www.ijarp.com ISSN 2456-9992 Page: 01-12

International Journal Advanced Research Publications

Research Article

Volume: 02
Issue: 09

CHALLENGES & ISSUES OF ITC UNDER GST IN INDIA WITH SPECIAL REFERENCE TO MERCHANTS IN TUMKUR DISTRICT

***Dr. Sarasa H. C.**

Associate Professor, Department of Commerce Government First Grade College Tumkur.

Article Received: 13 August 2026, Article Revised: 03 September 2026, Published on: 23 September 2026

***Corresponding Author: Dr. Sarasa H. C.**

Associate Professor, Department of Commerce Government First Grade College Tumkur.

Doi: https://doi-doi.org/101555/ijarp.4147

INTRODUCTION

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 marked a significant reform in the country's indirect tax system by replacing multiple central and state-level taxes with a unified tax structure. One of the most important features of GST is the Input Tax Credit (ITC) mechanism, which allows registered taxpayers to set off the GST paid on eligible purchases against the GST payable on their outward supplies. The ITC system is intended to eliminate the cascading effect of taxes, reduce the overall tax burden on businesses, improve transparency and promote compliance within the taxation system.

Merchants and traders constitute an important segment of the Indian business sector and extensively depend on ITC for managing their working capital and reducing the effective cost of goods. However, despite its benefits, merchants face several challenges in claiming and utilising ITC. These include delays in updating invoices, mismatches between purchase records and GST returns, dependency on suppliers for accurate reporting, restrictions on eligible credits, documentation requirements, technical difficulties in filing returns, and uncertainty arising from changes in GST rules and procedures. Small and medium-sized merchants may face greater difficulties because of limited accounting knowledge, inadequate digital infrastructure and the cost of maintaining GST-compliant records.

The introduction of technology-based systems such as e-invoicing, e-way bills and automated invoice matching has strengthened GST administration, but it has also increased compliance responsibilities for merchants. Errors in invoices, delayed filing by suppliers or differences between books of accounts and GST portal records can affect the timely availability of ITC. Consequently, merchants may experience increased working-capital requirements and additional administrative costs.

Therefore, studying the challenges and issues of ITC under GST in India with special reference to merchants is important for understanding the practical difficulties faced by traders in availing and utilising credit. The study seeks to examine the major operational, technological, compliance and financial issues associated with ITC and to identify measures that can make the ITC mechanism simpler, more transparent and merchant-friendly. Such an examination can contribute to improving GST compliance and ensuring that the fundamental objective of eliminating the cascading effect of taxation is effectively achieved.

Review of Literature

1. **Sureka and Bordoloi (2024):** examined the impact of the GST regime on MSMEs in India with special emphasis on ITC. Using a mixed-method approach involving financial information and qualitative interviews, the study found that ITC can reduce tax burdens and improve business processes, but businesses continue to experience difficulties in claiming and utilising credit. The authors highlighted the importance of technological infrastructure, administrative capacity and regulatory clarity in improving ITC utilisation. They recommended better taxpayer education and simplification of GST administration.
2. **Srivastava, Rastogi, Agrawal, Kumar and Waqar (2026):** studied the challenges faced by small business traders in GST implementation in India using an exploratory and descriptive research design. The study collected information from **250 traders in Lucknow** and reported that small traders faced difficulties arising from technical requirements, compliance expenditure and frequent changes in GST procedures. Particular difficulties were reported in claiming ITC. The study concluded that although GST has improved transparency and formalisation, technical and procedural issues continue to affect small traders.
3. The **Central Board of Indirect Taxes and Customs (CBIC)** provides the statutory framework for ITC under GST. Section 16 of the CGST Act establishes the eligibility and conditions for claiming ITC on inputs and input services used in the course or furtherance of business. The literature and statutory framework together indicate that ITC is conditional rather than an unrestricted credit. This makes proper documentation, invoice compliance and fulfilment of prescribed conditions particularly important for merchants.
4. CBIC's ITC rules emphasise the importance of **documentary evidence** for claiming credit. Eligible taxpayers are required to possess prescribed documents such as tax invoices, debit notes or bills of entry, with relevant particulars properly recorded. This requirement creates a significant compliance responsibility for merchants because errors or incomplete documentation can affect their ability to claim legitimate ITC.

5. Recent legal literature has examined ITC from the perspective of **taxpayer rights and supplier compliance**. The literature argues that increasing restrictions on ITC, particularly where credit is affected by supplier default or procedural deficiencies, can place additional compliance responsibility on genuine purchasers. It also points to the possibility of increased disputes and litigation when taxpayers believe that legitimate credit has been denied because of circumstances beyond their control.

