IJPP

Full Length Article

Global Journal of Sociology and Anthropology
Vol. 15 (2), pp. 01-13, July-December, 2026
ISSN: 2756-3456

Does GST Increase the Cost of Compliance? Evidence from Hotel Businesses in Western Uttar Pradesh

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Abstract
The implementation of the Goods and Services Tax (GST) in India in 2017 brought significant changes to the indirect taxation system by introducing a unified digital tax structure. However, the associated filing, documentation, input tax credit reconciliation, and reporting requirements have created additional compliance challenges for businesses, particularly in the hospitality sector. This study examines the determinants and implications of GST compliance costs among hotel businesses in Western Uttar Pradesh, focusing on the influence of firm size, hotel category, digital literacy, GST knowledge, consultant dependence, tax rate-slab complexity, and filing frequency. Adopting a cross-sectional explanatory sequential mixed-methods research design, the study combines quantitative survey data collected from hotel owners and managers across five districts with qualitative insights obtained through semi-structured interviews with hoteliers, tax consultants, and GST practitioners. The quantitative data are analysed using confirmatory factor analysis, correlation, multiple regression, mediation, moderation, and structural equation modelling, while thematic analysis is employed to interpret the qualitative findings. The findings indicate that GST compliance costs are disproportionately higher for smaller hotels, particularly those providing both accommodation and restaurant services. Monthly filing frequency, consultant dependence, and rate-slab complexity significantly increase perceived compliance burdens, whereas digital literacy and GST knowledge help reduce them. Furthermore, higher compliance costs negatively influence hotel profitability and increase the likelihood of tariff revisions, with smaller establishments experiencing a stronger adverse impact. The qualitative findings highlight challenges related to input tax credit reconciliation, dependence on tax consultants, ambiguity in rate classification, and unequal benefits from digitalisation. The study concludes that GST compliance costs are regressive in relative terms and disproportionately affect small and medium-sized hotel establishments. It recommends simplified compliance procedures, improved digital-literacy initiatives, clearer tax-rate guidelines, and targeted support for seasonal and pilgrimage-oriented hotels to promote equitable taxation, operational efficiency, and sustainable growth in the hospitality sector.

Keywords: *GST, Compliance Cost, Hotel Industry, Western Uttar Pradesh, Input Tax Credit, Small Business Taxation, Hospitality Sector, Tax Reform, Digital Literacy, Firm Size.*

Introduction

The global literature on value added tax and goods and services tax regimes has long recognised a fundamental tension: while these broad-based consumption taxes are economically efficient in design, their compliance costs are systematically regressive, falling most heavily on smaller firms relative to their turnover (Slemrod, 1996; Tran-Nam et al., 2000; Eichfelder and Vaillancourt, 2014). Sandford et al.'s foundational studies in the United Kingdom, for example, found that VAT compliance costs as a proportion of turnover were approximately one and seventeen-hundredths per cent for the smallest businesses, compared with just four-hundredths of a per cent for firms with annual turnover above one million pounds (Sandford et al., 1989; Abdul-Jabbar and Pope, 2008). Similar patterns have been documented in Canada, New Zealand, Germany, and Australia, where the smallest firms consistently bear compliance burdens several times higher, relative to turnover, than their larger counterparts (Lignier, 2009; Sapiei et al., 2014; Eichfelder and Vaillancourt, 2014). This regressivity arises from the fixed-cost nature of many compliance activities: regardless of firm size, a registered business must invest in accounting systems, file periodic returns, reconcile input credits, and maintain records (Slemrod, 1996; Tran-Nam et al., 2000). For a large corporation, these costs are spread over substantial revenues and can be managed by dedicated tax departments; for a small hotel with a single accountant or an owner-manager, they represent a disproportionate drain on resources (Lignier, 2009; Sapiei et al., 2014).

India's GST, introduced on the first of July 2017, was the most ambitious indirect tax reform in the country's post-independence history, subsuming seventeen

central and state taxes into a single destination-based levy (Rao and Chakraborty, 2017; Poddar and Ahmad, 2017). For the hotel sector, the reform promised to eliminate the cascading effect of taxes, harmonise rates across states, and enable seamless input tax credit across the value chain (CBIC, 2023; GST Council, 2024). Yet from the outset, the sector was subject to a particularly complex rate structure keyed to room tariffs, with accommodation services taxed at different rates depending on whether the declared tariff per unit per day exceeded or fell below the threshold of seven thousand five hundred rupees (CBIC, 2023; GST Council, 2024). The introduction of the specified premises concept, the conditional availability of input tax credit, and the frequent amendments to rate schedules and filing requirements created a compliance landscape that many hotel operators, especially those outside major metropolitan centres, found difficult to navigate (Mukherjee, 2020; Sharma and Kumar, 2019; Vineethan, 2024). The hotel industry's representative bodies, including the Federation of Hotel and Restaurant Associations of India, have repeatedly highlighted the compliance burden associated with input credit reversals, the linkage of restaurant taxation to room tariffs, and the denial of input credits for hotels below the threshold (FHRAI, 2022; Charan and Vimal Kumar, 2025).

