

Implication of Goods and Services Tax (GST) in India: An Analysis of Level of Compliance among the Businesses.

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Abstract

On 1st July 2017 Goods and Services Tax (GST) was introduced in India with an intention to replace multiple Indirect taxes and to reduce the compliance burden prevailing amongst businesses in India. One of the major factors that will make GST tax law in India successful if there is a high compliance rate towards the filing of returns under the GST act by the businesses. Using secondary data published by the government of India the authors in this paper tries to study the business taxpayers' level of Compliance towards the GST in India since its rollout. The finding of this research paper will help the policymakers to understand the compliance pattern of the businesses towards GST and will allow them to take the appropriate course of action in near future.

Key Words: *Tax Law, Indirect Tax, Goods and Services Tax (GST), Compliance Rate, GST Returns.*

Introduction

The primary purpose of taxation in any country is to generate resources to finance government expenditure (Burgess & Stern, 1993). In India the taxation system is divided between state government and central government and which levies direct taxes and indirect taxes (Poirson, 2006). Direct tax in India mainly consists of personal Income tax whereas Indirect taxes consist Goods and services tax (GST) which was introduced in India on 1st July 2017 by subsuming multiple number of taxes like Vat, Service tax, excise duties, customs etc (Tiwari & Singh, 2018) it implemented goods and service tax (GST. GST is multi stage tax which is levied at each stage when goods or services passes through a series of chain (Palil & Ibrahim, 2011). GST is a newly introduced tax law in India, to make any law a successful one the rate of



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tax compliance towards that law should be at a higher side. Tax compliance can be described as the degree to which a taxpayer are obliges to tax rules and regulations (Nkwe, 2012) (Joseph & Jacob, 2018).As per (James & Alley, 2009) tax compliance means willingness of taxable entities and other individuals to act in accordance within the rules of tax laws and administration without making use enforcement activity. In India for the compliance to GST the business taxpayers have to file GST returns. As per Central Board of Indirect Taxes and Customs of India (CBIC) there are different types of GST returns filing applicable for different types of registered business taxpayers in India. The different GST returns which were introduced as per GST law in India were GSTR 1, GSTR 2, GSTR 3, GSTR 3B, GSTR 4, GSTR 5, GSTR 5A, GSTR 6, GSTR 7, GSTR 8, GSTR 9, GSTR 9A and GSTR 10. Out of all this GST returns, the returns which are mainly operational in India and which has to be filed by majority of normal registered business taxpayers are GSTR 1 and GSTR 3B. GSTR 1 return is a statement of outward supplies of Goods or service and GSTR 3B is the consolidated summary of inward and outward supplies of Goods or services. Currently the frequency to file GSTR 1 return is monthly i.e., to be filed before 11th of next month whose sales turnover is more than Rs. 5 crores and in case of registered business taxpayer's whose sales turnover is less than Rs. 5 crores than they have option to file GSTR 1 return monthly or quarterly. If filing is done quarterly it has to be done before 13th of the month following every quarter. For GSTR 3B the frequency to file was monthly i.e., to be file before 20th of next month, but currently from January 2021 in most of the states the frequency to file GSTR 1 return is monthly i.e., to be filed before 20th of next month whose sales turnover is more than Rs. 5 crores and in case of registered business taxpayer's whose sales turnover is less than Rs. 5 crores than they have option to file GSTR 3B return monthly or quarterly. If GSTR 3B filing is done quarterly it has to be done before 22nd of the month following every quarter. Tax compliance is a major problem prevailing in almost all revenue departments around the world (James & Alley, 2009). To understand the level of compliance of businesses towards GST in India we are trying to study in detail the pattern of filing GSTR 1 and GSTR 3B returns since its introduction.

