

A Study of FMCG Sector after GST Implementation

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ARTICLE DETAILS

Article History

Published Online: 07 September 2018

Keywords

GST, FMCG

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ABSTRACT

The fast moving consumer goods (FMCG) segment is the fourth major sector in the Indian economy. The main growth drivers for this sector are increasing alertness, easier access, and changing lifestyles and so on. The sector is expected to see a significant effect once the Goods and Services Tax (GST) Bill is passed as the companies established warehouses across the states in a proposal to have a more tax proficient system. Even from the fast-moving consumer goods (FMCG) industry, the absolute effectiveness of goods and services tax (GST), if the propose is that the credits are just not related to the business but passed on in the value chain also, there will be settlement even from an effective point of view for a FMCG industry. The second fact is that FMCG industry nowadays has an open network design which is also completely determined by the idea of stock transfers and then sale through depots. FMCG is one and only sector having direct impact on large public. Therefore, this study includes potential effects of GST in FMCG sector. The ultimate effect of this study is that the implementation of GST is favorable in FMCG sector.

1. Introduction

The Goods and Services Tax has extremely affected our country's tax system. During 29th March, 2017 GST Act was passed in the Lok Sabha, and then after it was applied from 1st July, 2017. 'Goods and Services Tax' (GST) is the only indirect tax which is being charged to replace all the indirect taxes which were present in India like sales tax, Value Added Tax (VAT), entertainment tax and service tax and so on. In other words, GST is an indirect tax which is applicable on the

supply of goods and services. GST is applied with the hope to introduce a simple, resourceful and uniform Indirect tax system in India.

GST is a tax charged on sale, manufacturing and consumption of goods & services with consumption based at a central level. GST consists of various taxes which are mentioned under:

Central Indirect Taxes & Levies	<ul style="list-style-type: none"> ▪ Central Excise Duty ▪ Additional Excise Duties ▪ Excise Duty levied under the Medicinal Preparations (Excise Duties) Act, 1955 ▪ Service Tax ▪ Additional Customs Duty (CVD) ▪ Special Additional Duty of Customs ▪ Central Surcharge and Cess
State Indirect Taxes & Levies	<ul style="list-style-type: none"> ▪ VAT / Sales Tax ▪ Entertainment Tax (other than the tax levied by local bodies) ▪ Central Sales Tax ▪ Octroi & Entry Tax ▪ Purchase Tax ▪ Luxury Tax ▪ Taxes on Lottery Betting and Gambling ▪ State Cesses and Surcharges

The collection of efficient tax on listed goods is core intend of GST. The sectors like share market, FMCG, Automobile, Cement, Light electrical, multi flex, Rail etc but items like alcohol, tobacco, petroleum product and so on are also effected under GST.

FMCG is shortened form fast moving consumer goods. It's also called as consumer packaged goods (CPG) and its products that are sold generally consumed at a regular basis,

The FMCG industry is mainly associated with the production, distribution and marketing operations of CPG. FMCG product categories consist of food and dairy products, pharmaceuticals, consumer electronics, packaged food products, household products, drinks and others. For now, some general FMCG include coffee, tea, detergents, tobacco and cigarettes, soaps and others.

This sector is the producer of the regular items that we want to use in our day to day life. In fact, we start our day by day schedule activities by using its goods. India is also grand supplier of FMCG goods. Therefore, it has now become fourth largest sector in our nation and it is the chief contributor of the Indian economy. Recently, it is estimated that the consumer durables market will reach US\$ 20.6 billion by 2020. The growth of this sector since last decade is 11% per annum. During 2012-2020 this sector is likely to increase at (CAGR) of 14.7 per cent to reach US\$ 110.4 billion, with the rural FMCG market probable to rise at a CAGR of 17.7 per cent to reach US\$ 100 billion during 2012-2025. It is believed that in this sector from the total production of FMCG sector the part of Personal care will be 22 %, fabric care 12 %.

It is self-sufficient in producing and fulfilling the requirements in daily life. It is growing steadily at present and has also shown massive growth potential over the previous years. By providing employment to around 3 million people in this way this sector is reducing the poverty of nation. Among the total employment of the nation, this sector comprises the part of 5% approximately. The total FMCG market is in excess of Rs. 85,000 Crores. It is growing at double-digit growth rate and it is estimated to sustain a high growth rate.

In this study the researcher tries to observe the effect of GST in FMCG sector also tried to mention each and every tax slabs of this sector.

