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An Analysis on the Impact of GST on the Fast Moving Consumer Goods Sector in India

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Abstract:- The Goods and Services Tax (GST) is the most significant alteration to India's tax system. Products and services are subject to a variety of taxes, such as the excise tax, service tax, central sales tax, luxury tax, lottery tax, amusement tax, octroi, state surcharge, and other levies. The GST replaced a wide variety of indirect taxes formerly levied on consumer goods and services. Nine months have passed since GST was implemented on July 1, 2017, and both the federal government's revenue and the "cascading impact" of taxes have increased. GST has earned the label of "transparent taxation system" in the realm of indirect taxes. It's possible that GST still has certain current limitations, despite the fact that its future utility will increase. The structure of GST and its effects on the Fast Moving Consumer Goods (FMCG) industry in India will be the primary topics of this study. The fast-moving consumer goods (FMCG) industry did somewhat better after GST was implemented since it eliminated the multiple-tax structure.

In terms of contribution to GDP, the FMCG industry in India ranks fourth globally. From $30 billion in 2011, the FMCG industry in India is projected to reach $74 billion by the end of 2018. The industry has grown mostly due to increased public knowledge, improved accessibility, and general shifts in consumer preferences and practices.

If the GST Bill passes, it will have a big effect. Because of favorable tax legislation, firms are building distribution centers in several states. From the FMCG sector's standpoint, the GST will be more effective if enterprises share credits instead of keeping them. Modern FMCG network design is built on stock transfers and depot sales. Since the GST replaces indirect taxes traditionally imposed by the federal and state governments of India, it would affect the whole nation. FMCG has a large public impact. The FMCG business must carefully weigh the advantages and downsides of GST.

So, the study looks at what effects GST might have on the FMCG sector. It also talks about the pros and cons of putting GST into place for the FMCG sector. The study also looks at how well GST works in the FMCG sector in countries that have already put it in place.

***Keywords*:-** *FMCG, GST.*

I. INTRODUCTION

India's FMCG business is the fourth biggest at around $13.1 billion. Fast-moving consumer products are packed items. Consumables include everything but food and medication. FMCG is India's fastest-growing industry.

Before, FMCG had to pay a lot of taxes, such as VAT, Service Tax, Excise Duty, and Central Sales Tax. After the GST law went into effect, all of the above taxes were covered by a single tax called GST. When all taxes were taken into account, the old tax rate for the FMCG industry was between 22% and 24%. GST was put into place with four different rates: 5%, 12%, 18%, and 28%. All FMCG bigwigs were pleased. At the time, CST, CVD, and SAD had no input credit. Under GST, all business GST payments are input credits.

Fast Moving Consumer Goods (FMCG) Sector is the fourth largest part of the Indian economy. About half of FMCG sales come from food and drinks, and the other half comes from household and personal care products. In this age of globalization, there are a lot of FMCG companies on the market, and they try to sell their products by making customers think of them as a brand. The main reason for growth in the sector is that more young Indians are shopping online and that their lifestyles are changing. Most of the money that the FMCG Sector in India makes comes from the people who live in cities. It's important to note that the FMCG market has grown faster in rural India than in cities over the past few years. The FMCG retail market in India is expected to grow at a rate of 20–25% per year and reach US$ 2.9 Trillion by 2023, up from US$ 672 Billion in 2016. This will help the FMCG sector make more money. In 2016–17, FMCG companies made US$ 49 billion in sales. In 2018–19, they are expected to make $ 54 (approx.) billion, which means that the size of the market will be Rs. 5400 crores.

In India, there are four different GST rates: 5%, 12%, 18%, and 28%. The GST council changes the things that are included in these rates from time to time to make sure that different types of products are priced correctly. Whether a good or service is a necessity or a luxury affects the rate that is charged for it. In general, the tax rate on things that people need is lower, at 5% or 12%, while the tax rate on things that people want is between 18% and 28%. Aside from these, the GST on gold is 3%, and semi-precious and rough stones are 0.25%. Also, a small number of goods and services that fall under the

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GST don't have to pay tax. These include different types of salt and, most recently, sanitary napkins.

II. NEED OF GST

A. Tax on tax.

A sells B items and levies sales tax. Mr. B resells the products to Mr. C and adds tax. Mr. B factored in sales tax he'd previously paid on earlier transactions when calculating his sales tax bill. This makes it a "tax on tax."

A few years ago, this is what happened with the sales tax. At that time, VAT was put in place, which means that each person gets a credit for the tax paid by the person before them. This means that Mr. B deducts Rs. 10 from his tax payment of Rs. 21.

First, we explain the dual GST model and transaction taxes. See these acronyms before we decipher them-

- SGST – State GST, collected by the State Govt.
- CGST – Central GST, collected by the Central Govt.
- IGST – Integrated GST, collected by the Central Govt.

Table 1: Comparison of old tax and new tax regime

Transaction	Sale within the state	Sale outside the state
New tax System	SGST and CGST	IGST
Old tax System	VAT & Excise/ST	VAT & Excise/ST
Comments	There were two taxes on a sale made inside a state under old tax system, the new tax system the state-level SGST and the federal-level CGST.	The new framework calls for a single tax, the Integrated Goods and Services Tax (IGST), to be paid by all parties involved in a cross-state transaction to the federal government.