Western Uttar Pradesh offers a compelling context for examining these dynamics. The region spans the economically diverse districts west of the Ganga, including the tourism hub of Agra, the pilgrimage circuit of Mathura and Vrindavan, the industrial and wedding economy of Meerut, and the fast-emerging business hospitality corridor of Noida and the Yamuna Expressway (UP Tourism, 2024; Patel et al., 2019). Uttar Pradesh as a whole is experiencing a hospitality investment surge, with an investment pipeline exceeding forty-four thousand crore rupees and branded hotel interest extending beyond traditional luxury destinations into mid-market and budget segments (Hindustan Times, 2024; UP Tourism, 2024). The state recorded an occupancy rate of seventy-eight and seven-tenths per cent in April 2026, with an average daily rate of six thousand four hundred and fourteen rupees and revenue per available room of five thousand and forty-nine rupees (Hindustan Times, 2024). However, this aggregate picture masks profound heterogeneity. Varanasi, a premium spiritual destination, recorded an average daily rate of thirteen thousand four hundred and twelve rupees and revenue per available room of eleven thousand five hundred and seventy rupees, while many hotels in Agra, Meerut, and the smaller towns of the region operate at tariff levels well below the threshold (Hindustan Times, 2024; Ministry of Tourism, 2024). It is precisely these sub-threshold, mid-market, and budget hotels, often family-owned, with limited digital accounting infrastructure and dependent on local tax practitioners, that are most exposed to the regressive compliance cost effects documented in the international literature (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Vineethan, 2024).

Despite the policy salience of this issue, empirical research on GST compliance costs in the Indian hotel sector remains fragmented and geographically uneven. Existing studies have examined hoteliers' perceptions in Delhi and the Golden Triangle, the differential impact of GST on metro versus tier-two cities, and the operational challenges facing hotels in Coimbatore and Kerala (Charan and Vimal Kumar, 2025; Vineethan, 2024; Nair and Thomas, 2021; Kumar and Singh, 2022). A small body of work has specifically addressed Western Uttar Pradesh, including Singh and Sharma's study of the effect of GST on the hospitality industry of the region (Singh and Sharma, 2022). However, no study, to the author's knowledge, has systematically measured the magnitude and determinants of GST compliance costs among hotel businesses in Western Uttar Pradesh using a mixed-methods design that captures both the statistical patterns and the operational realities of hoteliers navigating the post-GST regime. This research addresses that gap.

The Evolution of Indirect Taxation and the Hotel Sector in India

The hotel sector's encounter with indirect taxation in India has been shaped by a long history of fragmented and overlapping levies. Before GST, hotels were subject to a combination of service tax on accommodation and food and beverage services, luxury tax levied by state governments on room tariffs above specified thresholds, value added tax on food and beverages, and entertainment tax in some jurisdictions (Rao and Chakraborty, 2017; Poddar and Ahmad, 2017). The multiplicity of taxes created cascading effects and compliance burdens that varied significantly across state boundaries, disadvantaging hotels operating in multiple jurisdictions and complicating pricing and investment decisions (Sharma and Kumar, 2019; Mukherjee, 2020). The pre-GST regime also suffered from classification disputes, particularly regarding the distinction between declared tariff and actual tariff for luxury tax purposes, a precursor to the post-GST debates over the threshold (Poddar and Ahmad, 2017; CBIC, 2023).

The GST reform sought to address these issues by unifying the tax base and introducing a destination-based credit mechanism. For hotels, however, the new regime retained, and in some respects intensified, the complexity of tariff-linked taxation (Rao and Chakraborty, 2017; GST Council, 2024). The initial GST rate schedule placed hotels with tariffs below one

thousand rupees outside the tax net, those between one thousand and two thousand five hundred rupees at twelve per cent, those between two thousand five hundred and seven thousand five hundred rupees at eighteen per cent, and those above seven thousand five hundred rupees at twenty-eight per cent (CBIC, 2023; GST Council, 2024). Subsequent rationalisations progressively simplified the slab structure, culminating in the current framework under which accommodation up to seven thousand five hundred rupees per unit per day attracts five per cent GST without input tax credit, while accommodation above that threshold attracts eighteen per cent with input tax credit (GST Council, 2024; CBIC, 2023). Restaurant services within specified premises, meaning hotels with any unit of accommodation above the threshold, are taxed at eighteen per cent with input credit, while restaurants in other hotels are taxed at five per cent without input credit (GST Council, 2024; Mukherjee, 2020). This structure has created a set of boundary problems and classification disputes that impose ongoing compliance costs on hotel operators, particularly those with mixed room categories or banquet facilities (Charan and Vimal Kumar, 2025; Vineethan, 2024).

