

IMPACT OF GOODS AND SALES TAX (GST) ON FAST- MOVING CONSUMER GOODS(FMCG)

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Abstract—The Goods and Services Tax (GST) implementation in India is one of the most significant reforms made by the government in terms of indirect taxation in order to develop a single comprehensive and transparent tax regime. This paper explores the effect of the GST legislation on the FMCG segment in India since this market represents one of the main economic drivers of the country owing to the huge volume and number of goods with low profit margins distributed throughout the country. The introduction of the tax has resulted in the cancellation of numerous other taxes such as excise duty, VAT and service tax, making the tax burden lighter in many categories of goods.

In turn, the implementation of the GST in the country has affected positively the supply chain in terms of eliminating inter-state barriers and optimizing warehouse management, thus, resulting in better profitability of the organized FMCG players. Nevertheless, at the beginning of the implementation process, some complications appeared related to compliance issues and the adaptation period.

I. Introduction

The word ‘Tax’ is taken from the Latin language word ‘Taxare’ that means estimation. In India, the concept of direct tax was prevalent in many industries. The GST system began to function from 1st July 2017, which is a tax that is levied upon manufacturing, selling, and consumption of goods and services. The GST tax system has united the concept of centre and state taxes into one taxation system throughout the country. It has become very difficult for India to survive under the GST tax system.

This issue has been a buzz in the entire country, but without any clarity in different industries. It has caused a lot of changes in the organized and unorganized FMCG industry in Tier-1 and Tier-2 of Indian cities. In this respect, there are several difficulties being faced by the FMCG in managing different goods, which further have an impact on the profitability of business.

Based on the different market research firms, the definition of GST can be put forward as follows. GST is described as a novel tax system that is currently imposed on goods and services in India. It is also a standardized indirect tax that has superseded several existing taxes like excise duty, service tax, additional excise duties, and custom duties. Additionally, there are other definitions of GST that exist

in scholarly literature.

This paper addresses the rudimentary aspects of GST and particular to FMCG stores.

Introductions of the VAT scheme both at the Central and the State level can be described as an important milestone in the domain of indirect tax reforms in India. Considering the fact that the VAT scheme is certainly much better than the existing Central Excise Duty scheme at the national level and also the Sales Tax Scheme at the State level, introduction of the Goods and Services Tax Scheme (GST) will certainly be another important improvement towards the development of indirect tax reforms within the nation. Initially, it was thought that the GST Scheme would be implemented at the national level, but with the introduction of the first discussion paper of the Empowered Committee of State Finance Ministers on 10.11.2009, it has become clear that there would be implementation of the "Dual GST Scheme" in India, where there would be the powers of taxing the goods and services for the Center and the States. Around 150 countries across the globe have adopted this tax system in some manner. Whereas countries like Singapore and New Zealand apply this tax uniformly on all items, other countries have different provisions like Indonesia, which applies five positive rates, one zero rate and 30 exemptions.

The following are some examples of GST rates in certain nations. The GST Act was enacted in the Parliament on March 29, 2017, and became operational on July 1, 2017. The Goods and Services Tax Law in India is an extensive, multi-level, destination-based tax that is applied at each stage of value addition. The GST is a single indirect tax applicable throughout the nation. In the event of transactions taking place within the state, the tax will be applied to Central GST and State CST. In the event of interstate trade, the tax will apply to Integrated GST. Goods and services are grouped into five categories for the purpose of tax collection: 0%, 5%, 12%, 18%, and 28%. Through the consolidation of numerous central and state taxes into one tax system, GST will overcome the drawbacks of cascading or double taxation in a significant manner.

In essence, both products and services are subjected to an equal percentage of taxes. GST is a multiple-stage tax whereby the ultimate cost of the tax falls upon the customer who uses the services or goods. It is referred to as value-added tax since tax payments are made at each level according to the increase in value. Both service provider and goods seller are eligible for input tax credits (ITCs).

1. Introduction of CGST act, 2017

India implemented the dual GST system. In such systems, both the center and the state collect taxes simultaneously when a transaction takes place within the same state. In its 11th meeting on 4 March 2017, the GST Council approved the "draft Central GST" bill that provides for the imposition and collection of taxes on intra- state supplies of goods services, or both by the Central Government.

The Union Government introduced the central goods or service tax bill, 2017 in Lok Sabha on 27 March 2017. It was passed by Lok Sabha on 29 March 2017. Rajya Sabha passed the bill on 6 April 2017, and it received the President's assent on 13 April 2017. The Act applies to all of India, including Jammu & Kashmir

2. Definition Of GST

Goods and Services Tax (GST) according to Article 366 under the constitution is described as any tax imposed on the supply of goods, or Services, or both excluding taxes imposed on the supply of alcoholic liquor for human consumption.

3. Types of Tax system in India

Tax is the major source of financial charges to impose by Government of India, on income of commodity and activity. Government imposed 2 types of tax for person. i.e. Direct and Indirect e.g.

- **Direct Tax** – Income Tax and Wealth Tax etc.
- **Indirect tax** – Goods and Service Tax (GST)

Under GST various indirect taxes would be subsumed and hence it is going to result in a simpler tax regime especially for Industries like FMCG.

