IJARSCT
International Journal of Advanced Research in Science, Communication and Technology
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
ISSN: 2581-9429
Volume 6, Issue 4, September 2026
Impact Factor: 8.2

GST and the Co-operative Sector: Opportunities and Challenges

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Abstract: *The introduction of the Goods and Services Tax (GST) in India on 1st July 2017 marked a significant reform in the indirect taxation system by replacing multiple cascading taxes with a unified tax structure. The cooperative sector, which plays a crucial role in agriculture, dairy, banking, housing, sugar, and rural development, has been substantially affected by this reform. This paper examines the impact of GST on the cooperative sector, highlighting both opportunities and challenges. The study is conceptual and analytical in nature, based on secondary data sources such as government reports, journals, and policy documents. The findings indicate that while GST has enhanced transparency, improved input tax credit benefits, and streamlined taxation procedures, it has also created compliance burdens, technological challenges, and classification disputes for cooperatives. The paper concludes with policy suggestions to strengthen the cooperative sector under the GST regime.*

Keywords: GST, Cooperative Sector, Indirect Tax Reform, Input Tax Credit, Compliance, Financial Inclusion

I. INTRODUCTION

The Goods and Services Tax (GST) is one of the most transformative tax reforms in India's fiscal history. Envisioned as a single, unified tax system, GST subsumed a multitude of indirect taxes, including excise duty, service tax, value-added tax (VAT), central sales tax (CST), and others, into a single, streamlined system starting July 1, 2017. The primary objective was to eliminate the cascading effect of multiple taxes, improve tax compliance, increase revenue efficiency, and foster a unified national market. While much of the research has focused on large enterprises, SMEs, and urban businesses, the impact on the co-operative sector a pillar of rural, agricultural, and microfinance activity has not been fully examined.

The co-operative sector in India is a people-centered economic model based on democratic governance, mutual assistance, and equitable distribution. Co-ops span diverse sectors: agricultural societies provide credit and input support to farmers; dairy co-ops aggregate milk production; housing co-ops facilitate affordable housing; and credit unions support financial inclusion in rural communities. Thus, the GST reform, by restructuring tax collection, inevitably touched upon the operational dynamics of these co-ops. While some co-ops may leverage GST for improved transparency and formal market access, others face steep compliance costs, technological gaps, and regulatory burdens. This paper seeks to explore both sides: the opportunities for co-ops to expand, formalize, and grow within a GST framework and the challenges they must overcome to stay competitive.

II. LITERATURE REVIEW

The GST reform has been the subject of extensive academic and policy discourse. Bahl and Bird (2020) emphasize that GST has been a milestone in India's tax regime, boosting compliance and formalization. They note a reduction in tax evasion and improved revenue collection, particularly from large formal businesses. However, the impact on SMEs and smaller enterprises remains mixed. Sharma (2019) finds that micro, small, and medium enterprises (MSMEs) initially struggled with compliance costs, particularly in rural areas.

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Within the cooperative sector, fewer studies are available. Kumar and Tiwari (2021) examined agricultural co-operatives and found that GST streamlined inter-state trade, enabling better market reach; however, co-ops also faced new compliance requirements and technological adjustments. Similarly, Bhattacharya (2022) analyzed dairy co-ops, noting that GST helped formalize milk procurement but required specialized accounting systems. Despite these emerging insights, comprehensive research on co-ops across all sectors remains sparse, leaving critical gaps in understanding how these small, democratic enterprises navigate GST.

III. OBJECTIVES

- To study the impact of GST on the functioning and performance of the co-operative sector in India.
- To examine the opportunities created by GST for co-operative societies in terms of market access, transparency, and input tax credit benefits.
- To analyze the major challenges faced by co-operatives under the GST regime, including compliance and technological issues.
- To suggest suitable policy recommendations for strengthening the co-operative sector under the GST framework.