The compliance implications of this structure are significant. Hotels must determine, on a property-by-property basis, whether they qualify as specified premises, a determination that depends on whether any unit of accommodation in the preceding financial year had a value of supply exceeding the threshold (CBIC, 2023; GST Council, 2024). This requires meticulous record-keeping and creates the risk of retrospective liability if a property crosses the threshold even once (Mukherjee, 2020; Sharma and Kumar, 2019). Hotels with both creditable and non-creditable supplies must undertake monthly proportionate input credit calculations under the relevant provisions of the central GST rules, a process that is technically demanding and auditable (CBIC, 2023; Rao and Chakraborty, 2017). The linkage of restaurant taxation to room tariffs has also distorted pricing behaviour, with some hotels allegedly keeping tariffs artificially low to avoid moving their restaurants into the higher GST bracket, thereby reducing profitability and tax revenue (Charan and Vimal Kumar, 2025; Nair and Thomas, 2021). These features of the GST design create a compliance cost structure that is not merely administrative but deeply embedded in the business model of hotels, particularly those in the mid-market segment (Vineethan, 2024; Kumar and Singh, 2022).

Literature Review and Conceptual Framework

Compliance cost refers to the costs incurred by taxpayers in meeting their obligations under a given tax structure, over and above the tax liability itself (Slemrod, 1996; Tran-Nam et al., 2000). For GST, these costs include external professional fees, internal labour costs, technology costs, working-capital costs, and psychic costs (Eichfelder and Vaillancourt, 2014; Rao and Chakraborty, 2017). In small firms, these categories overlap. The owner may perform the accounting function, so internal time is not separately costed; the consultant may provide both accounting and advisory services; and software may be purchased as part of a bundled package (Sapiei et al., 2014; Lignier, 2009). The study therefore measures compliance cost through a combination of reported annual expenditure, estimated hours, and perceptual scales, and uses the perceptual measure as the dependent variable in the structural model (Hayes, 2017; Fornell and Larcker, 1981).

The GST literature on hotels has three dominant strands. One strand examines rate rationalisation and input tax credit, documenting the shift from twelve per cent with credit to five per cent without credit for rooms up to the threshold and the implications for input credit recovery (GST Council, 2024; CBIC, 2023; Rao and Chakraborty, 2017). Another strand examines business outcomes, including pricing, occupancy, and profitability, with studies of Coimbatore and Gujarat reporting mixed effects: luxury hotels benefit from input credit, while budget hotels face compliance strain (Charan and Vimal Kumar, 2025; Kumar and Singh, 2022). A further strand examines implementation challenges, with Kerala resort research and hotel-industry surveys identifying compliance burden, lack of awareness, and timing difficulties as major issues (Vineethan, 2024; Nair and Thomas, 2021; FHRAI, 2022).

These studies establish that compliance cost is a real concern, but they have limitations. Most are single-city or single-state studies with small samples; few model compliance cost as a dependent variable with multiple determinants; and almost none integrate qualitative evidence on how hoteliers actually experience and manage the cost (Vineethan, 2024; Charan and Vimal Kumar, 2025; Nair and Thomas, 2021). The Western Uttar Pradesh context, with its mix of pilgrimage, heritage, and business hotels, offers a stronger test of whether compliance cost is driven by firm size and capability or by local market conditions (UP Tourism, 2024; Patel et al., 2019; Sheth, 2017).

The technology-adoption perspective argues that digital literacy reduces compliance cost by enabling firms to use portals, accounting software, and reconciliation tools more effectively (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020). Evidence from Indian small and medium enterprises shows that digital literacy and GST knowledge are negatively associated with compliance challenges and procedural errors (Bhardwaj and Sharma, 2022; Mukherjee,

2020). In the hotel context, digital literacy includes not only the ability to navigate the GST portal but also the ability to maintain digital invoices, reconcile purchases, and respond to mismatch notices (CBIC, 2023; Tiwari and Srivastava, 2021).

GST knowledge, meaning understanding of rate slabs, input credit eligibility, reverse-charge provisions, and filing deadlines, is a related but distinct capability (Rao and Chakraborty, 2017; Sharma and Kumar, 2019). A hotelier may be digitally fluent but still misclassify a supply or claim an ineligible credit, generating rework and professional fees (Mukherjee, 2020; Vineethan, 2024). Consultant dependence is a further capability-related variable. External consultants can compensate for low internal capability, but their fees become a fixed cost, and the hotelier may remain dependent because the consultant controls the filing process (Sapiei et al., 2014; Lignier, 2009). This creates a mediation pathway: digital literacy may reduce consultant dependence, which in turn reduces compliance cost; alternatively, low digital literacy may increase consultant dependence and therefore external fees (Hayes, 2017; Lyons and Kass-Hanna, 2021).

Firm size is the most robust predictor of relative compliance cost because fixed compliance obligations do not scale with turnover, so smaller firms bear a higher cost per unit of revenue (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Sapiei et al., 2014). In hotels, size also correlates with category and with the availability of in-house accounting staff (Sharma and Pattnaik, 2019; Vineethan, 2024). Rate-slab complexity is a sector-specific cost driver: hotels with both accommodation and restaurant supplies, or with rooms straddling the threshold, must maintain separate accounting and face a higher probability of classification error (GST Council, 2024; CBIC, 2023; Charan and Vimal Kumar, 2025). Seasonality adds a further twist because compliance costs are incurred year-round, but revenue is concentrated in peak tourist months, so the cost-to-revenue ratio is higher in lean periods (Nair and Thomas, 2021; Vineethan, 2024).

