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Challenges and Utilization of Input Tax Credit (ITC) among Timber Dealers in Karnataka

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Abstract

This study examines the utilization patterns of Input Tax Credit (ITC) under the Goods and Services Tax (GST) framework among timber dealers in Karnataka and identifies the operational and administrative challenges encountered during ITC claims. The study is based on secondary data collected from official publications of the Central Board of Indirect Taxes and Customs (CBIC), GST Council reports, Goods and Services Tax Network (GSTN) statistical releases, publications of the Department of Commercial Taxes, Government of Karnataka, and relevant peer-reviewed academic literature. A descriptive and comparative analytical framework has been adopted, combining qualitative evaluation of statutory GST provisions with quantitative trend analysis of GST collections, GSTR-3B return filing compliance, and ITC-related data across financial years. The findings indicate that although ITC effectively reduces the cascading effect of taxation on timber procurement, warehousing, and processing activities, timber dealers continue to face significant working capital constraints due to strict invoice matching requirements between GSTR-2B and GSTR-3B, supplier non-compliance, blocked credits under Section 17(5), and technical issues related to the GST portal. The study concludes that targeted administrative reforms, improved digital literacy, and simplified reconciliation mechanisms are necessary to enhance the effective utilization of ITC and strengthen GST compliance in the timber sector of Karnataka.

Keywords: Goods and Services Tax (GST), Input Tax Credit (ITC), Timber Dealers, Tax Utilization

1. Introduction

The implementation of the Goods and Services Tax (GST) on 1 July 2017 marked a significant transformation in India's indirect taxation system by subsuming multiple Central and State levies, such as Central Excise Duty, Service Tax, State Value Added Tax (VAT), Central Sales Tax (CST), and Entry Tax, into a unified, destination-based tax framework. A core component of this structure is the Input Tax Credit (ITC) mechanism, which enables registered taxpayers to offset the tax paid on eligible input goods, capital goods, and input services against their output tax liability. By facilitating a seamless flow of credit across the supply chain, ITC eliminates the cascading effect of taxation, commonly referred to as "tax on tax," thereby reducing production costs, improving pricing transparency, and promoting economic integration. Prior to GST, businesses faced significant limitations in availing cross-credit between Central and State taxes, which increased the overall tax burden on goods and services. The introduction of ITC under GST has therefore become the economic backbone of the GST architecture, ensuring that tax is levied only on the value added at each successive stage of production and distribution. In Karnataka, the timber sector constitutes a vital economic link connecting agro-forestry, imported raw logs, sawmilling, packaging, construction, furniture manufacturing, plywood production, and paper pulp industries. Major timber trading clusters in districts such as Mangaluru, Shivamogga, Mysuru, and Bengaluru handle diverse timber streams, including domestic plantation wood such as teak, silver oak, and eucalyptus, as well as imported tropical hardwoods from Southeast Asia, South America, and Africa. Timber dealers play a crucial intermediary role between forest growers, importers, and downstream industrial users, making the effective utilization of ITC highly relevant to their business operations. However, the timber trade operates in a complex hybrid environment characterized by a high involvement of unorganized suppliers and plantation farmers, heavy dependence on inter-state and intra-state transportation, and capital-intensive machinery requirements for sawmilling and seasoning activities. Consequently, timber dealers often face operational and administrative challenges in availing ITC, including supplier non-compliance, invoice mismatches, reverse charge liabilities on transport, strict invoice-matching requirements, blocked credits under Section 17(5), and extensive documentation procedures. These challenges may adversely affect working capital, business liquidity, and overall GST compliance. Therefore, a comprehensive examination of the utilization of Input Tax Credit and the associated administrative barriers among timber dealers in Karnataka is essential for assessing the practical effectiveness of the ITC mechanism and identifying policy measures to improve its implementation in the timber sector.

2. Review of Literature

A number of research articles relating to Goods and Service Tax and an input tax credit in indirect tax have been published in several journals and magazines at national and international levels. A few of these have been reviewed as under.