Objectives of the study

The overall objective of this paper is to evaluate the level of compliance of GST in India since its introduction and also to compare the level of compliance between GSTR 1 & GSTR3B returns filing in India

Related Literature:

Number of studies have been undertaken by various researcher around the globe for studying the compliance related to area of GST. (Abrie, W & Doussy, 2006) studied about the about the obstacles that small business entities (SME's) face when they try



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to comply with the tax authorities in south Africa. The authors indicated that the SME's do not have enough skilled staff to handle GST tax compliance issues as a result they have to incur extra cost for the purpose of tax compliance. (Kirchler et al., 2008) tried to study the tax compliance by designing a framework using slippery slope model in Austria. The independent factors identify for the study were the power of tax authorities and trust in tax authorities. The authors were of the opinion that taxpaying can be perceived not exclusively as an onerous duty, but also as a well-accepted duty. (Chau & Leung, 2009) summarized and reviewed literature concerning Fischer tax compliance model. The independent variables which were identified through the literature were Demographic, Non Compliance opportunity, Attitude and perceptions, Tax system/structure and Culture. (Bărbuță-Mișu, 2011) studied and identified the variables of tax compliance analysed by researchers from various countries and adapting them to the Romanian conditions to create a model to include factors that influence decision of tax compliance. The some of the different factors which were identified by the author were tax rate, tax benefits, tax audit, audit probabilities, Fines, Penalty, Attitudes toward taxes, Personal, social and national norms and Perceived fairness of tax system. (Mohd Rizal Palil, 2011) studied the importance of tax knowledge in determining tax compliance behaviour in self-assessment system (SAS) in Malaysia. The authors concluded that , tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among taxpayers in Malaysia. (Atawodi & Ojeka, 2012) evaluated the factors that encourage non-compliance with tax obligation by SMEs in Zaria, North-Central Nigeria. Authors found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SMEs and recommended that SMEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. (Larissa-Margareta BĂTRÂNCEA et al., 2012) investigated the factors which shape tax compliance behaviour. The factors identified to study the tax compliance were Business Industry, Sociological, Economic and Psychological. (Saad, 2014) studied the underlying reasons for tax non-compliance in New Zealand. The factors for the study were tax knowledge and tax complexity. The author suggested that the taxpayers have inadequate technical knowledge and perceive tax system as complex. Tax complexity and tax knowledge and are viewed as contributing factors towards non-compliance behaviour among taxpayers. (Boonyarat et al., 2015) in study from Thailand identified that the factors like tax fairness perception, tax knowledge and understanding, attitude towards taxation, service quality impact the taxpayer's satisfaction and their compliance behaviour. (Yusri & Yee, 2015) concluded in their study from Malaysia that attitude and perceived behavioural control variables were significantly and positively related to behavioural intention while subjective norm variables had a weak significant influence towards the behavioural intention towards tax compliance. The underlying theory used by the author for the study was Theory of planned behaviour.



(Ling et al., 2016) tried to study the factors which may influence the compliance of GST system among the people of Malaysia. The factors identified by them were price stability, government subsidies, income equality and readiness issue. With the correlation and multiple regression analysis the authors arrived at the conclusion that price stability and income inequality negatively correlated with the Compliance. (Sapiei et al., 2017) examines the GST compliance costs and the behaviour of Malaysian small and medium enterprises (SMEs) as a result of the GST implementation. The author concluded in their study that The costs incurred in dealing with GST varied depending on SMEs' respective business characteristics. (Hamid et al., 2018) investigated factors that affect tax compliance among micro businesses in Malaysia. The factors identified by the authors were accounting knowledge, taxation knowledge, information technology Knowledge and tax complexity. The findings revealed that tax complexity is significantly contributed towards the tax non-compliance behaviour among micro businesses in Malaysia. (Al-Zaqeba & Al-Rashdan, 2020) investigate the factors that affect the tax compliance behaviour of high-income individual taxpayers in Jordan. The findings showed that attitude, Perceived behaviour control and subjective norms are important predictors of behavioural intention. Behavioural intention affected positively the tax compliance behaviour. In addition, the Behavioural intention mediated partially the effect of Perceived behaviour control on tax compliance behaviour. Customs tax moderated negatively the effect of Behavioural intention on tax compliance behaviour. (Prawati et al., 2020) indicated that the determination of tax rate and the implementation of e-billing system have a significant impact on taxpayer compliance, while the implementation of e-filing system have no significant impact to Taxpayer compliance on Micro, Small and Medium Enterprises (MSMEs) in Jakarta. (Rachmawan et al., 2020) examined the effect of psychology factors toward voluntary tax compliance on personal taxpayers who have a business (MSME). The author concluded that Procedural justice perception and trust in authority have a significant effect and positively related to voluntary tax compliance. In addition, Trust in authority mediates the relationship of procedural justice perception on voluntary tax compliance. (Nawi et al., 2020) investigated the factors influencing the GST tax compliance amongst Malaysian public. The factors identified were tax knowledge and tax morale. The authors also tried to study the mediating effect of tax awareness on above two factors. Attribution Theory and the Theory of Planned Behaviour were adopted for the study. The finding revealed that tax knowledge and tax morale positively influence by tax compliance and there was a mediating effects of tax awareness on relationship between both the factors. In India some research in the area of GST have been undertaken (Nair & Eapen, 2017) studied the GST and Price control measures in India by comparing the experience in Australia. In this paper the authors concluded that India can adopt Australian model so that Indian's consumers can receive the full benefit from GST implementation. In one more study (Nayaka & Panduranga, 2019) have studied the impact of GST on indirect taxes of



