Impact of GST on FMCG companies in India

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ABSTRACT

GST (Goods and Services Tax) is a recent taxation policy introduced in India in 2017. This “one nation, one tax” aims at a simpler tax regime and transparency in all transactions. The Fast-Moving Consumer Goods (FMCG) sector is an important player in the market when it comes to GDP contribution and is the 4th largest sector in the Indian economy. GST has had a significant impact on the FMCG sector. This paper aims to understand the impact of the implementation of an Indirect Tax on the companies, which contribute to the FMCG sector. The research of this paper is based on both primary and secondary sources. The outcomes aim to understand the overall effect of a major change on many small and medium sized enterprises.

Keywords: GST, Indian Economy, Positive Impact, Long-Term Effects, Central Government, State Government, Need for GST, FMCG Sector

1. INTRODUCTION

What is GST?
Goods and Services Tax is an indirect tax (or addition to value-added tax), levied on both goods and services. It is a “one nation, one tax, one market” Indirect Tax which has replaced many taxes in India. Introducing GST is a step taken by the government to improve the taxation system in India. Its main objective is to consolidate all indirect tax levies into a single tax, replacing multiple tax levies, overcoming the limitations of the existing indirect tax structure, and creating efficiencies in tax administration. (Agarwal, 2016)

The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. (GST - Goods & Services Tax GST (India) - What is GST? - Indirect Tax Law, 2020)

GST Portal
Goods and Service Tax (GST) was one of the biggest tax reforms in the history of independent India. This transformed the way small and medium businesses operate in India. Despite this massive change, to plan a smooth transition, the government launched a GST portal. GST portal ensures the collection of data of existing taxpayers. Hence, it provided a strong foundation and advanced preparations for a seamless GST transition. (Nirmal, n.d.)
History of GST
A French tax official in the 1950s invented the concept behind GST. In some countries GST is also known as Value-Added Tax (VAT). Today, more than 160 nations, including Asian countries such as China, Sri Lanka, and Singapore, as well as the European Union practice this form of taxation. Around ninety percent of the world’s population lives in countries using VAT or GST.

History of GST Based on Country
• France - The first country to implement GST in 1954 and many other European countries introduced GST in 1970-80s.
• China - Introduced VAT in 2016 to replace the Business Tax System that was already existing. GST is applied on selected goods.
• Japan - It introduced GST in the name of Consumption Tax in the year 1989.
• Malaysia - Introduced GST in 2015
• Singapore - Introduced GST in the year 1994. (Sharma, 2019)

Canada replaced the Manufacturer’s Sales Tax with GST in the year 1991, Australia replaced the Federal Wholesale Tax with GST in the year 2000 and New Zealand replaced their sales taxes for some goods and services with GST in the year 1986. India implemented its dual GST system (a Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST)) in 2017. (History of GST in India - Benefits of GST Implementation - BankBazaar, 2020)

Overview of History of GST in India
The history of GST in India started almost two decades before it was made successful in the year 2017. (GST’s 17-year timeline, 2017) Here is a look at the timeline that shaped the ‘one nation, one tax’ system:
• 2000: The Vajpayee Government begins talks on GST. An empowered committee is set up, headed by Asim Dasgupta, Finance Minister of the West Bengal Government.
• 2003: A task force is formed under Vijay Kelkar to suggest tax reforms.
• 2004: Vijay Kelkar recommends replacing the existing tax regime with GST.
• 2006: In Budget 2006-07, Union Finance Minister Shri P. Chidambaram proposed the implementation of Goods and Services Tax (GST) by April 1, 2010.
• 2008: The Empowered Committee hands over a report on the roadmap of GST in the country.
• 2009: The committee presents a discussion paper on GST, welcoming debate. Finance Minister Pranab Mukherjee announces the basic structure of GST.
• 2010: Finance Ministry commences mission-mode computerization of commercial taxes in states. GST postponed to April 1, 2011.
• 2011: Congress party introduces the Constitution (115th Amendment) Bill to implement GST. After protests by the opposition, the Bill is passed to a Standing Committee.
• 2012: Meetings held with state finance ministers. Deadline for issues to be resolved set on 31 December 2012.
• 2013: In his Budget speech, Chidambaram, makes provision for Rs. 9,000 crores to compensate states for losses suffered due to GST.
• 2014: Standing Committee clears GST Bill, however, lapses as Lok Sabha dissolves. Finance Minister, Arun Jaitley, introduces the Constitution (122nd) Amendment Bill at the Lok Sabha.
• 2015: New deadline for the rollout of the new tax regime set as April 1, 2016. GST bill passed in Lok Sabha, but not Rajya Sabha.
• 2016: Rajya Sabha passes the Constitution Amendment Bill. GST Council agrees on four slab tax structure (5%, 12%, 18%, and 28%) along with an added cess for luxury as well as sin goods.
• 2017: Final GST implemented on July 1, 2017. Four supplementary GST bills passed. (What is GST? Things You Should Know, n.d.)

