



A Study on Impact of Tax Reforms on Fast Moving Consumer Good (FMCG) Distributors-with Reference to Goods and Service Tax (GST)

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Abstract: Indian tax is one of the major sources of income to the government. Indian tax is one of the major sources of income to the government. As we know that Indian tax system is more rigid and complex. So, in order to avoid this inflexibility and complexity our central government is concentrating towards changing some of the complex tax methods. The GST is the one which will replace all the indirect tax system of our country place. The central government focusing towards implementing the goods and service tax. Therefore, the literature on goods and service tax is a recent origin and only a limited study is undertaken on the goods and service tax with different needs. So, this study has made an attempt to review the literature and to identify the impact of Goods and Service Tax on fast moving consumer good distributors.

INTRODUCTION

From the past few years, we have two different kinds of taxes that are levied by our government. Direct tax is levied by the central government on individuals companies and association of persons and indirect tax is levied on the manufacturing of goods and services. India has witnessed substantial reforms in indirect taxes over the past few decades. The constitution empowered the central government to levy excise duty on manufacturing and service tax on the supply of services. The tax structure was considered problematic primarily due to the “cascading effect of taxes” where by an item is taxed more than once from the production to the final retail sales stage. To avoid this kind of tax structure the constitution empowered the state governments to levy sales tax or Value Added Tax (VAT) on the sale of goods.

The main difficulty with VAT is that CENVAT on positive commodities remains involved in the rate of goods to be taxed under state VAT. Thus the same set of goods is taxed repeatedly, since VAT is applied on goods only there is also the task of calculating on services and adding it to the VAT on goods no recognition of State duties paid in one state can be availed in other States. Hence, the prices of goods and services get artificially inflated to the level of this “tax on tax”. Thus our central government is focusing on the implementation of new tax system called “Goods and Service tax”.

Literature review: Anitha (2016) stated that the main focus is given to the impact of GST on logistic sector explanatory research and methodology is based on secondary data which includes compilation of research articles of the experts in the field published in journals,

articles, newspaper and magazines. It has the positive impact on logistics and transportation. The GST implementation in beginning affect to every sector. Study focus to only some sector not in all sectors. The application of GST will have a important effect on logistics sector in India. If GST is properly implemented then it will have a double positive impact on the logistics.

Kumar (2016a, b) in his study mainly focused on the issues that are challenged by central and state governments and the secondary data are collected from various papers that discussed about GST articles and journals. Few countries were successful and had a positive effect over their economy. It was considered as a simplified weapon to fight against the double taxation in the country. It is impossible to bring into light all the issues. The central should have the power and authority in collecting the tax and the state should have the authority to take the decision regarding tax rate. Suppose if any changes to be made in the rate of tax then the decision should be taken through democratic accord, so that, there will be only a minimum chances of political intervention.

Banerjee *et al.* (2016) mainly, focused on understand the working of the Goods and Service Tax and gain idea regarding its proposed implementation in India and also to study the past literature related to GST and identify the research gaps the secondary source of data mostly containing journals, research publications like conference proceedings, published and unpublished thesis. The application of goods and services tax helps in better utilization of resources and he taxation system environment, friendly. It is impossible to fully summarise all the research that has been conducted in the field of goods and service tax. However, it is attempted to provide a summary of the major research that has taken place on the key issues which have emerged. After a thorough analysis of the above literature it can be concluded that GST will provide relief to producers and consumers by subsuming the several indirect taxes in India.

Kumar (2016a, b) this study analysed that how the GST will effect on Indian economy and also to analyse the advantages and the challenges in the implementation of the GST in the Indian Economies. Secondary data is collected from various books national and international, journals, government reports, publications, from various website. The application of GST is not only increase the progress engine pursued by the government but also switch over from the existing indirect tax rate system. The points that have been examined in this study are informative and not thorough. This study concluded financial planning plays a vital role on economy though better tax policies. Due to the weakness of existing

indirect taxation policies Indian economy goes on back foot. The impalement of GST will also result in low cost of production which will make the domestic products more competitive in the local and global market.

