

Impact of Goods and Services Tax on the Performance of Non-Profit Organisations with Special Reference To Select Charitable Trusts in Tamil Nadu

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ABSTRACT

Goods and Services Tax (GST) is the biggest tax reform since India's independence. The study aims to identify the perception of NPOs and the impact of Goods and Services Tax on their performance in select Charitable Trust. This reform brought India's diverse tax portfolio into a single taxation system. It has subsumed the majority of Indirect Taxes. GST is levied on the supply of Goods and Services. It is a destination-based, consumption-based, comprehensive, multistage tax. NGOs in Tamil Nadu have been actively working for genuine social development programs and welfare activities of urban and rural communities. The study utilized a descriptive research method and a simple random sampling technique. The sample included 150 charitable trusts in Tamil Nadu, and the collected data was analyzed using various statistical tools such as exploratory factor analysis, ANOVA, correlation, and multiple regression. Hence, better Goods and Services Tax Compliances are essential for every charitable trust. This paper tries to prove the relationship between various goods and services tax compliances and the performance of NPOs in select charitable trusts in Tamil Nadu.

Keywords: Goods and Services Tax, Non-Profit Organisations, Charitable Trust, performance

Introduction

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked a transformative shift in the nation's taxation framework, aiming to unify the market and simplify the tax structure. While the primary focus has been on its impact on commercial enterprises, the repercussions for non-profit organizations, particularly charitable trusts, have been profound yet underexplored. This study delves into the nuanced effects of GST on the performance of non-profit organizations in Tamil Nadu, with a special emphasis on select charitable trusts. Non-profit organizations, including charitable trusts, play a crucial role in addressing social, educational, and healthcare needs, often filling gaps left by government services. However, the introduction of GST has imposed new compliance requirements on these organizations. Under GST, non-profits must register if their annual turnover exceeds Rs. 20 lakh, subjecting them to the same tax rates as commercial entities, which range from 5% to 28% depending on the nature of goods and services provided. This has necessitated a thorough understanding of GST regulations and meticulous record-keeping, significantly increasing the administrative burden on these organizations.

The financial implications of GST for charitable trusts are multifaceted. On one hand, the tax on goods and services consumed by these organizations can lead to increased operational costs. For instance, charitable trusts involved in healthcare and education, which were previously exempt from certain taxes, now face GST on various inputs. This can strain their financial resources, potentially diverting funds away from their core charitable activities. On the other hand, GST also offers opportunities for input tax credits, which can be leveraged to offset some of these costs. However, the process of claiming these credits is complex and requires robust financial

management systems. Charitable trusts in Tamil Nadu have mixed perceptions regarding the impact of GST on their operations. Many organizations acknowledge that GST has introduced a significant administrative burden, requiring them to maintain detailed records and ensure compliance with complex tax regulations. This has led to increased operational costs, as they often need to hire additional staff or seek professional assistance to manage GST-related tasks. This study will contribute to the ongoing discourse on tax policy and non-profit sector sustainability, providing valuable recommendations for policymakers, non-profit leaders, and stakeholders invested in the continued success of charitable trusts in India.

Review of Literature

GaddeShareesh (2019)¹ conducted a study to provide a detailed overview of the implications of the Goods and Services Tax (GST) for Non-Profit Organizations (NPOs) in India. The study emphasizes that not all services provided by these entities are exempt from taxation under GST. It explains that a taxable event under GST occurs when there is a supply of goods or services and that a profit motive is not a prerequisite for an activity to be classified as a business. The study provides specific exemptions, such as educational services offered by NPOs, which are exempt under certain conditions, and healthcare services, which are prioritized by the government and exempt from GST. The article clarifies that donations received by NPOs do not trigger a taxable event, while activities like yoga camps and renting services may be deemed commercial and thus subject to GST. It also notes that the sale of publications by trusts falls under GST provisions, while religious items like Prasadam are exempt. Overall, it underscores the need for NPOs to be attentive to income-generating activities to ensure compliance with GST regulations, as failing to do so may lead to tax liabilities despite general exemptions available to them.