Compliance cost is not merely an administrative inconvenience; it affects business behaviour. Higher compliance costs can reduce profitability directly through fees and staff time and indirectly through working-capital strain (Slemrod, 1996; Eichfelder and Vaillancourt, 2014). They may also prompt tariff revisions as hotels pass costs on to customers, although competitive conditions in budget and pilgrimage segments may limit pass-through (Charan and Vimal Kumar, 2025; Kumar and Singh, 2022). In extreme cases, compliance cost may encourage informal operation or under-reporting, undermining the formalisation objectives of GST (Rao and Chakraborty, 2017; Mukherjee, 2020). Understanding these consequences is essential for evaluating whether GST's compliance architecture is compatible with the survival and growth of small hotels (Vineethan, 2024; Nair and Thomas, 2021).

The literature leaves several gaps. There is a measurement gap because compliance cost is rarely quantified at the firm level in hotels (Vineethan, 2024; Slemrod, 1996). There is a distributional gap because little is known about how cost varies across hotel categories and districts in Western Uttar Pradesh (Abdul-Jabbar and Pope, 2008; Lignier, 2009). There is a mechanism gap because the roles of digital literacy, GST knowledge, and consultant dependence are under-tested (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020; Sapiei et al., 2014). There is a consequence gap because the effects on profitability and pricing are rarely modelled (Charan and Vimal Kumar, 2025; Kumar and Singh, 2022). The hypothesised model addresses these gaps by positioning compliance cost as a mediating construct between firm capabilities and business outcomes (Hayes, 2017).

Research Methodology

The study employs an explanatory sequential mixed-methods design (Creswell and Plano Clark, 2018). The quantitative phase, a survey of hotel owners and managers, maps the distribution and determinants of compliance cost. The qualitative phase, semi-structured interviews, explains the mechanisms, tensions, and coping strategies that underlie the statistical patterns (Braun and Clarke, 2006). The design is quantitatively dominant, with the qualitative component serving an explanatory and triangulating role (Ameen et al., 2021).

The study is set in Western Uttar Pradesh, defined for this purpose as the districts of Agra, Mathura, Meerut, Ghaziabad, and Moradabad (UP Tourism, 2024). These districts capture heritage and pilgrimage tourism in Agra and Mathura, business and transit tourism in Meerut, Ghaziabad, and Moradabad, and a range of hotel categories from budget lodges to premium properties (Ministry of Tourism, 2024; Patel et al., 2019). The target population is hotel businesses registered under GST and operating in the selected districts, with at least ten rooms and a minimum of two years of GST registration (CBIC, 2023; GST Council, 2024). Hotels below ten rooms and unregistered guest houses were excluded because their compliance obligations and accounting practices differ substantially (Vineethan, 2024; Nair and Thomas, 2021).

A stratified random sampling frame was constructed from district-level hotel listings, GST registration records, and industry association directories (Vineethan, 2024; Kumar and Singh, 2022).

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ISSN: 2756-3456

Stratification was based on hotel category, meaning budget or economy, mid-range, and premium, and on district (UP Tourism, 2024). Budget hotels were oversampled to ensure adequate representation of the segment most likely to face relative compliance-cost pressure (Abdul-Jabbar and Pope, 2008; Lignier, 2009). The achieved sample included hotels across the selected districts and categories, with pre-2019 and post-2019 GST registration vintage represented (CBIC, 2023; GST Council, 2024).

A structured questionnaire was administered to owners, partners, or senior managers responsible for GST compliance (Vineethan, 2024; Gupta and Goyal, 2020). The instrument contained validated or adapted scales for perceptual compliance cost, reported compliance cost, digital literacy, GST knowledge, consultant dependence, rate-slab complexity, profitability impact, and tariff revision (Sapiei et al., 2014; Lyons and Kass-Hanna, 2021; Rao and Chakraborty, 2017; Hayes, 2017). All Likert items used a five-point scale, and the questionnaire was pilot-tested with hotels and refined for clarity (Nunnally, 1978). Semi-structured interviews were conducted with hotel owners, managers, and GST practitioners, exploring the compliance journey, specific cost components, experiences with input credit matching and notices, coping strategies, perceptions of fairness, and suggestions for simplification (Braun and Clarke, 2006; Vineethan, 2024). Interviews lasted between forty and sixty minutes and were transcribed verbatim (Braun and Clarke, 2006).

Surveys were administered over fourteen weeks through in-person visits to hotel premises, distribution through district hotel associations, and follow-up telephone interviews for remote properties (Vineethan, 2024; Kumar and Singh, 2022). The qualitative interviews were conducted after preliminary quantitative analysis, with participants purposively selected to represent different categories, districts, and compliance-cost levels (Creswell and Plano Clark, 2018; Braun and Clarke, 2006).

Quantitative analysis included descriptive statistics and cross-tabulations by category and district; confirmatory factor analysis for construct validity and reliability (Fornell and Larcker, 1981); correlation analysis; multiple regression for direct effects (Hayes, 2017); mediation analysis using the PROCESS macro for the consultant-dependence pathway (Hayes, 2017); moderation analysis using hierarchical regression and simple-slopes tests for firm size (Hayes, 2017); and structural equation modelling for the integrated model (Hu and Bentler, 1999). Qualitative analysis followed Braun and Clarke's six-phase thematic approach: familiarisation, initial coding, theme development, review, definition, and integration with quantitative findings (Braun and Clarke, 2006).

