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

R. ELAVARASAN
Assistant Professor, Department of Commerce VISTAS, Chennai, India elaaaphd@gmail.com

P. JAGADEESAN
Associate Professor & HOD, Department of Commerce VISTAS, Chennai, India jagadeesansuba@gmail.com

Abstract—GST is one of the most critical tax reforms in India which has been long awaiting decision. It is a comprehensive tax system that will subsume all indirect taxes of State and central Governments and whole economy into seamless nation in national market. It is expected to remove the burden of existing indirect tax system and play an important role in growth of India. GST includes all Indirect Taxes which will help in growth of economy and proves to be more beneficial than the existing tax system. GST will also help to accelerate the overall Gross Domestic Product (GDP) of the country. GST is now accepted all over the world and countries are using it for sales tax system. This paper will help to show that, what will be the impact of GST after its implementation, difference between old Tax system and GST and what will be the benefits and challenges to the FMCG after implementation of GST.

Keywords: FMCG, Indian industry, Central sales tax, Excise duty, VAT, Dual tax system, GST, Indirect Tax, GDP.

I. INTRODUCTION

The current indirect tax regime in India offers for a complex tax environment due to multiplicity of taxes, tax cascading and elaborate compliance obligations. Under the GST regime, various indirect taxes would be subsumed (except for few taxes such as stamp duty) and hence it is expected that it would 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. The Fast Moving Consumer Goods (FMCG) segment is the fourth largest sector in the Indian economy. It has grown from US $ 9 billion in Financial Year 2000-01 to US $ 49 billion in Financial Year 2016-17 and has an expected compound annual growth rate (CAGR) of 20.6 percent to reach US $ 103.7 billion by 202, according to the India Brand Equity Foundation’s July 2017 presentation. Within the FMCG sector, food products is the leading segment, accounting for 43% of the overall sector. Personal care 22% and fabric care 12 percent come next in terms of market share. Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector [9].
II. REVIEW OF LITERATURE

Empowered committee of finance ministers (2009), introduced their first discussion paper on GST in India which analyses the structure and loopholes if any in GST.

Vasanthagopal (2011) in the article GST in India, A big leap in the indirect taxation system discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India’s economic change. Seventy third report of standing committee on finance (2012-2013). The constitution 115 amendment bill, 2011.

Bird (2012) summarizes in the article the GST/HST- creating an integrated sales tax in a federal country the impact of GST will be on Canada.

Garg (2014) in the article named basic concepts and features of goods and services tax in India analyses the impact and GST on Indian tax scenario and concluded that it will strengthen out free market economy.

III. OBJECTIVES OF THE STUDY

This paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on GST. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study. The objectives of this paper are:

1. To study about Goods and services in India.
2. To review its impact in the FMCG sector

With this sector growing at such a rapid pace, many businesses would like to know how the post-goods and services tax scenario looks for FMCG. Research questions

1. Will FMCG benefit from GST or not?
2. Will the prices of goods increase or decrease?
3. Who will bear the ultimate tax burden?

Goods and Services Tax impact on FMCG

The total current tax rate for the FMCG industry in around 22-24 percent. Under GST, the tax rate comes to an average of 18-20 percent. Let’s look at how the new tax rates under GST impact major products within the sector:

<table>
<thead>
<tr>
<th>Product</th>
<th>Previously taxed</th>
<th>Currently taxed</th>
<th>Companies impacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detergents</td>
<td>23%</td>
<td>28%</td>
<td>HUL, P&amp;G, Jyothy laboratories</td>
</tr>
<tr>
<td>Shampoo</td>
<td>24-25%</td>
<td>28%</td>
<td>HUL, P&amp;G, Dabur, Himalaya, Patanjali</td>
</tr>
<tr>
<td>Sanitary napkins</td>
<td>10-11%</td>
<td>18%</td>
<td>P&amp;G Hygiene and Health Care</td>
</tr>
<tr>
<td>Skincare</td>
<td>24-25%</td>
<td>28%</td>
<td>HUL, Dabur, Himalaya, Patanjali</td>
</tr>
<tr>
<td>Hair dyes</td>
<td>23-28%</td>
<td>28%</td>
<td>Godrej consumer products</td>
</tr>
<tr>
<td>Ayurvedic medicine</td>
<td>7-10%</td>
<td>12%</td>
<td>Dabur, Emami</td>
</tr>
<tr>
<td>Toothpastes, soaps, hair oil</td>
<td>22-24%</td>
<td>18%</td>
<td>Colgate-palmolive, HUL, P&amp;G</td>
</tr>
<tr>
<td>Paints</td>
<td>25-26%</td>
<td>28%</td>
<td>Asian paints, Berger paints, Nerolac</td>
</tr>
<tr>
<td>Branded paneer</td>
<td>3-4%</td>
<td>5%</td>
<td>Nestle, Mother Dairy</td>
</tr>
<tr>
<td>Butter, Ghee, Cheese</td>
<td>4-5%</td>
<td>12%</td>
<td>Amul, Nestle, Mother Dairy</td>
</tr>
</tbody>
</table>
companies such as Patanjali, ITC, HUL, and Marico are either slashing the prices of goods or increase the volume of the product on dispatches made from 1 July onward, extending the tax benefits to consumers under the GST regime. In particular, HUL has slashed the price of its detergent soap Rin bar of 250 gram from Rs 18 to Rs 15 and increased the weight of its Surf Excel bar costing Rs. 10.95 gram to 105 gram.

Lower prices could potentially support volume growth for certain products, particularly in the rural segment. “We believe it could result in a faster consumption shift from unbranded to branded products, spurring volume growth for FMCG companies. Simultaneously, it will also bring operational efficiency with rationalization of supply chain by removing bottlenecks,” says Sanjay Manyal, Analyst, ICICI Securities. He also pointed out that tax exemption provided to several critical products required for food processing—jiggery, cereals, and milk—would benefit this industry.

Top level Gains and losses
Wishing the following companies gain and lost from the new GST structure. Companies such as Marico will benefit from the change in the rates of edible oil, and the rates of hair oil have decreased in their favour as well. Colgate-Palmolive will also gain under GST, as toothpaste will become cheaper now. On the other hand, gifting dry fruits on festivals will become an expensive affair now as the rates have increased from 4-5% to 12%. Also, the rates of dairy products like ghee, butter, and cheese have increased from an average of 4-5% to 12%. Companies like Amul and Nestle will likely revise prices on their products as a result of GST.

Other aspects—Reduction in logistics costs
The FMCG sector will also benefit from GST by saving a considerable amount of expenses on logistics. Distribution costs for the FMCG sector currently amount to 2-7% of the total cost, but are expected to drop to 1.5% after implementation of GST software. Due to the smoother supply chain management in regards to paying tax, claiming input credit, and removing CST under the GST regime, there will be a cost reduction in terms of transportation and storage of goods. The reduction in taxes and distribution costs should enable companies to lower prices on consumer goods.

Increase in effective tax rates
Aerated beverages have been placed in the highest tax slab of 28% and will now attract an additional tax of 12%. Beverage companies have said the effective tax rate of 40% on sweetened aerated water and flavored water under GST is against the stated policy of maintaining partly with the existing weighted average tax, which is significantly below 40 percent. “The increase will have a negative ripple effect and hurt the entire ecosystem of farmers, retailers, distributors, and bottlers in India. This increase in tax will further limit the growth of the beverage industry”, said the Indian Beverage Association (IBA) in a statement.

IV. Conclusion
There are some instances where the tax rate under GST is higher than the present tax rates, and in such case, several dealers could increase their stock levels in the run up to GST. On the other hand, in those cases where the GST rate is lower than the current tax rates, dealers would try to keep minimum stock and dispose of non-moving stock before the onset of GST. Since different products are taxed at different rates, on a macro level, the average tax and the final prices that the end customer ends up paying will average out, with some products becoming more expensive and others becoming cheaper. Ultimately GST impacts the FMCG sector by adjusting tax brackets and reducing distribution costs for various companies. Some companies will “gains” with lower taxes and distribution costs, and thus may respond by increasing product volume and lowering prices, while others may “lose” with higher taxes, and thus need to compensate by increasing prices.

REFERENCES


[14] www.gstcouncil.gov.in