B. Significance of GST

The Increased productivity, additional employment opportunities, and broader economic participation would all result from implementing GST. Since individual states will feel threatened by this development and the loss of their sovereignty, we can anticipate initially high inflation rates, high administrative costs, and strong opposition from states. While consumers ultimately foot the bill for GST, a well-implemented input tax credit system prevents multiple taxes from being tacked on at once. Value added at each stage of production is what triggers GST taxation. Example:

Table 2: If GST stays at 15%, the following would happen to Company ABC India Private Limited.

ABC India Private Limited		
Material Cost	Rs.115000.00	Tax @ 15% = 15000
Manufacturing Cost	Rs.20000.00	No Tax
Profit	Rs.30000.00	No Tax
Final Cost	Rs. 165000.00	Tax @ 15% = 24700
From Rs. 24750.00 tax of Rs. 15000.00 is already paid hence remaining tax is Rs.9750.00		

Hence ABC India Private Limited didn't have to pay taxes twice.

III. IMPACT OF GST ON FMCG

A. Impact on Price

In this article, I will examine the differences between the current tax structure and GST. This estimate includes Maharashtra's value-added tax, thus rates in other states may have changed since they were last recorded.

Table 3: Consumer goods of first moving sector with old tax and new tax regime

Items	Previous tax rate (%)	After GST tax rate (%)
Pencil Sharpeners, Knives	18.5	12
Ice Cream, Sherbet	26	18
Refined Sugar	26	18
Soap	26	18
Dentifrices – Toothpaste	26	18
Hair Oil	26	18
Handmade Safety Matches	18.5	5
Broomsticks	18	5
Candles	26	12
Tooth Powder	26	12
Led Lights	26	12
Milk Beverages	26	12
Ready To Eat Namkeen	26	12
Beet Sugar, Cane Sugar	26	5
Pickels	18	12
Jams, Jellies	12	18
Branded Paneer	0	5
Branded Cereals	0	5
Cocoa Butter	26	28
Instant, Aroma Coffee	26	28
Protein Concentrates	26	28
Toothpaste	26	28
Deodorants	26	28
Shaving Cream	26	28
Groundnut, Sunflower Seeds	6	5
Infant Use Preparations	19.5	18
Pasta, Corn Flakes, Cakes	19.5	18
Frozen Vegetables	6	5
Condensed Milk	18.5	18
Toilet Paper	18.5	18
Hot Water Bottles	18.5	12
Petroleum Jelly	20	18

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Most fast-moving consumer goods (FMCG) had tax rates between 22.5% and 24.5% before GST was implemented. There was a 23 percent tax on detergents, a 24 to 25 percent tax on shampoos and cosmetic items, and a 3 to 5 percent tax on paneer, ghee, cheese, butter, and milk. According to the GST system, the tax on fast-moving consumer goods ranges from 0% to 28%, depending on the specific product. If we examine how GST impacts each commodity, however, we can discover that certain tax rates have increased. Products including shampoo, soap, and sanitary towels are now taxed at higher rates than previously, such as 28%, 28%, and 12%, respectively.

B. Impact on Logistic Cost

Table 4: The service which impact the logistic cost

Services	Previous tax rate (%)	After GST tax rate (%)
Description of Services		
Renting of truck / goods carriage with fuel	23	12
Transport of goods by rail	23	5
Third party insurance premium of goods carrying vehicles	14.5	12

Distribution and shipping are very important parts of the FMCG industry. Before GST, the distribution costs of the FMCG sector were between 2 and 7%. After GST, they dropped to 1.5 %. In terms of logistics costs, the FMCG companies are saving a lot of money. Due to true and fair supply chain management, paying taxes, and having access to input credits, the removal of CST led to a decrease in the overall cost of transportation and distribution. Cost cuts and tax cuts make consumer goods cheaper.

C. Impact on supply-chain management

In the past, manufacturers had to open a warehouse in every state where they wanted to do business. But now that GST is in place, this is no longer necessary. On the other hand, logistics are an important part of managing the supply chain, and GST makes logistics cheaper. So, the supply chain for FMCG goods has become better.

D. Transitional credit

Before, for FMCG companies to do business in different states, they had to set up units there. The companies also got tax breaks based on where they were located. So, FMCG companies put a lot of money into opening factories in these states. But since GST came into effect, it's not clear how these players will get their tax money back.

E. Frequently changing rates

In November 2017, the GST Council said that taxes would be changed on 200 fast-moving consumer goods. There is a lot of confusion about how different FMCG goods are taxed because tax rules are not clear. For example, it's not clear if you have to pay taxes on a "buy one, get one free" item. It is also not clear how FMCG companies have to use marketing plans.

F. Anti-profiteering issues

There have been problems with making too much money in the FMCG sector because of transitional credits and frequent changes in tax rates. Because of this, companies haven't been able to give the benefits directly to customers. Also, there is still confusion about how to figure out and calculate the manufacturer's profit.

IV. CONCLUSION

The biggest change in India is that GST is being used everywhere. It is a great step toward India's indirect tax reform as a whole. The effects of the GST on the FMCG sector have been mixed. Dabur, HUL, and ITC have started passing on tax burden reduction cost benefits to customers in the form of cheaper pricing. Some fast-moving consumer products firms gain from frequent GST rate changes, while others suffer. GST may have long-term impacts on the Indian economy and FMCG business. GST has had some short-term impacts, but not on the expense of life. Some goods' prices have increased even more than they did before GST was implemented.

The FMCG sector is getting a mixed bag. GST can be even more helpful for the growth of the FMCG sector if there is more clarity about taxes on promotional activities, if tax rates stay the same, and if exact calculations of tax and profit are made.

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