The implementation of the Goods and Services Tax (GST) in India was a historical move, as it marked a significant indirect tax reform in the country. (History of GST in India - Benefits of GST Implementation - BankBazaar, 2020) The new tax regime came into effect on July 1, 2017. (Basic Of GST: Clear All Your GST Doubts - GST Information Explained, n.d.)
Need for GST
India’s previously existing indirect tax regime was based upon the federal political structure of the country. Dual taxing powers are enshrined under the Constitution of India, enabling both the central and state governments to levy taxes within the jurisdiction of their respective lists. Among the key taxes, the central government was responsible for the levy and collection of taxes on the manufacture of goods (excise duty) and on the rendition of services (service tax). The central government was also empowered to levy a tax on the sale of goods involving the movement of goods from one state to another (central sales tax). However, the state governments collected this tax where the goods originate. State governments were empowered to levy and collect taxes on sales (VAT) and on the entry of goods within the limits of the state or municipal body (entry tax/octroi/cess). State governments such as luxury tax, entertainment tax, taxes on lotteries, and more levied various other taxes.

Why was there a need for change?
The previously existing taxation regime was marred by significant disadvantages:
- As business processes have evolved, the taxing lines between the state list and the central list started to blur, leading to double taxation and extensive litigation;
- The central and state taxes are not fungible against each other, nor are the state taxes fungible inter-se, leading to a cascading effect;
- The disparity in the rate of taxes as levied by respective states led to businesses structuring their transactions only to achieve a tax advantage;
- While the state VAT laws were conceptualised so as to have a uniform application, over a period of time with various amendments made by respective state governments, each state’s law had to be interpreted and implemented separately, resulting in a multiplicity of compliance requirements; and
- The current tax regime was an origin-based taxation system, as opposed to the destination-based system prevalent the world over, leading to significant disparities in revenue distribution to various states.

With the introduction of GST, it has not only led to the simplification of the tax regime but helped remove its inherent defects. Some of the critical flaws such as the multiplicity of laws and taxes, the cascading effect of taxes, the non-fungibility of credits between goods and services, the possibility for taxpayers to shift their base only to take advantage of a low tax regime, among other factors, has been addressed in due course by this new system. Also, there has been a paradigm shift from origin-based taxation to destination-based taxation, as is prevalent elsewhere. From a government standpoint, GST has resulted in a widening of the tax base, as well as increasing tax compliance and revenue collections. (Shah and Kanodia, 2016)

GST Bill - Taxes and Duties merged under GST
The GST Bill is officially referred to as The Constitution (One Hundred Twenty Second Amendment) Act, 2016. The bill has been aimed at creating an integrated market and subsuming most of the indirect taxes like services tax, central excise, vat, entertainment, luxury tax, etc., into a single integrated tax. (What is GST? Things You Should Know, n.d.)

