An Empirical Study On Impact Of Gst On Fmcg Sector In Delhi

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Abstract
The Goods and Service Tax (GST) is a Value added Tax (VAT) proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It has replaced all indirect taxes levied on goods and services by the Indian Central and state governments. GST has mainly removed the Cascading effect on the sale of goods and services. Removal of cascading effect has directly impacted the cost of goods. Since tax on tax is eliminated in this regime, the cost of goods decreases.

GST is also mainly technologically driven. All activities like registration return filing, application for refund and response to notice needs to be done online on the GST Portal. This has speeded up the processes. After the implementation of GST, there is common national market with uniform rates. Thus, GST has impacted on widening the markets for the retailers. Overall, it can be concluded that GST is a good tax regime.

In this research paper, researcher has tried to analyse the impact of GST on the FMCG sector. For this, the primary data has been collected from over 100 retailers of FMCG sector from Southern and Eastern parts of Delhi during September to December 2018.

Keywords: Goods & Service Tax, FMCG, Retailers, Value Added Tax & Registration etc.

Introduction
Goods and Service TAX, GST
The GST is a Value added Tax (VAT) proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It has replaced all indirect taxes levied on goods and services by the Indian Central and state governments.

The tax came into effect from July 1 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Indian government. GST is mainly technologically driven. All activities like registration return filing, application for refund and response to notice needs to be done online on the GST Portal. This has speeded up the processes. The previous tax regime had separate rates, such as, Excise @ 12.36 % and Service Tax @ 14%. With GST, there is only one CGST rate and a uniform rate of SGST across all states.

Credit of CST and various other indirect taxes isn’t allowed in the previous tax structure, whereas under GST the entire concept of CST has been eliminated with introduction of IGST. Previously the tax burden on tax payer was considerably high. With GST on board, tax burden has reduced significantly since all taxes are integrated, and the burden is split equitably between manufacturing and services.
Types of GST

Since GST subsumed indirect taxes of central government (excise duty, service tax, custom duty, etc.) and state governments (VAT, Luxury tax, etc.), both the governments now depend on GST for their indirect tax revenue.

<table>
<thead>
<tr>
<th>CENTRAL GST</th>
<th>STATE GST</th>
<th>INTEGRATED GST</th>
<th>UNION TERRITORY GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>CGST refers to the Central GST tax that is levied by the Central Government of India on any transaction of goods and services tax taking place within a state. It is one of the two taxes charged on every intrastate (within one state) transaction, the other one being SGST (or UTGST for Union Territories). CGST replaces all the existing Central taxes including Service Tax, Central Excise Duty, CST, Customs Duty, SAD, etc. The rate of CGST is usually equal to the SGST rate. Both taxes are charged on the base price of the product.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SGST (State GST) is one of the two taxes levied on every intrastate (within one state) transaction of goods and services. The other one is CGST. SGST is levied by the state where the goods are being sold/purchased.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated GST (IGST) is applicable on interstate (between two states) transactions of goods and services, as well as on imports. This tax is collected by the Central government and is further distributed among the respective states. IGST is charged when a product or service is moved from one state to another.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Union Territory Goods and Services Tax, commonly referred to as UTGST, is the GST applicable on the goods and services supply that takes place in any of the five Union Territories of India, including Andaman and Nicobar Islands, Dadra and Nagar Haveli, Chandigarh, Lakshadweep and Daman and Diu. This UTGST is charged in addition to the Central GST (CGST) explained above. For any transaction of goods/services within a Union Territory: CGST + UTGST</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GST and FMCG Sector:

Fast Moving Consumer Goods (FMCG) can be defined as packed goods that are consumed or sold at regular and small intervals. The prices of the FMCG are relatively less and profits earned through such sales are more volume based. The organized FMCG Retailing in India is a new concept and is fast catching up in urban and semi-urban India.

Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes are subsumed under a single regime. The GST taxation laws put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reach the end consumer. GST works on the fundamental Principle of “One Country One Tax”. In GST the final consumer thus bears only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

The FMCG companies, whose tax incidence has come down under the GST regime, are likely to pass it on to the consumers in the form of lower prices. “With the anti-profiteering clause in place, companies are required to pass on the benefit of tax rates to the consumer in the form of lower prices,” Lower prices could potentially support volume growth for certain products, particularly in the rural segment.
LITERATURE REVIEW

• Alankit GST, report (2018) says, that post GST tax rate for the FMCG industry is capped at 18 to 20 percent. This has benefited most FMCG sector companies and they have started passing the benefits of reduced tax to consumers or by increasing the product quantity at the same cost. With implementation of GST, FMCG companies now can set up their warehouses anywhere and the industries are saving a fair amount of logistics expenses. Further the distribution cost has reduced to 1.5 percent from 2-7 percent providing more benefit to the FMCG sector.

• P.JAGADEESAN, (2018) “A study on impact of goods and services tax on Indian industries with reference to FMCG sector” said, that implementation of GST has benefited the FMCG sector as a considerable amount of expenses on logistics have been reduced. Further to this the distribution cost has been reduced. Apart from the above mentioned, another benefit of GST implementation on FMCG sector is that due to smoother supply chain management the cost in terms of transportation and storage of good has dropped down a lot. However after GST, different products are taxed at different rates, on a macro level, the average tax and the final prices that the end customer ends up paying does average out. Hence post implementation of GST some products have become more expensive and others became cheaper. Ultimately tax brackets under FMCG sector are adjusted overall benefit is gained as distribution costs for various companies have been reduced.

• Cleartax (2017) “A Impact of GST on FMCG Sector” stated that FMCG sector is very pleased with the rates announced under GST law for FMCG products. The FMCG industry is benefit from the lower logistics cost and better competitive market and rates for most of the products being kept under the expected tax bracket. Since under the GST regime, every invoice pertaining to taxable supply has to be uploaded on GSTN’s common portal and has to be accepted by the buyer, wholesalers and retailers are now unable to escape their tax liability

• F Lourdunathan and Xavier P (2017) in an article said, there are mixed response, inexplicit, arguments and opinions among the Manufactures, traders and retail sector covering FMCG sector about the Goods and Services Tax (GST) impacts. However, GST has provided relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off. Efficient formulation of GST has lead to resource and revenue gain.

• Jayashree, R Kotnal, (2017) “Influence of ‘GST’ on the fast moving consumer goods” said that after the implementation of Goods and Service tax, FMCG sector has been benefitted in various ways. The multiplicity of the taxation influences the company’s decision on manufacturing location and distribution of Goods. Hence, the companies can now view to the supply chain more closely. FMCG companies can now set their manufacturing units and plants where they can avail maximum tax benefits. Hence the pricing cost and working capital has reduced for the retailers.

Research Methodology
In the topic “An Empirical Study on impact of GST on FMCG sector in Delhi”, the data is collected mostly through Primary sources using questionnaires. There were 17 questions in the questionnaire out of which three were open-ended, two were dichotomous, six were multiple choice questions and the rest were based on Likert Scale.

Objectives
The objectives are given below:
- To study the impact of GST on FMCG industry
- To study the problems faced by retailers after implementation of GST.
- To give suggestions

**Scope of Study:**
The survey has been conducted with retailers dealing in Fast Moving Consumer Goods in Southern and Eastern parts of Delhi. This helped in understanding the actual problems faced by the retailers due to roll-out of GST.

**Size of Sample Survey:**
The data has been collected personally from around 100 retailers from Southern and Eastern parts of Delhi in September – December 2018 and used for the research.

**Nature and Source of Data:**
The data has been collected mostly through Primary sources. The Primary Data was collected through questionnaire which was designed to obtain the information related to the objectives of the study. For further reference secondary data was used. In this project following sources of secondary data had been referred:
- Publications of central, state and local governments
- Books, magazines, and new paper
- Reports prepared by research scholars, university economists etc.

