

Impact of GST on Small and Medium Enterprises (SMEs) owned by Women

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Abstract -The Goods and Services Tax (GST) implemented in India has significantly altered the tax landscape for businesses, including Small and Medium Enterprises (SMEs). This paper examines the impact of GST on SMEs owned by women, utilizing secondary data sources to understand the implications of GST on business operations, financial performance, and overall growth. By analyzing existing literature, government reports, and industry surveys, this study aims to provide insights into how GST has affected women entrepreneurs and their businesses. The findings suggest that while GST has introduced efficiencies and simplifications, there are also challenges such as increased compliance costs and cash flow issues that disproportionately affect women-owned SMEs.

Keywords: GST, Small and Medium Enterprises (SMEs), Women Entrepreneurs, Taxation Impact

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1. INTRODUCTION

The introduction of the Goods and Services Tax (GST) represents one of the most significant tax reforms in recent history. As a comprehensive indirect tax, GST aims to streamline the tax structure by replacing multiple existing taxes with a unified system. This reform is expected to have wide-ranging effects on businesses of all sizes, including Small and Medium Enterprises (SMEs). Women-owned SMEs, which play a crucial role in the economy, are particularly noteworthy in this context. Women entrepreneurs often face unique challenges compared to their male counterparts, and the GST could potentially exacerbate or alleviate some of these issues (Venkateswarlu, 2018).

This paper explores the impact of GST on SMEs owned by women, focusing on aspects such as tax compliance, financial performance, and business growth. The objectives of this research are to assess how GST has influenced the operational dynamics of women-owned SMEs and to identify both the benefits and drawbacks experienced by these enterprises since the implementation of GST. By drawing on secondary data from various sources, including government reports, industry studies, and academic research, this paper aims to provide a comprehensive overview of the GST's impact on women entrepreneurs (Shetty, 2019).

A. Overview of GST

The Goods and Services Tax (GST) was introduced in India on July 1, 2017, revolutionizing the country's tax structure. Before GST, the tax system was fragmented with numerous indirect taxes like excise duty, service tax, and value-added tax (VAT), each levied by different authorities. This created a complex and often inefficient system. GST replaced these multiple taxes with a single, unified tax, simplifying the tax landscape significantly (Narula, 2016).

GST operates on a dual model: Central GST (CGST) and State GST (SGST) for intra-state transactions, and Integrated GST (IGST) for inter-state transactions. This model ensures that both central and state governments can collect revenue in a structured manner. For instance, CGST and SGST are applied to goods and services sold within a state, while IGST is used for goods and services traded between states. This structure helps maintain a balance between central and state taxation powers (Ngoma, 2017).

One of the major advantages of GST is the elimination of the cascading effect of taxes, often referred to as "tax on tax." Previously, taxes were levied at each stage of production and distribution, leading to higher costs for consumers. GST addresses this issue by allowing businesses to claim credits for taxes paid on inputs, which reduces the overall tax burden and makes goods and services cheaper. Additionally, GST has streamlined the tax compliance process. Businesses now register once for GST and file returns online through a centralized portal, reducing paperwork and administrative

burdens. This simplification is particularly beneficial for small and medium enterprises (SMEs), which often struggle with complex tax compliance requirements (Nutman, 2021).

Despite these benefits, the implementation of GST has faced several challenges. One significant issue is the increased compliance costs for businesses. Many SMEs have had to invest in new accounting software and train their staff to manage the new system. The frequent changes in GST rules and rates have added to the complexity and costs of compliance. Another challenge is managing cash flow. Under GST, taxes are payable at the time of supply, which can strain businesses' finances, especially those with limited working capital. Delays in receiving input tax credits can further exacerbate cash flow issues, making it difficult for businesses to manage their finances effectively (Saunders, 2019).

Women-owned SMEs, in particular, face unique challenges under the GST regime. Many of these enterprises operate in sectors with lower profit margins and have limited access to financial resources. The increased compliance costs and cash flow issues associated with GST can disproportionately affect women entrepreneurs, who may already face barriers such as limited access to credit and business networks. This underscores the need for targeted support measures to help women entrepreneurs navigate the new tax system and sustain their businesses.