Taxes and Duties merged under GST
Following are the duties and taxes, merged under GST (at Central Level)-

- **Central Excise Duty** (including Additional Excise Duty)- Central Excise Duty is imposed on manufacturing of goods in India and the collection for the Central Board of Excise and Customs do this duty.
- **Service Tax** – Service Tax is a tax that is levied by the government on the services provided and it is actually borne by the customers.
- **Additional Customs Duty** – Commonly referred to Countervailing Duty, equivalent to Central Excise Duty which is imposed on Manufacturing. It is calculated on the value base of goods including landing charges and basic customs duty (excluding anti-dumping duty, safeguarding duty, etc).
- **Special Additional Duty of Customs** – it is payable 4% on goods imported and this is in instead of VAT/Sales Tax.
- **Central Surcharges and Cess** – Surcharge is a charge on tax and as the name suggests, it is an additional charge and it is basically on personal income tax (on high income slabs) and on corporate income tax. Cess is imposed by the Central Government and is levied for specific purposes.

Following are the duties and taxes, merged under GST (at State Level)

- **Value Added Tax (VAT)**- VAT is an indirect tax on the goods and services that are provided at state level or domestic. It is imposed at each stage in the chain of distribution and production from the raw materials till the valuation of the product and it is borne by the end users (customers) in the Distribution channel.
- **Central Sales Tax** – CST, is levy on sales, which is affected by inter-state trade. CST is an indirect tax on consumers. As it is centrally levy, so it is administered by the concerned state where the sales originated.
- **Octroi & Entry Tax** – Octroi is a tax, which is charged by local authority say, Municipality and Entry Tax is charged by the State.
- **Purchase Tax**– Purchase tax is a tax that is imposed on the purchase of goods by the state government, and it is applied to a wide range of goods.
- **Luxury Tax**– A Luxury Tax is levy on articles that are either expensive or optional
- **Taxes on lottery, betting and gambling**- Tax which is imposed on Lottery winnings, Gambling and Betting calculated as Tax Deduction at Source and it is deducted from Income,
- **Entertainment Tax**– Entertainment Tax is a tax levied by the government on things related to entertainment like movie tickets, commercial shows, etc. (Taxes and Duties merged under GST India, n.d.)
GST Rates as on July 1, 2017.
As said earlier, GST was implemented in the year 2017 on July 1st. When GST was first introduced, the charges were broadly divided for State and Central GST. When compared to the earlier taxing system, newly introduced GST rates were higher. When GST was first introduced it had five tax slabs and the goods and services were spread across these tax slabs. These GST rates were followed till an amendment to lower the GST rates on selected goods and services were made on 18th January 2018 at 25th GST Council Meet. After which amendments were made on 29 Goods and 53 Services, which came to effect from 25 January 2018. GST rates major goods till January 25, 2018 are listed below. (Sharma, 2019)