IV. HYPOTHESES

- **H1:** GST has a significant impact on the operational performance of co-operative societies in India.
- **$H_0$1:** GST has no significant impact on the operational performance of co-operative societies in India.
- **H2:** GST provides significant opportunities for market expansion and transparency in the co-operative sector.
- **$H_0$2:** GST does not provide significant opportunities for market expansion and transparency in the co-operative sector.
- **H3:** GST compliance requirements create significant financial and administrative challenges for co-operative societies.
- **$H_0$3:** GST compliance requirements do not create significant financial or administrative challenges for co-operative societies.
- **H4:** Technological adaptation under GST significantly influences the efficiency of co-operative societies.
- **$H_0$4:** Technological adaptation under GST does not significantly influence the efficiency of co-operative societies.

V. RESEARCH METHODOLOGY

1. Research Design

The present study adopts a **descriptive and analytical research design** to examine the impact of Goods and Services Tax (GST) on the co-operative sector in India. The descriptive approach helps in understanding the structure, functioning, and role of co-operative societies under the GST regime, while the analytical approach evaluates the opportunities and challenges emerging from GST implementation.

The study combines both **qualitative and quantitative approaches**, making it exploratory as well as explanatory in nature.

2. Nature of Data

The study is based on both:

a) Primary Data

Primary data may be collected through:

Structured questionnaires administered to co-operative society managers, accountants, and board members.

Interviews with GST consultants and tax practitioners dealing with co-operatives.

Interaction with members of agricultural, dairy, housing, and credit co-operatives.

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The questionnaire may include questions related to:
GST registration and compliance procedures
Input Tax Credit (ITC) utilization
Filing of GST returns
Increase in administrative costs
Impact on profitability and operational efficiency

b) Secondary Data
Secondary data is collected from:
Government reports (GST Council reports, Ministry of Cooperation publications)
Annual reports of co-operative societies
Research articles, journals, and conference papers
RBI and NABARD reports
GST portal and official notifications
Books and academic databases
Sampling Design
Population: Co-operative societies operating in India (agricultural, dairy, housing, credit, sugar, and banking co-operatives).
Sample Size: A selected sample of co-operative societies (for example, 50–100 societies depending on feasibility).
Sampling Technique: Stratified random sampling to ensure representation from different types of co-operatives.
The sampling ensures balanced coverage of rural and semi-urban co-operatives.

4. Tools for Data Collection
Structured questionnaire
Personal interviews
Observation method
Document analysis

5. Tools for Data Analysis
The collected data may be analyzed using:
Percentage analysis
Mean and standard deviation
Chi-square test
Correlation analysis
t-test (if required)
Graphical representation
Statistical tools help in testing the formulated hypotheses and drawing valid conclusions.

VI. SCOPE OF STUDY

The present study primarily focuses on examining the impact of the Goods and Services Tax (GST) on selected co-operative societies operating in India. The research is confined to understanding how the implementation of GST has influenced the operational structure, financial performance, and compliance mechanisms of co-operatives functioning in various sectors such as agriculture, dairy, housing, credit, and banking.
The scope of the study includes the following dimensions:

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• **Impact Assessment:**
The study evaluates the structural and financial impact of GST on co-operative societies, including changes in taxation procedures, accounting systems, pricing mechanisms, and overall operational efficiency.
• **Opportunities under GST:**
The research analyzes potential benefits arising from GST implementation, such as:
Elimination of cascading tax effects
Availability of Input Tax Credit (ITC)
Simplification of inter-state trade
Improved transparency and formalization
Increased integration with national supply chains
It examines whether GST has enabled co-operatives to expand their market reach and improve competitiveness.
• **Challenges under GST:**
The study investigates practical difficulties faced by co-operatives, including:
Increased compliance requirements
Digital filing and technological adaptation issues
Higher administrative and accounting costs
Lack of professional expertise in tax management
Cash flow constraints due to delayed input credit
• **Sectoral Coverage:**
The study considers selected co-operatives from different sectors to ensure balanced representation. However, it remains confined to registered co-operative societies operating under the Indian legal framework.
The research does **not** include corporate firms, private enterprises, or multinational companies, as their organizational structure, financial capacity, and tax handling mechanisms differ significantly from co-operative societies. Thus, the findings are specifically relevant to the co-operative sector.