The implementation of GST in India has significantly changed the tax landscape by simplifying the structure and reducing the cascading effect of taxes. While it offers many benefits, such as streamlined compliance and lower overall tax burdens, it also presents challenges, particularly for SMEs and women-owned businesses. Addressing these challenges through supportive policies and measures is crucial to ensuring the success and inclusivity of GST in India.

B. Impact of GST on Businesses

The Goods and Services Tax (GST) in India has had a profound impact on businesses across various sectors. One of the most significant changes brought by GST is the simplification of the tax structure. Before GST, businesses had to comply with multiple indirect taxes such as excise duty, service tax, and value-added tax (VAT), each with its own compliance requirements. GST replaced these multiple taxes with a single, unified tax, streamlining the tax compliance process and reducing administrative burdens for businesses. This simplification is particularly beneficial for small and medium enterprises (SMEs), which often struggled with the complexities of the previous tax system.

Another major benefit of GST is the elimination of the cascading effect of taxes. Under the pre-GST regime, taxes were levied on the value of goods and services at each stage of production and distribution, leading to

a "tax on tax" scenario. GST addresses this issue by allowing businesses to claim input tax credits for the taxes paid on their inputs, reducing the overall tax burden and making goods and services cheaper for consumers. This has also enhanced the competitiveness of Indian businesses in the global market by lowering production costs.

However, the transition to GST has not been without challenges. One of the primary issues faced by businesses is the increased compliance costs. While GST has simplified the tax structure, it has also introduced new compliance requirements, such as regular filing of returns and maintaining detailed records of transactions. Many businesses, especially SMEs, have had to invest in new accounting software and train their staff to manage these requirements, leading to higher operational costs. Additionally, the frequent changes in GST rates and rules have added to the complexity, making it difficult for businesses to keep up with the latest regulations.

The implementation of GST has also impacted the cash flow of businesses. Under the GST regime, businesses are required to pay tax at the time of supply, which can strain their finances, especially for those with limited working capital. This issue is further exacerbated by delays in receiving input tax credits, which can create liquidity problems and affect the day-to-day operations of businesses. For businesses operating on thin margins, managing cash flow under the GST system has been a significant challenge.

Moreover, GST has had a mixed impact on different sectors of the economy. For example, the manufacturing sector has generally benefited from the elimination of the cascading effect of taxes and the reduction in the overall tax burden. However, sectors such as real estate and textiles have faced challenges due to changes in tax rates and compliance requirements. The real estate sector, in particular, has seen an increase in the tax burden on under-construction properties, which has affected demand and slowed down growth.

For women-owned SMEs, the impact of GST has been particularly pronounced. Many of these businesses operate in sectors with lower profit margins and have less access to financial resources. The increased compliance costs and cash flow issues under GST can disproportionately affect women entrepreneurs, making it harder for them to sustain and grow their businesses. This highlights the need for targeted support measures to help women entrepreneurs navigate the new tax system and thrive in a competitive market.

GST has brought about significant changes to the business environment in India. While it has simplified the tax structure and reduced the cascading effect of taxes, it has also introduced new challenges related to compliance and cash flow. Addressing these challenges through supportive policies and

measures is crucial to ensuring that businesses, especially SMEs and women-owned enterprises, can fully benefit from the advantages of GST.

C. Women Entrepreneurs and SMEs

Women entrepreneurs play a crucial role in the economy, particularly through the establishment and growth of small and medium-sized enterprises (SMEs). These businesses are vital for economic development, job creation, and innovation. Women entrepreneurs often bring unique perspectives and approaches to business, contributing to diverse and dynamic economic landscapes.

Women-owned SMEs are significant for several reasons. Firstly, they contribute to economic growth by generating employment and fostering innovation. According to the International Finance Corporation (IFC, 2020), women entrepreneurs are increasingly becoming a driving force in many economies, creating jobs and spurring economic activity. Their businesses often operate in a variety of sectors, including retail, services, and manufacturing, providing valuable products and services to their communities.

