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Impact of GST on FMCG Sector and Consumers – A Study

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ABSTRACT

1st July 2017, it is regarded as a major reform in Indian taxation system till now. This category of tax introduced by state and central government of Indian by amalgamating different types indirect taxes under one head GST. Due to implementation of GST it is more beneficial for the customer as their tax burden or liability has been considerably reduced to more than 25%. GST has impacted almost all the sectors and many products of day to day use, have either increased or remained the same. This study analysis the impact of implementation of GST on FMCG goods.

KEYWORDS: *GST, FMCG Products, impact*

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INTRODUCTION

In interest with development of the country GST is the most major step undertaken. GST was implemented on 1stjuly2017. GST is an consumption tax imposed in India on the supply of goods and services. GST is a system of indirect taxation in India merging most of the existing taxes into single system of taxation. GST can be termed as "one tax, one nation and one market". The main aim of GST is to eliminate cascading effect of tax on tax and to reduce the complication in tax administration and compliance GST would helpful and supply of goods or services as against the product concepts of tax on the manufacture on sale of goods or on provision of services.GST would be a destination based tax as against the present concept of origin based tax. Currently tax revenues collected reaches to the state where then supplier or the service state the supplier or the service provider is located. In the GST regime, this will be routed back to the state where consumption or supply happens. It would be a dual GST with the centre and states simultaneously levying it on a common base. The result of implementation of GST there in a transparency and the tax liability is based on the consumption moving to consumers only for the quality that they had consumed for FMCG are our import contributors to both direct and indirect tax, when we look into the GDP contribution. FMCG sector plays a imported role, where GST which subsumed most of the indirect taxes in the country would have impact on the FMCG products.

LITERATURE REVIEW:

- Saravanan Venkadasalam (2014) has analysed the post effect of the goods and service tax (GST) on the national growth on ASEAN States using Least Squares Dummy Variable Model (LSDVM) in his research paper. He stated that seven of the ten ASEAN nations are already implementing the GST. He also suggested that the household final consumption expenditure and general government consumption expenditure are positively significantly related to the gross domestic product as required and support the economic theories. But the effect of the post GST differs in countries. Philippines and Thailand show significant negative relationship with their nation's development. Meanwhile, Singapore shows a significant positive relationship.
- Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.
- According to Prasad (April 5th, 2015) GST will enable simplified Indirect tax regime as per the proposal given and therefore its implementation will remove complications and multi-layered taxation mechanism.

- Zhong (March 19th, 2015) explains the idea of replacing patch work of taxes with a single nationwide sales levy, lowering of commercial barriers, the government study estimates that broad GST would deliver an immediate boost output of 1% to 2% and lasting gains in productivity.
- Chaurasia et al. (2016) Studied, "Role of Goods and Services Tax in the growth of Indian economy" and concluded that in overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country more than two percent.
- Sony Pandey, Tax Researcher at H & R Bolck India (December 24, 2017) The new tax regime has made the market go up in the shortest time by boosting the FMCG Industry and bringing in different benefits to the economy. All the major players in the Industry have welcomed GST with open arms. However, few firms in the sector are diversely affected by the tax rate charged on their products.
- Radhika Merwin, The Hindu Editor, (June 25, 2017). For most segments within the FMCG space, GST bring good tidings on the back of lower tax incidence when compared to the total tax paid pre-GST – In particular, house hold/ personal care segment is likely to gain themost, with lose to 5-7 percentage point reduction in indirect taxation with GST rates on each of these products fixed at a lower 18percent, companies with this space are likely to gain.
- SanketDhanorkar, Economic Times Bureau,(May 29.2017) Impact of GST on FMCG firs will depend on their product mix, given that the tax rules have gone up for some products and have fallen for others. 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. Manufactures will have to pass on the higher tax incidence of some products placed under highest tax slab of 28%, to consumer in the form of higher prices of these goods.

OBJECTIVE:

- To study the impact of implementation of GST on FMCG products.
- To know how the FMCG sector is influenced by the implementation of GST.

RESEARCH METHODS:

The information for this study was collected from the secondary sources. Various articles about GST implication and impact of GST on FMCG

ANALYSIS AND FINDINGS:

- **Logistics cost:**

FMCG sector mainly depends on distribution and transportation. The amount of logistics expenses or cost decreased after GST implementation, the logistics costs have been reduced as the review the development of logistics and transportation are expected to improve efficiency. It has been helped to face multi-layered tax system. The multi-layered tax system clubed into a single tax system.

- **Warehouse costing:**

As the recent study of CRISIL, presents that warehousing cost of FMCG products as been reduced after the GST implication. As warehousing strategies depends on the tax for the maximum utilization of available resources. The companies plans and builds the warehouses in every state to avoid or escape from tax. Hence surely the warehouse cost is going to have positive approach for the FMCG sector. FMCG sectors requires to have big warehouse in a warehouse in a various states because for the reason of the tax imposed in the states. It have an effect on warehouse structure and boost the storage cost . After the GST put into the action in India the uniformity of tax imposed.

- **Advancement of effective tax rates:**

The highest tax slab of 28% are levied on aerated beverages and it also attract an additional tax of 12%. As a main effective tax rate of 40% on the sweetened aerated water and flavoured water drinks. Under GST, the tax rate of 40% is contrasting to policy of preserve equality with the weighted average tax which is below 40%.

- **FMCG distributors or broker:**

There is no any impact on FMCG distributors. The company provide fixed margin on the purchase to the distributors. Before the distributor period on the margin of VAT, but now GST instead of VAT.

- **Working capital requirement:**

The working capital of the FMCG companies increased after GST implication of GST and it also increases the working capital requirements of GST dealers and manufactures as wholesalers of FMCG hold up their payments due to uncertainty about the tax liability and the supplied goods and services for the tax set-off.

- **Input tax credit:**

In order to overcome the challenge of tax on tax at that time input tax credit incorporated into the GST system the supply of services or goods is supplied to a taxable person, and the GST charged is also a input tax. It may consists of CGST, SGST, IGST AND UGST. Reconciliation of ITC matching starts due to filing GST return. ITC matching procedure will be done through GST network. In this process inward supply and outward supply details are to matched by GSTR2 and GSTR1. If it mismatches (buyer) then (supplier) it contain GSTR3. Hence if you delay to fill tax return within given time, then ITC can be denied and if any surplus ITC is claimed, then it is added back to your tax liability as a recipients.

- **Consumer spending ability:**

Under GST, the consumers are left with less money, how means the satisfactory level of consumer regarding different GST rates charged for different goods and services. The purchase decision of consumers also changed after GST implementation. It proves that the consumer spending ability increased and the price resulting in less money. After the GST adoption, it caused higher price for consumers to purchase the leather and textiles products. Then medium ability towards provisions, personal care and stationary, and the household products became cheaper.

CONCLUSIONS:

GST is beneficial for the FMCG sector as the industries are saving a fair amount of the logistic expenses but it certainly, going to have a positive impact on the sector in the long term. This has also allow common man to purchase more and save money on their purchase. As multiple taxes on a goods or service are eliminated a single tax comes into place, the tax structure is expected to be simple and easier to understand and administrative the GST various indirect taxes. GST implementation affected the consumer the real benefits can be experienced by the consumer only when the utilized tax savings by companies in the form of input tax credit is transferred the FMCG sector by reducing tax bracket and potentially reducing distribution costs for various companies over the long run.

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