4. Benefits of GST on the Indian economy

- Abolition of all indirect taxes in the form of VAT, CST, Service tax, CAD, SAD and Excise.
- Simpler tax regulations and compliance procedures than in the existing tax structure.
- Abolition of the cascading effect of taxes, which implies that it eliminates the concept of tax on tax.
- Reduction in costs of manufacture owing to the lightness in the taxation imposed on the manufacturing industry. Consequently, prices of consumer goods would reduce.
- Reduced burden on common people. As a result, public expenditure would be lesser for the purchase of products which earlier had cost higher.
- Increase in the demand and consumption of the goods.
- Rise in demand would give rise to increased supply. Thus, it will eventually lead to production of goods.
- Reduction in the circulation of black money, as the system that was practiced regularly by

traders and shopkeepers would now be subject to control.

- Positive impact on the economy of India.

5. Effects of GST on Indian economy

- It lessens the tax burden of the producers and promotes growth by encouraging production. The older tax system, which had numerous tax provisions, made it difficult for the producers to reach their production potentialities and hindered growth. However, GST solved this issue by making tax credit available to the producers.
- Various tax barriers like check posts and toll booths result in wastage of unprocessed products in transit. Such wastage leads to high costs because there is a requirement for buffer stock and the expenses of warehouse storage. One taxation system will remove this barrier.
- Transparency will increase in the tax system because the customers will have an idea of how much taxes they are paying and what basis is followed for it.
- Government revenues were augmented through GST by expanding the tax base.
- GST gives tax credit to producers in the chain of goods/services. This will incentivize the producers to procure raw materials from a variety of registered dealers and will also ensure that more suppliers fall under the ambit of the tax system.
- GST eliminates the customs duties levied on exported products, leading to improved competitiveness in international markets.

6. Major segments in the FMCG sector are

- 30% Household Sector (Washing Fabric, Detergents)
- 30% Personal Care (Oral Care, Hair Care, Skin Care, Cosmetics, Hygiene & Paper Products)
- 50% Food & Beverages (Health Drinks, Bakery, Snacks, Chocolates, Ice Cream, Processed Fruits & Vegetables & Dairy Products, etc.)
- The GST will definitely affect the FMCG sector. The simplified tax structure under the GST will be beneficial for the FMCG industry. The GST will affect the pricing policy, sales, cost, and taxation of the FMCG industry.

7. Need for study

Fast Moving Consumer Goods (FMCG) products are commonly referred to as consumer packaged goods. Products included in this sector comprise of all items which are not food grains (other than groceries/pulses). Fast Moving Consumer Goods (FMCG) is one of the highest growth sectors amongst other sectors in the Indian economy. Fast Moving Consumer Goods (FMCG) sector ranks fourth in size in the Indian economy. In most cases in this particular sector, there will be good news for people following GST due to the lower level of taxes compared to before GST.






In this sector, GST would affect such areas like pricing, working capital, vendor and customer contracts etc. In any case, the buying pattern of retailers and wholesalers, along with the monthly budgeting of common people for fast moving consumer goods (FMCG) will be affected by GST. It is also imperative that the awareness about GST amongst common men be considered.

FMCG goods have faced an increased rate of tax after GST certain big players like Nestle, HUL and P&G have been impacted by GST.

	Detergents 	Baby foods 	Sanitary napkins 	Shampoo 
GST RATE	28%	18%	18%	28%
CURRENT RATE	23%	5-12%	10-11%	24-25%
COMPANIES IMPACTED	HUL, P&G, Jyothy Lab	Nestle	P&G Hygiene and Health Care	HUL, P&G, Dabur, Himalaya
	Skin care 	Ayurvedic medicine 	Hair dyes 	Paints 
GST RATE	28%	12%	28%	28%
CURRENT RATE	24-25%	7-10%	23-28%	25-26%
COMPANIES IMPACTED	HUL, Dabur	Dabur, Emami	Godrej Consumer Products (GCPL)	Asian Paints, Berger Paints, Kansai Nerolac, Akzo Nobel

8. Impact of GST on FMCG

A. Positive impact of GST on FMCG in India

GST'S 5 TAX SLABS		
	5% Domestic LPG, PDS kerosene, sugar, tea, coffee, edible oil, spices, fabric, agarbatti, medicines	
0% Milk, eggs, curd, unpackaged food grains, salt, fresh vegetables, bindi, bangles, newspapers, judicial papers and services, including education and health		12% Butter, ghee, processed foods, mobiles, fruit juice, almonds, packed coconut water, umbrellas; food served at non-AC restaurants
	18% (general rate) Hair oil, toothpaste, soap, ice-cream, toiletries, pasta, computers, printers, food served at AC restaurants, film tickets costing less than Rs 100	
	28% AC, fridge, washing machine, small cars (+ 3 % cess), high-end motorbikes (+15% cess), luxury and sin items like BMWs, cigarettes, aerated drinks (+15 % cess); film tickets costing over Rs 100	

1. Lower Taxes

Thus, GST manages to replace all other types of taxes levied against the supply of FMCG products. Prior to GST, FMCG used to pay numerous taxes like VAT, CST, Service Tax, excise duty, and others, which amounted to 30% of the total cost of goods. With GST, only one type of tax remains, depending on the nature of product and ranging from 12-28%. GST also eliminates the issue of cascading taxes since now FMCG is eligible for input tax credits.