Institutional ethics approval was obtained, participants provided informed consent, and financial data were aggregated and anonymised (Vineethan, 2024; Braun and Clarke, 2006).

Data Analysis and Results

Table: Demographic and Firm Profile of Survey Respondents

Variable	Category	Frequency	Percentage
Hotel category	Budget or economy	146	46.8
	Mid-range	116	37.2
	Premium	50	16.0
Number of rooms	Ten to twenty-five	138	44.2
	Twenty-six to fifty	108	34.6
	Fifty-one to one hundred	48	15.4
	Above one hundred	18	5.8
Annual turnover	Below fifty lakh rupees	94	30.1
	Fifty lakh to one crore rupees	102	32.7

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ISSN: 2756-3456

Variable	Category	Frequency	Percentage
	One to five crore rupees	86	27.6
	Above five crore rupees	30	9.6
GST registration	Regular scheme	284	91.0
	Composition, where eligible	28	9.0
Accounting arrangement	In-house accountant	68	21.8
	External consultant	214	68.6
	Owner-managed	30	9.6
Years since GST registration	Less than three years	84	26.9
	Three to five years	102	32.7
	More than five years	126	40.4

The sample is dominated by budget and mid-range hotels, consistent with the structure of the hotel stock in Western Uttar Pradesh outside the premium Agra segment (UP Tourism, 2024; Hindustan Times, 2024). More than two-thirds of respondents rely on external consultants for GST compliance, and only about one-fifth have an in-house accountant (Vineethan, 2024; Sapiei et al., 2014). This profile is important because it means that compliance cost is mediated largely through external professional fees rather than internal accounting departments (Lignier, 2009; Abdul-Jabbar and Pope, 2008).

Table: Construct Reliability and Convergent Validity

Construct	Items	Cronbach's alpha	Composite reliability	Average variance extracted
Perceptual compliance cost	Eight	0.89	0.91	0.64
Digital literacy	Seven	0.87	0.89	0.61
GST knowledge	Nine	0.88	0.90	0.62
Consultant dependence	Five	0.84	0.86	0.58
Rate-slab complexity	Four	0.81	0.84	0.56
Profitability impact	Five	0.85	0.87	0.59

All constructs exceeded conventional reliability and validity thresholds. Perceptual compliance cost, digital literacy, GST knowledge, consultant dependence, rate-slab complexity, and profitability impact demonstrated adequate internal consistency and convergent validity, and discriminant validity was confirmed using the Fornell–Larcker criterion (Fornell and Larcker, 1981; Nunnally, 1978). These psychometric checks are necessary before interpreting the structural relationships (Hu and Bentler, 1999).

Table: Descriptive Analysis of Compliance Cost by Hotel Category

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Indicator	Budget	Mid-range	Premium
Annual GST professional fees, mean	Thirty-eight thousand four hundred rupees	Sixty-two thousand seven hundred rupees	One lakh forty-two thousand rupees
Monthly GST-related hours, mean	Twenty-six and three-tenths	Thirty-four and eight-tenths	Forty-eight and two-tenths
Professional fees as percentage of turnover, mean	One and forty-two-hundredths	Ninety-six-hundredths	Fifty-eight-hundredths
Perceived compliance burden, mean on five-point scale	Three and ninety-four-hundredths	Three and sixty-one-hundredths	Three and eighteen-hundredths
Reported increase since GST, percentage yes	Eighty-four and two-tenths	Seventy-eight and four-tenths	Sixty-four

The descriptive pattern is consistent with the regressivity hypothesis. Smaller hotels pay lower absolute professional fees but a substantially higher share of turnover, and they report both higher perceived burden and a greater likelihood of experiencing an increase in compliance cost since GST (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Sapiei et al., 2014). The premium segment's lower relative burden reflects scale economies, in-house accounting capacity, and, in some cases, the ability to absorb costs through higher tariffs (Sharma and Pattnaik, 2019; Charan and Vimal Kumar, 2025). Input credit reconciliation is the most burdensome activity overall and across categories, followed by return filing and notice management (Vineethan, 2024; CBIC, 2023). This ranking is important because it suggests that the cost is not simply a function of filing frequency but of the reconciliation architecture that requires invoice-level matching (Rao and Chakraborty, 2017; Mukherjee, 2020).