2. Literature review

- Dr. Mohan Kumar, CA Yogesh Kumar made their study on GST & its Probable Impact on the FMCG Industry in India. This study revealed that GST have many different effects on the pricing, working capital, contracts with vendors and customers, ERP systems, processes, internal control and accounting. One more significant effect of GST on FMCG companies that they would get the chance to evaluate the supply chain and move to a supply chain based on business parameters. In this way, GST has effected each and every phase of the business.
- Dr. Jayashree, R Kotnal worked on the Influence of 'GST' on the fast moving consumer goods. This study revealed that after the implementation of Goods and Service Tax, FMCG sector have changed. FMCG sector includes 50% Food and Beverage sector and 30% is Household and Personal care. FMCG sector was the main taxation and it was contributing both directly and indirectly in the economy. The collection of the taxation manipulated the company's decision regarding manufacturing location and distribution of Goods. FMCG companies set up their manufacturing units and warehouses at such places where tax benefits were available to them. For transmitting the stock from the warehouses among the states they have to pay taxes.
- R Hiremani Naik made a study on Perspective, This study presented that GST transition was not just a transition of tax.
- Sudina T A observed the Impact of GST on FMCG Sector in India. It effected each phase of the business

functions and so it need an entire business approach in order to make sure a smooth change.

3. Research design

Objectives

1. To understand the role of GST in FMCG sector.
2. To examine the effect of GST implementation in FMCG Sector

Data Collection

This study consists of secondary data, which is collected from various sources such as blogs, articles and websites.

Significance of the Study

As GST is substituting many indirect taxes which are applied to be charged by central and state government, most of the sectors of Indian economy are affected by GST. FMCG has direct connection with common public so it has a great impact on them. This research tries to examine the effects of GST on FMCG sector.

Scope of the Study

The study only focuses on the effect of GST in FMCG sector. Further study could also be done by comparative analysis among different sectors and countries after the implementation of GST.

4. Limitations of the study

- The study is totally based on the secondary sources.
- The Study is not research based.

5. Effect of GST on FMCG sector

The latest Goods and Services Tax (GST) management will take numerous payment for the economy, it specifically promoted FMCG sector. There is also a silver lining for FMCG sector in the nation under GST. The FMCG companies recognized warehouses covering each state, appealing stock shifts among them, which in turn possibility selling of goods to local distributors. Generally, warehouses are established in such states where the successful taxation is low. With GST, they can create storage amenities wherever they are lacking any problems.

After the latest GST, the tax rate for the FMCG industry was 18-20%. It was greeted by all the main players in the FMCG industry. Under GST, input credit facility is also accessible for all the GST business related payments.

The GST in the form of saving a considerable amount of logistics expenses benefits FMCG sector. The previous distribution cost of the FMCG sector was 2-7% of the total cost, and now it's diminished to 1.5% post GST accomplishment. Since, easy supply chain management, tax payment, input credit claim, and CST removal, there will also be a favor in terms of cost reduction in forms of transportation and storage of goods under the GST regime. This results into making cheaper goods for the consumer. Stock transfers outside of states are also subjected to GST.

The Indian Government has declared GST rates for all different goods or products under the FMCG. According to the experts, nearly all of the products or goods of FMCG sector have been classified under the tax brackets.

Necessary food products like milk, rice, wheat and fresh vegetables don't have any tax bracket. Paneer branded and sold like mother dairy paneer or Nestle Paneer and Frozen vegetables are under 5% of tax bracket.

Products like butter, cheese and ghee have 12% of tax bracket are expensive under GST. Dry fruits have also placed to 12% tax bracket under GST law therefore; gifting that at the time of Diwali is going to be pricier.

Items like toothpaste, soaps, hair oil – have 18% tax slab. This is in agreement with the government's opinion of charging tax rates low for mass consumption products. In assurance, the GST rate schedule presents that just about 81% of all items are in the 18% tax bracket or below. The remaining 19% fall in the 28% tax slab.

The FMCG sector is overjoyed with the rates stated under GST law for FMCG products. The FMCG industry is going to expand from the minor logistics cost and superior aggressive market and rates for all the products kept under the expected tax bracket. Unpredictably, some of the frequently consumed products have been charged the highest tax slab of 28%. Higher tax rate for detergents and shampoo is a real decline as these are daily-use, mass consumption items.

The items related to the finest category have been usually reserved under the highest tax slab of 28%. These engage

aerated drinks, health supplements, liquid soap, and skin care. As manufacturers had been paying comparable taxes former therefore, this will not have any negative effect.

Ayurvedic products are a little higher than the current rate as they are taxed at 12%. This let down Dabur, which has a broad collection of ayurvedic products. Ayurvedic players were expecting that the tax rate will go down as the government's set in motion on popularizing traditional Indian medicine.

The structure of GST rate is suitable to observe a mixed impact. For example, in case of HUL, the tax incident has reduced for soap, toothpaste and tea, but rose for detergent, shampoo and skin care; on the other hand for Godrej consumer products, the lower tax occurrence on soaps and insecticides is good, but higher tax rate for hair dye is terrible.

6. Conclusion

Finally, this study reveals that the implementation of GST in FMCG sector is favorable. As the tax rates are not too high. The routine products are not having any tax brackets. The products having tax brackets are like Paneer, has 5% , butter, cheese and ghee have 12%, toothpaste, soaps, hair oil – have 18%, Ayurvedic products at 12%, aerated drinks, health supplements, liquid soap, and skin care have 28%. While looking the overall situation 81% of all items are in the 18% of tax brackets and remaining 19% will have 28%, and it undoubtedly proves that GST in FMCG sector is in support of consumers.

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