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A STUDY ON IMPACT OF GOODS AND SERVICES TAX ON INDIAN INDUSTRIES WITH REFERENCE TO FMCG SECTOR

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Abstract—*India's most awaited and biggest tax reforms has come into reality. The Goods and Services Tax (GST) which has replaced most multiple indirect taxes which were used to levied on different items of goods and services. The GST has helped in terms of the revenue since from past two months, hence it has been effect from 1st July, 2017 and helped in solving the cascading effects of tax. GST has emerged into transparency in the indirect taxation of the country. Taxations and its associated governing laws, in the current scenario are playing a vital role in business industries, individuals also for the government for betterment of policies for social good. The research paper talks about the impact of goods and services tax on Indian industries, with reference to the FMCG sectors, which will give the overall idea about the positive and negative effects of GST, in this case we can analyze and interpret the impact on the industries. The paper is made using exploratory research methodology by secondary source of data. After passing the GST amendment bill there have been lot of improvements happened in FMCG sector, since because of the GST there have been exhausted lot of multiple taxes, which consumer has to bear the ultimate burden of the tax. As the research has concentrated on the FMCG Industries which is the most essential for the people, because this industry product is supplied on daily basis as consumption takes place on daily. It has also concentrated on the several industries, their impact and measures.*

Keywords— *Cascading Effect, FMCG, GST, Tax, Transparency.*

INTRODUCTION

The idea of moving towards GST was first mooted by the then Union Finance Minister in his Budget speech for 2006-07. Initially, it was proposed that GST would be introduced from 1st April 2010.The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009. This spelt out features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

The introduction of the Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, GST will mitigate ill effects of cascading or double taxation in a major way and pave the way for a common national market. From the consumer's point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. It would also imply that the actual burden of indirect taxes on goods and services would be much more transparent to the consumer. Introduction of GST would also make Indian products competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production and distribution. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer. It would also encourage a shift from the informal to formal economy. The government introduced GST with effect from 1st July 2017. Hence every tax payer will be issued by a 15-digit common identification number which will be called as "Goods & Service Tax Identification Number" (GSTIN) a PAN based number.

GST is a consumption based tax levied on sale, manufactured and consumption of goods and services at a national level. Many taxes have been subsumed under GST which are as under.

Central Indirect taxes and levies	Central Excise Duty Additional Excise Duties Excise Duty. Service Tax Additional Customs Duty(CVD) Special Additional Duty of customs Central Surcharge and cess
State Indirect Taxes and Levies	VAT / Sales Tax Entertainment Tax (other than the tax levied by local bodies) Central Sales Tax. Octroi and Entry Tax Purchase Tax Luxury Tax Taxes on Lottery Betting and Gambling. States Cesses and Surcharges

OBJECTIVES OF THE STUDY

- To understand whether GST can be Boon or Bane for the Indian Economy.
- To understand the impact of Goods and Services Tax (GST) on FMCG Industry.
- To analyze the industries which are most commonly affected and gained after the implementation of the GST.

RESEARCH METHODOLOGY

The exploratory research has been made by using the secondary source of the data from the various resources like Journal, websites, media report. Keeping objectives as requirements, the descriptive study is employed in the time needed.

HOW GST CAN BE BOON FOR THE INDIAN ECONOMY?

The Goods and Services Tax (GST) is the most-talked about upcoming comprehensive indirect tax in our country subsuming the major indirect taxes like Customs duty, Excise duty, Service tax and Value Added Tax (VAT). Based on recent newspaper reports, one would realize that it has become so controversial that the opposition political parties are not supporting the same despite several attempts by the government in power. This non-cooperation explains the delay in passing the bill. One hopes that the bill gets nod of the parliament in the foreseeable future and becomes an Act and will become effective from the next fiscal. In my view, GST is simply the streamlining of various indirect taxes in order to avoid the effect of cascading so that the final cost to customer will go down. The proposed GST is an attempt by the BJP Government to bring all the major indirect taxes under single roof in their quest to simplify the levy and collection of taxes.