2. Availability Input Tax Credit

In contrast to the existing taxation system, there is an opportunity to avail input tax credits under the GST system, where a FMCG can obtain credit for taxes that have already been paid by him/her when buying inputs. Not only is this a way to save taxes but also this helps avoid cascading effects. Once again, it can be termed as a significant benefit for the FMCG INDUSTRY where certain taxes levied on the supply of services such as rent charges for outlets, considerable costs incurred on account of hiring professional services for recruiting agencies, among others, can now be claimed as credits under the GST regime. Taxes paid during importation of goods (CVD+SAD) will also become eligible for tax credit under GST, which was previously an expense for the industry, despite the refund of SAD being available with certain conditions.

3. Reduced Complications

In this regard, the lesser number of taxes leads to lesser complexities. Moreover, GST is a fully digitized tax regime, which means FMCG can make plans for tax filing through online channels without managing many paper records, accounts, and other procedures. The entire tax compliance system under GST will be managed by GSTN (Goods and Services Tax Network), which is an information technology network that helps manage the process of registration, returns, payments, etc. The GSTN is the largest ever built in India, processing around 3 billion vouchers per month and handling 50,000 transactions per second.

According to the process notes for GST return filings, invoice-level information will not be needed to be provided for companies where supplies are made to consumers, that is, business-to-consumer supplies, but HSNS codes are essential for invoices. In addition, taxable persons up to a turnover of Rs.1.50 cr. do not need to provide HSNS codes, but in the event of turnover above Rs.1.50 cr., but not more than Rs.5 cr., two-digit HSNS codes, and in cases where turnover exceeds Rs.5 cr., four-digit HSNS codes should be used in invoices.

4. New Promotional Strategies

In light of the recent GST tax system, it is imperative for FMCG to think of and put into operation an entirely different promotional campaign as opposed to the former one based on promotional goods and gifts. This is mainly due to the fact that the new GST regime makes all supplies taxable since there is accountability for all of them. With regard to GST, all supplies that do not come with payment will automatically be taxable hence all of them need to be accounted for. The promotional goods and gifts that were previously handed out by FMCGs free of charge as part of their promotional campaigns will be taxable under GST and therefore, FMCGs will have to change their approach.

5. Ideal For Start-ups

The Government has already come up with rebates for entrepreneurs and startups. With GST doing away with the intricacies faced in FMCG industry, it is but natural that startups will make use of this opportunity.

Today, it requires VAT registration from Sales Tax Department of State. However, with GST, the entire process of registering for GST will be uniform. Multiple VAT registrations for various states won't be needed, instead GST registration will serve the purpose in entirety.

b. At present VAT registration and payment of VAT becomes obligatory after crossing yearly

earnings of Rs 5 lakhs in certain states and Rs 10 lakhs in other few states. Once GST arrives, those with yearly turnover of less than Rs 10 lakhs won't need to register for GST or pay GST at all.

c. Tech companies use stock transfers to move products between states because of their capability in logistics and infrastructure and hence avoid paying taxes in case of interstate transfer. But SMEs and startups lack such capability, and therefore are obliged to buy goods through interstate sales making them pay central sales tax. GST will bring equality for small entities with bigger corporates, and as GST does away with multiple.

6. Phasing out of CST will bring efficiency in supply chain

Currently, the existing tax structure involves every company in the FMCG Industry plans its warehousing and branch points to avoid CST. For instance, if a FMCG firm is located in Delhi and sources its materials from Maharashtra, it prefers using the stock transfer mode rather than the F-form method to avoid CST despite the loss incurred in retention.

The implementation of GST will involve the imposition of IGST for any interstate movement of goods, which can be claimed back in tax credits. The availability of tax credits will enable the industry to close down some of its branches, which were mainly utilized to move materials from one depot to another.

7. Place of supply in case of FMCG INDUSTRY

GST is a destination-based consumption tax, meaning that the tax collected will go to the state where goods or services are being consumed. It thus becomes necessary to identify the proper place of supply in order to pay the tax. As one may notice from the model GST laws, it is explicitly mentioned that the POS in the event of the FMCG industry (B2C) will be the location where the goods are delivered to the receiver, which in this case will be the store's location.