Karnataka state of India. Using the secondary data and applying descriptive statistics the author tried to study the impact and had compared the revenue receipts and total receipts of the state during pre and post GST period. The authors concluded that GST will result into revenue loss to the manufacturing state so the centre should take initiative to address the problem of manufacturing states like Karnataka.(Mukherjee, 2020a) recently studied the impact of Covid 19 pandemic on GST revenue of states and Union. The researcher projected the overall GST collection for financial 2020-21 for the union and states also factoring the impact of pandemic into the projections. The author had compared estimated revenue with the projected revenue to arrive at a meaningful conclusion.(Maheshwari & Mani, 2020) analysed the benefits of GST for various stakeholders in India through analytical hierarchy process (AHP) technique. A total of 13 benefits have been identified by the authors in their study. The primary responses were collected from 30 stakeholders which included chartered accountants, legal experts' entrepreneurs and senior academicians. The major benefits which were identified in the research were higher threshold for registration, elimination of cascading effect, defined treatment of e-commerce operators and availability of ITC. (Mukherjee, 2020b)investigated the performance of revenue of GST in India and also analysed the level compliance Gap towards GST. Author studied in detail the level of compliance and GST revenue collection of major and minor states of India. Author suggested that tax compliance under GST is not improving over time which will lead to delay in stabilization of GST in India. In one more recent study (Naik & Haldankar, 2021) studied the impact of first wave of covid-19 pandemic on Goods and Services tax Revenue collection in India as well as all the 28 states GST revenue collection. The authors concluded that the first wave had an impact on the revenue collection of the country and all the states.

From the above analysis of the literature, it is evident that most of the research are related to studying the factors influencing compliance behaviours of GST and also other areas of GST, but no substantial studies have been undertaken to study the compliance level towards GST taking into consideration the tax return filing data.

Research Methodology

Study design

The research design is based on already published GST filing data. In this study GSTR 1 and GSTR 3B returns compliance have been studied in detail as both this returns account for major returns to be filed under GST provisions of India. For achieving objective of the study descriptive analysis and Mann-Whitney U test has been employed using Jamovi software.



Sources of Data collection

The present study is based on secondary data compiled by authors which is obtained from www.gst.gov.in/download/gststatistics and www.gstcouncil.gov.in/gst-revenue. As per the availability of data the period of the study is restricted from July 2017 to September 2021.

Data analysis and Interpretation

A) Following analysis have been undertaken to evaluate the level of compliance of GST in India since its introduction.

(Table 1 here)

(Figure 1 here)

Table 1 and Figures 1 depicts the data of filing of GSTR 1 returns in India. The above table and figure show that majority of the registered GST dealers in India are filing returns quarterly as per the provision of GST act therefore there is a sudden spike for filing GSTR return during each quarter. The above information shows that over the years there has been widening of Compliance gap for filing GSTR 1 return in India and for the month of March 2020 there has been sharp rise in Compliance Gap due Covid 19 pandemic. If we compare the average yearly compliance percentage of filing GSTR 1 return, the filing has shown a downward trend starting from the first year 2017- 18 it was 89 per cent , then in year 2018-19 it has gone down to 75 per cent further in 19-20 filing it was 77 per cent, for the year 2020-21 due to covid 19 first wave of pandemic the average filing for has fallen down to 74 per cent and in 2021-22 for the six months there was stabilization in economy as a result the average filing of GSTR 1 was 86 per cent .

