

## **A Study on Impact of Goods and Services Tax (GST) on Fast Moving Consumer Goods (FMCG) sector**

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### **I. Introduction**

The main objective of this paper is to know the effect of India's biggest structural reform the "Goods and Services Tax (GST)" had affected the FMCG sector. On 8<sup>th</sup> September 2016, India was introduced to a major economic policy. The Goods and Services Tax was approved by the President upon its passing by the parliament. GST came into effect on April 2017 wherein it replaces all the indirect taxes like VAT, Sales Tax etc. that were levied by the central and state government on products. The implementation of GST in India is said to have far reaching impact on the business sector of the nation. Even though GST was brought into play in India, some still feel that it was quite a bit late considering that over 140 countries have already adopted some form of GST.

GST is a consumption tax which is levied at each step of production but is refunded to all parties involved in the production chain other than the final consumer. The various types of taxes under GST are as follows:

- If the goods and services are supplied within the states then two types of taxes will be levied i.e., **Central Goods and Services Tax (CGST)** and the other one is **State Goods and Services Tax (SGST)**.
- If the goods and services are supplied across the state then **Integrated Goods and Services Tax (IGST)**.

Some of the Central and state taxes that have been subsumed in GST are as follows:

- **STATE TAXES:**
  - \* State VAT
  - \* Central Sales Tax
  - \* Purchase Tax
  - \* Luxury Tax
  - \* Entry Tax (All forms)
  - \* Entertainment Tax/ Tax on advertisements
  - \* Taxes on lotteries, betting and gambling
  - \* State cesses and surcharges
- **CENTRAL TAXES:**
  - \* Central Excise Duty
  - \* Duties of Excise
  - \* Additional Duties of Excise
    - I. Goods of Special Importance
    - II. Textiles and Textile Products
  - \* Additional Duties of Customs or CVD
  - \* Special Additional Duty of Customs (SAD)
  - \* Service tax
  - \* Cesses and surcharges

GST is charged at both the levels i.e., national and as well as state at similar rates for the same products and it also replaces most of the current indirect taxes that are imposed separately by the Centre and the States. Goods and Services Tax is a destination based tax which means that the tax is paid at the place of supply.

Fast moving consumer goods (FMCG) is the 4th largest sector in the economy of the Nation. There are three major classifications in the sector – food and beverages which amount to 19%, healthcare which amount to 31% household and personal care which amounts to the balance 50%. In 2005, the FMCG market of the Nation was growing at a high rate of 5.3%. The value of the industry was at Rs. 48,000-crore at the same time period.

In 2011 the FMCG Market of India is one among the biggest and is growing at a rate of 60%. Even with the economic instability that occurred the FMCG Market still stands at Rs.85,000crore. FMCG sector had

a net revenue growth of 11.8 per cent in Q4 March 2018. The rapid growth of the FMCG industry is due to the improvement in the standard of living of the people and the rise in the level of disposable income.

### I. Objectives Of The Study

- To study the impact of Goods and Services Tax (GST) on Fast Moving Consumer Goods (FMCG) sector India.
- To examine the key issues with respect to GST in the FMCG sector.

### II. Gst & Fmcg Sector

The government has categorized the goods and services in five major slabs they are 0%, 5%, 12%, 18% and 28%. The items that come under these tax slabs are mentioned below:

EXEMPTED	5%	12%	18%	28%
Food grains, Milk, Eggs, Curd, lassi, Unpacked paneer and Natural honey, Fresh vegetables, Atta, Besan, Maida, Vegetable oil, Prashad, Common salt, Contraceptives.	Sugar, Tea, Coffee, Edible oil, Coal, Skimmed milk powder, Milk food for babies, Condensed milk, Packed paneer, Newsprint, Umbrella, PDS kerosene, LPG, Brooms.	Butter, Ghee, Mobiles, Cashew, Almonds, Sausages, Fruit juice, Packed coconut water, Agarbatti.	Hair oil, Soap, Toothpaste, Capital goods, Industrial intermediaries, Pasta, Cornflakes, Jams, Soups, Ice-cream, Toilet and facial tissues, Iron & Steel, Fountain pen.	Consumer durables, Cars, Cement, Chewing gum, Custard powder, Pan masala, Perfume, Shampoo, Make-up, Fireworks, Motorcycles.