Khurana and Sharma (2016) stated that the goods and service tax is the major and substantial indirect tax reform, since from 1947 and the study mainly focused on the effectiveness of goods and service tax to address the cascading effect of the existing tax structure. The secondary, data was collected based on the exploratory, research technique based on past literature from journals, reports, newspaper and magazines and the findings of the study is that to improves the compliance remove the unhealthy competition among the states redistributes the burden of taxation equitably among manufacturing and services. But this study, failed to analyse the facts and figures and concluded by saying that requires concentrated, efforts of all the stakeholders namely central and State government trade and industry for the successful implementation.

Sehrawat and Dhanda (2015) stated that the “Goods and Service Tax is one of the most critical tax reforms in India”. The research focused mainly on advantage of goods and service tax and challenges faced by India in execution. The methods that were used in this study are explanatory research based on secondary data of journals, articles, newspapers and magazines. Findings, of the study are goods and service tax has two components central goods and service tax and state goods and service tax. CGST will be composed by central administration and SGST will be, collected by state administration. But this study has not focused on the industrialised states which will be at loss in GST regime, due to its destination based features. The study concluded that multiplicity of taxes in the current tax regime administration complexities and compliance cost is also accelerating thus a simplified user friendly tax system is required which can be fulfilled by goods and service tax, implementation.

Shaik *et al.* (2015) in this study they have an alysed that the implementation of goods and service tax will help in increasing the gross domestic product ratio and also help the country in skip from the problem of inflation study focused on the idea of goods and service tax and its possessions to Indian economy and also aimed to understand the advantages and challenges of goods and service tax in Indian scenario. The “secondary data is collected from various books national journals and International journals, government reports publications from different websites” which focused on various aspects of goods and service tax. The manufacturing, sectors like FMCG, auto and cement will benefit the most and the service sector is going to be adversely affected by GST.

Study conducted in the early period of implementation is the limitation of the study. The timeline of implementation of GST among the states should be coordinated properly.

Narayanan (2014) this study focused on the implementation of GST in Malaysia and its impact before and after implementation focused on the implementation of GST in Malaysia and its impact before and after, implementation secondary data has and reports published on goods and service tax been composed over different articles and papers and the findings of the study is GST is being a tax on consumption (not income) may be expected to, encourage savings and investments. This, in turn helps to spur longer-term. Failed, to identify public opinion before implementation of GST growth competitiveness and employment creation The fear of rapidly rising GST rates should be addressed by implementing a low reasonable initial rate (like the 4% suggested) and offering a guarantee that it will not be Raised for a period of at least 5 years. This was the strategy adopted by Singapore to gain public acceptability of the GST.

Venkadasalam (2014) in his study stated that majority of the Asian nations out of ten have implemented goods and service tax and this study analysed that the effect of goods and service tax after the implementation may have a positive or negative effect on the national growth on ASEAN states the methods that reused in this study are Least Squares Dummy Variable Model (LSDVM) is used to collect the data. The effect after the implementation of GST differs in countries. Some countries shows positive relationship with their nation's development (Singapore) whereas few countries may show a negative relationship (Thailand) is the findings of the study. Focused only on the positive and negative relationship of GST with nation's development. The positive effect of GST will depend on the structure and the neutral design in such a way that it should be simple and easy.

Garg (2014) in his study stated a brief explanation about the historical scenario about Indian taxation and its structure. The focus of the study was on the "impact of goods and service tax on Indian tax scenario" and the methods and methodologies that were used are theoretical analysis based on past literature from journals reports newspaper and magazines. The finding was exclusion of the cascading effect will increase the competitiveness of goods and services and have a, positive impact on the countries GDP growth. Study failed to identify the threats of goods and services tax on different sectors. This study, concluded that the implementation of goods and service tax will break the tax barriers between states. Each and every sectors of the economy have to bear the effect of the new tax reform that is goods and service tax.

Jain (2013) in his study analysed on the impacts implications and policies of introduction of goods and

service tax in India and the methods that are used for collecting the data are theoretical analysis based on past literature from journals, reports, newspaper and magazines. If the goods and service tax is executed in their real spirit it will have many positives for the stakeholders and will lead to the better tax environment. The data used of are the early implementation stage (2013) and the study concluded the new tax reform will be a uniform tax law and also has a wide transparency of tax rates on different products and which would really lead our country to the better tax environment.