(Table 2 here)

(Figure 2 here)

Table 2 and Figures 2 depicts that over the years the filing of GSTR3B have shown an upward trend but at the same time there was increase in compliance gap and it was expected that in long run filing of GSTR 3B will improve, but from the month of September 2017 to December 2020 there has been a slight fall in filing GSTR 3B return and rise in compliance Gap. If we compare the yearly compliance percentage of filing GSTR 3B return the filing has shown an initial downward trend starting from the first year 2017- 18 it was 95 per cent than in year 2018-19 it has gone down to 89 per cent further in 19-20 filing as touch to 90 per cent, for the year 2020-21 the average filing was 92 percent and for the 6 months of the year 2021-22 the filing was 93 per cent. Further it can be observed that the GSTR 3B compliance gap has reduced



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from January 2021 to September 2021 as the taxpayers were given option to file quarterly returns as compared to monthly returns.

B) Following analysis have been undertaken to compare Level of compliance of GSTR 1 and GSTR 3B returns in India

Hypotheses of the study

H0: There is no significant deference between level of compliance of GSTR 1 and GSTR 3B returns in India

H1: There is significant deference between level of compliance of GSTR 1 and GSTR 3B returns in India

(Figure 3 here)

(Table 3 here)

Figure 3 and Table 3 shows that over the period from July 2017 to September 2021 on an average GSTR 1 return is filed by 78.8 per cent registered dealers and on an average GSTR 3B is filed by 91.4 per cent registered dealers. The highest compliance rate for GSTR 1 for a month was 92 per cent wherein for GSTR 3B it was 97 per cent and lowest was 37 per cent for GSTR1 and 88 per cent GSTR 3B.

(Table 4 here)

As per the Shapiro wilk test (table 3) assumption of normality is not met as a result non parametric Mann-Whitney U test has been applied. As per Mann-Whitney U test there is significant difference between level of Compliance for filing GSTR 1 and GSTR 3B as p value is $< .001$. Rank biserial correlation (effect size) is 0.865 which signifies that there is positive moderate correlation between filing of GSTR 1 and GSTR 3B returns in India.

Conclusions

From the above analysis it is evident that since the introduction of GST law the filing of GST returns in India is not up to the mark. On an average as low as 78.8 per cent of registered normal GST taxpayers are filing GSTR 1 returns on time. Whereas filing of GSTR 3B is done by around 91.4 per cent of registered normal GST taxpayers in India. The research also revealed that as per Mann-Whitney U test there is significant difference between the level of Compliance towards filing of GSTR 1 and of GSTR 3B. If we compare the GSTR 1 and GSTR 3B there is a strong correlation between both the returns but the filing of GSTR 3B is better as compared to GSTR 1. Overall, the research shows that there is a Compliance gap towards GST returns in India. The tax authorities in India have to look into reason for low compliance amongst

registered normal GST taxpayers and should take appropriate steps to improve the overall percentage of GST compliance. It is also evident from the literature that many researchers have studied GST compliance behaviour around the globe specially in developed countries. The GST Compliance gap which is identified in this research can pave a way for future researcher to conduct a GST compliance studies similar to that of other countries and outcome of this studies can provide more suggestion to the tax authorities for overall improvement towards GST compliance in India.