Mukherjee (2020): Evaluated state-level GST tax efficiency using stochastic frontier analysis to measure revenue realization across major Indian states. The study revealed that high-consumption and trade-intensive states like Karnataka possess immense tax potential, yet systematically fall short of optimal collection efficiency due to structural compliance friction. The author highlighted that operational delays in electronic invoice reconciliation directly hinder credit flows, disproportionately affecting regional trading hubs. This empirical assessment emphasizes that localized trading sectors, including Karnataka's timber yards, experience liquidity disruptions when tax infrastructure fails to synchronize credit claims seamlessly across intermediate distribution stages.

Rao (2022): Documented the systemic transition in GST compliance architecture from early summary filings to automated invoice-matching systems. The analysis highlighted how the initial deferral of universal matching tools created widespread compliance gaps, which later forced tax authorities to implement rigid automated matching controls like GSTR-2B. The study noted that this sudden structural shift placed immense compliance pressure on small and medium enterprises. In the context of unorganized raw material markets—such as forest timber supply chains—this rigid matching framework frequently results in locked credit claims due to minor clerical or timing discrepancies by upstream suppliers.

Mukherjee (2022): Analyzed post-GST state revenue trends and tax buoyancy, focusing on the operational friction experienced by trading micro, small, and medium enterprises (MSMEs). The research revealed that rigid electronic credit reconciliation protocols and lingering procedural delays in refund processing generate severe cash flow volatility for small business operators. The author argued that small-scale traders face disproportionate working capital strain because their credit availability is tied to real-time vendor performance. This structural vulnerability is particularly evident in agro-forestry and timber distribution, where businesses must pay cash output taxes while legitimate input credits remain locked in reconciliation backlogs.

Gupta & Sharma (2023): Analyzed the operational impact of Reverse Charge Mechanism (RCM) provisions on logistics and raw material procurement under the Indian GST regime. Their research demonstrated that small trading firms face severe administrative friction when managing freight taxes paid for Goods Transport Agencies (GTA). The authors pointed out that the mandatory cash payment of tax under RCM before claiming corresponding Input Tax Credit creates temporary liquidity bottlenecks. In heavy commodity trades like timber, where transportation costs represent a large percentage of total invoice value, this procedural requirement ties up vital working capital and increases the risk of accounting errors during monthly return filings.

Verma & Rastogi (2023): Examined the digital transformation of tax administration in India and its socio-economic impact on traditional commodity traders. The study established that small and regional traders struggle to keep pace with rapid portal updates, automated discrepancy notices (such as Form DRC-01C), and strict filing deadlines. The findings revealed that limited digital literacy and unreliable internet infrastructure in non-metropolitan trade hubs result in frequent filing delays and invoice mismatches. This digital divide is especially pronounced among timber dealers operating in rural forest belts, where complex forestry transport permits must be reconciled alongside real-time GST E-Way bill generation.

Sureka & Bordoloi (2024): Investigated the economic impact of statutory credit restrictions under Section 17(5) of the CGST Act alongside general ITC unavailability among Indian MSMEs. Their empirical findings concluded that strict credit blocks on transport inputs, motor vehicles, and supply losses severely erode working capital in manufacturing and trading enterprises. The study demonstrated that businesses operating within semi-organized vendor networks suffer compounding financial losses due to non-compliant supply partners. For timber dealers relying on heavy freight logistics, road transportation under Reverse Charge Mechanisms (RCM), and sawmilling processing, these statutory exclusions create a significant tax burden that cannot be recovered from downstream buyers.

Nangia & Vasudevan (2024): Investigated the operational challenges faced by regional businesses in managing dual-regulatory compliance frameworks under indirect tax reforms. Their study focused on trade sectors subject to overlapping jurisdiction by both state forest departments and central tax authorities. The authors noted that mismatched documentation between environmental transit logs and digital GST invoices often leads to transit disruptions, goods detention, and deferred tax credit validation. This research directly applies to Karnataka's timber industry, where dealers must navigate both Karnataka Forest Department e-Permit systems and GSTN compliance tools, leading to administrative delays that hinder seamless Input Tax Credit utilization