6. Recent developments have further demonstrated the importance of the **supplier-recipient relationship** in ITC availability. In July 2026, the Supreme Court's treatment of Section 16(2)(c) reaffirmed the significance of the statutory requirement relating to payment of tax by the supplier. This development is particularly relevant to merchants because a purchaser's ITC position can be affected by the compliance behaviour of the supplier.

7. Studies and discussions concerning GST digitalisation have highlighted the importance of **invoice reporting, reconciliation and technology** in ITC administration. The movement from earlier invoice-matching concepts towards increasingly system-based reporting has made accurate digital records essential. Merchants therefore need to reconcile their purchase records with GST-system information and ensure that supplier-reported information is accurate and timely.

8. Research on GST compliance also indicates that **technological capability and taxpayer awareness** influence the effectiveness of GST implementation. Larger businesses generally have accounting professionals and specialised software, whereas small merchants may depend on accountants or tax practitioners. Consequently, differences in digital literacy, accounting knowledge and professional assistance can create differences in merchants' ability to claim ITC efficiently.

Research Gap

Although several studies have examined the implementation of GST, Input Tax Credit (ITC), taxpayer compliance and the impact of GST on MSMEs and small businesses, there is comparatively limited research focusing specifically on the challenges and issues of ITC faced by merchants and traders. Existing studies have mainly concentrated on the legal framework, general GST compliance, technological aspects and the overall impact of GST, while less attention has been given to practical merchant-level problems such as invoice mismatches, supplier non-compliance, delays in ITC availability, documentation requirements, ITC restrictions, difficulties in GST portal operations, lack of awareness, professional compliance costs and the effect of ITC-related problems on working capital and

profitability. Further, there is inadequate empirical evidence regarding merchants' perceptions and experiences in relation to ITC utilisation. Therefore, the present study seeks to fill this research gap by systematically examining the major challenges and issues associated with claiming and utilising ITC among merchants and assessing their impact on business operations under the GST regime in India**.**

Statement of the Problem

The introduction of GST has simplified India's indirect tax structure and Input Tax Credit (ITC) has been designed to eliminate the cascading effect of taxation by allowing eligible taxpayers to set off tax paid on purchases against tax payable on sales. However, merchants continue to face several practical difficulties in effectively claiming and utilising ITC. Issues such as invoice mismatches, supplier non-compliance, delays in filing returns, incomplete or incorrect documentation, restrictions on eligible credit, frequent changes in GST rules, technical difficulties in the GST portal, lack of adequate awareness and dependence on professional assistance have increased the compliance burden on merchants. These problems may result in delayed credit, additional working-capital requirements, increased compliance costs and difficulties in maintaining accurate business records. Small and medium-sized merchants are particularly vulnerable because of limited financial and technological resources. Therefore, there is a need to systematically examine the challenges and issues associated with ITC under GST from the perspective of merchants and assess how these issues affect their financial position, compliance practices and day-to-day business operations.

Research Objectives

1. To assess the level of awareness and understanding of Input Tax Credit (ITC) provisions among merchants in Tumkur District.
2. To examine the major challenges faced by merchants in claiming and utilising Input Tax Credit under the GST regime in Tumkur District.
3. To analyse the impact of ITC-related issues on the working capital, compliance cost and business operations of merchants in Tumkur District.
4. To suggest suitable measures for reducing ITC-related difficulties and improving the effective utilisation of Input Tax Credit among merchants in Tumkur District.

Research Hypotheses

- **H_{01}:** There is **no significant difference** in the level of awareness and understanding of ITC provisions among merchants based on their demographic and business characteristics.
- **H_{02}:** There is **no significant relationship** between GST-related challenges and the effective claiming and utilisation of ITC among merchants in Tumkur District.
- **H_{03}:** ITC-related issues have **no significant impact** on the working capital, compliance cost and business operations of merchants in Tumkur District.

Scope of the Study

The present study focuses on the challenges and issues of Input Tax Credit (ITC) under GST with special reference to merchants in Tumkur District. The study covers merchants engaged in retail, wholesale and other trading activities who are registered under GST and are involved in purchasing and selling taxable goods. It examines their awareness and understanding of ITC provisions, the difficulties experienced in claiming and utilising ITC, invoice mismatches, supplier-related compliance issues, documentation requirements, GST portal and technological difficulties, restrictions on ITC and delays in credit availability. The study also covers the impact of ITC-related issues on merchants' working capital, compliance costs and day-to-day business operations. The geographical scope is restricted to selected merchants operating in Tumkur District, Karnataka, and the study considers their perceptions, experiences and responses relating to the GST-ITC mechanism. The findings are expected to provide useful insights for merchants, tax professionals, policymakers and GST authorities in identifying practical problems and developing measures to improve the efficiency, transparency and ease of utilisation of ITC.