### Data Analysis

#### Table No. 1
**Gender of the Respondent**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>82</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Female</td>
<td>18</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

From the table 1, it can be said that 82% of the respondents are male and 18% respondents are female.

#### Table No. 2
**Age group of the respondent**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 - 25 years</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>26 - 35 years</td>
<td>33</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td>36 - 45 years</td>
<td>21</td>
<td>21</td>
<td>62</td>
</tr>
<tr>
<td>46 - 55 years</td>
<td>31</td>
<td>31</td>
<td>93</td>
</tr>
<tr>
<td>Above 56 years</td>
<td>7</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: primary Data

From the table 2, it can be said that 33% of the respondents falls under age bracket of 26-35 years, 31% are under age group of 46-55 years 21% are in 36-55 group, 8% are under 18-25 group while 7% are above 56 years.
Table No. 3

<table>
<thead>
<tr>
<th>FMCG Segment</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaged Foods</td>
<td>58</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Healthcare</td>
<td>10</td>
<td>10</td>
<td>68</td>
</tr>
<tr>
<td>Stationary</td>
<td>12</td>
<td>12</td>
<td>80</td>
</tr>
<tr>
<td>Beauty products</td>
<td>20</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

From the table 3, it can be said that 58% of respondents doing business of Packaged food while 10% are doing in Healthcare, 12% are doing business in Stationary and 20% are doing in Beauty Products.

Table No. 4

<table>
<thead>
<tr>
<th>Category – Gender</th>
<th>Equation</th>
<th>Ideal Score</th>
<th>Equation</th>
<th>Least Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male Candidates</td>
<td>10<em>5</em>82</td>
<td>4,100</td>
<td>10<em>1</em>82</td>
<td>820</td>
</tr>
<tr>
<td>Female Candidates</td>
<td>10<em>5</em>18</td>
<td>900</td>
<td>10<em>1</em>18</td>
<td>180</td>
</tr>
</tbody>
</table>

Source: Primary Data

In the table 4, Ideal score of male candidates is calculated by multiplying 82 (No. of Male candidate) with (+5) & product with 10(No. of attributes in questionnaire). Least score of male candidates is calculated by multiplying 82 with (+1) & product with 10. Similarly ideal score of female candidates is calculated by multiplying 18 (No. of female candidates) with (+5) & product with 10. Least score of female is calculated by multiplying 18 with (+1) & product with 10.

Table No. 5

<table>
<thead>
<tr>
<th>Category - Age Group</th>
<th>Equation</th>
<th>Ideal Score</th>
<th>Equation</th>
<th>Least Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>10<em>5</em>8</td>
<td>400</td>
<td>10<em>1</em>8</td>
<td>80</td>
</tr>
<tr>
<td>26-35</td>
<td>10<em>5</em>33</td>
<td>1,650</td>
<td>10<em>1</em>33</td>
<td>330</td>
</tr>
<tr>
<td>36-45</td>
<td>10<em>5</em>21</td>
<td>1,050</td>
<td>10<em>1</em>21</td>
<td>210</td>
</tr>
<tr>
<td>46-55</td>
<td>10<em>5</em>31</td>
<td>1,550</td>
<td>10<em>1</em>31</td>
<td>310</td>
</tr>
<tr>
<td>above 56 years</td>
<td>10<em>5</em>7</td>
<td>350</td>
<td>10<em>1</em>7</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Primary Data