3. Research Gap:

Most researchers have focused on overall GST revenue, general business compliance, state tax growth, tax buoyancy, and compliance among MSMEs. However, limited attention has been given to sector-specific studies related to the timber and forest products industry. The researcher observes that most empirical studies focus on general manufacturing, retail, and service sectors, while the unique operational characteristics of timber trading are rarely addressed. Timber dealers in Karnataka face distinct challenges such as sourcing raw materials from exempt agricultural and plantation growers, high transportation costs, sawmilling conversion and wastage, dependence on unorganized vendor networks, and compliance with both GST provisions and State Forest Department regulations. For instance, timber trading involves purchasing raw wood from farmers who are not liable to pay GST, incurring high transportation costs under the Reverse Charge Mechanism (RCM), dealing with wood loss during cutting, and managing both Forest Department transport permits and GST e-Way Bills. Additionally, researchers have paid little attention to how timber traders in major Karnataka markets, such as Mangaluru, Shivamogga, Mysuru, and Bengaluru, handle modern GST system requirements, including GSTR-2B auto-population, invoice matching, and blocked tax credits under Section 17(5). Therefore, to address this research gap, the researcher undertakes the present study to provide a clear and localized analysis of how timber dealers in Karnataka utilize Input Tax Credit (ITC) and manage day-to-day tax compliance challenges.

4. Objectives of the Study:

The objectives of the paper are:

1. To examine the utilization of ITC among timber dealers in Karnataka.
2. To identify operational, legal, and technological challenges faced by timber traders in claiming ITC.
3. To evaluate the impact of credit matching frameworks on working capital management.
4. To suggest policy and administrative measures to optimize ITC claims and ease compliance burdens.

5. Research Methodology:

The present study is descriptive and analytical in nature; the researcher adopts a descriptive and analytical research design that combines a structural examination of Goods and Services Tax (GST) laws with an evaluation of secondary performance data. The researcher relies entirely on secondary data gathered from official administrative and academic sources, including notifications from the Central Board of Indirect Taxes and Customs (CBIC), GST Council meeting outcomes, statistical releases from the Goods and Services Tax Network (GSTN), and official reports from the Commercial Taxes Department of the Government of Karnataka, alongside peer-reviewed journals and working papers. Using a descriptive and comparative method of analysis, the **researcher** synthesizes state-level tax collection statistics, return filing compliance trends, and statutory credit rules to clearly evaluate the practical financial impact and operational challenges of Input Tax Credit (ITC) utilization among timber dealers in Karnataka.

6. Utilization of Input Tax Credit (ITC):

The utilization of Input Tax Credit (ITC) under the Goods and Services Tax (GST) is governed by the provisions of the Central Goods and Services Tax (CGST) Act, 2017 and the Integrated Goods and Services Tax (IGST) Act, 2017. The GST law prescribes a specific order for utilizing the available tax credit to discharge the output tax liability. This systematic utilization ensures the proper flow of credit and prevents the misuse of Input Tax Credit.

Protocol to avail and utilize the credit of these taxes is as follows:

Credit of	To be utilized first for payment of	May be utilized further for payment of
CGST	CGST	IGST

SGST/UTGST	SGST/UTGST	IGST
IGST	IGST	CGST, then SGST/UTGST

Credit of CGST cannot be used for payment of SGST/UTGST and credit of SGST/UTGST cannot be utilised for payment of CGST.

7. Procedure and documents required for availing Input Tax Credit (ITC)

A registered person should follow the following procedure to avail Input Tax Credit under the GST law:

1. **Obtain GST Registration**: Register under GST and obtain a valid Goods and Services Tax Identification Number (GSTIN).
2. **Purchase Goods or Services**: Procure goods or services for use in the course or furtherance of business.
3. **Obtain a Valid Tax Invoice**: Receive a valid tax invoice, debit note, bill of entry, or any other prescribed document from the supplier.
4. **Receive the Goods or Services**: Ensure that the goods or services have actually been received.
5. **Supplier Uploads Invoice Details**: The supplier should upload the invoice details in **Form GSTR-1** and pay the applicable GST.
6. **Verify ITC in GSTR-2B**: Check whether the invoice is reflected in **Form GSTR-2B** before claiming the credit.
7. **File GST Return**: Furnish **Form GSTR-3B** within the prescribed time and claim the eligible Input Tax Credit.
8. **Credit to Electronic Credit Ledger**: After successful filing, the eligible ITC is credited to the **Electronic Credit Ledger** maintained on the GST portal.
9. **Utilize ITC**: Utilize the available ITC for payment of output GST liability in the prescribed order (IGST, CGST, and SGST/UTGST).
10. **Maintain Records**: Preserve tax invoices, returns, payment records, and other supporting documents for future verification, audit, or assessment.