Arun Kumar Deshmukh, Ashutosh Mohan and Ishi Mohan (2022)² India's decision to implement much-needed fiscal reforms has been widely praised. It replaced its previous complex and inefficient tax system with the long-awaited Goods and Services Tax (GST). This has been a significant economic move post-independence, and it requires validation of its impact. The present study aims to provide a general macroeconomic analysis of how the adoption of GST has improved tax administration and the overall economic well-being of India. The study also aims to determine how stakeholders perceive this reform three years after its adoption. The study attempts to assess the extent to which the adoption of GST has influenced the economy and citizens, using a case-based qualitative inquiry. The research applied the situation-actor-process; learning-action-performance analysis framework for the case analysis. The findings show that India has seen a significant increase in tax revenue. However, efforts are needed to improve the low tax-to-GDP ratio, the skewed GST payer base, the negative stakeholder perception of GST, and the issue of tax evasion. Other positive impacts on the economy include benefits to consumers, and MSMEs, improved ease of doing business ranking, and support for the governments "Make in India" and "Aatmanirbhar Bharat" initiatives.

Suresh N (2024) in his study on a practical approach to taxation and accounting of charitable trusts, NGOs & NPOs (10th Edition, 2024), is a comprehensive guide designed for professionals managing the financial aspects of charitable organizations, non-governmental organizations (NGOs), and non-profit organizations (NPOs). The book covers critical topics, such as tax exemptions available to these entities, applicable accounting standards, and the legal compliance requirements necessary for transparent financial reporting. It emphasizes best practices in financial management to ensure accountability and build trust with stakeholders. Additionally, the edition addresses recent amendments in tax laws and regulations, providing readers with updated information to navigate the complexities of taxation and accounting in the non-profit sector effectively. Overall, it serves as a valuable resource for practitioners seeking practical knowledge and tools to enhance their operational efficiency.

Statement of the Problem

The implementation of the Goods and Services Tax (GST) in India has significantly affected the operational and financial performance of non-profit organizations, including charitable trusts in Tamil Nadu. This comprehensive tax reform aims to unify the indirect tax structure and requires non-profit organizations with an annual turnover exceeding Rs. 20 lakh to register for GST. This imposes substantial compliance requirements, including meticulous record-keeping, regular filing of returns, and potentially engaging GST consultants. These collectively increase the administrative burden and operational costs for these organizations. While certain

charitable activities are exempt from GST, such as those related to religion, spirituality, public health, and education, other activities like the sale of goods or services are taxable. This necessitates a clear distinction between taxable and exempt activities to ensure accurate tax reporting. Charitable trusts registered under Section 12AA of the Income Tax Act can benefit from specific GST exemptions, which can mitigate some tax liabilities. However, complying with GST regulations has led to increased costs, including administrative expenses and the hiring of specialized personnel. Non-profits can claim Input Tax Credit (ITC) on the GST paid for goods and services used in their operations, which can help offset some of the financial burden, although this requires meticulous record-keeping and compliance. Additionally, charitable trusts in Tamil Nadu must navigate both central and state-specific GST regulations, adding layers of complexity to their compliance efforts. Trusts providing community services may encounter difficulties in distinguishing between taxable and exempt activities, which is critical for ensuring accurate tax reporting and compliance. Furthermore, non-profits must invest in training their staff to understand and manage GST-related processes, which is crucial for maintaining compliance and optimizing tax benefits. While GST aims to streamline India's tax system, it also imposes additional responsibilities on non-profit organizations, necessitating enhancements in compliance mechanisms, investments in staff training, and optimization of financial management practices to effectively leverage available tax benefits and maintain compliance. Understanding these implications is crucial for charitable trusts in Tamil Nadu to navigate the complexities of the GST regime and sustain their operations effectively.