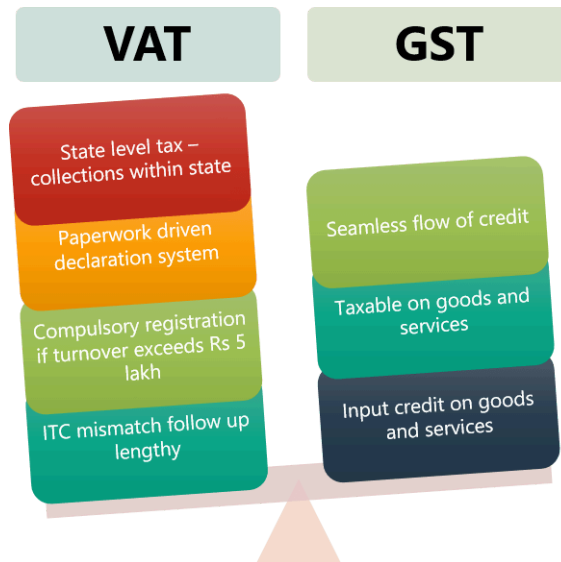
Even if the delivery is being made by the FMCG company at his own premises, the above principle remains unaltered. In such cases, the place of supply will be the location where the goods will be situated when the movement of the goods ends for delivering it to the person concerned, i.e., once again intrastate. Thus, the above conclusion that place of supply in the case of FMCG industry shall be the location where the goods have been supplied to the consumer.

8. Growth of FMCG market

The GST system will bring about a uniformity of markets, since it will bring about the

streamlining of the state and central taxes and clear the confusion regarding the taxing policies of the markets.

It would be easier for the FMCG companies to expand their businesses beyond borders, as they will be required to register their businesses only once and operate throughout the states.



The FMCG products fall under the category of furnishing of returns under section 39 which includes GSTR-3B and GSTR-4. GSTR-3B is a monthly return filing and is also called a simple return while GSTR-4 is a composite return which includes the filing of the quarterly return during the 18th day of the month succeeding the quarter. The FMCG pays taxes on behalf of the consumers. It means that any businessman including FMCG businessmen has to register themselves if their turnover exceeds Rs. 20 lakhs per annum. Earlier, there were several taxes operations which made it difficult for the businesspeople but in GST implementation, everything is easier. In earlier times, the people who didn't want to pay any tax had now started to pay taxes since the supply chain in GST starts from the FMCG. GST has decreased taxes on items like fans, air coolers, lights, heaters, computers, printers, FMCG, clothing, footwear under Rs.500 and footwear above Rs.500. In this case, the tax on goods under Rs.500 has decreased from 5 percent and the tax on goods exceeding Rs.500 has been increased from 18 percent. The prime motive behind the reduction of tax prior to the manufacturing process was that initially the rate of tax was around 24 percent to 26 percent which has now been reduced to 18 percent due to the introduction of GST in India. Thus, there will be a fall in prices and the cost of production. Service tax has increased by 15 percent to 18 percent because people can afford it.

Furthermore, despite one year of GST roll out, the deferment of the implementation of the provisions for the treatment of advances, purchases from unregistered dealers, TCS by eCommerce operators and TDS for work contracts results in uncertainty prevailing amongst both old and new business houses. Another important concern of the Indian corporates relates to the matching principle according to

which the buyer must be able to match his payment of taxes with that collected by the seller from him and shown in the Government portal. In case of any mismatch, the tax credits will not be allowed to the buyer. This principle could not be implemented due to technical reasons and will continue until the technology becomes ready for implementation. Since employer and employee relationship qualifies as that of related party in the GST Act, supplies made by related parties even without consideration are taxable under the above provision and hence it is imperative that each transaction between employer-employee be scrutinized on the above provision. Supply of Gifts by employees to their employers upto a value of 50,000INR per employee is exempted from GST. Free amenities such as free food, health examination, gym, day care center etc. are common services extended by the company to its employees and those services that qualify under the employment policy should essentially be treated as a standard consideration from the company towards their employees in course of employment and hence should be outside the purview of GST. However, if services are supplied partly or wholly for consideration recovered from the employees (as in case of subsidized food), such transactions would be considered a supply for GST purposes. The Kerala AAR in its latest advance ruling case 2 stated that there was taxation of supplies when the recovery of the cost of food in the canteen takes place. In addition, there are provisions in several contracts where there is a provision for payment of liquidated damages to the suppliers such as contractors due to non-performance and delayed delivery among others. In such instances, the liquidated damage/cancellation charge can be adjusted from the invoice making for the net billing/paying amount. Taxation of liquidated damages or cancellation charges have remained contentious even during the indirect tax period. Though there was an existing AAR3 ruling with respect to the taxation of such liquidated damages as a deemed supply on the contractor as provided for by Schedule II (5)(e), there is every likelihood that such a ruling will face an appeal in court. The implementation of the anti-profiteering provisions constitutes one of the main topics of contention amongst industry stakeholders. Though the intent of the regulations is to ensure that companies cannot make profits due to GST, there has been much confusion with respect to anti-profiteering provision of GST Act due to the following reasons:

- a) Uncertainty regarding the level at which the analysis of anti-profiteering has to be done – that is whether it should be on an aggregated company level, category level or SKU level and effect thereof in case of price-controlled products
- b) Whether the taxpayers in India can follow the same procedures as those of tax payers in other jurisdictions where there are similar provisions against profiteering (for example in Australia/ Malaysia)? Would it be accepted by the tax authorities in India?
- c) Whether the transition cost incurred by the company due to GST will be allowed as deduction while calculating the anti-profiteering price?

d) The exact date of reducing prices after applying anti-profiteering analysis. Recently, NAPA has issued two orders – one against a company dealing with automobiles⁴ and the second against one dealing in rice⁵. In both these cases, the order passed was in favour of the companies. But there was uncertainty regarding the exact process undertaken by the companies while revising their prices.