<table>
<thead>
<tr>
<th>EXPENSES</th>
<th>EXAMPLES</th>
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| RESTAURANT BILLS  | 🔹 A customer visits a restaurant & purchases a meal for ₹1,000 in Delhi  
🔹 Under earlier regime, VAT @ 12.5% and service tax @ 6% was charged. Thus, the customer used to pay ₹185 as tax  
🔹 Under GST, a meal at an air-conditioned restaurant shall attract 18%. Thus, the customer pays ₹180 as tax  
🔹 Effectively, no substantial impact on restaurant bills |
| AIR TRAVEL        | 🔹 A customer travels in domestic economy class on a ticket of ₹1,000  
🔹 Under earlier regime, service tax at 6% was levied – amounting to ₹60  
🔹 Under GST, economy class is taxable at 5%. Thus, there would be minor savings in economy class  
🔹 In case the customer travelled business class, GST rate has increased to 12% from 9% under service tax.  
🔹 Thus, business class would be expensive.                                                                                               |
| HOLIDAYS          | 🔹 A customer stays in a hotel which has tariff of ₹8,000 a night  
🔹 In pre-GST regime, the gross indirect tax rates (service tax + luxury tax) ranged from 19% to 25% depending on rate of luxury tax in a state. Thus, total tax could be between ₹1,520 and ₹2,000  
🔹 Under GST, for tariff above ₹7,500, tax would be applicable at 28%, resulting in tax incidence of ₹2,100. Thus, higher tier hotels are going to be more expensive under GST  
🔹 The lower tier hotels could be cheaper under GST, since tariffs between ₹1,000 and ₹2,500 would have GST of 12%, and between ₹2,500 and ₹7,500 would have GST of 18% |
| CAB EXPENSES      | 🔹 A customer takes an Ola or Uber and the ride costs ₹100  
🔹 There is a marginal saving since cab facilities would attract GST at 5% as compared to 6% service tax                                                                                           |
| BANKING AND INSURANCE | 🔹 These services will primarily have a 3% increase in rate (from 15% service tax to 18% GST). Thus, these services will be more expensive                                                                                     |
| OTHER HOUSEHOLD EXPENSES | 🔹 Food items have been kept in the range of 0-5% under the GST regime. Food prices are unlikely to go up  
🔹 FMCG products like packaged food, shampoos, soaps, tissue papers, toothpaste, pharma products, electronic items like TV and coolers etc. to become cheaper  
🔹 Services like salon, dry cleaning and telecommunications to become more expensive due to 3% increase in tax rate                                                                                     |
| REAL ESTATE       | 🔹 A customer buys under-construction property for ₹1 crore.  
🔹 Under earlier regime, rate of around 5.5% was levied (both VAT and service tax), but varied from state to state. Under GST, a rate of 12% will be levied resulting in inflation in initial period  
🔹 Prices of ready-to-move-in apartments with completion certificates would remain steady as these are out of GST ambit                                                                                     |
With the introduction of GST in July 2017, the tax rates on most of the basic commodities also remained high. But on the 25th GST Council Meet it was proposed to reduce the GST rates on selected goods and services. Based on this, GST Rates were revised on January 18, 2018 and the revised GST rates for both Central and State Came into effect on January 25, 2018. The rates were revised on 29 Goods and 53 Services. GST Rates were revised from 28% to 18%, 28% to 12%, 18% to 12%, 18% to 5% and few were charged NIL GST and for very few products there were raised in GST Rates. (Sharma, 2019)

<table>
<thead>
<tr>
<th>Goods taxed at 0%</th>
<th>Reduced from 28% to 18%</th>
<th>Reduced from 28% to 12%</th>
<th>Reduced from 18% to 12%</th>
<th>Reduced from 18% to 5%</th>
<th>Reduced from 12% to 5%</th>
<th>Reduced from 3% to 0.25%</th>
<th>Rate Increased - 0% to 5%</th>
<th>Rate Increased - 12% to 18%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shibhuti, De-oiled rice bran and parts used to manufacture hearing aids</td>
<td>Old and used motor vehicles [medium and large cars and SUVs] with a condition that No ITC is availed, Public transport Buses that run on Biofuel</td>
<td>For Old and used motor vehicles [other than medium and large cars and SUVs] with a condition that No ITC is availed</td>
<td>Sugar boiled Confectionery, drinking water, packed in 20 litres bottles, Biodiesel, Drip irrigation system including laterals, sprinklers, Mechanical Sprayer, Certain listed Bio-pesticides (12 in nos), Fertilizer grade Phosphoric acid, Bamboo wood building joinery</td>
<td>LPG supplied to Household Domestic Consumers, Raw materials and Consumables needed for Launch vehicles, Satellites and Payloads (Both CGST and IGST Rates), Tamarind Kernel Powder, Mehendi paste in cones</td>
<td>Articles of straw, of esparto or of other plaiting materials, Velvet fabric [with a condition that no refund is claimed on ITC]</td>
<td>Diamonds and precious stones</td>
<td>Rice bran (other than de-oiled rice bran)</td>
<td>Cigarette filter rods</td>
</tr>
</tbody>
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The current GST rates in India are 5%, 12%, 18% and 28%. Businesses, wholesalers, manufacturers and retailers can ascertain their GST amount by using the below formula:

**GST Calculation**

- Add GST:
  - GST Amount = (Original Cost x GST%)/100
- Net Price = Original Cost + GST Amount
- Remove GST:
  - GST Amount = Original Cost - [(Original Cost x [100/(100+GST%)])]
  - Net Price = Original Cost - GST Amount

A number of tax calculators are available across different portals that can help you find out the GST. Some of the details that you will be required to input for calculating the GST are return filing month, due date of filing return for the month, filing date, total tax liability during the month and purchases where reverse charge mechanism is applicable. (What is GST? Things You Should Know, n.d.)