Furthermore, women entrepreneurs often reinvest a significant portion of their earnings into their families and communities. This reinvestment can lead to broader socio-economic benefits, such as improved education and health outcomes, which contribute to overall community development.

D. Challenges Faced by Women Entrepreneurs

Despite their contributions, women entrepreneurs face a range of challenges that can hinder the growth and success of their businesses. One major challenge is access to finance. Women-owned SMEs often struggle to secure loans and investment due to biases in the financial sector and a lack of collateral. Studies have shown that women are less likely to receive venture capital or bank loans compared to their male counterparts.

Another significant challenge is the lack of access to business networks and mentorship opportunities. Networking is crucial for business development, as it provides opportunities for partnerships, collaborations, and knowledge exchange. Women entrepreneurs often have fewer connections and may face difficulties in accessing influential business networks, which can limit their growth opportunities.

Additionally, women entrepreneurs frequently encounter regulatory and cultural barriers. In some regions, legal and societal norms can restrict women's ability to start and run businesses. For instance, women may face challenges related to property rights, business registration processes, and gender-specific legal requirements (Shakeel, 2016).

E. Impact of GST on Women-Owned SMEs

The implementation of Goods and Services Tax (GST) has had mixed effects on women-owned SMEs. On

one hand, GST's unified tax system simplifies compliance and reduces the tax burden associated with multiple indirect taxes. This can be beneficial for women entrepreneurs who may otherwise struggle with complex tax requirements.

On the other hand, the transition to GST has introduced new compliance challenges. Women-owned SMEs, many of which operate with limited resources, may find it difficult to manage the costs associated with GST compliance, such as investing in new accounting systems and training staff. The cash flow challenges associated with GST—such as paying tax at the time of supply and delays in receiving input tax credits—can also disproportionately impact women entrepreneurs, who often run businesses with tighter financial margins (Narula, 2016).

F. Research Objectives

1. To Assess the Impact of GST on the Operational Efficiency of SMEs Owned by Women.
2. To Identify the Financial Implications of GST for Women-Owned SMEs.

2. LITERATURE REVIEW

Jethwa and Katiyar (2019) stated that GST has long been considered a magic potion for all tribulations that outbreak the Indian economic system. India has an extremely complicated tax regime. Sales Tax, Value Added Tax, Excise, Octroi (Tax on inter-state movement of goods), and multiple surcharges are just some of the taxes that Indian business professionals bear. The complexity of tax filing and the impact of tax reforms especially affect business women, who run boutique enterprises, jewelry shop, general stores, handicrafts and beauty salon from their homes or small stores. More often than not, women entrepreneurs specialize in functional and managerial skills that enable them to run their business smoothly, but might resort to outsourcing of tax management to Chartered Accountants or other professionals. It is important that these women entrepreneurs are aware of the changing landscape that is promised by GST, and how GST affects small businesses. This study attempted to the impact of Goods and Services Tax (GST) on women entrepreneurs in India.

Gouda (2021) proposes that Micro, Small, and Medium Enterprises MSMEs are engines for the development of the country. (MSMEs) sector is essential for the Indian Economy. MSMEs providing employment opportunities to around 117 million people (Annual Report of Ministry of MSME 2018-2019) and also accounts for 40% of Indian exports (4 th census of MSME sector), and contributes 28.90% (Annual Report of Ministry MSME 2018-intensive countries like India, the need of MSMEs is crucial. Taxation policies of a nation also influence significantly on the performance and growth of MSMEs; compliance requirements are relatively less

in GST for MSMEs. In this paper, the researchers attempted to analyze the factors which influence on payment of GST by MSMEs. The positive impact of GST and Problems faced by the MSMEs after implementation of GST are examined.