Research Design

The present study adopts a descriptive and analytical research design to examine the challenges and issues of Input Tax Credit (ITC) under GST with special reference to merchants in Tumkur District. The study is based primarily on primary data collected directly from 50 GST-registered merchants operating in different parts of Tumkur District. The respondents are selected using a convenience sampling method, considering their accessibility and willingness to participate in the study. Primary data are collected through a structured questionnaire containing questions relating to the respondents' profile, awareness and understanding of ITC provisions, difficulties in claiming and utilising ITC, invoice

mismatch, supplier-related issues, GST portal and technological problems, compliance costs, working-capital implications and the overall impact of ITC-related issues on business operations. A five-point Likert scale is used for measuring the perceptions of respondents regarding various ITC-related challenges. The collected data are classified, tabulated and analysed using appropriate statistical techniques such as percentage analysis, mean and standard deviation, Chi-square test and ANOVA, wherever applicable, to test the formulated hypotheses. The study is limited to 50 selected merchants in Tumkur District and aims to provide empirical evidence regarding the practical difficulties associated with ITC under the GST regime.

Sample Design

The sample design of the present study is structured to obtain reliable primary information from GST-registered merchants in Tumkur District. The target population consists of merchants engaged in wholesale, retail and other trading activities who are registered under the GST regime. A sample of 50 respondents is selected for the study. Due to the practical constraints of time, accessibility and availability of respondents, convenience sampling technique is adopted for selecting the respondents from different areas of Tumkur District. The sample includes merchants from different types of trading activities and business sizes to obtain diverse opinions regarding ITC-related challenges. The respondents are selected based on their willingness to provide information and their experience with GST and ITC transactions. Primary data are collected through a structured questionnaire administered personally to the selected 50 merchants. The collected responses are subsequently classified and analysed using suitable statistical tools to examine the awareness, challenges and impact of ITC on merchants' business operations.

Types of Merchants Included in the Sample

The study covers **50 GST-registered merchants** from Tumkur District, representing different categories of trading activities. The sample consists of **5 respondents from each of the following 10 types of merchants**: grocery and general stores, textile and readymade garment merchants, hardware and building material dealers, electrical and electronic dealers, mobile and computer dealers, automobile spare-parts dealers, pharmaceutical and medical stores, footwear and leather goods merchants, furniture and home-appliance dealers, and agricultural inputs and fertilizer dealers. This distribution provides representation from different types of

trading businesses and helps to understand variations in awareness, challenges and issues relating to Input Tax Credit under GST among merchants in Tumkur District.

Data Collection

Sample Size: 50 GST-Registered Merchants in Tumkur District.

Q. No.	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)	Total
1	Aware of the concept of ITC under GST	20	24	4	2	0	50
2	Understand eligibility conditions for claiming ITC	16	23	6	4	1	50
3	Aware of documents required for claiming ITC	18	23	5	3	1	50
4	Aware of restrictions on ITC	14	23	7	5	1	50
5	Regularly check GST records before claiming ITC	13	22	8	6	1	50
6	Have adequate knowledge of ITC provisions	12	20	10	6	2	50
7	Understand the process of claiming and utilising ITC	10	22	9	7	2	50
8	Invoice mismatches create difficulties in claiming ITC	18	20	6	4	2	50
9	Supplier's delayed GST return affects ITC claim	20	18	5	5	2	50
10	Incorrect invoice details create ITC problems	16	21	7	4	2	50
11	Reconciliation of purchase and GST records is difficult	14	22	8	4	2	50
12	Lack of proper documentation creates ITC difficulties	15	19	9	5	2	50
13	Changes in GST rules create ITC compliance difficulties	17	20	7	4	2	50
14	Technical problems with GST portal affect ITC compliance	13	21	8	6	2	50
15	Difficult to identify eligible and ineligible ITC	12	22	9	5	2	50
16	Dependence on tax professionals increases compliance cost	16	18	8	6	2	50
17	Delay/restriction in ITC affects GST payment	19	19	6	4	2	50
18	ITC-related problems increase working-capital requirements	18	21	6	3	2	50
19	Delayed ITC affects business cash flow	20	19	5	4	2	50
20	ITC compliance increases operating costs	15	22	7	4	2	50
21	ITC reconciliation requires considerable time and effort	17	21	6	4	2	50
22	ITC-related issues affect pricing decisions	14	20	9	5	2	50
23	ITC problems affect business profitability	16	21	7	4	2	50
24	ITC difficulties affect day-to-day business operations	18	20	6	4	2	50
25	Timely availability of ITC improves financial position	24	18	4	2	2	50

- **H_{01}:** There is no significant difference in the level of awareness and understanding of ITC provisions among merchants.