Palil and Ibrahim (2011) this study gave importance in analysing the effect of GST on middle income earners in Malaysia. And the methodologies that were adopted in collection of data was t-test, ANOVA. The study analysed that the consumers in Malaysia were in the expectation of raise in the price of the products and at the same time it may also have a negative impact on the purchasing power of the people and here people did not have much knowledge about GST they were inadequate of knowledge. So, the government should take the necessary steps to create awareness among the public and also to convince them that the GST is not going to reduce the buying capacity in case if this happens the government will reduce these by reducing the rate of income tax and also by providing the exemptions.

Vasanthagopal (2011) in his study mainly focused on the impact on current taxation from the new tax reform. The secondary source of data mostly containing journals, research, publications, conference proceedings published and unpublished thesis. The study founded that the success of GST had made more than 130 countries to accept GST. The study also, limited that all these countries who have adopted GST were not successful. Switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

This research focused on the impact of the tax reform on fast moving consumer good distributors with reference to goods and service tax. In order to identify the positive and negative impact on the distributors. The data is collected from both primary and secondary sources. I framed structured questionnaire through SPSS Software for collecting the data. From the research it has been suggested some of the changes has to be made in the goods and service tax framework in India.

Research problem: The implementation of goods and service tax is the biggest and major tax reform in the Indian context. This reform specifies the changes in the existing indirect tax system like altering the methods calculations rates etc. and results simpler tax structure. Proposed GST regime would develop the growth of Fast

Moving Consumer Goods (FMCG) and raises industry size to \$95 billion by 2018 (as per the report of tax department). But this tax reform also leads to lot of complication to dealers/distributors of FMCG with respect to the change in registration procedure like administration in terms of computerization and trained personnel regarding invoice computational/calculation procedure of rate of taxes or duties, exemptions, accounting records, IT infrastructure. Even though the proposed GST is expected to act as a saviour for the FMCG sector by solving most of its issues it is not evident that GST will resolve all the issues. Several attempts has been made in bringing out the analysis on impact of GST on different sectors of India. But no research has been done particularly on GST impact on FMCG sector with reference to dealers/distributors point of view.

Objective of the study: In the outline of above, the paper intend to study various policies and the initiative taken so far by the central and state government really gives a organized method to the question that how to increase tax to gross domestic product ratio by adding further reforms in the new indirect tax system. Following aspects are examined in the research to study about the concept of GST and its impact on FMCG sectors to find out the changes required in the GST framework towards distributors of FMCG sectors.

MATERIALS AND METHODS

The study focuses on the extensive study of primary data was collected through direct personal interview with the distributors of FMCG sector and chartered accountant and secondary data collected from various International and National journals, books, articles, publications from various website which focused on the aspects of goods and service tax.

Concept of GST: Implementation of GST is one of the biggest tax reforms in India. On 1 July, 2017 goods and service tax was implemented in India. France was the first country to implement GST in the year 1950 and now more than 160 countries have already implemented GST. We have adopted the Canadian GST that is the dual GST system where we have State Goods and Service Tax (SGST) and Central Goods and Service Tax (CGST). In case of SGST the tax will be collected by the state government and in central the tax will be collected by the central government apart from this we also have Integrated Goods and Service Tax (IGST) which will be applicable for the sale of the goods outside the state. GST is not an additional indirect tax it covers all other indirect taxes single umbrella. The tax rate may differ from one country to other. We have five different rates 0, 5, 12, 18 and 28%. Tobacco and petroleum products are exempted

from GST. GST may have positive as well negative impacts on different sectors. GST has been implemented with an expectation of having “one tax one Nation”.