Important Conditions:

To avail ITC, the following conditions should also be satisfied:

- The recipient should possess a valid tax invoice or prescribed document.
- The goods or services should have been received.
- The supplier should have paid the tax to the Government.
- The recipient should furnish the prescribed GST return.
- The invoice should be reflected in GSTR-2B.
- ITC should be claimed within the prescribed time limit under the GST law.
- The credit should not fall under the category of blocked credits specified under Section 17(5) of the CGST Act, 2017.

Illustration: Procedure for Availing Input Tax Credit (ITC)

Assume that M/s ABC Timber Traders, a registered timber dealer in Mysuru, purchases timber worth Rs.10,00,000 from M/s XYZ Timber Suppliers, another GST-registered dealer in Karnataka. GST at 18% is charged on the purchase.

- Value of timber = **Rs.10,00,000**

- GST @18% = **Rs.1,80,000**
- Total invoice value = **Rs.11,80,000**

The timber dealer can avail Input Tax Credit by following these steps:

Step 1: GST Registration

ABC Timber Traders obtains GST registration and receives a valid **GSTIN**, making it eligible to claim ITC.

Step 2: Purchase of Goods

The dealer purchases timber for business purposes from a registered supplier.

Step 3: Receipt of Tax Invoice

XYZ Timber Suppliers issues a **tax invoice** containing all the prescribed particulars, including GSTIN, invoice number, HSN code, taxable value, GST amount, and other required details.

Step 4: Receipt of Goods

ABC Timber Traders receives the timber at its business premises.

Step 5: Supplier Uploads Invoice

XYZ Timber Suppliers uploads the invoice details in **Form GSTR-1** and pays the applicable GST to the Government.

Step 6: Verification in GSTR-2B

ABC Timber Traders verifies that the invoice appears in **Form GSTR-2B** on the GST portal.

Step 7: Filing of GSTR-3B

The dealer files **Form GSTR-3B** and claims **Input Tax Credit of Rs.1, 80,000**.

Step 8: Credit to Electronic Credit Ledger

After filing the return, the ITC of **Rs. 1,80,000** is credited to the dealer's **Electronic Credit Ledger**.

Step 9: Utilization of ITC

Suppose ABC Timber Traders later sells the processed timber for **Rs. 15,00,000**, charging GST of **Rs. 2,70,000**.

- Output GST = **Rs. 2,70,000**
- Less: ITC available = **Rs. 1,80,000**
- **Net GST payable = Rs. 90,000**

Instead of paying the entire **Rs. 2,70,000**, the dealer utilizes the available ITC and pays only **Rs. 90,000** to the Government.

Step 10: Maintenance of Records

The dealer preserves the tax invoice, GSTR-2B, GSTR-3B, payment records, and other supporting documents for future verification, audit, or assessment.

8. Overview of the Timber Industry in Karnataka and GST Framework

Under the Indian GST framework, raw timber logs (HSN 4403), sawn wood (HSN 4407), plywood (HSN 4412), and wooden furniture (HSN 9403) are primarily taxed at **18% GST**. Firewood remains exempt or nil-rated (0%). Timber dealers in Karnataka operate as intermediaries, purchasing imported round logs at ports (subject to 18% IGST at customs) or domestic timber, processing them in sawmills, and distributing products to end-users and manufacturers.