Rate rationalization: -

Since the GST Act implementation, the major issue faced by the FMCG sector and the FMCG INDUSTRY has been the effectivity of tax rates. Though it was supposed to provide uniformity in tax rates and simplify the process, the introduction of different tax slabs and increased tax rates on consumer durables contributed towards rising costs of some of the most commonly consumed products. In light of the above, there have been efforts from the GST council towards the rationalization of tax rates. The last meeting of the GST council⁷ witnessed the rationalization of tax rates, where special emphasis has been laid on certain items like sanitary napkins, electrical home appliances/white goods (such as food grinders, mixers, shavers, hair dryers, etc.).

Classification related issues (medicaments vs. cosmetics) –

Certain cosmetics such as skin care preparations that not only have healing effects but also include certain medical substances in their formulations have been a source of litigation due to the difference in tax rates applicable to them. The test to classify a preparation as a medicament or not revolves around its intended purpose and whether it has therapeutic values or not. The criteria laid down by the Advance Ruling No.7 on this point have shed some light on the issue and provide some guidelines regarding when a preparation can be classified as a medicament, but it would still be beneficial to clarify on the matter with more definite guidelines that can minimize disputes and ensure uniformity in treatment.

However, it becomes difficult to lay down clear-cut criteria in this case since each product is distinct in its own right.

Marketing/ discount schemes: -

Although it is true that every business has to provide various marketing schemes and offers, but in case of FMCG and FMCG industry, the industry works in such a manner that the manufacturers /importers give various pre- and post-sale discounts and incentives, free samples and the like to the dealers/distributors. Although, the players in the industry, in their approach towards implementing GST, have taken various stands on various marketing schemes, yet there is no clear explanation or clarification available on the same. Also, in certain states, there has

been some questions raised by the concerned personnel on the matter.

- **Tax treatment of different types of schemes** – There is a wide array of discounts offered by FMCG players to its distribution network, and as a result of the ecosystem, they continue to evolve. There are different kinds of such schemes as follows: -
 - Post sale discounts including price discounts, purchase-based discounts, category growth discounts, trade discounts, and turnover discounts
 - Special discounts including festive price discounts, liquidation discounts, and others
 - Merchandiser discounts, visibility discounts, and security deposits from exclusive distributors - Corporate discounts and bulk buy discounts
 - Other discounts like loading/unloading discount and freight discount

The above-mentioned schemes can either be cash discount or additional quantity supplied. Further, there is an issue of factual determination as to whether the schemes in secondary markets fall within the ambit of Section 15(3)(b) as post-sale discounts for which input credit will be permissible or whether such schemes fall within the ambit of 'Subsidy directly linked to price' under Section 15(2)(e) of CGST Act. In case such schemes come within the ambit of "subsidy directly linked to price", such schemes will be liable to GST in the hands of recipient.

- **Promotional schemes, off take discounts** –

The company offers promotion schemes and off take discounts to stockists/FMCG, which states that upon purchasing a specific quantity of any product, the distributor would receive additional quantities of the same product free of cost (e.g., buy 10 and get 2 additional free). The supply of both taxable as well as free products is stated on the face of one invoice (e.g., 10 units taxable & 2 units free). Thus, on the above facts, the question before us is whether an input credit needs to be reversed on goods that have been supplied without consideration, as per the commercial arrangement? The first argument in this regard is that the supply of free goods in question is not a gift per se; rather it can be compared to a quantity discount, and thus no need to reverse the input tax credit on account of the same.

- **Free samples given to potential customers/ Gifts to dealers/ distributors** –

Company distributes its products as a part of marketing initiatives, etc. as free samples or gifts to dealers/ distributors for reaching targets such as gold coins etc. Under Section 17(5)(g) of the CGST Act, the credit of the input tax shall not be allowed where the supply made as free samples. Although presently, it is compulsory to reverse credit, however, industries have made a

representation that reversal of credit should not be compulsory because distribution of the goods as free samples is essential for promoting the sales of the said goods, and they are hence being used in the conduct and progress of their business. In addition, when preparing an e-way bill for the same, the industry should ask for guidance regarding the taxable value of reporting in the e-way bill for such FOC supplies. The mechanism/procedure for calculation of credit reversal concerning the supplies of free samples and other personal uses has not been clarified in the law. There is no provision in the CGST Act regarding the need to reverse credit in cases of services free of charge.

Combo packs -

Various marketing schemes are being undertaken in this sector in order to ensure that customers get more engaged with the product. Combo packs which are combinations of various products are a common occurrence in this case. The question that can arise in this case in relation to combo packs where the price breakup has also been mentioned on the invoice is whether it can be considered as a mixed supply which will be taxed at a higher rate than individual supplies. As per the statutory provisions, the mention of the price breakup on the invoice does not necessarily mean that the nature of mixed supply changes into individual supply. There is no provision available regarding the practical elements required for it to be a mixed supply.