**Overall positive long-term effects of GST**

In the earlier indirect tax regime, there were many indirect taxes levied by both state and centre. States mainly collected taxes in the form of Value Added Tax (VAT). Every state had a different set of rules and regulations. The Centre taxed interstate sale of goods. CST (Central State Tax) was applicable in case of interstate sale of goods. Other than above there were many indirect taxes like entertainment tax, octroi and local tax that was levied by state and centre. This led to a lot of overlapping of taxes levied by both state and centre. For example, when goods were manufactured and sold, the centre charged excise duty. Over and above Excise Duty, VAT was also charged by the State. This leads to a tax on tax also known as the cascading effect of taxes. On the other hand, GST brought in uniform tax laws across all the states spanning across diverse industries. Here, the taxes are divided between the Central and State government based on a predefined and pre-approved formula. In addition, it has become much
easier to offer services and goods uniformly across the nation, since there is not any additional state-levied tax. Mitigation of double taxation or the elimination of the cascading effect of taxation is one of the most important benefits of this move. This also paved the way for a common national market.

Companies can now avoid taxation roadblocks, such as toll plazas and check posts. Earlier, these created problems, including damage to unpreserved products while transporting them. So, manufacturers had to keep buffer stock to make up for the damages. These overhead costs of storing and warehousing hampered their profit. A single taxation system has reduced these problems. They can now transport their goods easily across India. This has resulted in the improvement of their pan India operations. Removing the cascading effect of multiple taxes, the burden of taxes has also reduced for companies and customers. From the viewpoint of the consumer, there would be a marked reduction in the overall tax burden that is currently in the range of 25% to 30%. The GST, due to its self-policing and transparent nature, is also easier to administer on an overall scale. Not just this, taxpayers have increased in number and hence, the tax revenues have also increased significantly, which in turn fuels economic growth. GST has reduced the customs duty on exporting goods. The cost of production in the local markets has also decreased due to GST. All these factors have increased the rate of exports in the country. Companies have become more competitive when it comes to expanding their businesses globally.

**GST Impact on FMCG Sector**

The Fast-moving consumer goods (FMCG) sector is the 4th largest sector of the Indian economy. It is characterised by high turnover consumer packaged goods, i.e. goods that are produced, distributed, marketed and consumed within a short span of time. According to an FMCG industry overview, revenues of the FMCG sector reached $ 52.75 bn in FY18, and are estimated to reach $ 103.7 bn in 2020. (Singh, 2019). Items in this category include all consumables other than groceries or pulses people buy at regular intervals. FMCG is also one of the fastest growing sectors among all the sectors in the Indian economy and includes 50% of the food and beverage industry and 30% from personal and household care. As mentioned earlier under the long-term effects of GST, the existing tax regime before implementation of GST, FMCG had to pay many taxes like VAT, Service Tax, Excise Duty, and Central Sales Tax. The tax rate for the Industry including all the taxes was around 22-24%. The GST law implementation covers all the above taxes under one single point of tax in the form of GST. Post GST, the tax rate for the FMCG industry is 12-18%. All the major players in the FMCG industry welcomed it. Under GST, input credit is available for all the GST payments made in the course of business. (Impact of GST on FMCG Sector, 2020). On the other hand, with the implementation of GST and to comply with the complex new tax regime, many enterprises were driven out of business, forcing hundreds and thousands out of jobs. Many suppliers did not have the capability to navigate the system and could not afford to hire accountants to do the same and hence, lost their jobs to the bigger enterprises.