The duty rate of numerous Fast Moving Consumer Goods Organizations has descended under the GST administration. Each one of those FMCGs are asked for to pass it on to the buyers as lower costs. We can't overlook that reality that a vast segment of the business still works under the disorderly portion. The new understanding of tax assessment will bring inventory network efficiencies, untaxed players under the expense zone, and chaotic division under the sorted out territory. Be that as it may, indeed, not all FMCG will get advantage from GST rate structure. We should have a nitty gritty discourse about the lines – the advantage line and the detriment line.

#### Advantage Line:

80 percent of all things are in the 18% tax bracket or beneath. In addition, the administration attempted to keep low expense rates for mass utilization items. A large portion of the FMCG items accessible in Indian market are along the advantage line, under GST control. Every day utilize things like cleansers, hair oil, and toothpaste, have been put under the 18% assessment section. Sanjay Manyal, ICICI Security Investigator, stated, "With the counter profiteering provision set up, organizations would be required to pass on the advantage of expense rates to the customer as lower costs." In adherence to his announcement, bring down costs could possibly bolster volume development for singular items in the provincial segment of the nation. GST on FMCG has been actualized the nation over. Presently it is the ideal opportunity for the organizations like Asian Paints Ltd., Patanjali Ayurved Ltd., Amul, ITC FMCG., Godrej Shopper Items Restricted., Dabur India Ltd., Gुरुji Items Constrained., or Hindustan Unilever Constrained to adjust their costs. It is their basic duty to give the advantage of new expense section to their clients.

#### Detriment Line:

All things considered, a portion of the everyday utilize items been put over the 18% assessment chunk. In the event that we take the cases, we get the things like paints, cleanser, cleanser, and infant sustenance. That is the reason the majority of the producers should pass on the higher assessment occurrence. Yet, the items like healthy skin, fluid cleanser, circulated air through beverages, and so on go under the duty chunk of 28%. In this way, the Merchandise and Enterprises Expense (GST) won't have much effect on the deal volumes. Lalit Malik,

the CFO of Dabur India, stated, "We are frustrated with the administration's choice to exact 12 for every penny GST on Ayurvedic medications and items."

#### **Key Issues with respect to GST**

##### **1. Input Tax Credit:**

The meaning of capital products has been drafted on an indistinguishable lines from in the current CENVAT Credit Rules. In like manner, Input Tax Credit will be permitted just of those merchandise falling inside determined Chapters of the Model GST Law. In this way, it creates the impression that even under GST, limitations on Input Tax Credit will proceed. On the off chance that there is a confuse between the points of interest of outward supplies transferred on the GST Network by the merchants and the internal supplies transferred by the beneficiary, such crisscross will be conveyed to the beneficiary.

In the event that the confound isn't amended by the merchant in the long stretch of correspondence, the beneficiary will be subject to pay the differential GST alongside enthusiasm, in the ensuing month. This arrangement puts the risk for resistance on the beneficiaries, i.e. the FMCG organizations, as against their merchants.

##### **2. Area Based Exemptions under the Excise Legislation and State Industrial Policy**

The First Discussion Paper on GST had expressed that zone based exclusions under the Excise enactment and motivating forces under the State Industrial arrangements ought to be changed over to an expense discount instrument. Be that as it may, the change arrangements recommended under the Model GST Law don't accommodate the treatment of the said exclusions/Incentives.

##### **3. Transition Provisions for Traded Goods**

The change arrangements give that the credit adjust which was allowable under the present administration would be conveyed forward under GST.

In the event of supplies of imported completed products, Countervailing Duty isn't permissible under the present administration, and in the event of merchandise secured from contract makers, Excise Duty credit is likewise not accessible. In like manner, in light of these arrangements, under the GST administration, such stocks would endure twofold tax assessment.