Objectives of the Study

1. To identify the various dimensions of Goods and Services Tax compliance in select charitable trusts in Tamil Nadu.
2. To study the perception of the Goods and Services Tax compliance in charitable trusts.
3. To analyze the relationship between Goods and Services Tax and charitable trusts performance.
4. To measure the impact of Goods and Services Tax on the performance of select charitable trusts.

Hypotheses of the Study

- H₀ - There is no significant difference between the educational level of the respondents and their perception of various Goods and Services Tax.
- H₀ - There is no relationship between Goods and Services Tax and charitable trusts performance.
- H₀ - There is no significant impact of Goods and Services Tax on charitable trusts performance.

Methodology of the Study

The present study utilizes the descriptive research method and incorporates both primary and secondary data. Primary data was collected through a well-structured questionnaire, while secondary data was gathered from academic journals, newspapers, the GSTN portal, and the ICAI website. The study involved a sample size of 150 charitable trusts registered under the GST Act as respondents from NPOs in Tamil Nadu. The sampling technique used was simple random sampling, and the collected data were analyzed using various statistical tools such as exploratory factor analysis, ANOVA, correlation, and multiple regressions.

RESULTS AND DISCUSSION

Data Analysis and Interpretation

A. Exploratory Factor Analysis

Table 1

Factors of Goods and Services Tax

Factor and Variance Explained	Components	Rotated Factor Loadings
Understanding of the GST Regime	The process for obtaining GST exemption for charitable trusts is clear and straightforward.	.833
	Charitable trusts receive adequate information on the criteria for GST exemption.	.925
	The GST registration process for charitable trusts is efficient and well-managed.	.832
	The process for obtaining GST exemption for charitable trusts is clear and	.891

GST Exemption and Registration	straightforward.	
	Charitable trusts receive adequate information on the criteria for GST exemption.	.792
	The GST registration process for charitable trusts is efficient and well-managed.	.814
GST Rates and Levy	GST rates applicable to our charitable trusts are clearly defined and easy to understand.	.891
	Charitable trusts find it easy to stay updated with any changes in GST rates and levies.	.937
	GST rates and levies applicable to charitable trusts do not create undue financial burdens.	.852
GST Filing and Returns	Charitable trusts find the GST filing process straightforward to complete.	.835
	Consistently meet GST return deadlines without difficulty.	.801
	Satisfied with the support available for GST filing and return processes for charitable trusts.	.896
Technology and Infrastructure	Charitable trusts have the necessary technology in place to manage GST compliance effectively.	.799
	GST-compliant accounting software for our financial management.	.724
	The cost of upgrading technology for GST compliance is significant.	.964
GSTN Portal	Security features of the GST portal adequately protect our Charitable trusts' sensitive data.	.901
	GSTN portal meets the specific compliance needs of Charitable trusts.	.809
	Satisfied with the support and resources available for Charitable trusts on the GSTN portal.	.872
Support and Guidance	Find it easy to access help or support when we have GST-related queries.	.849
	Peer organizations have been a valuable resource for understanding GST compliance.	.839
	The lack of expert guidance has made GST compliance challenging for Charitable trusts.	.879
Administrative Capacity	The process of GST registration was straightforward for the organization.	.899
	Dedicated personnel to handle GST compliance-related tasks.	.907
	The administrative burden of GST compliance has increased operational costs.	.721

Source: Primary data

The table above explains the factor extraction results from the loaded items. A principal component analysis was used to extract 8 factors from 24 statements. These factors are named based on their relationship with the statements. The first factor is labeled 'Understanding of the GST Regime', the second factor is 'GST Exemption and Registration', the third factor is 'GST Rates and Levy', the fourth factor is 'GST Filing and Returns', the fifth factor is 'Technology and Infrastructure', the sixth factor is 'GSTN Portal', the seventh factor is 'Support and Guidance', and the eighth factor is 'Administrative Capacity'.