Loyalty points redemption-

Various FMCG offer their customers loyalty programs wherein customers earn points which further allow them to either pay for their purchases either fully or partially in terms of such earned points. There appears to be ambiguity at the moment regarding how these points are treated under GST law. In some cases, these have been considered discount whereas in other cases GST has been paid on the total consideration of the goods purchased including the consideration for the points earned. Whether it is necessary to reduce the total consideration by considering the total amount that is earned by means of loyalty program before charging GST or not. This is mainly because such discount or rebate can be considered quantity or off-take discount provided all other conditions are fulfilled. Besides this, since this is an industry involving a long chain of supply, the transaction relating to the redemption of loyalty points must also be examined carefully.

Vouchers -

The payment methods keep changing, and new payment methods keep coming up. Some of the most popular payment methods in this sector include pre-paid cash cards/gift cards, food/goods vouchers, and gift vouchers. The owner of such cards/vouchers will usually get a discount or

monetary value while buying goods/services. A 'voucher' under GST must be the instrument that can be considered as consideration (either wholly or partially) for the provision of the service. This means that a voucher is an asset for the holder, and without a holder, a 'voucher' will not have any meaning. There is also a specific timing for supplying vouchers. When supplying vouchers, the timing for supply will be

(a) the date of issue of voucher, provided there is an identification of supply on such date; or

(b) the date of redemption of voucher, if supply is not identified at such date. Moreover, the rate of GST would apply depending upon the nature of the goods or services in consideration or the rate prevailing during the time of redemption of such voucher. In light of the above rules regarding vouchers, although it is generally considered that GST should be paid on the date of redemption of voucher in case of customer's purchase, it is important to analyze each transaction.

- • Overcharging by collecting more than what is required from customers - If more money is collected from customers because of the rounding-off difference, then there is a question of whether the tax should be charged on the additional money recovered. However, there is nothing that relaxes the provisions of the GST law when it comes to paying tax on the excess money collected.
- Sales return in a different State - Regarding inter-State sales, wherein goods are returned to the State other than that from which goods have been delivered (such as Delhi), then whether a credit note will be allowed in the State in which the invoice was raised without receipt of those goods in that State.
- Sales Return in case of Closure of Branch/Warehouse in a State: Likewise, if the sale return happens from another State in case of closure of branch or warehouse from where the sale happened (such as Delhi), then is there going to be a credit blockage in State of Delhi due to the fact that it made a non-taxable sale of goods from Delhi (because in the future it will never be able to make any taxable sale of those goods as they are lying in a different state).
- Refunds made to customers – In some instances, in case of the dissatisfaction of the customer with the products or in case of expiry or any defects with the products, refunds will be made to the customers. The question that arises here is that whether the refund can be considered to constitute another supply taxable under GST. Here again, it seems that there has been no supply of goods in the course of the customer's business operations.

- Requirements of Compliance for Credit Note/Debit Note – Owing to the quantity of transactions that were low value but high volume, there was an immense pressure on the industry to raise a separate credit/debit note for each transaction. Considering the above, the Government has introduced certain amendments into the law, which permits raising a consolidated debit/credit note for several invoices.

Return of expired goods –

As per Section 142 of the Central Goods and Service Tax Act, 2017, in case the registered person has returned any goods and duty was paid thereon before 1st January 2017, then such return of goods would be considered to be a supply. Similarly, in case goods are written off/destroyed then no input tax credit would be allowable in respect thereof as per Section 17(5)(g) of the CGST Act. As regards above provisions, as per the clarification issued by the GST Authorities regarding return of expired stock⁸, it has been provided that the input tax credit taken for expired or damaged goods must be reversed as per the provisions stated above. Moreover, in case of return of goods, a deduction in respect of GST paid would generally not be allowable since return is made post September in the next financial year. This would lead to the following problem areas:

- This company suffers double taxation cost due to reversal of input credit and failure to claim deductions of tax paid
- This causes uncertainty because one may not know whether it is the tax credit for the tax chargeable for the returning person or the tax credit for inputs used in manufacturing expired goods.
- The manufacturer of the expired products, who was already paying taxes to the government through his sales/ supplies, does not need to reverse any tax credit after destruction of those expired products as they are already taxed products.

Due to the wide nature of the chain as well as the presence of various stockists/sub-stockist, there could be a great deal of paperwork that would be required in the case of sales return, especially when dealing with expired goods. In addition, the issue becomes complicated when the sale between sub-stockists occurs amongst themselves and across states.

B. Negative IMPACT OF GST ON FMCG INDUSTRY IN INDIA

1. Proposed Rate of GST is Higher than that of VAT

The rate of GST is suggested to be higher than that of VAT in India which although will lead to lower rates in long run will do no good in lowering prices of goods.

2. Dual control over the business

The business will be indirectly under the dual control of centre and state in respect of all things related to taxation. The state will have limited power over tax rates since tax rates will be controlled by the GST Council.