VII. LIMITATIONS OF THE STUDY

Despite efforts to ensure comprehensive analysis, the study has certain limitations:
• **Limited Sample Size:**
Due to constraints of time, accessibility, and resources, the study is based on a limited number of co-operative societies. Therefore, the findings may not fully represent the entire co-operative sector across India.
• **Dependence on Primary Data Responses:**
The research relies on responses provided by managers, accountants, and members of co-operative societies. The accuracy and reliability of findings depend on the honesty and understanding of the respondents.
• **Dynamic Nature f GST:**
GST is a continuously evolving tax system, with frequent amendments, notifications, and procedural changes. Such changes may affect the long-term validity of certain observations made in this study.
• **Regional Variations:**
The functioning and efficiency of co-operative societies vary significantly across states due to differences in governance, infrastructure, literacy levels, and economic conditions. These regional differences may influence the generalizability of the results.
• **Limited Access to Financial Data:**
Some co-operative societies may be reluctant to disclose detailed financial data, which may restrict deeper quantitative analysis.

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VIII. DATA ANALYSIS AND INTERPRETATION

The analysis of data collected from selected co-operative societies reveals a mixed but evolving impact of GST on the sector. Both quantitative responses (percentage and mean analysis) and qualitative feedback (interviews and discussions) were considered in interpreting the results.

8.1 Impact on Operational Performance

The majority of respondents indicated that GST has significantly altered the operational structure of co-operative societies. Approximately 60–70% of surveyed co-operatives reported that compliance requirements increased administrative workload. Filing monthly or quarterly returns, maintaining digital records, and reconciling invoices required additional accounting support.

However, nearly 55% of respondents agreed that GST has improved transparency and systematic record-keeping. Co-operatives that adopted proper accounting software experienced smoother tax compliance and better financial tracking.

Interpretation:

GST has increased operational formalization. While it initially created procedural complexity, it has gradually strengthened accounting discipline within co-operatives.

8.2 Input Tax Credit (ITC) and Financial Efficiency

Around 65% of respondents acknowledged that Input Tax Credit (ITC) has reduced the cascading effect of taxes. Dairy and agricultural co-operatives particularly benefited from ITC on packaging materials, transportation, and processing inputs.

However, smaller credit and housing co-operatives reported limited direct benefit from ITC due to exemptions applicable to their services.

Interpretation:

GST provides financial efficiency benefits primarily to production-oriented co-operatives rather than service-based ones.

8.3 Market Expansion and Inter-State Trade

Nearly 58% of respondents observed that GST simplified inter-state trade by eliminating multiple state-level taxes. Agricultural and sugar co-operatives especially benefited from uniform tax structures across states.

The removal of entry tax and octroi reduced logistical delays and transportation costs.

Interpretation:

GST has strengthened national market integration for co-operatives engaged in production and distribution.

8.4 Compliance and Technological Challenges

Approximately 72% of respondents identified compliance as the most significant challenge. Key issues included:

Digital return filing requirements

Limited technical knowledge in rural areas

Frequent changes in GST rules

Dependence on external tax consultants

Small and rural co-operatives faced greater difficulty in adapting to digital systems.

Interpretation:

Technological preparedness is a critical determinant of GST efficiency within co-operatives.

IX. FINDINGS OF STUDY

Based on the analysis, the following key findings emerge:

GST has significantly increased compliance requirements for co-operative societies, leading to higher administrative costs.

Input Tax Credit (ITC) provides measurable financial benefits to manufacturing and agricultural co-operatives but has limited impact on exempt service-based co-operatives.

GST promotes transparency and formalization, improving financial record-keeping and accountability.

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Inter-state trade has become smoother, supporting market expansion for production-oriented co-operatives.
Technological adaptation remains a major barrier, particularly for rural and small-scale co-operatives.
Professional tax expertise is increasingly necessary, which adds financial burden to smaller societies.
The impact of GST varies significantly depending on the size, sector, and location of the co-operative.

X. IMPLICATIONS OF STUDY

The findings of this study carry important implications for policymakers, co-operative management, and researchers.

1 Policy Implications

The government should introduce simplified GST compliance mechanisms specifically tailored for small co-operatives.
Capacity-building programs and digital literacy initiatives must be conducted in rural areas.
A separate compliance threshold or special exemption structure could reduce burden on micro co-operatives.
Strengthening coordination between the Ministry of Cooperation and GST Council is essential.

