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G.S.T. and its impact on fast moving consumers goods in India

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ABSTRACT

Goods and services tax (GST) is the biggest tax reform in Indian tax system. It is one indirect tax for the whole nation which will make India one unified common market. Goods and Services Tax (GST) was launched on 1st of July 2017. It is an indirect tax applicable throughout India. Now single tax would be levied on all goods and services. Around 160 countries have implemented GST. GST will ensure a comprehensive tax base with minimum exemptions, which will help the industry. GST will help the economy to grow in more efficient manner by ameliorating the tax accumulation as it will disrupt all the tax barriers between states and integrate country via single tax rate. It will benefit the Indian economy in many ways-help in reducing the price for consumers, rate of tax will be uniform, reduce multiple taxes. GST will affect many sectors in positive or negative manner. GST, as per government estimates, will boost India's GDP by around 2 per cent. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12% and 18%. FMCG Industry, FMCG industry, alternatively called as CPG (Consumer Packaged Goods) industry primarily deals with the production, distribution and marketing of consumer-packaged goods. These are products that have a quick turnover, and relatively low cost. Consumers generally put less thought into the purchase of FMCG than they do for other products. Though the absolute profit made on FMCG products is relatively small, they generally sell in large numbers and so the cumulative profit on such products can be large. Some of the prime activities of FMCG industry are selling, marketing, financing, purchasing, etc.

Keywords: RDS, GST, FMCG , Goods and services , Tax, Consumer

Introduction:

The FMCG sector contributes a significant USD 6.5 billion in direct and indirect taxes. The Fast-Moving Consumer Goods (FMCG) sector of India comprises more than 50 % of the food and beverage industry and another 30 % from personal and household care, there by spanning the entire rural and urban parts of the country. Hence, the sector was expected to have a significant impact when the Goods and Service Tax (GST) bill was passed as the companies set up warehouses across the states in a bid to have a more tax efficient system. Even form the Fast-Moving Consumer Goods (FMCG) industry, the sheer efficiency of foods 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 form an efficiency perspective for a FMCG industry. The second fact is that FMCG industry today had a network design which is also entirely driven by the concept of stock transfers and then sale through depots. Fast Moving Consumer 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.

Objectives

1. To study the framework of GST.
2. To study the impact of GST on FMCG sector .
3. To analyze the impact of changes in the tax rate of

fast moving consumer goods in India.

Need of the Study:

As GST is replacing various indirect taxes used to be levied by central and state government, it has an impact on almost all the sectors of Indian Economy. FMCG is one sector directly having its impact on large public. It is very important to study the buying behavior of FMCG consumers on post GST. The FMCG sector shows tremendous growth last few years. Compare to other sectors investors prefer to make their investment in this sector only. However, there is high growth tendency for FMCG sector it faces some difficulties in achieving their destination. Hence the purpose of this study is to identify the force that influence on consumer shopping pattern. The fundamental reason for adopting the GST framework in India to not only get rid of the patchwork of indirect taxes that are partial and suffer from infirmities , mainly exemption and multiple rates but also to improve tax compliance .owing to its capacity to raise revenue in the most transparent and neutral manner , the gst has been adopted by a host of countries . This transactional model has already spread to more than 150 countries and attracts more countries on the same platform. with the increase of international trade in the arena of services the GST has become the preferred international level.

The FMCG segment is a foundation of the Indian economy. This segment contacts each part of human life. The term Fast Moving Consumer Goods is basic for the contemporary showcase framework. So as to comprehend the significance of this sort of products it is important to characterize this term accurately. FMCG speak to the basic products which include a satisfactory expense inside a given market and are sold quick. These incorporate a wide scope of oftentimes bought shopper items, for example, toiletries, cleanser, beautifiers, tooth cleaning items, shaving items and cleansers, just as different nondurables, for example, dish sets, knobs, batteries, paper items, and plastic products. FMCG may likewise incorporate pharmaceuticals, shopper gadgets, bundled sustenance items, soda pops, tissue paper, and chocolate bars. The term Consumer Packaged Goods (CPG) is utilized reciprocally with Fast Moving Consumer Goods (FMCG). For the most part, quick moving purchaser merchandise (FMCG) (otherwise called rehash buy bundled products) allude to customer non-tough merchandise required for day by day or continuous use (Paul 2006). FMCG organizations produce, circulate, and advertise products that are generally low in cost and expended at an ordinary period. These organizations participate in deals, showcasing and publicizing, account, acquirement, coordination's and so on of products. FMCG organizations likewise handle activities, production network, assembling and general administration.