3. Deficit in manufacturing states

GST primarily relates to the manufacturing sector hence the majority of the manufacturing states may face deficit due to introduction of GST. However, the Government has decided to make up for that deficit for next 5 years.

Transitional challenges for FMCG INDUSTRY:

This GST draft law has a special chapter on transitional provisions where many transitional options are incorporated depending upon the judgment of the lawmakers. Migration of registration from one law to other law, carry forward of tax credits in returns, refunds in previous laws, and many others are provided in this draft. According to our understanding, there are some important issues in connection with the provision of transition in this draft that have not been considered. These are:

- What would be the status of tax credit in case if any supplier has withdrawn goods from business on March 30, 2017 or March 31, but received by customer after April 01, 2016 or after this date. Such an issue has not been dealt with in any part of the draft. It is a very important representation by industry and needs to be considered at the time of finalizing the law.
- On careful analysis of the draft, it appears that credits which are part of the return shall be accommodated in GST regime. But there are some problems regarding excise duties that are included in closing stock of FMCGs at their outlets and depots. They shall pay higher taxes on

4. Gifts, Free Samples also taxable under GST:

The definitions of manufacturing and Sales do not apply in GST regime because we are shifting towards a broader definition of supply as per the model GST law in section 3. Coming to the definition of Supply, it says supply shall include any supply made or agreement to make supply for a consideration in the course or furtherance of business. Certain types of transactions which do not involve a consideration are considered as supply under Schedule I of the Model GST law.

Accordingly, point 5 in Schedule I says that the supply of goods or/ and services by a taxable person to another taxable or non-taxable person in the course or furtherance of business, even if it does not involve any consideration, is a taxable supply under GST.

In other words, when you give some gifts to your customer under the GST regime, you would have to charge GST from them as against the present VAT law which does not require you to do so. This type of transaction, which is commonly practiced in the FMCG Industry, will significantly affect business or sales promotion policies.

5. FMCG Industry valuation issues under GST:

The value of the supply of goods or services under the GST regime shall be based on transaction value only where both the supplier and recipient are not related to each other and price is the only consideration of supply. Therefore, in case of gifts, free samples, or buy one get one free offer, the valuation of such a supply can be done in accordance with the valuation rules.

The valuation on the basis of which tax can be paid may be rejected by the assessing officer if he has any doubt in respect of the correctness of valuation.

Blockage of working capital in case of transfer of stock:

The old system of transferring stocks from one office to the other by the use of F-forms in CST regime has gone. This was a very useful technique for many companies which would help them in saving CST by transferring the goods between the branches in different states. In the present system of GST, the IGST chargeable upon the transfer of goods will increase the blockage of working capital.

The entity transferring the goods will have to pay the GST upfront whereas the receiving party can take the input credit. Critical issues in trade incentive and discounts

Trade incentives and discounts that are allowed after the supply of goods have been affected shall become part of the transaction value on which tax is paid by the supplier of goods. The incentives such as yearend sale discount, festival sales, turnover discount etc. are normally given after supply and cannot be linked to specific invoices will now become part of transaction value and tax has to be paid. This is a serious matter of representation for the FMCG industry before the law gets its final shape.

6. Tax rates will play critical role for industry

Much debate is currently ongoing about the rate of taxes under the GST regime. Looking at the revenue-neutral report (RNR), which is discussed above, there will be five categories of rates on

goods under GST. Did you realize the implications that arise from GST rates for some commodities which at present have an indirect tax incidence of 6%-8%, and this incorporates excise duty as well as VAT/CST? The few commodities that I am referring to include edible oils, piped industries, etc., whose rates are likely to increase even if put under the lower slab rate of 12%.

7. Matters of serious consideration for FMCG INDUSTRY:

This part of my article will discuss some of the serious issues in model GST law which needs immediate attention of authorities in a summary manner:

- Gifts and promotional offers: Considering the international practices followed in Europe and rest of the world gift, free samples should not form part of the concept of supply so as to avoid the business promotion strategy of the taxable person. In case it is not practicable in that scenario an exemption should be allowed above a certain level like 20000 and onwards and is done in other nations as well.
- Credit of CST and excise on closing stock: The stock as on the day of transition will have portion of excise duty paid and same will be a cost element for the industry. When the stocks are sold as per the new GST law the tax liability will be more which means that the cost will be increased for the entire FMCG industry. If there is no solution to this then this can even cause a stock-out which is unexpected in such a huge reform. Industry should try its best to ensure that a deemed credit is allowed for the excise and CST component.
- Discounts and incentives post supply: Considering that discounts form part of transaction value post supply if it is not invoice specific than this has to be revised.
- Free flow of goods across the nation: GST is designed with the theme of free flow of goods across the nation without any kind of barriers such as check post etc. to check the documents accompanied with goods vehicle. If we go through the model GST law certain documents may be prescribed by Govt. if value of consignment exceeds Rs. 50000. Such kinds of provisions should not be there in GST to avoid corruption and other consequences.
- Matching of inward and outward supplies: Based on the process note issued by the Government with regard to the filling of the GST return, the matching will take place on the following day after filling of GST return in GSTR-3 format. In the context of FMCG industry, particularly the FMCG segment, there would be many suppliers and making a match for them all throughout India becomes a Herculean task. We do not consider such draconian measures should form part of the law in future.