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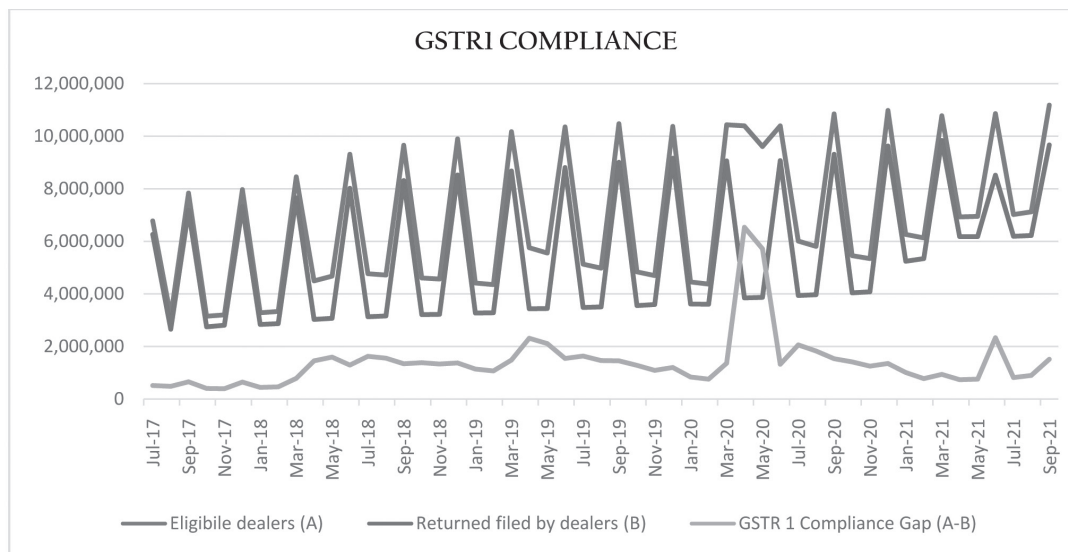
GSTR 1						
Months	Eligible dealers (A)	Returned filed by dealers (B)	GSTR 1 Compliance Gap (A-B)	Percentage Compliance of GSTR 1	Yearly average of Compliance	
Jul-17	67,83,589	62,66,689	5,16,900	92	2017-18 = 89%	
Aug-17	31,47,516	26,61,601	4,85,915	85		
Sep-17	78,37,037	71,72,821	6,64,216	92		
Oct-17	31,59,981	27,55,087	4,04,894	87		
Nov-17	32,11,544	28,12,770	3,98,774	88		
Dec-17	79,70,876	73,19,158	6,51,718	92		
Jan-18	32,92,692	28,44,898	4,47,794	86		
Feb-18	33,42,910	28,69,212	4,73,698	86		
Mar-18	84,55,633	76,63,453	7,92,180	91		
Apr-18	44,96,316	30,40,009	14,56,307	68		2018-19 = 75%
May-18	46,82,345	30,77,894	16,04,451	66		
Jun-18	93,16,710	80,20,001	12,96,709	86		
Jul-18	47,75,626	31,40,972	16,34,654	66		
Aug-18	47,26,891	31,64,940	15,61,951	67		
Sep-18	96,57,239	83,13,484	13,43,755	86		
Oct-18	46,09,444	32,18,319	13,91,125	70		
Nov-18	45,72,118	32,29,514	13,42,604	71		
Dec-18	99,01,997	85,27,827	13,74,170	86		
Jan-19	44,22,359	32,73,699	11,48,660	74		
Feb-19	43,61,644	32,83,964	10,77,680	75		
Mar-19	1,01,74,978	86,82,622	14,92,356	85		
Apr-19	57,58,955	34,36,750	23,22,205	60	2019-20 = 77%	
May-19	55,64,504	34,49,748	21,14,756	62		
Jun-19	1,03,58,399	88,11,396	15,47,003	85		
Jul-19	51,33,194	34,93,214	16,39,980	68		
Aug-19	49,85,666	35,14,192	14,71,474	70		
Sep-19	1,04,73,814	90,10,199	14,63,615	86		
Oct-19	48,45,556	35,61,148	12,84,408	73		
Nov-19	46,98,995	36,03,207	10,95,788	77		
Dec-19	1,03,70,746	91,61,577	12,09,169	88		
Jan-20	44,62,518	36,19,114	8,43,404	81		
Feb-20	43,74,040	36,12,042	7,61,998	83		
Mar-20	1,04,30,804	90,63,353	13,67,451	87		



Apr-20	1,03,96,914	38,54,545	65,42,369	37	2020-21 = 74%
May-20	96,02,035	38,73,454	57,28,581	40	
Jun-20	1,03,98,099	90,69,965	13,28,134	87	
Jul-20	60,12,285	39,44,217	20,68,068	66	
Aug-20	58,11,028	39,72,562	18,38,466	68	
Sep-20	1,08,51,015	93,14,452	15,36,563	86	
Oct-20	54,63,108	40,39,820	14,23,288	74	
Nov-20	53,48,268	40,88,865	12,59,403	76	
Dec-20	1,09,84,220	96,22,566	13,61,654	88	
Jan-21	62,62,453	52,45,413	10,17,040	84	
Feb-21	61,36,696	53,50,041	7,86,655	87	
Mar-21	1,07,79,586	98,39,272	9,40,314	91	
Apr-21	69,32,703	61,87,688	7,45,015	89	2021-22 = 86%
May-21	69,50,741	61,86,364	7,64,377	89	
June-21	1,08,56,256	85,16,365	23,39,891	78	
July-21	70,18,293	61,95,654	8,22,639	88	
Aug-21	71,25,863	62,21,586	9,04,277	87	
Sep-21	1,11,81,181	96,63,562	15,17,619	86	

Source: Author's compilation

Table 1: Data of filing of GSTR 1 from July 2017 to September 2021 in India.