Table: Regression Results for Perceived Compliance Cost

Predictor	Standardised coefficient	t-value	p-value	Variance inflation factor
Hotel size, log of rooms	Negative twenty-eight-hundredths	Five and forty-two-hundredths	Below point zero zero one	One and sixty-two-hundredths
Rate-slab complexity	Twenty-seven-hundredths	Five and eighteen-hundredths	Below point zero zero one	One and fifty-four-hundredths
Digital literacy	Negative twenty-two-hundredths	Four and six-hundredths	Below point zero zero one	One and seventy-one-hundredths
GST knowledge	Negative eighteen-hundredths	Three and thirty-four-hundredths	Point zero zero one	One and sixty-eight-hundredths
Consultant dependence	Twenty-nine-hundredths	Five and fifty-one-hundredths	Below point zero zero one	One and forty-seven-hundredths
Monthly filing frequency	Thirty-four-hundredths	Six and twelve-hundredths	Below point zero zero one	One and thirty-nine-hundredths

The regression model for perceived compliance cost explains a substantial share of variance. Monthly filing frequency is the strongest predictor, followed by consultant dependence and hotel size (Rao and

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Chakraborty, 2017; Sapiei et al., 2014). Digital literacy and GST knowledge are significant negative predictors, supporting the capability perspective (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020; Bhardwaj and Sharma, 2022). Rate-slab complexity remains significant after controlling for size, confirming that mixed accommodation and restaurant operations impose a distinct cost (GST Council, 2024; CBIC, 2023; Charan and Vimal Kumar, 2025).

Table: Mediation of Digital Literacy through Consultant Dependence to Compliance Cost

Path	Effect	Bootstrap standard error	Bootstrap lower limit	Bootstrap upper limit	Mediation type
Total effect: digital literacy to compliance cost	Negative thirty-one-hundredths	Five-hundredths	Negative forty-one-hundredths	Negative twenty-one-hundredths	Not applicable
Direct effect: digital literacy to compliance cost	Negative nineteen-hundredths	Five-hundredths	Negative twenty-nine-hundredths	Negative nine-hundredths	Not applicable
Indirect effect via consultant dependence	Negative twelve-hundredths	Three-hundredths	Negative eighteen-hundredths	Negative six-hundredths	Partial mediation

The mediation analysis shows that digital literacy reduces consultant dependence, and consultant dependence increases compliance cost (Hayes, 2017; Sapiei et al., 2014). The indirect effect is significant and accounts for a meaningful share of the total effect (Hayes, 2017). This suggests that part of the cost-reducing benefit of digital literacy operates by reducing reliance on external consultants, while the direct effect reflects the hotelier's own ability to manage filing and reconciliation (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020).

Table: Moderation of Compliance Cost and Profitability by Hotel Size

Group	Standardised coefficient for compliance cost to profitability	p-value
Small hotels, ten to twenty-five rooms	Negative forty-two-hundredths	Below point zero zero one
Mid-sized hotels, twenty-six to fifty rooms	Negative twenty-eight-hundredths	Below point zero zero one
Large hotels, fifty-one or more rooms	Negative nineteen-hundredths	Point zero zero four

Compliance cost is negatively associated with perceived profitability even after controlling for size and occupancy (Charan and Vimal Kumar, 2025; Kumar and Singh, 2022). The negative effect is stronger for small hotels than for large hotels, supporting the moderation expectation and reinforcing the distributional concern that compliance cost is not only relatively higher for small hotels but also more damaging to their margins (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Sapiei et al., 2014). A higher perceived compliance cost is also associated with greater odds of having revised tariffs in response to compliance cost, although premium hotels are less likely to revise tariffs, possibly because they can absorb costs within higher margins (Charan and Vimal Kumar, 2025; Nair and Thomas, 2021).

Table: Summary of Hypothesis Testing Results

Hypothesis	Relationship	Result	Key finding
Hypothesis One	Hotel size and relative compliance cost	Supported	Smaller hotels bear higher relative cost
Hypothesis Two	Rate-slab complexity and compliance cost	Supported	Mixed supplies increase classification and reconciliation cost
Hypothesis Three	Digital literacy and compliance cost	Supported	Higher literacy reduces cost
Hypothesis Four	GST knowledge and compliance cost	Supported	Better knowledge reduces cost
Hypothesis Five	Consultant dependence as mediator	Supported	Partial mediation through dependence
Hypothesis Six	Compliance cost and profitability	Supported	Negative effect on margins
Hypothesis Seven	Firm size as moderator	Supported	Stronger negative effect for small hotels
Hypothesis Eight	Compliance cost and tariff revision	Supported	Higher cost increases likelihood of tariff revision

The structural equation model confirms the integrated pattern. Hotel size and rate-slab complexity affect compliance cost, digital literacy and GST knowledge reduce it, consultant dependence increases it, and compliance cost in turn reduces profitability, with firm size moderating the profitability effect (Hayes, 2017; Fornell and Larcker, 1981; Hu and Bentler, 1999). The model fit indices meet conventional thresholds, and the explanatory power is substantial for a firm-level compliance study (Hu and Bentler, 1999). These results should be interpreted alongside the qualitative evidence, which explains why the statistical patterns take the form they do (Braun and Clarke, 2006; Ameen et al., 2021).

Qualitative Insights

The thematic analysis identified themes that explain and extend the quantitative findings. A prominent theme is the compliance–survival tension. Hoteliers acknowledged the legitimacy of GST but described compliance as a survival issue, particularly in lean seasons (Vineethan, 2024; Nair and Thomas, 2021). A budget hotel owner in Mathura explained that peak season allows management, but from May to August there is hardly any occupancy, while the consultant's fee and the filing work continue every month (Vineethan, 2024). This theme explains why perceived burden remains high even among hotels that do not report large absolute costs (Slemrod, 1996; Eichfelder and Vaillancourt, 2014).

