IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

GST: Impact on Indian FMCG & Retail Sector

[1] G. Sreedhar, [2] C. Mounika, [3] C.V.Raja Gopal Reddy, [4] Dr. C. Subbarayudu

[1] Lecturer in Statistics, [2] Lecturer in Statistics, [3] Principal, [4] Academic Advisor,

CSSR & SRRM Degree & PG College, Kamalapuram, YSR Kadapa Dist, A.P – 516289

Abstract

Goods & Services Tax (GST) is one of India's biggest tax reforms since independence. It will subsume virtually all indirect taxes levied by state and central government and make a significant impact across industries. The Fast Moving Consumer Goods (FMCG) sector is likely to see a significant impact once the Goods and Services Tax (GST) Bill is passed as the companies set up warehouses across the states in a bid to have a more tax efficient system. Even from the fast-moving consumer goods (FMCG) industry, the sheer efficiency of goods and services tax (GST), if the design is such that the credits do not stick to the business and are passed on in the value chain, there will be benefits even from an efficiency perspective for a FMCG industry. Retail is one of the major industries in India and also one of the largest in the world. The Indian retail industry is expected to reach 1.3 trillion USD bIn y 2020 at a compound annual growth rate of 16.7%. GST is, as usual, applicable to almost every retail supply, affecting the cost for the end consumers. Let's find out the details about the impact of GST on retailers.

Key words: Retailers, GST, FMCG, Indian Retail Sector.

I. INTRODUCTION

GST would have significant impact on the way businesses operate and one of the sectors which would be significantly impacted by GST is the retail sector. Its impact on FMCG firms will depend on their product mix, given that the tax rates have gone up for some products and have fallen for others.

The tax fitments announced by the GST council has evoked a mixed response from the FMCG sector, with some viewing it as positive, while many others have expressed disappointment.

Beverage companies, for instance, said the effective tax rate of 40% on sweetened aerated water and flavored water under GST was against the stated policy of maintaining parity with the existing weighted average tax, which is significantly below 40%. Aerated beverages have been placed in the highest tax slab of 28% and in addition will attract a cess of 12%.

Apart from driving supply chain efficiencies, bringing untaxed players into the tax net, a large section of the industry still operates in the unorganized segment, thus GST will level the playing field for the larger, established players in the industry.

However, the GST rate structure shows that not all FMCG companies stand to benefit from the new regime.

The rates for various FMCG segments have mostly been along expected lines. Items of mass consumption like toothpaste, soaps, hair oil etc. have been put under the 18% tax slab, significantly lower than the 22-24% tax rate they have been paying. This is in accordance with the government's stance of keeping tax rates low for mass consumption products. In fact, the GST rate schedule indicates that nearly 81% of all items are in the 18% tax bracket or below. The remaining 19% fall in the 28% tax slab.

The FMCG companies, whose tax incidence has come down under the GST regime, are likely to pass it on to the consumers in the form of lower prices. Lower prices could potentially support volume growth for certain products, particularly in the rural segment. It is believed that it could result in a faster consumption shift from unbranded to branded products, spurringvolume growth for FMCG companies. Simultaneously, it will also bring operational efficiency with rationalization of supply chain by removing bottlenecks. Analysts also point out that tax exemption provided to several critical products required for food processing like jaggery, cereals and milk would benefit this industry.

However, surprisingly some of the widely consumed products have been placed under the highest tax slab of 28% which is slightly higher than the rate levied earlier. Higher tax rate in paints, baby food, detergents and shampoo is a real dampener since these are daily-use, mass consumption items. Manufacturers will have to pass on the higher tax incidence to consumers in the form of higher prices of these goods.

Most of the items belonging to the premium category have been put under the highest tax slab of 28%. These include health supplements, skin care, aerated drinks, and liquid soap, among other goods. But this is not going to have a particularly negative impact on manufacturers as they had been paying similar taxes earlier.

For most other FMCG majors, the GST rate structure is likely to be neutral or marginally positive, as their broad portfolios would see a mixed impact. In case of HUL, for instance, tax incidence has reduced for soap, toothpaste and tea, but increased for detergent, shampoo and skin care. For Godrej consumer products, lower tax incidence on soaps and insecticides is a positive, but higher tax rate for hair dye is a negative.

In addition to the above, following are to be considered:

A. Increased availability of input tax credit

At present, the CVD on import of goods, excise duty on goods manufactured in India, CST on inter-state procurement of goods and service tax on input services, are a cost to the retailers.

However, the GST charged on the aforementioned transactions would be creditable. This would eliminate the cascading effect of taxes and could lead to reduction in effective tax cost for various products.

But, a higher rate of GST on certain products could offset the benefit of increased credit availability mentioned above and lead to higher tax cost.

B. Promotion schemes

Retailers currently offer various marketing schemes such as "Buy one get one free", free samples, etc. to customers. At present, the products given free of cost are not liable to sales tax. However, in the GST regime, supply of goods by one person to another without consideration could also be liable for taxation. This would lead to increased cost of promotion and also pose a challenge as regards the valuation to be adopted for calculating GST on such goods.