Source: Author's compilation

Figure 1: GSTR 1 compliance in India



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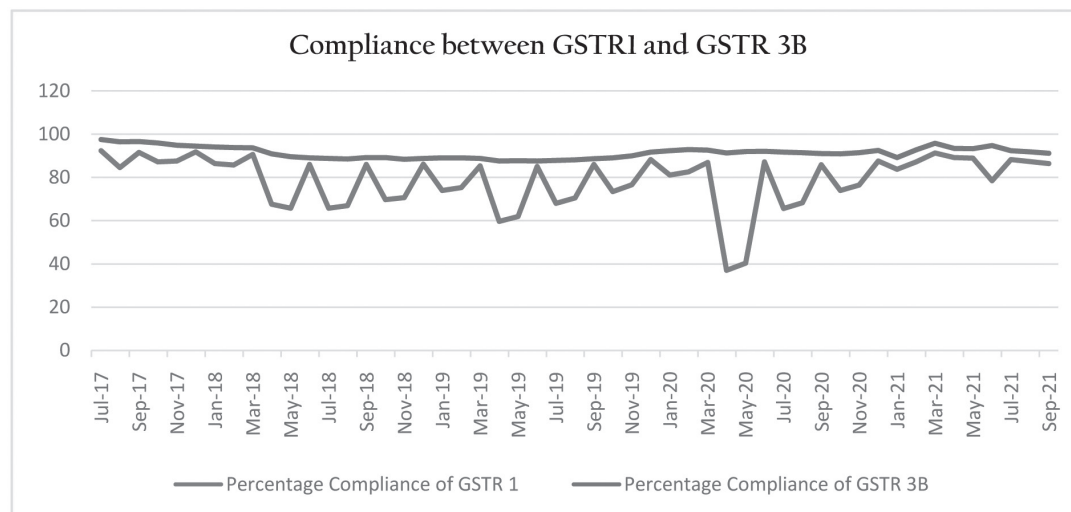
GSTR 3B						
Months	Eligible Dealers (A)	Returned filed by dealers (B)	GSTR 3B Compliance Gap (A-B)	Percentage Compliance of GSTR 3B	Yearly average of Compliance	
Jul-17	67,83,589	66,13,967	1,69,622	97	2017-18 = 95%	
Aug-17	74,77,242	72,13,905	2,63,337	96		
Sep-17	78,37,037	75,71,126	2,65,911	97		
Oct-17	76,47,671	73,32,746	3,14,925	96		
Nov-17	78,42,330	74,38,346	4,03,984	95		
Dec-17	79,70,876	75,28,780	4,42,096	94		
Jan-18	81,43,302	76,57,394	4,85,908	94		
Feb-18	83,11,696	77,92,374	5,19,322	94		
Mar-18	84,55,633	79,15,872	5,39,761	94		
Apr-18	88,17,798	80,21,480	7,96,318	91		2018-19 = 89%
May-18	91,22,309	81,75,070	9,47,239	90		
Jun-18	93,16,710	82,93,146	10,23,564	89		
Jul-18	94,70,282	84,05,624	10,64,658	89		
Aug-18	96,15,273	85,17,458	10,97,815	89		
Sep-18	96,57,239	86,12,045	10,45,194	89		
Oct-18	97,57,664	87,09,593	10,48,071	89	2019-20 = 90%	
Nov-18	98,46,645	87,05,511	11,41,134	88		
Dec-18	99,01,997	87,99,060	11,02,937	89		
Jan-19	99,72,639	88,78,787	10,93,852	89		
Feb-19	1,00,54,283	89,58,757	10,95,526	89		
Mar-19	1,01,74,978	90,33,660	11,41,318	89		
Apr-19	1,02,33,313	89,67,141	12,66,172	88		
May-19	1,02,86,063	90,28,843	12,57,220	88		
Jun-19	1,03,58,399	90,79,886	12,78,513	88		
Jul-19	1,04,26,762	91,58,399	12,68,363	88		
Aug-19	1,04,55,891	92,19,130	12,36,761	88		
Sep-19	1,04,73,814	92,85,081	11,88,733	89		
Oct-19	1,04,95,064	93,52,563	11,42,501	89		
Nov-19	1,04,78,440	94,23,474	10,54,966	90		
Dec-19	1,03,70,746	95,08,812	8,61,934	92		
Jan-20	1,03,57,733	95,71,533	7,86,200	92		
Feb-20	1,03,72,198	96,38,241	7,33,957	93		
Mar-20	1,04,27,790	96,57,111	7,70,679	93		



