



STUDY ON IMPACT OF GOODS AND SERVICE TAX ON FAST MOVING CONSUMER GOODS

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ABSTRACT

The article discusses the impact of GST on the FMCG industry in India. It highlights the changes in supply chain management, logistics, pricing of goods and services, compliance challenges, and the government's initiatives to support the industry. The article also examines the impact of GST on consumer behaviour and demand, as well as the challenges faced by small and medium-sized FMCG businesses. Additionally, the article provides predictions and future outlook for the FMCG industry under GST, such as increased compliance, adoption of technology, consolidation of the industry, and increased exports. Overall, the article concludes that the implementation of GST has had a positive impact on the FMCG industry, promoting growth, innovation, and competitiveness, and contributing to the Indian economy.

KEYWORDS: GST (Goods and Service Tax), FMCG (Fast Moving Consumer Goods) Industry, Logistics, Pricing, Compliance challenges, Consumer behaviour, Government initiatives.

INTRODUCTION TO GST AND FMCG INDUSTRY:

Goods and Services Tax (GST) is an indirect tax system introduced in India on July 1, 2017. It replaced the existing complex tax structure with a simplified tax regime that aims to bring transparency, efficiency, and ease of doing

business. The Fast-Moving Consumer Goods (FMCG) industry, one of the largest industries in India, covers a wide range of products that are used daily, such as food, personal care, household items, and more. The introduction of GST has had a significant impact on the FMCG industry, both positive and negative. In this article, we will explore the impact of GST on the FMCG industry in detail.

OBJECTIVES:

- To study the impact of GST on the companies in the FMCG industry.
- To study the GST framework.

HYPOTHESIS:

NULL HYPOTHESIS H_0 : There is no significant impact of GST on the FMCG industry

ALTERNATIVE HYPOTHESIS H_1 : There is a significant impact of GST on the FMCG industry.

I. THE IMPACT OF GST ON THE FMCG INDUSTRY

The introduction of GST has had a mixed impact on the FMCG industry in India. Here are some of the key impacts of GST on the FMCG industry:

- **Simplified Tax Structure:** One of the primary objectives of GST was to simplify the tax structure and reduce the compliance burden on businesses. With the introduction of GST, multiple taxes such as excise, VAT, and service tax were replaced by a single tax, making it easier for FMCG companies to comply with tax regulations.
- **Increase in Tax Rates:** Under the GST regime, some FMCG products were subjected to a higher tax rate as compared to the earlier tax structure. This led to an increase in the prices of some goods, which affected the demand for such products.
- **Changes in Input Tax Credit (ITC):** Under GST, companies can claim input tax credit on the goods and services used in the manufacturing of their products. However, the ITC claims are closely monitored by the authorities, and any errors or discrepancies can result in penalties. This has led to a cautious approach by FMCG companies towards claiming ITC.
- **Impact on Supply Chain:** The implementation of GST has led to changes in the supply chain of FMCG companies. The implementation of GST has led to the consolidation of warehouses and the re-evaluation of distribution networks, resulting in a more efficient and cost-effective supply chain.
- **Impact on Small and Medium-Sized Enterprises (SMEs):** SMEs in the FMCG sector were significantly impacted by the introduction of GST. Many of these companies had to invest in new technology and processes to comply with the new tax regime, which resulted in higher costs and reduced profit margins.
- **Impact on Consumer Behavior:** The introduction of GST has also had an impact on consumer behavior. The increase in the tax rate for some products has led to a decline in demand for such products, while the reduction in tax rates for some products has led to an increase in demand.

Overall, the impact of GST on the FMCG industry has been significant. While the simplification of the tax structure has been beneficial, the increase in tax rates and changes in input tax credit have posed challenges for the industry. However, with time, FMCG companies have adapted to the new tax regime and are looking to take advantage of the benefits offered by GST.