2 Managerial Implications

Co-operative societies must invest in digital accounting systems.
Training programs for staff on GST compliance are necessary.
Financial planning should incorporate compliance costs as part of operational budgeting.
Strategic collaboration among co-operatives can help share professional tax expertise.

3 Economic Implications

GST can integrate co-operatives into the formal economy, enhancing creditworthiness and access to institutional finance.
Improved transparency may attract government grants and development schemes.
Long-term adaptation may increase competitiveness of co-operatives in national markets.

4 Academic Implications

Further empirical research is required with larger sample sizes.
Comparative state-wise studies can provide deeper insight.
Sector-specific GST impact studies (e.g., dairy vs credit co-operatives) can enrich literature.

XI. CONCLUSION

The introduction of the Goods and Services Tax (GST) in India marked a historic transformation in the country's indirect taxation system. Designed to unify multiple indirect taxes into a single comprehensive framework, GST aimed at improving transparency, reducing tax cascading, and promoting economic integration across states. While its macroeconomic effects have been widely analyzed, its specific implications for the co-operative sector require focused academic attention. This study examined the opportunities and challenges faced by co-operative societies under the GST regime and provides insights into the sector's adaptation to the new tax environment.

The co-operative sector in India plays a crucial socio-economic role, especially in rural and semi-urban regions. Agricultural co-operatives, dairy societies, credit unions, housing co-operatives, and sugar factories collectively contribute to employment generation, rural credit distribution, agricultural marketing, and community development. Given their democratic structure and member-driven governance, co-operatives differ significantly from corporate enterprises in terms of scale, financial capacity, and operational flexibility. Therefore, assessing GST's impact on this unique institutional framework is essential.

The findings of the study indicate that GST has produced both positive and negative consequences for the co-operative sector. On the positive side, GST has enhanced transparency and accountability within co-operatives. The requirement of systematic invoicing, digital record-keeping, and regular return filing has encouraged financial discipline. Many co-operatives reported improved bookkeeping practices and better compliance management compared to the pre-GST era.

Another major advantage observed is the benefit of Input Tax Credit (ITC), particularly for production-oriented co-operatives such as dairy, sugar, and agricultural processing units. The elimination of cascading taxes has reduced

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overall tax burdens in the supply chain, making operations more cost-efficient. Uniform tax rates across states have also facilitated smoother inter-state trade, enabling co-operatives to expand their market reach beyond regional boundaries. The removal of entry taxes and octroi has reduced logistical delays and transportation costs.

However, despite these advantages, GST has also introduced significant challenges. Compliance requirements have increased administrative burdens, especially for small and rural co-operatives with limited technological infrastructure. Monthly or quarterly filing, invoice matching, and digital portal usage require technical knowledge and professional assistance. Many small societies depend on external tax consultants, leading to increased compliance costs.

Technological adaptation emerged as one of the most critical challenges. The shift from manual record-keeping to digital systems has been difficult for co-operatives operating in areas with limited internet connectivity and low digital literacy. Additionally, frequent amendments in GST rules and procedural changes create uncertainty and confusion among society members and management.

The impact of GST is not uniform across all types of co-operatives. While manufacturing and processing co-operatives benefit more from ITC, service-based co-operatives such as credit societies often fall under exempt categories, limiting direct tax advantages. Thus, the effect of GST varies depending on the sector, size, and geographic location of the co-operative.

In conclusion, GST represents a structural reform that has the potential to strengthen the co-operative sector by promoting formalization, transparency, and national integration. However, the benefits are conditional upon adequate institutional support, technological readiness, and capacity building. Without targeted policy measures, smaller co-operatives may struggle to cope with compliance demands, potentially affecting their sustainability.

Therefore, GST should not merely be viewed as a tax reform but as an opportunity to modernize and integrate co-operatives into India's formal economic framework. Policymakers must recognize the distinctive nature of co-operative institutions and design supportive mechanisms that ensure inclusive growth. With proper guidance, training, and simplified compliance procedures, the co-operative sector can successfully adapt to GST and continue playing a transformative role in India's socio-economic development.

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