Impact of GST on FMCG sectors: Fast moving consumer goods is the fourth largest sector in the world and this will be impacted more by GST. As the FMCG covers those goods which are needed for the day to day activities and these goods has a short life time and they are also called as the consumer packed goods. This industry includes about 50% of the food and beverages and 30% of personal and household care. Companies like Hindustan Unilever, Godrej and PepsiCo etc. are the big players in the market. GST is a boon to the Indian economy as it help to increases the GDP of the country by 2-3% which in turn increases the number of taxpayers and leads to increase in tax revenue for the government. GST will have a positive impact on the distributors in the following way:

- GST will help in reducing the cascading effect by simplifying the tax compliance procedure and benefits is a unified tax that brings benefits to the distributor wholesaler as it avoids the cascading effects of tax and simplifies the compliance procedure and open opportunities to consolidate suppliers
- GST is also expectant to cut dejected the cost of goods factory-made and distributed in India which in turn benefits the end consumer
- GST bring one unified standard rate which is charged on all product all over India which removes the hurdles of large variances and different tax rates prevailed in VAT
- GST complements central and state tax management which in turn reduce replication and compliance cost
- GST automatize the compliance procedure which reduces errors and increase efficiency
- GST decreases the extra duty CVD singular additional duty mechanisms of customs duty
- GST removes excise duty concepts which results in more manufacturing as GST is imposed at the period of sale or the supply of product relatively than at the time elimination of goods from the plant and that leads to more distribution and wholesale of the products
- In GST assessment occasion will shift from production sale or delivery of facilities to supply of goods and facilities hence division transmission would be established as supply and would be chargeable however eligible for full credit
- GST made provision for removing the imposition of entry tax or octroy across India which indirectly benefits the wholesaler/distributor

- GST has helped in widening the tax system which is important in reducing the rates of tax and also helps in erasing the disputes that arises due to classification
- GST replaces the most indirect tax in India which indirectly helps distributors/wholesalers to lower their tax burden
- In GST there is common formats for a tax return payments refund etc. Traders operating in multiple geographies across India will find it easy to compliance
- GST nullify the cascading? effect which lower down the price of goods? and? leads to increases in revenue trickling down to the distributors as the dealers pass on the benefit of reduced tax
- In GST tax burden will be equally divided among the whole supply chain which includes the wholesaler and distributors though lesser rates and by raising the tax sources and reducing the exceptions on goods
- To decide a reasonable rate of tax which should help in reducing inflation, increasing competitiveness of business by reducing prices, increase employment opportunities by promoting start-up and small business, reducing tax evasion and corruption
- Government should construct a proper monitoring system for monitoring the dummy registration and refund problems
- When rules and regulations are simple people tend to understand what they are doing and they need not have to depend on the experts
- The input tax credit will be given for the distributors for purchase of inputs/supplies meant for both sales within the state as well as to other states which was absent in the indirect tax system
- It is impossible to cross over from one tax structure to the other in just a day hence this results more confusion and compliance issues

RESULTS AND DISCUSSION

Changes required in the framework of GST to the FMCG distributors: As the GST is implemented recently in India it is difficult for each sector to adopt the changes especially the FMCG sector distributors. There is lot of negative impact of GST on the FMCG sector distributor's. Few of them are listed below:

- Under the new tax system the profit margin of the distributors will be very low this is because of the new rule where the invoice has to be uploaded in the GSTN common portal and it has to be accepted by the buyer and the retailer. So in this case, the distributors cannot escape from tax liability
- The new tax reform has become a burden to most of the small FMCG distributors. This is because they are not much aware about the benefits and impact of GST
- Complexity in the registration process has made the distributors to take the assistants of the experts which in turn are an additional expense to the distributors
- In the initial stage there was a negative impact in the sales because of the change in the rate of taxes and also led to high competition
- Difficulties in filling the return and other forms

These are some of the negative impact of GST on the distributors of the FMCG sectors. So, the necessary changes have to be made by the government in the frame work of GST, so that, it can be successful in the long run and also help the distributors of all the sectors:

- GST is proven to be an efficient tax collection system but for smooth implementation there is need of acceptance by general publics, businesses and firms

CONCLUSION

At the end we can come to a conclusion that the implementation of the GST will help in the economic development of our country even though it may have some out breaks in the beginning it will resolve all the problems that was present in the old indirect tax system and also lead to a greater change in the entire tax system. Though GST frame work has impact on FMCG sector distributors it should take into consideration the recommendation stated by the distributors of FMCG sector to make it even better and to simply the tax regime for them. Few changes in the frame work of the GST would help the distributors of the FMCG sector a happy tax customer.

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