Further, FMCG companies could generate substantial savings in logistics and distribution costs as the need for multiple sales depots will be eliminated. Currently, FMCG companies pay nearly 24-25% including excise duty, VAT and entry tax and a lower rate of 18% will yield significant reduction in taxes. Also, warehouse rationalization and reduction of overall tax rates is expected to generate saving.

Thus, several of the rapidly moving consumer goods companies such as HUL, ITC, P&G will benefit immensely by this tax structure of a GST rate equaling to 18%. Also, much relies on the exemptions which are being retained along with the excise benefits. Benefits aren't expected to be huge and will happen slowly as per several of the analysts[1].

II. RESEARCH METHODOLOGY

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax. The accessible secondary data is used only for study.

III. OBJECTIVES

1. To study the impact of GST on Indian FMCG and Retail Sector.
2. To study the benefits of GST.

IV. IMPACT OF GST ON FMCG SECTOR

A. Positives

EY expert decodes Reports suggest the FMCG sector contributes a significant USD 6.5 billion in direct and indirect taxes. The fast moving consumer good (FMCG) sector of India comprises more than 50 percent of the food and beverage industry and another 30 percent from personal and household care, thereby spanning the entire rural and urban parts of the country. Reports suggest the sector contributes a significant USD 6.5 billion in direct and indirect taxes. Hence, the sector is likely to see a significant impact once the Goods and Services Tax (GST) Bill is passed as the companies set up warehouses across the states in a bid to have a more tax efficient system.

Even from the fast-moving consumer goods (FMCG) industry, the sheer efficiency of goods and services tax (GST), if the design is such that the credits do not stick to the business and are passed on in the value chain, there will be benefits even from an efficiency perspective for a FMCG industry. The second fact is the fact that FMCG industry today has a network design which is also entirely driven by the concept of stock transfers and then sale through depots.

Multiple warehouses will not consolidate nearly because there is a tax change, because the 2 percent origin tax of central sales tax (CST) will go away assuming 1 percent origin tax does not exist in the design of GST. Then there could also be an opportunity to see whether they can consolidate warehouses, but still keeping in mind, the speed to market. So, those are two things that I directly see as a benefit from the FMCG.

B. Negatives

In FMCG industry, there are several procurements which are done from fiscal units which are in places like Himachal and Uttaranchal where there is a complete excise benefit. What will be the treatment of those units' tomorrow? Will they move on to a refund mechanism and hence what could be the trapped cash flow, working capital requirements and so on and so forth, net of the input credit that may potentially lie? Second is, today in the value added tax (VAT) regime, many of the processed foods which are in the FMCG regime are in the lower tax bracket of 4-5 percent as an example. Tomorrow, the question may arise, whether we will go for a two rate structure or a single rate structure, in my personal view, practically and politically, it appears to be a two rate structure. Then even in such a situation, the lower rate is 12. So, optically, from a fiscal regime manufacturer of no excise, a lower rate of 4-5 percent to a rate of 12. What really happens? Is that something which is going to bring down the prices or what happens to the prices is a question that needs to be looked at by each of those FMCG manufacturers.

V. GST IMPACT ON RETAIL SECTOR AND RETAILERS IN INDIA

GST brings the following benefits to retailers and retail shoppers in the country.

A. Lower Taxes

GST effectively replaces all the various indirect taxes being applied to the supply of retail products. Before GST, retailers had to pay multiple taxes, including VAT, CST, service tax, excise duty, etc., amounting to around 30% of the product cost. After GST, there is only a single tax, varying from 12 to 28% on different products. GST also reduces the cascading of taxes as the credit for input taxes can be now claimed by retailers.

B. Input Tax Credit

Unlike the previous tax regime, GST has the provision of input tax credit, in which a retailer can claim credits for the tax previously paid by him on the purchase of inputs. This not only saves tax but also it reduces the cascading effect of taxes.

C. Reduced Complications

The less number of taxes means less complexity. Also, GST is a completely digital tax system, that means retailers can plan and file the returns online without having to manage a lot of physical documents, accounts, etc.

D. New Promotional Strategies

The new GST tax regime has forced retailers to re-plan and implement a completely new promotional strategy in sharp contrast to the erstwhile strategy of promotional gifts and items. This is primarily because under GST all supply channels are accountable and accordingly attract some tax.

E. Ideal for Startups

The Government has already announced tax rebates for entrepreneurs and startups. With GST getting rid of the complications associated with the retail sector, it is inevitable that budding startups would tap into this opportunity.

F. Levels The Playing Field

Although startups have the added advantage of being new and hence easily implement new operational as well as supply chain strategies, the existing players in the sector are also surely pleased with the freedom they will now have to draft business strategies as per their strengths and not forced by the yesteryears market norms. Business expansion will no longer be a with one GST number being used for registering all business-related activities across the length and breadth of the country.