Apr-20	1,04,14,263	95,14,558	8,99,705	91	2020-21 = 92%
May-20	1,03,42,810	95,18,366	8,24,444	92	
Jun-20	1,03,98,099	95,80,235	8,17,864	92	
Jul-20	1,05,65,995	96,91,488	8,74,507	92	
Aug-20	1,07,04,873	97,91,482	9,13,391	91	
Sep-20	1,08,51,015	98,75,302	9,75,713	91	
Oct-20	1,09,71,787	99,76,980	9,94,807	91	
Nov-20	1,10,10,573	1,00,69,097	9,41,476	91	
Dec-20	1,09,84,220	1,01,59,106	8,25,114	92	
Jan-21	62,60,766	55,83,697	6,77,069	89	
Feb-21	61,32,580	56,85,110	4,47,470	93	
Mar-21	1,07,79,586	1,03,28,448	4,51,138	96	
Apr-21	69,32,703	64,76,712	4,55,991	93	2021-22 = 93%
May-21	69,50,741	64,81,077	4,69,664	93	
June-21	1,08,56,256	1,02,88,859	5,67,397	95	
July-21	70,18,293	64,83,747	5,34,546	92	
Aug-21	71,25,863	65,41,822	5,84,041	92	
Sep-21	1,11,81,181	1,01,96,314	9,84,867	91	

Source: Author's compilation

Table 2: Data of filing of GSTR 3B from July 2017 to September 2021 in India.

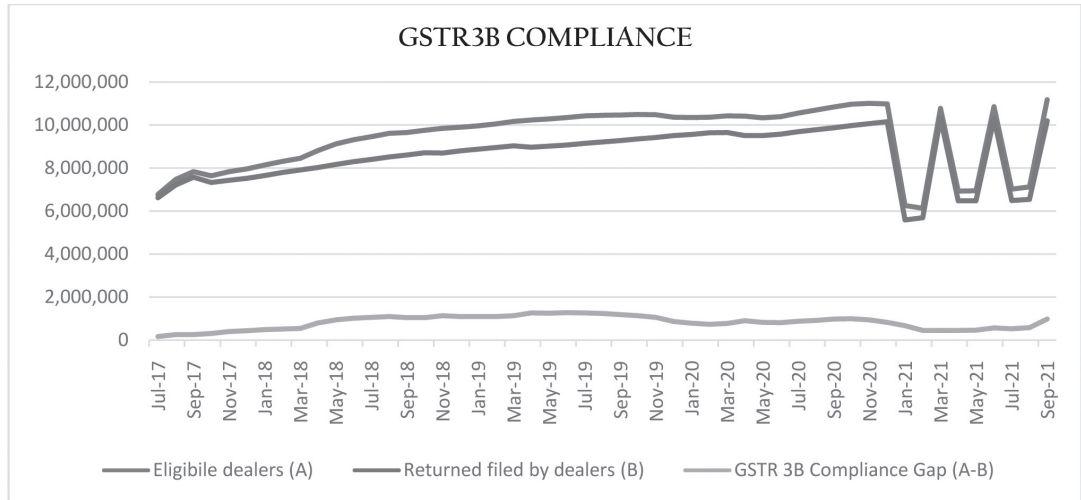


Source: Author's compilation

Figure 2: GSTR 3B compliance in India



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Source: Author's compilation

Figure 3: Comparison of level of Compliance between GSTR1 and GSTR 3B

Level of Compliance	N	Mean	Median	Minimum	Maximum	Shapiro-Wilk p
Percentage Compliance of GSTR 1	51	78.8	85.0	37	92	<.001
Percentage Compliance of GSTR 3B	51	91.4	91.0	88	97	0.003

Source: Author's calculation using jamovi

Table 3: Descriptive statistics of level of Compliance of GSTR 1 and GSTR 3B return in India

	Statistic	P	Rank biserial correlation (Effect Size)
Level of Compliance	176	<.001	0.865

Source: Author's calculation using jamovi

Table 4: Mann-Whitney U test



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