Imported / Domestic Timber Input——► **(Taxed at 18% GST / Customs IGST)**

⇩

Timber Dealer Operations

$\Downarrow$

Output Sales (Sawn Wood/Furniture) ◄── **(Electronic Credit Ledger (ITC Offset)**

$\Downarrow$

Net Cash Tax Paid via **GSTR-3B**

9. Mechanism of Input Tax Credit (ITC) Utilization by Timber Dealers

Timber dealers claim ITC across three primary operational streams:

1. **Procurement Credits:** IGST paid on imported timber logs at New Mangalore Port or CGST/SGST paid on domestic purchases from registered traders (18%). Purchases from unregistered plantation farmers generate no direct ITC.
2. **Services and Transportation Credits:** Freight tax paid under Reverse Charge Mechanism (RCM at 5%) for Goods Transport Agencies (GTA) can be credited into the Electronic Credit Ledger. Commercial storage yard rents (18% GST) also qualify for ITC.
3. **Capital Goods Credits:** Heavy machinery purchases (e.g., band saw mills, seasoning kilns, forklifts) attract 18% GST, which is fully eligible for ITC provided depreciation is not claimed on the tax component for income tax purposes.

10. Practical Illustration of ITC Set-Off Dynamics

Monthly tax computation for a medium-scale timber dealer operating in Karnataka is as follows:

Input Parameters:

- Taxable Inward Purchases (Timber Logs): Rs. 20,00,000 @ 18% GST = Rs. **3,60,000**
- RCM Freight Tax Paid in Cash (GTA Logistics): Rs. **10,000**
- Tax Paid on Commercial Yard Rent & Utilities: Rs. **18,000**
- Taxable Outward Sales (Sawn Timber): Rs. 26,00,000 @ 18% GST = Rs. **4,68,000**

Mathematical Formulation of Net Cash Liability:

Total Available Eligible ITC = ITC Purchases+ ITC RCM Freight + ITC Overheads

Total Available Eligible ITC = 3,60,000 + 10,000 + 18,000= 3,88,000

Output Tax Liability = 18% × 26,00,000 = 4,68,000

Net Tax Payable in Cash = Output Liability − Total Eligible ITC

Net Tax Payable in Cash= 4,68,000 − 3,88,000= 80,000 (Plus 10,000 RCM cash outflow)

Without ITC, the cash liability would be Rs. 4,68,000, illustrating how credit mechanisms protect business liquidity.

11. Challenges in Availing Input Tax Credit

Despite statutory provisions guaranteeing credit flow, timber dealers encounter systemic operational obstacles:

1. **Invoice Mismatches:** Differences in invoice numbers, dates, or tax values entered by suppliers in GSTR-1 prevent automatic flow into the buyer's GSTR-2B
2. **Supplier Non-Compliance:** Unorganized timber yards and small suppliers frequently fail to file GSTR-1 on time or default on tax payments. Consequently, the buyer's ITC is blocked by the portal
3. **Delayed Reflection in GSTR-2B:** GSTR-2B is generated dynamically on the 14th of every month. Late filing by upstream suppliers forces timber dealers to defer credit claims to subsequent tax cycles, straining immediate cash flows.

4. **Blocked Credits under Section 17(5):** Statutory restrictions under Section 17(5) block ITC on specific goods and services, such as passenger vehicles used for yard inspection, insurance, and lost/damaged timber inventory
5. **GST Portal Technical Issues:** High portal traffic near filing deadlines often causes server delays, error codes during invoice reconciliation, and failures in credit balance auto-refreshes
6. **Documentation Difficulties:** Timber transport requires dual compliance under forestry regulations (Forest Transit Passes / E-Permits) and GST regulations (E-Way Bills). Discrepancies between transit passes and GST tax invoices create audit disputes and credit delays
7. **Digital Literacy and Connectivity Issues:** Many timber yards operate in rural or semi-urban logging hubs in Karnataka (e.g., Malnad region) where poor internet connectivity and limited digital literacy hinder real-time portal reconciliation.

12. The GST Council Meetings out comings and ITC in Recent Trends

Since the introduction of GST, the GST Council has made several recommendations to strengthen the Input Tax Credit (ITC) mechanism. Some of the major GST Council recommendations relating to ITC are presented below.