As per the table 5, Ideal score of age group of 18-25 is calculated by multiplying 8 (No. of respondent between 18-25 age) with (+5) & product with 10(No. of attributes in questionnaire). Least score of same age group is calculated by multiplying 8 with (+1) & product with 10. Ideal score of age group of 26-35 is calculated by multiplying 33 (No. of respondent between 26-35 age) with (+5) & product with 10(No. of attributes in questionnaire). Least score of same age group is calculated by multiplying 33 with (+1) &
product with 10. Ideal score of age group of 36-45 is calculated by multiplying 21 (No. of respondent between 36-45 age) with (+5) & product with 10 (No. of attributes in questionnaire). Least score of same age group is calculated by multiplying 21 with (+1) & product with 10. Ideal score of age group 46-55 is calculated by multiplying 31 (No. of respondent of age group 46-55 age) with (+5) & product with 10 (No. of attributes in questionnaire). Least score of same age group is calculated by multiplying 31 with (+1) & product with 10. Similarly, Ideal score of age more than 56 is calculated by multiplying 7 (No. of respondent more than 56 years) with (+5) & product with 10 (No. of attributes in questionnaire). Least score of same age group is calculated by multiplying 7 with (+1) & product with 10.

Findings Of The Study

1) Retailers are now well aware about the new tax regime, i.e. GST. However, initially the retailers were not in much favour of implementing GST, as this has reduced profit margins for a variety of retailers. But with the passing time and regular practice of GST retailers have become neutral to the effect of GST on FMCG products.

2) Retailers have following major concerns regarding GST implementation
   (i) Impact of GST on Profits
   (ii) Impact of GST on Sales
   (iii) Impact of GST on Profit Margins

3) Based upon the response of the retailers after the implementation of GST, the FMCG sector is experiencing significant savings in logistics and distribution costs as the GST has eliminated the need for multiple sales depots.

4) Retailers have to follow the single defined taxation rates. They may not set the profit margins according to their own will.

5) Retailers, after implementations of GST have to re-think there strategies and re-model their network. They now have to revamp the pricing policy of their suppliers in view of enhanced credits that may be available to suppliers in GST regime.

6) GST is playing a pivot role in maintaining this transparency and is proving to be beneficial for the economy of the nation as well.

7) 73% of the population of FMCG retailers said that they will move on to selling products with high profit margin if the FMCG companies do not come up with any solution.

Recommendations

1) As per observations, it can be said that FMCG companies should help retailers in Inventory management and flexibility with returns.

2) There must be more promotional activities by the companies so that the sales do not go down.

3) It is time that the FMCG companies come to help retailers stabilize their profit margins so that they do not go for just high margin profit products.

4) Proper IT infrastructure shall be provided to the retailers and it should be made sure that they have proper knowledge and training about the methods.

5) Proper measures must be taken so that the retailers are not forced to sell their product at higher margins.

6) Proper measures must be taken by the government so that the retailers shall not lose the stability of their business.

7) Measures shall be taken so that the tax burden of the retailers shall be reduced.

8) Stronger chain supply must be encouraged among the retailers so that they may take more advantage of the GST regime.

9) Retailers must be provided training for online transactions from the companies.

10) More sales shall be encouraged from the local retailers.
Conclusion

The survey of 100 retailers in the Delhi Southern and Eastern region concluded that majority of the retailers were at first unhappy and dissatisfied from the GST regime however with passage of time and steady implementation of GST they now have mixed attitude towards effect of GST. The retailers seems to be concerned about losing stability in the business and profit margins as the new taxation system has shrunk their profit margins for various product classes.

However, GST has also reduced the tax burden on the retailers. The impact of GST is evident on supply chains, as the designs would be efficiency-oriented and not in alignment with the taxation system. We can also say that the retailers will be ready to explore markets across diminished boundaries leading to better growth of the retail market.

After the implementation of GST, unification of markets has been observed. Thus, the biggest impact of GST is on widening of potential markets for the retailers. It can be said that the impact of GST on retail sector is positive from both taxation and operations point of view. Retail industries now have to re-assess their supply chain strategy and re-model their network.

Overall, it can be concluded that GST is a good tax regime as it is structured and brings transparency in the system. Though retailers are not very happy with GST, they will get accustomed to it in the future if the companies provide them support.

Bibliography