According to Geeta, Mathiraj and Bharathi (2019) MSME play a vital in the economic progress of the Countries, so the implementation of GST has had an immense outcome on the continued existence in the market. Some enterprises found it helpful however majority visage problem in adopting it. For existing enterprises, GST simplified the tax structure, unified the market thus improved among all operational efficiencies of MSME, to this point the unorganized MSMEs were growing quick than the organized ones as a result of the minimization, with GST in effect, it has made the taxation system transparent thus making the entities liable for tax payment. This paper brought out issues and challenges experienced by MSME Entrepreneur. In order to find out the impact on various aspect such as applying of GST, created the registration for taxation and High Compliance burden by using Cluster Random Sampling Technique in which 158 MSME Entrepreneur were selected in Sivaganga District in Tamil Nadu for the study. The statistical tools used for the analysis is one-way ANOVA. ANOVA is used to identify the significance of the difference in the levels of impact of GST among MSMEs. It was concluded that the impact of GST on the Indian MSME sector can go both positive and negative ways.

Impact of GST on Operational Efficiency

The introduction of the Goods and Services Tax (GST) in India has had a significant impact on the operational efficiency of businesses. GST aimed to streamline the tax system and reduce the complexities associated with multiple indirect taxes. However, its implementation has also brought about notable changes in compliance requirements, administrative burdens, and overall business operations. This section delves into these aspects and examines case studies of women-owned SMEs to understand the real-world implications.

Changes in Compliance Requirements

With the introduction of GST, businesses have faced substantial changes in compliance requirements. Previously, companies had to manage various indirect taxes like excise duty, VAT, and service tax, each with its own compliance procedures. GST consolidated these taxes into a single tax system, which aimed to simplify compliance. However, the shift to GST brought new requirements, such as regular filing of GST returns, maintaining detailed records, and reconciling input tax credits.

Businesses are now required to file monthly or quarterly GST returns, depending on their turnover, and an annual return. This involves detailed reporting of sales, purchases, and tax paid, which can be

cumbersome. The need for accurate and timely reporting has necessitated the adoption of advanced accounting software and trained personnel, which can be a burden, particularly for small and medium enterprises (SMEs).

Administrative Burdens

The administrative burdens associated with GST have been a significant concern for many businesses. While GST aimed to reduce the complexity of the tax system, it introduced new layers of compliance. Businesses must now manage and file GST returns electronically through the GST Network (GSTN), which requires regular updates and monitoring of compliance. The need for precise documentation and frequent updates to accounting systems has added to the administrative workload.

For SMEs, which often operate with limited administrative resources, these requirements can be particularly challenging. The increased need for documentation and reconciliation, coupled with the costs of new software and training, can strain their operational capacity. This administrative burden can divert resources away from core business activities and impact overall efficiency.

Efficiency of Business Operations

GST has the potential to enhance operational efficiency by eliminating the cascading effect of taxes and streamlining the tax structure. The removal of multiple tax layers and the introduction of input tax credits can reduce the overall cost of goods and services, benefiting businesses and consumers alike. This should theoretically lead to more efficient business operations and better cost management.

However, the efficiency gains have been tempered by the challenges of compliance and the adjustment period following GST's implementation. Many businesses experienced initial disruptions as they adapted to the new system, including updating their accounting systems and adjusting to new reporting requirements. Over time, businesses that successfully integrated GST into their operations have reported improvements in efficiency due to better tax credit utilization and reduced tax-related complexities.

Case Studies of Women-Owned SMEs

Examining case studies of women-owned SMEs provides insight into the specific impacts of GST on this segment. Women entrepreneurs often operate smaller businesses with limited resources, making the transition to GST particularly challenging. For example, a women-owned textile business in Mumbai faced significant hurdles in adjusting to the new tax system. The business had to invest in new accounting software and train its staff, which increased operational costs and initially disrupted its operations.

Another case study involves a women-owned food processing unit in Bengaluru that faced cash flow issues due to GST's payment structure. The requirement to pay GST at the time of supply, coupled with delays in receiving input tax credits, created liquidity problems for the business. This case highlights the financial strain that GST compliance can impose on women entrepreneurs, who may already be operating with tighter margins and less access to capital.