##### **4. Taxability and Valuation of Stock Transfers**

The charging segment of the IGST Act accommodates the exact of IGST on the supply of products made over the span of between state exchange or trade. Further, according to the Model GST Law, the term 'supply' incorporates exchanges between an essential and an operator.

In any case, the GST Valuation Rules gives that if the exchange esteem isn't accessible, at that point the exchange estimation of merchandise of like kind and quality ought to be considered. Thus, for stock exchanges, where a supply for a thought of products of like kind and quality is accessible, such exchange esteem is to be embraced, and if there is no such supply, at that point the cost of offers would need to be received. There ought to be a steady reason for the valuation of stock exchanges.

##### **5. Taxability of Free Supplies**

Supply of merchandise between people without thought is regarded to be a 'supply'. As needs be, stock exchange of advancement materials/free examples will be liable to GST. Resulting supply of the said advancement materials to stockists/end clients will likewise pull in GST. Under the present administration, free supplies are not subject to VAT. Consequently, advancement costs of FMCG organizations will increment under the GST administration.

##### **6. Discounts**

Rebates/motivations gave after the supply of products will be rejected from the exchange esteem, gave the same is known at or before the season of supply of merchandise, and is connected to the solicitations for the supply of products. Further, rebates at the season of supply are prohibited from the exchange esteem, just on the off chance that it is over the span of typical exchange rehearse and is revealed on the receipt.

Rebates gave under auxiliary market plans will in this way not be qualified for a prohibition from the turnover.

##### **7. Place of Supply of Services**

The meaning of area of provider gives that the foundation most straightforwardly worried about the supply should be considered to decide the place of supply.

FMCG organizations perpetually get administrations which are given from various areas and got at different areas. There are additionally circumstances where it isn't conceivable to decide the area of receipt of an administration, for instance, communicating, publicizing, and so forth. In such circumstances, the Place of Supply arrangements are vague on which foundation would be viewed as the specialist co-op/collector, with a specific end goal to decide if the supply is an intra-State or between State supplies.

This should be illuminated, as it is basic to availment and usage of Input Tax Credit by the FMCG organizations.

### **8. Input Service Distributor**

The Model GST Law accommodates the dissemination of IGST/CGST/SGST. This is an appreciated measure. The circulation of SGST as IGST should be elucidated as the GST structure does not think about use of SGST of one state against SGST of another state.

### **9. Point of Taxation**

The purpose of tax assessment for supply of merchandise or administrations, among other criteria, incorporates the date on which the beneficiary shows receipt in his books of records. It would be a test to track this date on a continuous premise.

Further, the Model GST law accommodates invert charge, among other criteria, the date of receipt of products or administrations or the date of receipt of receipt as the purpose of tax assessment, whichever is prior. It is lumbering to track these two dates.

The purpose of tax collection when all is said in done should be limited to date of receipt or date of installment, whichever is prior.

### **10. Power to Challenge the Transaction Value**

The Model GST Law gives that if there is motivation to question the exactness of the exchange esteem proclaimed by the provider, at that point the specialists can decide the exchange an incentive according to the GST Valuation Rules. Such a free energy to scrutinize the exchange esteem can prompt prosecution.

### **11. Waybills and Check-Post Related Compliances:**

There is no lucidity in the matter of whether the present arrangement of waybills and registration would proceed. The Model GST Law gifts energy to the Government to recommend reports for dispatch of merchandise surpassing INR 50,000 in esteem. In the light of these arrangements, it is essential that the FMCG Industry speak to for the expulsion of waybills and registration related compliances, with the target of streamlining of conveyance plans, bringing down operational expenses of and subsequently empowering aggressive estimating.

## **12. Conclusion**

GST is something that has changed the face of the Indian economy forever and the FMCG sector which is one of largest industries of the nation .Here in this paper we have tried to understand the key factors that are involved in GST and how GST has affected the FMCG sector .In the end of the study based on secondary data we have come to the conclusion that GST has affected the FMCG sector in a way that can't be put as both positive or negative, as in in the end it was based on how well the company coped with rather than the GST.As far the implementation of GST goes there are still a certain amount of problems it faces but as it is long run in nature we will have to wait to reap the actual benefits with lessor perils.

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