FOLLOWING POINTS SHOWING HOW GST CAN BE THE BOON FOR THE COUNTRY?

- Introduction of a GST is very much essential in the emerging environment of the Indian economy.
- There is no doubt that, in production and distribution of goods & services are increasingly used or consumed. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets). This will help in removing economic distortions and bring about development of a common national market.

- It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.
- According to experts, by implementing the GST, India will gain $15 billion a year. This is because; it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services (Ghosh, 2015)
- Improvement in International investor's confidence as there will be single tax in all over of the country in place of multiple taxes.

HOW GST CAN BE BANE FOR THE INDIAN ECONOMY?

India has adopted dual GST instead of national GST. It has made the entire structure of GST fairly complicated in India. The centre will have to coordinate with 29 states and 7 union territories to implement such tax regime. Such regime is likely to create economic as well as political issues. The states are likely to lose the say in determining rates once GST is implemented. The sharing of revenues between the states and the Centre is still a matter of contention with no consensus arrived regarding revenue neutral rate. Pre-GST service tax of 15%, which would increase to 18-20% in post GST. Hence, although prices of goods and products can come down, service industry will bear the brunt of higher taxes. Air travel, hotels would become more expensive. Currently, economy class tickets are taxed 6% and non-economy class tickets are charged 9%. Once GST is implemented, it would increase to 18%, thereby leading to direct increase of 9-12% tax on the tickets. Unless the airlines absorb this increase, the additional tax has to be paid by the consumer.

FOLLOWING ARE THE POINTS SHOWING HOW GST CAN BE BANE FOR INDIAN ECONOMY?

- Doesn't include petroleum and alcohol products. Heavy loss to the exchequer.
- It requires strong IT (Information Technology) infrastructure at grass-root levels. India essentially lacks this. This factor is going to be the bottleneck, if not addressed well in advance.
- Very high rates 5%, 12%, 18%, 28% compared to current 12.5 % VAT.
- Tax-sharing between States and the Centre is another bottleneck. Nice to see that there is a consensus now.
- Majority of dealers are not covered with the Central Excise but are only paying VAT in the states. Now all the VAT dealers will be required to pay "Central Goods and Service Tax".

IMPACT OF GST ON FMCG INDUSTRY

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer-packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. FMCG is also one of the fastest growing sectors among all the sectors in the Indian economy.

As per the current tax regime, FMCG has to pay many taxes like VAT, Service Tax, Excise Duty, Central Sales Tax. Once the GST law will be implemented it will cover all the above taxes under one single point of tax in form of GST. The current tax rate for the FMCG industry including all the taxes is around 22-24%. GST might be implemented with the expected rate of 18-20 %. It would be welcomed by all the major players in the FMCG industry. No input credit was available for certain taxes like CST, CVD, and SAD under the current tax regime. Whereas under GST, there would be input credit available for all the GST payments made in the course of business.

FMCG sector would also benefit from GST in the form of saving a considerable amount of expenses on logistics. Distribution cost of the FMCG sector currently amounts to 2-7% of total cost, which is expected to drop to 1.5% after implementation of GST. Due to the smoother supply chain management, payment of tax, claiming input credit, removal of CST under the GST regime there will be a cost reduction in terms of transportation and storage of goods. It is expected that the reduction in cost and taxes would make the consumer goods cheaper.

STOCK TRANSFERS

Stock transfers outside the State will be subject to GST. It is unclear whether stock transfers within the State will also be subject to GST. It is to be noted that the GST framework was intended to tax only inter-State stock transfers and not intra-State stock transfers. Additionally, with respect to the valuation of stock transfers, the GST Valuation Rules provide that the value of goods shall be the transaction value. Transaction value is the price paid or payable for the supply of goods. As stock transfers do not have a consideration, this provision cannot be implemented. In addition, GST valuation rules provide that if the transaction value is not available then the value for the good/service would be considered as the transaction value of good/service of same kind and quality.

GST RATE ON FMCG GOODS

FMCG industry was anxiously waiting for the GST rates to be announced on the different products. GST rates for all different goods or products under the FMCG there has been announced by the Indian Government. Most of the products/goods have been categorized under the tax brackets as expected by the FMCG industry experts. Although there are few products placed under the 12% bracket which is expected to be more expensive than under current laws.