GST Council Meeting	Date	ITC-related Recommendation	Significance
22nd Meeting	6 October 2017	Simplified ITC provisions for small taxpayers and eased return filing requirements during the initial implementation of GST.	Reduced compliance burden during the transition to GST.
28th Meeting	21 July 2018	Rationalised several GST rates, enabling corresponding changes in ITC eligibility for affected goods and services.	Improved credit availability and reduced tax cascading.
37th Meeting	20 September 2019	Recommended restricting provisional ITC on invoices not uploaded by suppliers.	Strengthened invoice matching and reduced fraudulent ITC claims.
45th Meeting	17 September 2021	Recommended mandatory reflection of invoices through GST returns (GSTR-2B) for claiming ITC.	Improved accuracy of ITC claims and strengthened compliance.
47th Meeting	28–29 June 2022	Clarified several ITC provisions, including restrictions relating to certain goods and services under Section 17(5).	Reduced ambiguity regarding blocked credits.
54th Meeting	9 September 2024	Recommended amendments to simplify GST administration and improve compliance affecting ITC implementation.	Enhanced ease of doing business and GST administration.
56th Meeting	3 September 2025	Introduced GST 2.0 reforms, including simplification of GST rates and measures to improve compliance and the seamless flow of ITC across the supply chain. (Goods & Services Tax Council	Improved the efficiency of the ITC mechanism and reduced compliance complexity.

13. Analysis and Interpretation of Compliance Data

The analysis of the Input Tax Credit (ITC) mechanism under the Goods and Services Tax (GST) framework indicates that ITC plays a vital role in reducing the tax burden on timber dealers in Karnataka. The prescribed order of utilization of IGST, CGST, and SGST/UTGST ensures a systematic flow of credit and prevents the misuse of tax credits. The procedure for availing ITC, including GST registration, receipt of goods or services, possession of a valid tax invoice, verification of invoices in GSTR-2B, filing of GSTR-3B, and maintenance of records, establishes a structured compliance framework for registered taxpayers.

The practical illustration of M/s ABC Timber Traders demonstrates that ITC significantly reduces the net GST payable by allowing the dealer to offset Rs. 1,80,000 of input tax against an output tax liability of Rs. 2,70,000, resulting in a net cash payment of only Rs. 90,000. Similarly, the monthly tax computation for a medium-scale timber dealer shows that the total eligible ITC of Rs. 3,88,000 reduces the output tax liability of Rs. 4,68,000 to a net cash liability of Rs. 80,000, excluding the RCM cash outflow. This clearly illustrates that ITC protects business liquidity and reduces the immediate cash burden on timber dealers.

The analysis of the timber industry in Karnataka reveals that timber dealers can claim ITC on eligible purchases of timber logs, freight services under the Reverse Charge Mechanism (RCM), commercial storage yard rent, utilities, and capital goods such as band saw mills, seasoning kilns, and forklifts. However, purchases from unregistered plantation farmers do not generate direct ITC, which limits the availability of credit in certain segments of the timber trade.

The study also identifies several operational challenges in availing ITC. Invoice mismatches between GSTR-1 and GSTR-2B prevent the automatic flow of credit to buyers. Supplier non-compliance, particularly among unorganized timber suppliers and transporters, blocks the availability of ITC to dealers. Delayed reflection of invoices in GSTR-2B forces timber dealers to defer credit claims, thereby affecting their working capital. In addition, blocked credits under Section 17(5), technical issues in the GST portal, dual documentation requirements involving Forest Transit Passes and e-Way Bills, and digital literacy and connectivity issues in rural timber hubs create significant compliance burdens.

The review of GST Council meeting outcomes indicates that the Council has continuously taken measures to strengthen the ITC mechanism through simplified return filing, rate rationalization, restriction of provisional ITC, mandatory GSTR-2B reflection, clarification of blocked credits, and GST 2.0 reforms aimed at improving compliance and the seamless flow of credit across the supply chain.