II. CHANGES IN SUPPLY CHAIN MANAGEMENT AND LOGISTICS

The introduction of GST has brought about significant changes in the supply chain management and logistics of the FMCG industry in India. Here are some of the key changes:

- **Consolidation of Warehouses:** Under the earlier tax regime, FMCG companies had to set up warehouses in each state to avoid inter-state taxes. With the introduction of GST, the need for multiple warehouses reduced, leading to consolidation of warehouses and optimization of the supply chain network.
- **Improved Efficiency:** The consolidation of warehouses has led to improved efficiency in logistics and supply chain management. With fewer warehouses, companies can reduce the transportation time and cost, leading to faster delivery of products and improved customer satisfaction.
- **Increased Focus on Technology:** With the introduction of GST, FMCG companies have had to invest in technology to comply with the new tax regime. The use of technology such as Enterprise Resource

Planning (ERP) systems and barcode scanners has enabled companies to track the movement of goods in real-time, leading to better inventory management and improved supply chain efficiency.

- **Reduced Transit Time:** Under the earlier tax regime, the movement of goods across state borders was subject to long wait times and delays due to the need for multiple checks and clearances. With the introduction of GST, the transit time for goods has reduced significantly, leading to faster deliveries and reduced transportation costs.
- **Better Supply Chain Visibility:** The use of technology in supply chain management has enabled FMCG companies to gain better visibility into their supply chain. The use of analytics and data-driven insights has enabled companies to identify areas for improvement in their supply chain and take corrective actions.

Overall, the introduction of GST has led to a significant transformation in the supply chain management and logistics of the FMCG industry in India. Companies have had to adapt to the new tax regime by investing in technology and optimizing their supply chain network, leading to improved efficiency and cost savings.

III. PRICING OF GOODS AND SERVICES UNDER GST

The introduction of GST has led to changes in the pricing of goods and services in the FMCG industry in India. Here are some of the key changes:

- **Increase or Decrease in Tax Rates:** Under GST, the tax rates for some FMCG products have increased, while for others, the tax rates have decreased. The changes in tax rates have led to changes in the pricing of these products. For example, products such as hair oil and soap saw a reduction in tax rates, leading to a reduction in prices, while products such as packaged food and beverages saw an increase in tax rates, leading to an increase in prices.
- **Removal of Cascading Effect:** Under the earlier tax regime, taxes were levied on top of taxes, leading to a cascading effect, where the final price of the product included the taxes paid at each stage of the supply chain. With the introduction of GST, the cascading effect has been removed, leading to a reduction in the overall tax burden on the end consumer.
- **Impact on Input Tax Credit (ITC):** Under GST, FMCG companies can claim input tax credit on the goods and services used in the manufacturing of their products. The availability of input tax credit has led to a reduction in the cost of production, which has translated into lower prices for the end consumer.
- **Impact on Competition:** The changes in tax rates and the availability of input tax credit have impacted the competition in the FMCG industry. Companies that can pass on the benefits of lower taxes and input tax credit to the end consumer can gain a competitive advantage.
- **Impact on Consumer Behavior:** The changes in prices due to GST have also impacted consumer behavior. The increase in prices of some products has led to a decline in demand, while the reduction in prices of some products has led to an increase in demand.

Overall, the introduction of GST has led to changes in the pricing of goods and services in the FMCG industry in India. While the removal of the cascading effect and the availability of input tax credit have led to a reduction in the overall tax burden on the end consumer, the changes in tax rates have impacted the pricing of individual products, leading to changes in consumer behavior and competition.

IV. GST COMPLIANCE AND CHALLENGES FOR FMCG COMPANIES

The introduction of GST has brought about a range of compliance challenges for FMCG companies operating in India. Here are some of the key challenges:

- **Compliance with Multiple Tax Rates:** Under GST, FMCG companies need to comply with multiple tax rates for different products. This has led to challenges in ensuring accurate tax classification of products, as well as in ensuring compliance with different tax rates across different states.

- **Compliance with Filing Requirements:** FMCG companies need to comply with various filing requirements under GST, including the monthly or quarterly filing of returns, and the annual filing of returns. This has led to challenges in meeting the filing deadlines, as well as in ensuring accurate reporting of transactions and data.
- **Integration of Technology:** The introduction of GST has required FMCG companies to integrate technology into their operations to comply with the new tax regime. This has led to challenges in ensuring the availability and accuracy of data, as well as in ensuring the security and privacy of data.
- **Understanding of the New Tax Regime:** The complexity of the GST law has led to challenges in understanding the new tax regime and its implications for FMCG companies. Companies need to ensure that their employees are trained on the new tax regime and that they have the necessary skills and knowledge to comply with GST requirements.
- **Managing Input Tax Credit:** Input tax credit (ITC) is an important feature of GST, and FMCG companies need to manage their ITC claims carefully to ensure compliance with the law. This has led to challenges in managing ITC claims across different states and ensuring compliance with ITC requirements.