Basic food products such as milk, rice, wheat and fresh vegetables have been kept under the NIL bracket which is in line with the expectation from the FMCG experts. Paneer branded and sold like mother dairy paneer or Nestle Paneer and Frozen vegetables have been kept under the 5% bracket which would be largely neutral as the current rates are around 3-4%.

Although there are certain products like butter, Cheese and Ghee will get expensive under GST as they are placed in the 12% bracket which is higher than the current average tax rate of 4-5%. Gifting dry fruits at the time of Diwali is going to be more expensive as dry fruits have been placed under the 12% bracket under GST law.

FMCG sector is very pleased with the rates announced under GST law for FMCG products. The FMCG industry is going to benefit from the lower logistics cost and better competitive market and rates for most of the products being kept under the expected tax bracket.

Some of the Relevant Issues arising from the model of GST which can be issue to the FMCG sector are as follows:

1. Input Tax Credit:

Reconciliation of inward and outward supplies, if there is a mismatch between the details of outward supplies uploaded on the GST Network by the vendors and the inward supplies uploaded by the recipient. Such mismatch will be communicated to the recipient. If the mismatch is not rectified by the vendor in the month of communication, the recipient will be liable to pay the differential GST along with interest, in the subsequent month. This provision places the liability for non-compliance on the recipients, i.e. the FMCG companies, as against their vendors. Placing the responsibility on FMCG companies for non-compliance by vendors and stockists will cause undue hardship to these companies.

2. Area based exemptions under the Excise legislation and State Industrial Policy:

The First Discussion Paper on GST had stated that area-based exemptions under the Excise legislation and incentives under the State Industrial policies should be converted to a tax refund mechanism. However, the transition provisions prescribed under the Model GST Law do not provide for the treatment of the said exemptions/ Incentives. Further, the valuation provisions envisage that subsidies should be included in the transaction value. This would impact the benefits available to the industry.

3. Transition provisions for traded goods:

The transition provisions provide that the credit balance which was admissible under the present regime would be carried forward under GST. In case of stocks of imported finished goods, Countervailing Duty is not admissible under the present regime, and in case of goods procured from contract manufacturers, Excise Duty credit is also not available.

4. Power to challenge the transaction value:

The Model GST Law provides that if there is a reason to doubt the accuracy of the transaction value declared by the supplier, then the authorities can determine the transaction value as per the GST Valuation Rules. Such an unfettered power to question the transaction value can lead to litigation.

5. Taxability of Free Supplies:

Supply of goods between persons without consideration is deemed to be a ‘supply’. Accordingly, stock transfer of promotion materials/ free samples will be subject to GST. Subsequent supply of the said promotion materials to stockists/end customers will also attract GST. The valuation of such samples/ materials will be as per the GST Valuation Rules, i.e. the transaction value of goods of like kind and quality or the cost of sales. Under the present regime, free supplies are not subject to VAT. Hence, promotion expenses of FMCG companies will increase under the GST regime.

6. In case of warehouse across the states:

Many of the FMCG companies set up units which offered tax benefits. They set up warehouses across the states in a bid to have a more tax efficient system. The very fact that they do not have to pay CST led them to carry out stock transfers to the warehouses. With the GST roll out the CST will be subsumed into GST and will have far reaching implications.

7. In the current scenario, the traders are not entitled for any credit other than state VAT:

In the countries where GST or similar tax structure is prevalent the retailers avail of tax credits when they create infrastructure. This is likely to change for the FMCG industry with the GST implementation. Since the GST encompasses the goods and services under one-fold, there will not be any distinction between manufacturers, traders and service providers with regard to taxation.

8. Impact on working capital:

The impact on the working capital is likely to be significant for the FMCG industry. This is because of the time gap expected between the payment of GST and recovery of the tax credit. A sizeable chunk of money is expected to be blocked between the two transactions. Stock transfers do not attract tax and the VAT is paid when the sales take place. However, with the GST in place it will be payable on the stock transfer as it is a destination based tax. The realization of the tax credit will only happen when the goods are actually sold which may take a long time. A serious rethink is required on the warehousing strategy.

