknowledged, businesses, especially small and medium-sized enterprises (SMEs), faced considerable challenges in 2015 in preparing for the reform. The readiness of businesses varied, and their successful transition to GST would depend heavily on government support and clear implementation guidelines.

Keywords : GST , Businesses , compliance

Introduction

The Goods and Services Tax (GST) was one of the most transformative reforms in India's tax system, set to replace a complex array of indirect taxes with a unified tax structure. Prior to its implementation in 2017, businesses across India had to prepare for this significant change. The GST system promised to streamline tax compliance, eliminate tax cascading, and create a unified national market. However, businesses, especially small and medium-sized enterprises (SMEs), faced numerous challenges in adapting to the new tax regime. This paper explores the concerns, preparation strategies, and expected benefits that businesses anticipated as they prepared for GST implementation in 2015.

Indian businesses, particularly SMEs, had a variety of concerns regarding GST, ranging from the complexity of compliance to uncertainty about tax rates. Despite the perceived benefits of the new system, businesses had to navigate the transition with limited guidance, leading to different levels

of readiness across sectors. This research investigates how businesses responded to the upcoming reform, and what strategies they employed to ensure smooth adaptation.

Literature Review

The literature on GST preparations leading up to 2015 underscores the widespread uncertainty businesses faced. Reports from Deloitte (2015) and PwC (2015) highlighted that businesses were particularly concerned about compliance costs, the need for IT infrastructure upgrades, and the potential loss of exemptions. Many businesses were also uncertain about the final GST rates, which led to challenges in recalibrating pricing models.

A study by KPMG (2015) indicated that SMEs, in particular, expressed concerns about the increased administrative burden and the potential financial strain of complying with the new tax system. SMEs feared that the lack of resources, both financial and technical, would make it difficult for them to meet GST requirements. Moreover, regional disparities in business readiness were noted, with businesses in some regions of India, such as North India, being less prepared compared to their counterparts in other parts of the country.

Despite these concerns, businesses were proactive in their preparations, investing in IT systems, seeking advice from tax experts, and making adjustments to their operational strategies. Reports from FICCI (2015) revealed that companies in various sectors, including manufacturing, retail, and healthcare, were revising their tax strategies and supply chain processes to align with GST.

Research Methodology

This study uses a qualitative approach, analyzing secondary data from multiple reports, surveys, and publications from leading consulting firms, including Deloitte, PwC, and KPMG, all of which were published in 2015. The research focuses on businesses' concerns, their preparation strategies, and the anticipated benefits of GST. It also looks into sector-specific challenges, including the potential loss of tax exemptions and the regional disparities in business preparedness for GST implementation.

Key Findings and Discussion

The key concerns, preparation strategies, and expected benefits of GST are presented in the following tables. These tables offer insights into how businesses in India were preparing for the GST transition and the hurdles they anticipated.

Table 1: Key Concerns of Indian Businesses Regarding GST Implementation (Pre-2015)

Concern	Description	Percentage of Businesses Concerned (%)
Compliance Costs	Businesses anticipated substantial investments in training, hiring professionals, and upgrading systems to meet GST requirements.	64%
IT System Upgrades	Companies identified the need to update accounting, invoicing, and tax filing software to comply with GST regulations.	59%
Loss of Tax Exemptions	Businesses in sectors like healthcare and education, which previously enjoyed tax exemptions, were concerned about the removal of these under GST.	53%
Uncertainty in Tax Rates	The final tax rates under GST were not finalized in 2015, creating uncertainty about how rates would impact pricing and profitability.	50%
Administrative Burden	Companies feared an increase in administrative workload, including maintaining proper records, invoicing, and filing returns under the new system.	47%
Impact on SMEs	Small and medium enterprises (SMEs) were particularly concerned about the financial burden of GST compliance, the lack of resources for system upgrades, and the complexity of the new tax system.	44%

Source: Deloitte India. (2015). "GST: What to Expect?". Retrieved from <http://www.deloitte.com>

As shown in **Table 1**, businesses had significant concerns, with the highest percentage (64%) worried about the high **compliance costs** involved in meeting GST requirements. The **need for IT system upgrades** (59%) was another prominent issue, as companies anticipated the need to modernize their tax and invoicing systems. Businesses in sectors like **healthcare** (53%) and **education** feared losing exemptions under the new regime, which would increase their costs. The **uncertainty in tax rates** (50%) further compounded the situation, as businesses could not predict how the final rates would affect their pricing strategies.