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<tr>
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<tbody>
<tr>
<td>Preparations of vegetables, fruits, etc. such as pickle, murabba, chutney, jam, jelly</td>
<td>18% / 12%</td>
<td>12%</td>
<td>Jams and pickles are a part of staple diet of the masses and certainly not a luxury</td>
</tr>
<tr>
<td>Ketchup &amp; sauces including mustard sauces</td>
<td>18%</td>
<td>12%</td>
<td>Ketchups and mustard sauces are a part of everyday food and cannot be treated as a luxury</td>
</tr>
<tr>
<td>Curry paste, mayonnaise and salad dressings, mixed condiments and mixed seasonings (Fancier sauces)</td>
<td>18%</td>
<td>12%</td>
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</tr>
</tbody>
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**Veeba**

Veeba is one of the leading Condiments & Sauce companies in India. The Company offers sauces, dips, emulsions, dessert toppings, gravies, syrups and other food products. Veeba Food Services serves customers in India and offers products to small restaurants, bakeries and canteens across the country.

I interviewed Viraj Bahl, the founder of Veeba.

“This tax was the most needed,” he said. “GST unshackled the country from bureaucracy.”

As mentioned earlier in the paper, GST cut down the layered tax structure hence cutting down on the earlier existing red-tapism.

“It is a great reform but was poorly implemented,” For Veeba “Transitioning to GST was easy.”

**Q1- What were the tax slab rates the company’s products came under before and after the implementation of GST. 5, 12 & 18%**

**Q2- Did Veeba face any problems with the implementation of GST?**

A- “There were outward as well as inward problems that we faced. While the company worked just fine, the problem arose from super stockists and distributors who weren't working well. Distributors didn’t know how to use the GST portal. While charging GST in the market, they weren’t updating the GST portal; even when they did, the portals collapsed due to overload.”

Products are sold by the company in the following trail of order-

Super stockists - distributor - shopkeeper (retailer) - final consumer

“The company faced inward problems with the vendors. Buying from vendors, Veeba’s bought input must match the vendor's output. Buying from bigger vendors was no problem, but to buy from small vendors is where the problem arises. There was no capability among the smaller vendors to deposit the GST.”
“Suppose we bought from 10 vendors and 4 did not deposit the gst, the responsibility lay with Veeba. This was the case for most large companies, who eventually were forced to turn to the bigger players in the market for input and hence faced a loss in profit due to high costs.”

“Smaller vendors in the market lost their job to bigger ones, and the companies faced a decrease in profits.”

Q- You mentioned earlier that there was a shift from smaller vendors to bigger vendors after the implementation of GST. Due to a change in costs, was there a change in the price of the company’s products? If so, did the demand fall?

We did not increase prices, because of GST (as you know you get GST input credit) there was no loss to Veeba. It was a macro loss to the economy as small and micro businesses lost out. It is important to mention that all of that is now fixed and implementation is more thorough and across the board.

Q3- How were you able to manage the integration of such a change and yet make Veeba a household name?

These are 2 separate things - it is our job as an organisation to never saddle our end consumer with problems - GST or others. Even internally the teams who focus on customers are very different from the one who deals with GST. Each team has to do its job. As the head of the company it is your job & duty to change your hats from meeting to meeting, you should never let the stress of one vertical affect your dealings with another vertical in your organisation.

For Veeba our customers are most important and we try our best that they are always insulated from any shock (very applicable in today’s time also).

Q4- What would you have done differently if you were given a chance to go back to the time all this had happened?

Frankly, nothing. I believe we did our best. A reform of this magnitude does not come without its initial hiccups. The FMCG sector benefits from GST in the form of saving a considerable amount of logistics expenses. The distribution cost of the FMCG sector was 2-7% of the total cost earlier, which dropped to 1.5% post GST implementation. Under the GST regime, there is a cost reduction in terms of transportation and storage of goods due to smoother supply chain management, tax payment, input credit claim, and CST removal.

To conclude, it has been two and a half years since the implementation of GST in India. This historic move started with confusion and panic. Having some of the best auditors, transitioning to GST for large companies like Veeba was easy. This wasn't the case for other smaller enterprises out there. Everyone was busy dealing with the teething problems of this huge tax reform. The implementation of GST can be described as short-term pain, but long-term gain for the Indian Economy. More than two years later, one can say the dust has gradually settled down; “a reform of this magnitude does not come without its initial hiccups.” The positive impact definitely outweighs the negative impacts of this much needed tax reform.

3. REFERENCES