B. ANOVA

H₀ - There is no significant difference between the educational level of the respondents and their perception of various Goods and Services Tax.

Table 2
Significant Difference between educational level and Perception of Various Goods and Services Tax

S.No.	Particulars	Significance
1.	Understanding of the GST Regime	0.009
2.	GST Exemption and Registration	0.023
3.	GST Rates and Levy	0.019
4	GST Filing and Returns	0.037
5.	Technology and Infrastructure	0.004
6.	GSTN Portal	0.027
7.	Supports and Guidance	0.031
8.	Administrative Capacity	0.045

Source: Primary data

The table above shows a significant difference in how charitable trusts perceive various Goods and Services Tax based on educational levels. The P value for each factor is less than 0.05, indicating that the null hypothesis is rejected. Therefore, there is a significant difference in how charitable trusts perceive Goods and Services Tax based on their educational level.

C. Correlation Analysis

H₀ - There is no relationship between Goods and Services Tax and charitable trusts performance.

Table 3
Relationship between Goods and Services Tax and charitable trusts performance

Independent Variables	Dependent Variable	Pearson Correlation	P Value
Goods and Services Tax Compliances	Commitment	.852	.009
	Involvement	.652	.021
	Attachment	.701	.000

Source: Primary data

Table 3 above shows the correlation between the dependent variable 'charitable trusts performance' and the independent variable 'Goods and Services Tax Compliances'. The highest correlation is observed with Commitment (.852) and the lowest correlation (.652) is with involvement.

D. Regression Analysis

H₀ - There is no significant impact of Goods and Services Tax on charitable trusts performance

Model	R Square	Adjusted R Square
Impact of Goods and Services Tax Compliances on the Performance of Charitable Trusts	0.643	0.633
<i>Predictors:</i> Understanding of GST Regime, GST Exemption and Registration, GST Rates and Levy, GST Filing and Returns, Technology and Infrastructure, GSTN Portal, Supports and Guidance, Administrative Capacity		
<i>Dependent Variable:</i> Performance of charitable trusts		

Source: primary data

The table above shows the results of a regression analysis. It considers the performance of charitable trusts as the dependent variable and Goods and Services Tax as the predictors. The results indicate that any change in the chosen predictors will result in a 64.3% change in the dependent variable, which is the performance of selected charitable trusts.

Findings of the Study

- The majority of the charitable trusts are aware of the Goods and Services Tax.
- Factor analysis reveals that Understanding of the GST Regime, GST Exemption and Registration, GST Rates and Levy, GST Filing and Returns, Technology and Infrastructure, GSTN Portal, Supports and Guidance, and Administrative Capacity are considered the major Goods and Services Tax in select charitable trusts.
- There is a significant difference in how charitable trusts perceive Goods and Services Tax based on their educational level.
- Goods and Services Tax compliances made a significant impact on the performance of charitable trusts.
- There is a significant impact of Goods and Services Tax compliances on the performance of charitable trusts.

Conclusion

This study investigates the effects of the Goods and Services Tax (GST) on charitable trusts in Tamil Nadu. The study highlights important findings regarding GST compliance and its impact. The introduction of GST has significantly increased the administrative and operational burden on these organizations, leading them to invest in additional resources and technology for compliance. This increased burden is evident in the challenges related to understanding the GST system, managing exemptions, and dealing with rising costs.

Furthermore, the study shows that the educational background of individuals influences how charitable trusts perceive and handle GST compliance. Those with higher education levels demonstrate a better understanding and management of GST. GST compliance has a substantial impact on the performance of charitable trusts, explaining 64.3% of the variation in their performance outcomes. Despite these challenges, there are opportunities for trusts to enhance their operations through input tax credits and exemptions. It is recommended that policymakers offer targeted support and simplify GST processes to assist trusts in managing their compliance and continuing their important work more effectively.

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