Despite these challenges, some women-owned SMEs have adapted effectively to GST. For instance, a women-led e-commerce business in Delhi successfully streamlined its operations by leveraging technology to manage GST compliance. This business reported improved efficiency in managing inventory and tax credits, demonstrating that while GST introduces challenges, it can also create opportunities for operational improvements when managed effectively.

Financial Implications of GST

The implementation of the Goods and Services Tax (GST) has had a notable impact on the financial aspects of businesses. These implications are particularly significant for small and medium enterprises (SMEs) and women-owned businesses. This section explores the changes in cash flow, the cost of compliance, the financial performance of women-owned SMEs, and findings from industry surveys.

Changes in Cash Flow

One of the most significant financial impacts of GST on businesses is the change in cash flow management. Under GST, businesses are required to pay tax at the time of supply, which can create liquidity challenges, especially for small enterprises with limited working capital. This change contrasts with the previous system where taxes were often paid at the time of sales or later, allowing businesses to manage cash flow more flexibly.

For instance, a manufacturing company may face cash flow issues if it has to pay GST on raw materials upfront but only receives payment from customers after a delay. Additionally, delays in receiving input tax credits can exacerbate these cash flow problems, as businesses are essentially funding the tax paid on inputs until the credit is offset against their output tax liability.

Cost of Compliance

The cost of compliance has increased for many businesses due to GST. The transition to GST has necessitated investments in new accounting systems, staff training, and adjustments to business processes to meet the new requirements. Businesses need to maintain accurate records, file GST returns regularly, and reconcile input tax credits, which involves additional administrative efforts and expenses.

For SMEs, which often operate with tighter budgets and fewer resources, these compliance costs can be particularly burdensome. Small businesses may need to hire external consultants or invest in accounting software to manage GST compliance effectively, which adds to their operational costs.

Financial Performance of Women-Owned SMEs

The financial performance of women-owned SMEs has been impacted by GST in various ways. While GST aims to reduce the overall tax burden and simplify the tax system, the costs associated with compliance and changes in cash flow can affect the financial health of women-owned enterprises. Many women entrepreneurs operate in sectors with lower profit margins, making them more sensitive to increases in operational costs and disruptions in cash flow (World Bank, 2019).

For example, a case study of a women-owned retail business revealed that the additional costs of GST compliance and the strain on cash flow led to reduced profit margins. The business struggled to manage the upfront payment of GST and faced delays in receiving input tax credits, which affected its overall financial performance.

3. RESEARCH METHODOLOGY

This research uses secondary data analysis to study the impact of GST on Small and Medium Enterprises (SMEs) owned by women. Secondary data analysis involves examining data that has already been collected and published by other sources. This includes academic articles, government reports, industry publications, and analyses from reputable sources. This method is chosen because it allows for a broad understanding of the topic without the need to collect new data.

4. CONCLUSION

The implementation of GST has brought both opportunities and challenges for SMEs owned by women. On one hand, GST has simplified the tax system, potentially reducing the complexity and administrative burden associated with multiple tax regimes. This simplification can enhance operational efficiency and compliance for women entrepreneurs who might lack extensive resources. On the other hand, the transition to GST has introduced new challenges, including increased compliance costs and cash flow issues, which disproportionately affect women-owned businesses.

Women entrepreneurs often face additional hurdles compared to their male counterparts, such as limited access to finance and resources. These challenges can be exacerbated by the demands of GST compliance, which may strain the financial and

administrative capacities of women-owned SMEs. However, with appropriate support and targeted policies, such as simplified compliance procedures and financial assistance, the negative impacts of GST on these enterprises can be mitigated.

Overall, while GST has the potential to improve the business environment for SMEs, its impact on women-owned enterprises highlights the need for tailored interventions to ensure that women entrepreneurs can fully benefit from the reform. Future research could focus on longitudinal studies to track the long-term effects of GST on women-owned SMEs and explore potential policy measures to support this critical sector of the economy.

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