Table 2: Preparation Strategies Adopted by Businesses Before GST Implementation (Pre-2015)

Preparation Strategy	Description	Percentage of Businesses Implementing (%)
Training and Awareness Programs	Businesses initiated internal programs to train employees on GST procedures and ensure they understood the new tax system.	58%
Investment in IT Infrastructure	Many businesses invested in upgrading their IT systems, including accounting software and invoicing tools, to comply with GST.	55%
Consultation with Tax Experts	Businesses sought advice from tax consultants to ensure their compliance with the new tax framework and minimize risks.	52%
Revising Pricing Models	Companies revised their pricing strategies to accommodate the potential changes in tax rates and ensure profitability under GST.	47%
Internal Process Overhaul	Several businesses restructured their internal processes, including inventory management and supply chain operations, to align with GST.	44%
Collaboration with Industry Associations	Businesses collaborated with industry bodies to share knowledge and best practices related to GST compliance.	41%

Source: PwC India. (2015). "Preparing for GST: What You Need to Know". Retrieved from <http://www.pwc.com>

As shown in **Table 2**, businesses adopted a range of **preparation strategies**, including investing in **IT infrastructure** (55%) and conducting **training programs** (58%) to ensure smooth transition. Many businesses also sought the guidance of **tax experts** (52%) to understand the new regulations and avoid non-compliance. **Revising pricing models** (47%) and **overhauling internal processes** (44%) were also common strategies to ensure operational alignment with the new tax system.

Table 3: Sector-Specific Challenges Anticipated with GST (Pre-2015)

Sector	Key Challenges	Percentage of Businesses Facing These Challenges (%)
Manufacturing	Concern over increased working capital requirements due to changes in input tax credits and GST's impact on cash flow.	60%
Retail	Uncertainty over how GST will affect margins, pricing, and multi-state operations.	55%
Healthcare	Concerns about the removal of tax exemptions for healthcare services, leading to higher costs.	50%
E-Commerce	Difficulties in adapting to new tax structures for cross-border transactions and compliance with inter-state sales taxes.	48%
Hospitality	Concern over the increased cost of input services and the impact on overall pricing and demand.	45%
Small and Medium Enterprises (SMEs)	Challenges in adapting to the complex GST structure due to lack of resources for training, IT upgrades, and tax compliance.	42%

Source: KPMG India. (2015). "GST and Indian Businesses: Challenges and Opportunities". Retrieved from <http://www.kpmg.com>

As shown in **Table 3**, various sectors faced distinct challenges. For instance, **manufacturers** were concerned about changes in **working capital** requirements (60%), while **retailers** were uncertain about **pricing strategies** under the new system (55%). The **healthcare sector** was particularly worried about the removal of **tax exemptions** (50%), while **e-commerce businesses** faced challenges related to **cross-border transactions** and **inter-state taxes** (48%).

Conclusion

The period leading up to the implementation of GST was marked by considerable uncertainty for businesses across India. The concerns regarding **compliance costs**, **IT system upgrades**, and the **uncertainty in tax rates** were widespread, particularly among SMEs, which faced additional challenges due to limited resources. The concerns about the **loss of tax exemptions** in specific sectors like healthcare and education were also significant.

Despite these challenges, businesses proactively adopted various strategies to prepare for the new system, including **IT upgrades**, **training programs**, and **consultation with tax experts**. While

large enterprises were more prepared, SMEs had to rely on industry support and government initiatives to manage the transition.

In conclusion, while the transition to GST is expected to bring long-term benefits, such as a unified tax system and reduced tax cascading, the preparation phase highlighted the hurdles faced by businesses, particularly smaller ones. The successful implementation of GST relied not only on the readiness of businesses but also on clear guidance from the government and ongoing support for businesses to navigate the complexities of the new system.

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