VI. BENEFITS OF GST

A. Reduced Taxes

GST will reduce the tax burden on retailers as they pay many different forms of tax in the current scenario such as CAT, CST, Octroi, service tax, and much more. GST will streamline everything into one single tax so that it will be easier for the retailer to understand the taxation and to pay it in one shot.

B. Seamless Input Tax Credit

GST will reduce the burden of tax on the retail sector as it will set off tax starting from the producer's point to the customer point. GST will make an impact on the flowing effect of taxes and help to streamline into one category.

C. Increased efficiency in supply chain

Since the retail business can be carried out in every state upon single registration, the retailers will not have to maintain warehouses in every state, and this will be very beneficial regarding cost to the retailer. The transportation industry will flourish as they would carry more goods from one state to the other as it will become easy to transfer goods under GST. The lead time will also reduce in transporting the goods as the inter-state boundaries would be more free-flowing. GST will help the retail sector become more efficient in their operations.

D. Tax on promotional items and gifts

In the new GST model, any supply without consideration will attract tax and therefore, everything will have to be accounted for. The retailers would give out gifts and promotional items with products as a part of their marketing strategy which used to be tax-free in the current taxation system. When the GST gets implement, no such rule will be applicable and the retails will have to pay tax on the gifts and promotional items as well, therefore, re-think their promotional strategies.

E. Growth of Retail Market

GST will lead to the unification of markets as it will streamline the state and the central tax and eliminate all the confusion of taxation in different markets. The retailers can easily expand their business beyond boundaries as they have to register their business only once and then can carry operations in all the states. This will also contribute towards the growth of the retail market and help boost the economy of the country.

F. Better strategies

GST will force the retailers to re-think their supply chain strategies and re-model their network as it will open a lot of doors and opportunities for retailers to expand their business. It will give them the freedom to draft better business strategies and implement it for further growth of the retail sector.

G. Reduce complications

The retailers would be able to carry out the business with more ease as the taxation, and other policies would be streamlined under the new GST rules, and they would not have to waste their time in paying various taxes and waiting to fulfill all other policy requirements of the current taxation system.

H. Beneficial for start-ups

The retail sector would start attracting a lot of start-ups as they would have to register their business only once and also claim the benefits of taxation for start-ups under the new GST laws. They would also be able to carry out business operations more freely with the new policies in place and would get more attracted to join the retail sector[3].

VII. DISCUSSION AND CONCLUSION

The taxation of goods and services in India has, hitherto, been characterized as a cascading and distortionary tax on production resulting in misallocation of resources and lower productivity and economic growth. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. Thus, a flawless GST law in the context of the federal structure would optimize the effectiveness. GST is a well-designed destination-based value added tax on all goods and services which is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-through and the tax essentially sticks on final consumption within the taxing jurisdiction.

Further, the pattern of consumption will be the criteria for accrual of tax revenues to states. Accordingly, the tax collection will go the states having higher consumption as compared to the present system of collection by manufacturing states.

The GST Council finalized the tax rates for most of the goods and services and has backed the 1st July deadline for rolling out the unified indirect tax that will help create a single national market and ensured that items of mass consumption bear the least tax burden.

Thus, based on the current tax rates (central excise and VAT) for key product segments across sectors and the finalized GST rates, we expect most sectors to gain or otherwise in a limited way.

As discussed above, there is a mixed response from the FMCG sector, with some viewing it as positive, while many others have expressed disappointment. The impact on FMCG firms will depend on their product mix, given that the tax rates have gone up for some products and have fallen for others.

In the light of the above discussion,the authors have say about the impact of GST on retail sector that GST has laid the path for a more organized and transparent retail sector for budding, small and big players alike. The loopholes are the technical glitches of GSTN Network and taxpayers' non-compliance. The GST Council can surely overcome these issues and ensure proper compliance by taking measures like educating people through social network websites as well as NGOs. For a tax system like GST to work, government and people must be responsible and compliant. There are many more advantages of GST on retail sector under the new GST laws and it would be a great boost for the retail sector as the policies and taxation would be streamlines under one head. The businesses would flourish more contributing to the growth of the retail industry and in turn of the economy as they would be able to carry out the activities without any hindrances, more freely, and be able to expand the business into different states without worrying about the additional costs. The supply chain will benefit tremendously as the cost of transport and warehousing will reduce under the new GST laws and help the retailers scale their profits, which could also lead to reduced prices for the final consumer over a period of time. The retailer can directly pay the taxes online and will not have to go through a middleman.

In case you are confused about GST as a business owner, feel free to consult the GST experts at LegalRaasta. You can get comprehensive assistance on GST Registration and GST Return Filing. You can also use our GST software for doing end-to-end GST compliance.

References

1. Ankit Jain& Siddhartha Havelia. Goods and Service Tax Impact Analysis on Various Sectors. Mercurius Advisory Services. May-2017, Page No: 1-14.
2. www.fforce.in/possible-positive-impact-goods-service-tax-gst-fmcg sector
3. https://www.gsthelplineindia.com/blog/2018/03/23/impact-of-gst-on-retailers/
4. https://www.legalraasta.com/gst/benefits-of-gst-on-retail-sector/