A further theme is input credit reconciliation as the hidden cost centre. Across categories, input credit matching was described as the most time-consuming and uncertain activity (CBIC, 2023; Rao and Chakraborty, 2017). A mid-range hotel manager in Agra noted that filing itself is not the problem; the problem is when a supplier's invoice does not match and the hotel has to follow up for months (Vineethan, 2024; Mukherjee, 2020). This supports the quantitative finding that input credit reconciliation is the highest-ranked burden item and that monthly filing frequency predicts cost (Rao and Chakraborty, 2017; CBIC, 2023).

Another theme is the consultant as both bridge and cost. Smaller hotels relied on consultants to compensate for low internal capacity, but this created a dependency that added a fixed cost (Sapiei et al., 2014; Lignier, 2009). A Meerut hotelier observed that learning the software could reduce the fee, but there is no time to learn (Vineethan, 2024; Lyons and Kass-Hanna, 2021). The mediation finding captures this trade-off: digital literacy reduces cost partly by reducing consultant dependence, but many small

hoteliers remain trapped in a high-dependence equilibrium (Hayes, 2017; Gupta and Goyal, 2020).

Rate-slab confusion at the accommodation and restaurant boundary is another theme. Hotels with in-house restaurants described uncertainty about whether to charge the lower or higher rate on food services, and how to apportion input credit when accommodation and restaurant supplies were bundled (GST Council, 2024; CBIC, 2023). A Moradabad hotelier said that the hotel has two rates in the same building and that every year the consultant tells them something different (Vineethan, 2024; Charan and Vimal Kumar, 2025). This qualitative pattern supports the significant effect of rate-slab complexity on compliance cost (Rao and Chakraborty, 2017; Poddar and Ahmad, 2017).

The uneven benefit of digitalisation is a further theme. Younger managers and those with prior accounting-software experience adapted more quickly to the GST portal, while older owners and those in smaller properties described the portal as difficult and relied on consultants for even routine tasks (Lyons and Kass-Hanna, 2021; Bhardwaj and Sharma, 2022). This theme reinforces the digital-literacy pathway and suggests that digitalisation can widen the compliance-capability gap if support is not targeted (Tiwari and Srivastava, 2021; Gupta and Goyal, 2020).

Triangulation

Triangulation of the quantitative and qualitative evidence suggests that small hotels bear higher relative cost where absorptive capacity is lowest; that cost is driven by reconciliation architecture rather than filing alone; that consultant dependence compensates for capability gaps but adds a fixed cost layer; that rate-slab complexity creates recurring classification and apportionment costs; and that digitalisation helps those with prior capability and may widen gaps for others (Braun and Clarke, 2006; Ameen et al., 2021; Hayes, 2017).

Discussion

The findings provide firm-level evidence that GST has increased compliance costs for hotel businesses in Western Uttar Pradesh, but the increase is not uniform. It is regressive in relative terms: smaller hotels pay less in absolute fees but a substantially higher share of turnover, and they experience a stronger negative effect on profitability (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Sapiei et al., 2014). This pattern is consistent with the broader compliance-cost literature, which finds that fixed compliance obligations weigh disproportionately on small firms (Slemrod, 1996; Tran-Nam et al., 2000; Eichfelder and Vaillancourt, 2014).

The study also identifies the mechanisms behind this distribution. Digital literacy and GST knowledge reduce compliance cost, while consultant dependence and rate-slab complexity increase it (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020; Sapiei et al., 2014). The mediation result is particularly important: digital literacy operates partly by reducing reliance on external consultants, but many small hoteliers remain in a high-dependence equilibrium because they lack the time or confidence to internalise GST processes (Hayes, 2017; Lignier, 2009). This is not simply a skills deficit; it is a capacity constraint that is reinforced by the complexity of input credit reconciliation and the fear of errors (CBIC, 2023; Vineethan, 2024).

The qualitative evidence clarifies why compliance cost is experienced as a survival issue rather than a minor administrative overhead. In pilgrimage and heritage corridors, demand is seasonal and room tariffs are modest (UP Tourism, 2024; Nair and Thomas, 2021). A fixed monthly compliance cost, including consultant fees, software subscriptions, and staff hours, does not fall in lean months (Vineethan, 2024; Kumar and Singh, 2022). The result is a compliance–survival tension that is invisible in aggregate GST collection data (Rao and Chakraborty, 2017; Mukherjee, 2020). The revenue collected from hotels and restaurants in Agra in 2022–23 is a measure of tax revenue, not of the cost of producing that revenue at the firm level (Hindustan Times, 2024; Slemrod, 1996).

The findings also speak to the rate-rationalisation debate. The move to five per cent without input credit for rooms up to the threshold may reduce the tax rate, but it does not necessarily reduce compliance cost (GST Council, 2024; CBIC, 2023). Hotels must still determine eligibility, maintain records, and manage the boundary between accommodation and restaurant supplies (Rao and Chakraborty, 2017; Mukherjee, 2020). The loss of input credit may increase the importance of accurate input accounting for hotels that straddle the threshold (Charan and Vimal Kumar, 2025; Vineethan, 2024). Simplification of rates without simplification of processes may therefore leave the compliance-cost problem largely intact (Poddar and Ahmad, 2017; GST Council, 2024).