Overall, the compliance challenges associated with GST have placed significant demands on FMCG companies in India. These challenges require companies to invest in technology, data management, and employee training to ensure compliance with the new tax regime. As the GST law continues to evolve, FMCG companies need to remain vigilant and adapt to changes in the regulatory environment.

V. EFFECTS OF GST ON CONSUMER BEHAVIOR AND DEMAND

The introduction of GST has had a significant impact on consumer behavior and demand in the FMCG industry in India. Here are some of the key effects:

- **Price Sensitivity:** The changes in tax rates and pricing due to GST have made consumers more price-sensitive. Consumers are now more likely to compare prices across different brands and products, and are more likely to switch to lower-priced alternatives.
- **Shift in Demand:** The changes in prices due to GST have led to a shift in consumer demand for certain products. Products that have seen a reduction in prices due to lower tax rates have seen an increase in demand, while products that have seen an increase in prices due to higher tax rates have seen a decline in demand.
- **Changes in Product Mix:** The changes in demand for different products due to GST have led to changes in the product mix of FMCG companies. Companies are now more likely to focus on products that are in high demand due to lower tax rates, while products that are in low demand due to higher tax rates may be phased out or reduced in production.
- **Increase in Organized Retail:** The implementation of GST has led to an increase in organized retail, as small retailers face challenges in complying with the new tax regime. Consumers are now more likely to shop at organized retail outlets, which are better equipped to handle GST compliance requirements.
- **Impact on Online Sales:** The impact of GST on online sales has been mixed. While the increase in tax rates has led to an increase in prices for online sales, the availability of input tax credit has also led to a reduction in prices. As a result, the impact of GST on online sales depends on the product category and the level of competition.

Overall, the impact of GST on consumer behavior and demand in the FMCG industry has been significant. The changes in pricing, demand, and product mix have required FMCG companies to adapt their strategies and offerings to meet the changing needs of consumers.

VI. IMPACT OF GST ON SMALL AND MEDIUM-SIZED FMCG BUSINESSES

The introduction of GST has had both positive and negative impacts on small and medium-sized FMCG businesses in India. Here are some of the key effects:

- **Increased Compliance Costs:** The compliance costs associated with GST have been a major challenge for small and medium-sized FMCG businesses. These businesses often lack the resources and expertise to comply with the complex GST regulations, and have to rely on external consultants to ensure compliance, which adds to their costs.
- **Reduced Tax Burden:** While compliance costs have increased, the overall tax burden on small and medium-sized FMCG businesses has reduced under GST. The threshold for GST registration has been increased to Rs. 40 lakhs, which has exempted many small businesses from registering for GST and filing returns.
- **Increased Competition:** The implementation of GST has led to an increase in competition in the FMCG industry. With the removal of the cascading effect of taxes, small and medium-sized businesses can now compete more effectively with larger companies that previously had an advantage due to their ability to absorb the higher tax burden.
- **Better Access to Input Tax Credit:** The availability of input tax credit (ITC) under GST has been beneficial for small and medium-sized FMCG businesses, as it allows them to claim credit for taxes paid on their inputs. This has helped to reduce their tax liability and increase their cash flow.
- **Impact on Cash Flow:** The implementation of GST has had an impact on the cash flow of small and medium-sized FMCG businesses. The requirement to pay taxes at the time of supply, rather than at the time of payment, has resulted in a temporary cash flow crunch for many businesses.

Overall, the impact of GST on small and medium-sized FMCG businesses in India has been mixed. While compliance costs and cash flow issues have been a challenge, the reduction in the overall tax burden and the availability of input tax credit have been beneficial for these businesses. To fully realize the benefits of GST, small and medium-sized FMCG businesses need to invest in technology and training to ensure compliance with the new tax regime.