In a major incentive to India Inc, the Central Government has decided to continue with area-based excise duty exemptions provided to the North-East and hilly States when the Goods and Services Tax (GST) regime kicks in from April 1, 2017. However, these will be provided as refunds, not as exemptions. The Finance Minister, Mr.Arun Jaitley after the second meeting of the GST Council said that it was agreed that there would be levy of tax on all exempted entities under GST. The Centre or the State that gets the tax will then reimburse it to the exempted entity. There is certain condition prescribed in proposed GST law in section 145 such as goods must be for taxable supplies, invoice should be within 12 months from appointed day, eligible credit computed as per GAAP, excess claim can be recovered as arrear of tax, etc. As far as concerned with input tax credit in proposed GST bill, GSTR1 can include missing invoice up to 17th of respective month which are not included by supplier and auto generated invoice GSTR 2 on basis of GSTR1 filled by other supplier can be add, reject, modify details upto 17th of respective month/quarter (Gupta, 2016).

However, in case of warehouse across the states, inter-state transactions to become tax neutral under GST inter-state sales transactions between two dealers would be cost equivalent compared with stock transfers / branch transfers. According to the proposed model, Centre would levy IGST, which would be CGST plus SGST on all interstate transactions of taxable goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. Similarly, the importing dealer will claim credit of IGST while discharging his output tax liability in his own State. This will result in inter-state sales transaction becoming tax neutral when compared to intra-state sales. India would become one single common market no longer divided by state borders (Paradkar & Kadakia, 2011).

IMPACT OF GOODS AND SERVICES TAX ON SEVERAL SECTORS

Automobiles

Cars will attract GST at the top rate of 28 percent with a cess in the range of 1 to 15 percent on the top of it. Luxury cars will attract 28 per cent GST plus cess of 15 per cent.

Impact:

Nirmal Bang Securities sees no major impact for four-wheeler auto stocks as the GST plus cess for most auto segments is closer to the existing indirect tax rates. While for two-wheeler stocks, the rate is slightly below the indirect tax rate, although in line with expectations of 28 per cent tax rate.

Cement, coal and steel

For cement, GST slab rate is at 28 per cent. The existing indirect tax incidence on cement was around 24-25 per cent. So, there is a slight increase in taxes. However, there is an additional benefit for them as the GST on coal and metal ore has been cut to 5 per cent.

Impact:

Nirmal Bang Securities expects cement companies to undertake price hikes to mitigate the same hence do not expect any earning capacity.

Consumer Durables and Capital Goods

The impact of GST has been a mixed bag for the capital goods and the consumer sector. All capital goods and all industrial intermediaries would attract 18 per cent tax instead of 28 per cent. On the other hand, a few segments in the consumer durables would see higher effective taxes and need to take price hikes to offset cost pressures from increased taxes. The GST Council has put items like refrigerator.

Impact:

Companies like Voltas and Havells BSE -0.37 % may increase some price after the GST being rolled out. “With robust summer demand, they should be able to pass on these costs to the consumer,” said Angel Broking.

CONCLUSION

In short, under the GST regime, various Indirect Taxes has subsumed (except for few taxes such as Stamp Duty) and hence it leads a result in a simpler tax regime, especially for industries like FMCG. Apart from simplification of tax compliances, the rate of tax will also have a significant impact on the FMCG sector. Presently the peak tax costs for industry players amount to approximately 27% (i.e. Excise Duty of 12.5% and VAT ranging from 12% to 15%). Under the GST regime, it is proposed that the revenue neutral rate would be in the range of 5% to 28%, thereby resulting in significant benefit for the sector. So, GST would have an impact on the pricing, working capital, contracts with vendors and customers, ERP systems, processes, internal control and accounting. Another important impact of GST on FMCG companies would be the opportunity to review the supply chain and move to a supply chain based on business parameters. Hence, GST would impact every aspect of the business.

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