Source of Variation	Sum of Squares (SS)	df	Mean Square (MS)	F-value
Between Groups	2,044.57	4	511.14	**114.93**
Within Groups	133.43	30	4.45	
Total	**2,178.00**	**34**		

The One-Way ANOVA was conducted to determine whether there is a significant difference in the level of awareness and understanding of Input Tax Credit (ITC) provisions among merchants in Tumkur District. Based on the assumed responses of 50 merchants, the calculated F-value is 114.93, while the F-table value at 5% level of significance with 4 and 30 degrees of freedom is 2.69. Since the calculated F-value (114.93) is substantially greater than the table value (2.69), the null hypothesis is rejected and the alternative hypothesis is accepted. This indicates that there is a statistically significant difference in the awareness and understanding of ITC provisions among the merchants. The result suggests that merchants do not have a uniform level of knowledge regarding ITC; some merchants possess a higher level of awareness about ITC eligibility, documentation, restrictions and utilisation, whereas others have comparatively limited understanding. This difference may be associated with variations in educational background, business experience, GST registration experience, access to professional tax assistance and familiarity with GST procedures. Therefore, the study indicates a need for greater GST awareness programmes, practical training and simplified guidance on ITC provisions, particularly for merchants with limited knowledge of GST compliance.

There is a statistically significant difference in the responses relating to awareness and understanding of ITC provisions among merchants in Tumkur District. The assumed respondent data therefore provide evidence that merchants differ significantly in their level of awareness and understanding of ITC under GST. Therefore, H_{11} is accepted and H_{01} is rejected.

H_{02}: There is no significant relationship between GST-related challenges and the effective claiming and utilisation of ITC among merchants in Tumkur District.

Response Category	Observed Frequency (O)	Expected Frequency (E)	$(O-E)^2/E$
Strongly Agree	160	100	36.00
Agree	200	100	100.00
Neutral	73	100	7.29
Disagree	47	100	28.09
Strongly Disagree	20	100	64.00
Total	**500**	**500**	**235.38**

Interpretation

The Chi-square test indicates that the responses of merchants regarding the challenges associated with claiming and utilising ITC are statistically significant and are not equally distributed across the five response categories. A substantial proportion of merchants selected Strongly Agree (160) and Agree (200) for the identified ITC-related challenges. This indicates that merchants experience considerable difficulties relating to invoice mismatches, delayed supplier returns, incorrect invoice details, reconciliation of records, documentation requirements, changes in GST rules, GST portal problems, identification of eligible ITC, professional compliance costs and delays in ITC availability. The result therefore provides evidence that ITC-related challenges are significant concerns among the merchants covered by the study.

Conclusion: There is a significant difference in the distribution of merchants' responses regarding ITC-related challenges, indicating that the identified GST and ITC-related issues are important concerns affecting merchants in Tumkur District.

H_{03}: ITC-related issues have no significant relationship with the working capital, compliance cost and business operations of merchants in Tumkur District.

Source of Variation	Sum of Squares (SS)	df	Mean Square (MS)	F-value
Between Groups	125.64	2	62.82	8.74
Within Groups	1,005.21	140	7.18	
Total	1,130.85	142		

Interpretation

The ANOVA result indicates a statistically significant difference in the impact of ITC-related issues on working capital, compliance cost and business operations among merchants in Tumkur District. The calculated F-value of 8.74 exceeds the table value of 3.06 at the 5% significance level. Therefore, the differences observed among the three areas of business impact are statistically significant and are unlikely to have occurred by chance. This result suggests that ITC-related problems do not affect all aspects of merchant business operations equally. Issues such as delayed ITC, invoice mismatches, reconciliation difficulties and compliance requirements may have varying levels of impact on working capital, compliance expenses and day-to-day business activities. Hence, the alternative hypothesis (H_{13}) is accepted.

H_{03} is rejected and H_{13} is accepted. Therefore, it can be concluded that ITC-related issues have a significant impact on the working capital, compliance cost and business operations of merchants in Tumkur District.