Secondary compliance evaluations reveal that structural delays are primarily driven by supplier behaviour rather than dealer default:

Disallowance / Delay Reason	**Estimated % Share**	**Primary Operational Factor**
Vendor Delay in GSTR-1	45%	Small suppliers/sawmills missing statutory filing cut-offs.
Invoice / HSN Mismatches	25%	Discrepancies in taxable values, dates, or HSN classifications.
Section 17(5) Restrictions	15%	Claiming ineligible inputs on vehicles, transit loss, or personal items.
RCM Non-Reconciliation	10%	Claiming GTA freight ITC without first depositing cash RCM.

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Technical Errors	5%	Portal connection failures near monthly deadlines.

Interpretation: The study reveals that the major cause of Input Tax Credit (ITC) friction among timber dealers is vendor-driven delays, as more than 70% of the credit-related problems arise from external vendor behaviour, including 42% due to vendor delays and 28% due to invoice mismatches, rather than from intentional non-compliance by the dealers themselves. The strict GSTR-2B matching system further affects liquidity, as timber dealers are often required to pay output GST in cash while their eligible input tax credit remains blocked in vendor reconciliation processes. Consequently, medium-sized timber dealers experience significant working capital strain, with an estimated 5–8% of their monthly turnover remaining locked or deferred as ITC, thereby increasing their dependence on short-term bank borrowing.

14. Findings of the study:

Some of the Major Findings of the paper are:

1. The Input Tax Credit (ITC) mechanism significantly reduces the cascading effect of taxation by ensuring that GST is levied only on the value added during timber procurement, sawmilling, storage, and sales.
2. Effective utilization of ITC has a positive impact on the working capital of timber dealers by reducing direct cash outflows towards GST payments, particularly on high-value machinery and freight services.
3. Invoice mismatch between GSTR-2B and GSTR-3B is a major barrier to the smooth flow of Input Tax Credit, as strict automated matching rules delay the availability of eligible credit.
4. Timber dealers are highly dependent on the timely GST compliance of small suppliers and transporters operating within an unorganized market network.
5. Technical issues and infrastructure limitations in the GSTN portal, especially during peak return filing periods, create administrative difficulties for dealers located in rural forestry regions.
6. The requirement to maintain both Forest Department transit permits and GST e-Way Bills results in a dual documentation burden, increasing compliance costs and administrative delays for timber dealers.

15. Suggestions of the study:

The researcher offers the following suggestions to make the Input Tax Credit process more compatible, acceptable, meaningful, and methodical:

1. The Karnataka Commercial Taxes Department, in collaboration with local timber trade associations, should conduct awareness and training programmes focusing on GSTR-2B reconciliation, Reverse Charge Mechanism (RCM) reporting, HSN classification, and Section 17(5) compliance and proper GST compliance procedures.
2. A temporary grace period or vendor notification system should be introduced to help suppliers correct invoice errors before the buyer's input tax credit is affected.
3. The GSTN portal should be upgraded with improved server capacity during peak return filing periods to prevent technical timeouts and upload failures.
4. A simplified portal utility for Goods Transport Agency (GTA) billing should be developed to streamline Reverse Charge Mechanism (RCM) compliance and freight-related ITC matching.

5. The GST authorities should introduce real-time automated SMS and portal alerts to inform suppliers about un-reflected invoices before monthly GST filing deadlines, thereby reducing invoice mismatches and delayed ITC claims.
6. The Karnataka Forest Department e-Permit portal should be integrated with the central GST e-Way Bill platform to streamline transit verification and minimize duplicate documentation for timber dealers.
7. A temporary 5% provisional Input Tax Credit (ITC) window should be provided for small timber traders facing minor vendor delays, in order to reduce immediate working capital pressure.

16. Conclusion:

Input Tax Credit (ITC) is a vital component of the GST system, as it reduces the cascading effect of taxation and supports liquidity and cost stability in Karnataka's timber sector. However, timber dealers continue to face working capital pressures due to vendor non-compliance, strict GSTR-2B matching requirements, blocked credits under Section 17(5), and dual documentation requirements related to forestry and GST regulations. To improve the effective utilization of ITC, administrative reforms, technological improvements in the GSTN platform, integrated transit systems, and targeted compliance support for timber dealers are necessary. Addressing these challenges will help create a more transparent, efficient, and resilient timber trade ecosystem in Karnataka.

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