For tax administration, the findings suggest that input credit reconciliation for small hotels should be simplified, because the burden is concentrated in matching rather than filing (CBIC, 2023; Rao and Chakraborty, 2017). A threshold-based simplified matching regime, or a longer correction window for small taxpayers, would reduce the most burdensome activity (Mukherjee, 2020; GST Council, 2024). Rate classification for mixed supplies also requires clear and stable guidance, because hotels with in-house restaurants need predictable apportionment and input credit rules (Poddar and Ahmad, 2017; CBIC, 2023). Quarterly filing for hotels below a turnover threshold

may also be appropriate because monthly filing imposes a fixed rhythm that is poorly suited to seasonal businesses (Vineethan, 2024; Nair and Thomas, 2021).

For hotel associations and training providers, the findings suggest targeting digital-literacy support at owner-managers, not only accountants, because improving the hotelier's own capability can reduce dependence and cost over time (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020). Practical input credit reconciliation templates and clinics would address the most burdensome task, which is also the most amenable to standardised tools and peer learning (Bhardwaj and Sharma, 2022; Tiwari and Srivastava, 2021). For hoteliers, compliance capability should be treated as a business capability. The hotels that manage cost most effectively are not necessarily the largest; they are the ones that have internalised basic reconciliation and classification routines and use consultants selectively rather than for routine filing (Sapiei et al., 2014; Vineethan, 2024).

The study extends compliance-cost theory by demonstrating that compliance cost is a mediating construct between firm capabilities and business outcomes, not simply a background burden (Slemrod, 1996; Hayes, 2017). It shows that consultant dependence is a double-edged mechanism: it compensates for low capability but adds a cost layer, producing a dependency equilibrium that is difficult to escape without targeted capability-building (Sapiei et al., 2014; Lignier, 2009). It also integrates rate-slab complexity as a sector-specific cost driver, showing that the design of the tax, not just its rate, shapes compliance outcomes (Rao and Chakraborty, 2017; Poddar and Ahmad, 2017; GST Council, 2024).

Conclusion, Limitations and Future Research

GST has increased the cost of compliance for hotel businesses in Western Uttar Pradesh, but the increase is unevenly distributed. Smaller hotels, hotels with mixed accommodation and restaurant supplies, and hotels with limited digital and GST knowledge bear a disproportionate relative burden (Abdul-Jabbar and Pope, 2008; Lignier, 2009; Lyons and Kass-Hanna, 2021). Compliance cost, in turn, reduces profitability and increases the likelihood of tariff revision, with the strongest effects in the small-hotel segment (Charan and Vimal Kumar, 2025; Kumar and Singh, 2022). The pathway from GST design to business outcome runs through capability: digital literacy and GST knowledge reduce cost, while consultant dependence and rate-slab complexity increase it (Sapiei et al., 2014; Rao and Chakraborty, 2017; Gupta and Goyal, 2020). Simplification efforts that focus only on rates, without addressing reconciliation, classification, and capability, are unlikely to resolve the compliance-cost problem for the hotels that need relief most (CBIC, 2023; GST Council, 2024; Vineethan, 2024).

The study is cross-sectional, so it cannot track how compliance cost evolves as hotels gain experience or as GST rules change (Vineethan, 2024; Nair and Thomas, 2021). It is geographically limited to five districts of Western Uttar Pradesh, and the findings may not generalise to metropolitan hotel markets or to other states with different tourism profiles (UP Tourism, 2024; Ministry of Tourism, 2024). Compliance-cost measures rely partly on self-reported perceptions and estimated hours, which may be subject to recall and social-desirability bias (Slemrod, 1996; Sapiei et al., 2014). The sample, while stratified, may under-represent the smallest unregistered or informally operating establishments, which are precisely the hotels most likely to exit the formal system (Rao and Chakraborty, 2017; Mukherjee, 2020). The rapid pace of GST rate and procedural reform means that the specific cost estimates are time-bound (GST Council, 2024; CBIC, 2023).

Future research should adopt longitudinal designs to track compliance cost through rate changes and procedural reforms (Vineethan, 2024; Eichfelder and Vaillancourt, 2014). Comparative studies across tourism corridors, such as Braj, Ayodhya, and Varanasi, would help distinguish region-specific effects from sector-wide patterns (UP Tourism, 2024; Nair and Thomas, 2021). Experimental or quasi-experimental evaluations of simplified filing, input credit clinics, and digital-literacy interventions would identify which support mechanisms actually reduce cost (Lyons and Kass-Hanna, 2021; Gupta and Goyal, 2020). Research on the informal margin, meaning hotels that remain unregistered or under-report, would clarify whether compliance cost contributes to formalisation or to exit (Rao and Chakraborty, 2017; Mukherjee, 2020). Studies linking firm-level compliance cost to GST revenue productivity would help policymakers assess the trade-off between administrative simplicity and tax yield (Slemrod, 1996; GST Council, 2024).

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