VII. GOVERNMENT INITIATIVES TO SUPPORT FMCG INDUSTRY UNDER GST

The Indian government has taken several initiatives to support the FMCG industry under GST. Here are some of the key initiatives:

- **Simplification of Compliance:** The government has taken several measures to simplify the compliance process for businesses under GST. The GST Council has introduced several changes to the GST return filing process, including the introduction of a single monthly return, to make compliance easier for businesses.
- **Threshold for GST Registration:** The government has increased the threshold for GST registration from Rs. 20 lakhs to Rs. 40 lakhs for small businesses, which has reduced the compliance burden for many small FMCG businesses.
- **Lower Tax Rates:** The government has reduced the tax rates for several FMCG products, including food items and toiletries, to boost demand and reduce the tax burden on consumers.
- **Input Tax Credit:** The government has allowed businesses to claim input tax credit (ITC) for taxes paid on inputs, which has reduced the overall tax liability for FMCG businesses.
- **Technology Support:** The government has launched the GSTN portal, which provides technology support to businesses for compliance under GST. The portal offers various tools and services to help businesses comply with GST regulations.
- **Export Promotion:** The government has announced several measures to promote exports from the FMCG industry, including the introduction of the Merchandise Exports from India Scheme (MEIS) and the Export Promotion Capital Goods (EPCG) scheme.

Overall, the government has taken several initiatives to support the FMCG industry under GST. These initiatives have helped to reduce the compliance burden on businesses, reduce the tax burden on consumers, and promote exports from the industry. However, there is still scope for further simplification of the GST regime to make compliance easier for businesses.

VIII. FUTURE OUTLOOK AND PREDICTIONS FOR FMCG INDUSTRY UNDER GST

The FMCG industry in India is expected to continue growing in the coming years, with the implementation of GST having a positive impact on the industry. Here are some predictions and future outlook for the FMCG industry under GST:

- **Increased Compliance:** With the government's focus on simplifying the compliance process and technology support, more FMCG businesses are expected to comply with GST regulations in the coming years. This is expected to result in increased tax revenues for the government and a level playing field for all businesses.
- **Innovation and Product Development:** The implementation of GST has encouraged FMCG businesses to focus on product innovation and development to stay competitive in the market. Businesses are expected to focus on developing products that meet the needs and preferences of consumers, while also keeping the GST tax structure in mind.
- **Adoption of Technology:** With the introduction of the GSTN portal and the requirement for businesses to file electronic returns, more FMCG businesses are expected to adopt technology in their operations. This is expected to result in improved efficiency and productivity, and better compliance with GST regulations.
- **Increased Exports:** The government's focus on promoting exports from the FMCG industry is expected to result in increased exports from the sector in the coming years. Businesses are expected to leverage the various export promotion schemes and incentives to expand their reach in international markets.
- **Consolidation of the Industry:** The implementation of GST has led to increased competition in the FMCG industry, with small and medium-sized businesses now able to compete more effectively with larger businesses. This is expected to result in consolidation of the industry, with smaller businesses merging or being acquired by larger ones.

Overall, the FMCG industry in India is expected to continue growing in the coming years, with the implementation of GST having a positive impact on the industry. The industry is expected to focus on compliance, innovation, adoption of technology, increased exports, and consolidation to stay competitive in the market.

IX. CONCLUSION: THE OVERALL IMPACT OF GST ON FMCG INDUSTRY

In conclusion, the implementation of GST has had a significant impact on the FMCG industry in India. While there were initial challenges and uncertainties related to the implementation, the industry has adapted to the new tax regime and is now reaping the benefits. GST has simplified the tax structure, eliminated the cascading effect of taxes, and provided a level playing field for all businesses. The new tax regime has also encouraged businesses to focus on compliance, innovation, and product development, while reducing the overall tax burden on consumers. The implementation of GST has also led to the adoption of technology in the industry, resulting in improved efficiency, productivity, and compliance. Moreover, the government's focus on promoting exports from the FMCG industry is expected to result in increased exports in the coming years. While there are still challenges related to compliance, particularly for small and medium-sized businesses, the government has taken several measures to simplify the compliance process and provide support to businesses.

Overall, the implementation of GST has had a positive impact on the FMCG industry, promoting growth, innovation, and competitiveness. With further simplification of the tax regime and support from the

government, the FMCG industry is expected to continue growing and contributing to the Indian economy in the years to come.

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