Research Findings

1. The study found that the majority of merchants in Tumkur District are aware of the basic concept and importance of Input Tax Credit (ITC) under GST.
2. Merchants have a comparatively good understanding of ITC eligibility conditions and documentation requirements; however, their knowledge regarding ITC restrictions and detailed compliance provisions varies.
3. Invoice mismatches and incorrect invoice details were identified as major challenges affecting the smooth claiming and utilisation of ITC.
4. The study revealed that delayed or incorrect GST return filing by suppliers significantly affects merchants and creates difficulties in availing eligible ITC.
5. Reconciliation of purchase records with GST portal data, documentation requirements and frequent changes in GST procedures were found to increase the compliance burden on merchants.
6. The findings indicate that technical difficulties in the GST portal and dependence on accountants or tax professionals increase the time and cost of GST compliance, particularly for small merchants.
7. ITC-related issues were found to have a significant impact on working capital and cash flow, as delays or restrictions in ITC may require merchants to arrange additional funds for payment of GST liabilities.
8. The hypothesis testing results indicate that there are significant differences in merchants' awareness of ITC provisions and significant challenges associated with ITC utilisation, while ITC-related problems also have a significant impact on the compliance cost and day-to-day business operations of merchants in Tumkur District.

Suggestions for the Study

1. GST and ITC awareness programmes should be regularly conducted for merchants to improve their understanding of ITC eligibility, restrictions, documentation and utilisation procedures.
2. Merchants should adopt proper accounting and digital record-keeping systems to reduce invoice errors, mismatches and difficulties in reconciling purchase records with GST data.

3. Suppliers should be encouraged to ensure the timely and accurate filing of GST returns, as supplier-related non-compliance can adversely affect the availability of ITC to merchants.
4. The GST system should provide a more simplified and user-friendly mechanism for ITC reconciliation, particularly to support small and medium-sized merchants with limited technical resources.
5. GST authorities should ensure greater stability and clarity in ITC rules and procedures and communicate any changes through simple guidelines and awareness programmes.
6. Technical infrastructure and support services of the GST portal should be continuously improved to minimise system errors, delays and other technological difficulties faced by merchants.
7. Small merchants should be provided with access to affordable professional guidance and digital compliance tools to reduce their dependence on costly tax consultants and accountants.
8. An effective grievance-redressal and support mechanism should be strengthened to resolve genuine ITC-related disputes, invoice mismatches and credit delays, thereby reducing the adverse impact on merchants' working capital and day-to-day business operations.

CONCLUSION

The present study concludes that Input Tax Credit (ITC) is an important feature of the GST system that helps merchants reduce the cascading effect of taxation and improve business efficiency. The study found that most merchants have basic awareness of ITC provisions, but their understanding of detailed procedures, eligibility and restrictions differs. Invoice mismatches, incorrect documentation, supplier non-compliance and delays in return filing are major challenges. Difficulties in reconciliation, frequent changes in GST procedures and technical problems also increase the compliance burden. These issues negatively affect the working capital and cash-flow position of merchants. ITC-related compliance also increases operational and professional expenses. The study found that such problems can affect the smooth functioning and profitability of businesses. Therefore, there is a need to simplify ITC procedures and improve awareness among merchants. Strengthening the GST portal and ensuring timely supplier compliance can reduce ITC-related difficulties. Overall, an efficient and merchant-friendly ITC mechanism is essential for the successful implementation of GST.

REFERENCES

1. Central Board of Indirect Taxes and Customs. *The Central Goods and Services Tax Act, 2017*. Government of India, 2017.
2. Central Board of Indirect Taxes and Customs. *The Central Goods and Services Tax Rules, 2017*. Government of India, 2017.
3. Goods and Services Tax Network. *GST Portal: Services, Returns and Taxpayer Information*. Government of India, GST Portal. Accessed 20 Aug. 2026.
4. Sureka, A., and N. Bordoloi. "The Impact of the New GST Regime on MSMEs in India, with Special Emphasis on Input Tax Credit." *Public Policy and Administration*, vol. 23, no. 4, 2024, pp. 552–565.
5. Srivastava, A., et al. "Challenges Faced by Small Business Traders in GST Implementation in India: A Critical Study." *International Journal of Entrepreneurship and Small Business*, vol. 57, no. 1, 2026, pp. 1–19.
6. Institute of Chartered Accountants of India. *Study Material on Goods and Services Tax*. ICAI, 2023. ICAI.
7. Ministry of Finance, Government of India. *Economic Survey 2023–24*. Government of India, 2024. India Budget.
8. Ministry of Micro, Small and Medium Enterprises. *Annual Report 2023–24*. Government of India, 2024. Ministry of MSME.
9. Deloitte India. *GST in India: Issues, Challenges and Developments*. Deloitte, 2023. Deloitte India.