Research Methodology:

The research design constitutes the blue print for the collection, measurement and analysis of data. The paper uses an exploratory research techniques based on past literature covering collection of academic literature on GST. Here primary and secondary data are used for this project.

Impact of GST on Fmcg in India :

Under the pre-GST regime, this industry has faced multiplicity of taxes such as excise duty, entry tax as well as different state VATs & in addition, CST on interstate transactions. There was cascading effect of taxes. Further, the set-off of excise and service tax was not available against VAT and CST which added to the cost GST has resulted in reduction in costs, as GST paid across the supply chain (including manufacturing stage) on inputs as well as on input services is available for set off against GST on supply of goods.The companies began revising their rates and prices in response to the GST implementation, which benefited the factory by reducing costs, the distributors by reducing transportation costs, and, of course, the consumers by obtaining products at a lower price because the companies began to revise their prices.

The post GST tax rate for the FMCG industry is capped at 18 to 20 percent. All the major players in the industry have welcomed GST with open arms. However, few firms in the sector are adversely affected by the tax rate charged on their products. Like Ayurveda players ,are upset with the ayurvedic products being charged GST at the rate of 12 percent. The leading companies manufacturing ayurvedic products had expected that the government would set such products at a lower tax slab rate, given the fact that the government was heavily promoting traditional Indian medicines. Most of the reputed FMCG sector companies, including HUL, Patanjali, and ITC in India have already started passing on the benefits of reduced tax to their consumers, either in the form of reduced prices of their goods or by increasing the product amount for the same cost. The lower cost has motivated people to invest more in this sector and has reduced the overall cost of living. Similarly, no tax on basic food products like milk, cereals and eggs would allow people to freely spend on these items.

Reveiew of Literature :

1. Poddar and Ahmad(2009), the research analyzed the "Goods and service tax reforms and intergovernmental consideration in India " and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India . but the benefits of GST are critically dependent on rational design of GST.

2. Beri(2011) The research focused on goods and services tax –a way forward and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations

3. Vasantha gopal, (2011), The paper explored on the gst in India : a big leap in indirect taxation system and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy . success of GST will lead to its acceptance by more than 130 countries in world and a new preferred from of indirect tax, system in Asia also.

4. Gupta(2014), the paper did study on the "goods and service tax –An appraisal" and found that GST is not good for low –income countries and does not provide broad based growth to poor countries . if still these countries want to implement GST then the rates of GST should be less than 10% for growth.

5. Sherawat and Dhanda (2015), The research investigated about goods and service tax –panacea for Indirect tax system in India is positive towards implementation of GST and its beneficial for central government,state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure .

6. Rajvinder Kaur (2017), conducted a study entitled "GST: Its Impact on Service Availed by Consumers", to scrutinize the impact of GST on services consumed by people. It is explanatory research based on secondary data collected from newspapers, magazines, published articles and respective journals. He further stated that prices of some goods and services will hike while some of them will become cheaper.

7. Dr. M. Krishna Naidu and Dr. G Kiran Kumar Reddy (2017), in their study entitled "GST in India and its impact on Indian Economy", to examine the impact of GST in various sectors of India. The study is completely based on secondary sources. The study recommended that the Government of India is not satisfied with the present tax system because it has some short comings. At present the Government of India is going to reinstate Value Added Tax (VAT) with GST to minimize the complexity of multiple taxes.

8. Mohammed Babagana Shettima (2017), in the study entitled carried out a study entitled "Impact of GST on the Indian Economy", this study was

designed to access the Impact of GST in India. The study is completely based on secondary sources. It was found that GST was likely to improve tax collections and boost India"s economic development by breaking tax barriers between States and integrating India through a uniform tax rate

Conclusion:

Implementation of GST throughout India (included Jammu and Kashmir) is the biggest change in India. It is an outstanding step for a comprehensive indirect tax reform in India. Implementation of GST has put mixed impact on FMCG sector. Those FMCG companies whose tax incidence lowered, like Dabur, HUL, ITC have started to pass on the effect in the form of low prices. Changes in GST rates on regular intervals is very fruitful for some firms but not for other firms in the FMCG industry. GST may become game changer in the long run for the FMCG sector and may also have deep impact on Indian economy as well. But the short term impact reveals that GST has failed in bringing down overall cost of commodities, interestingly cost of some products has increased much more than cost of pre GST regime.

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