9. Objectives of the study

- To understand the concept of GST.
- To obtain a comprehensive overview of consumer's, wholesaler's and retailer's awareness and perceptions of GST.
- To study about FMCG
- To find out the impact of GST on sales of retailers and wholesalers.
- To analyse the impact of changes in the tax rates of fast-moving consumer goods on consumers. Is it positive or negative.
- To analyse the issues in filing GST

10 . Importance of this study

In an ocean of volatile industries, the FMCG industry represents an island of stability during times of economic uncertainty. Among the various industries that characterize the modern global economy, the Fast-Moving Consumer Goods Industry is amongst the most resilient to economic shocks. Unlike other industries, the FMCG sector is not prone to mass layoffs or substantial dips in profit when the economy slows down. This is due to the nature of the goods themselves.

For a developing country like India a sector like FMCG which does not get affected by economic stability is to be focused on. So, it is important to analyse the impact of a big tax reform in the country with respect to the 4th largest sector of the Indian economy.

II. REVIEW OF LITERATURE

Empowered committee of finance ministers (2009), introduced their first discussion paper on GST in India which analyses the structure and loopholes if any in GST. Vasanthagopal (2011) in the article GST in India, A big leap in the indirect taxation system discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India's economic change. The constitution 115 amendment bill, 2011. Bird (2012) summarizes in the article the GST/HST- creating an integrated sales tax in a federal country the impact of GST will be on Canada. Garg (2014) in the article named basic concepts and features of goods and services tax in India analyses the impact and GST on Indian tax scenario and concluded that it will strengthen out free market economy.

Under the study, Kaur. M, et.al (2016), mainly focuses on what are the impacts of GST after its implementation, the difference between the present indirect taxes and GST and also benefits and challenges of GST after its implementation. Research being a qualitative research analysis on how

various goods and services are being taxed under GST. Researches use the consumer price index which is a statistical estimate constructed using the prices of items collected periodically. With the help of CPI researcher analysis, the significant impact of GST on various items which comes unto 20-25%. Researchers conclude stating that GST would reduce the tax burden and also play inactive role in the growth and development of our country.

AurobindaPanda (KNT school of Law), Atul Patel (KIIT school of law), “THE IMPACT OF GST (goods and service tax) ON THE INDIAN TAX SCENE (2010) AT SSRN” The research paper analyses how GST would impact on Indian tax scenario. The authors have given a brief history of Indian taxation and its structure. Background of GST outside India as well as in India is also discussed.

Authors concluded that GST would be beneficial for the industry and the consumers. It would lead to an increase in revenue for the government.

In the study Monika Sherawat, et.al (December 2015) focuses on GST IN INDIA, A KEY TAX REFORM for international journal of research- This research presents an overview of GST concept. It explains the features and its live line of implementation in India. The paper also highlights the advantages and disadvantages of GST in India. The author concludes that GST fulfils the requirement of the simplified, user-friendly and transparent tax system. The author also states that with the coming of GST, it will lead to higher more employment opportunities and flourish GDP by 1-15 %.

Dr Mohan Kumar, et.al (December 2017) talks about GST AND ITS PROBABLE IMPACT ON THE FMCG INDUSTRY IN INDIA, for the international journal of research in finance and marketing. This paper analyses the impact of the FMCG industry. The fast-moving consumer goods (FMCG) sector of India compromises more than 50% of the food and beverage industry. And another 30% from personal and household care. Presently the peak tax cost for industry players amount to approximately 27% i.e. (excise duty of 12.5% and VAT ranging from 12-15%) under the GST regime, its proposed that the revenue neutral rate would be in the range of 16 19%.

R Hiremani Naik et.al (December 2017) discuss ON PERSPECTIVE IMPACT OF GST ON FMCG SECTOR IN INDIA” , for international journal of research in Business studies. The fast-moving consumer goods (FMCG) segments arethe fourth largest sector in the Indian economy. The sector is likely to see a significant impact once the goods and service tax(GST) bill is passed as the companies set warehouses across the states in a bid to have a more tax efficient system.FMCG is one such sector directly having its impact on the large public. It is very important to study the possible positive and negative impact of GST implementation on the FMCG sector.

III. RESEARCH METHODOLOGY

Research is a logical and systematic search for new and useful information on a particular topic. Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomenon are called research methodology.

3.1 Process of research methodology –

- Research design
- Population
- Instruments
- Questionnaire design
- Data collection
- Data analysis

3.2 Research design

The design in this research is a descriptive design to examine the impact of GST on Indian economy as a whole and specifically on FMCG sector. Descriptive research aims to accurately and systematically describe a population, situation or phenomenon. A descriptive research design can be using a wide variety of quantitative and qualitative methods to investigate one or more variables. The data was collected from various retailers and wholesalers of different regions in Delhi by making a structured questionnaire. The data was filled by the respondents through offline google form. The data also includes various tables to aid the reader in understanding the data distribution and hence provide a better and simplified extraction on impact of GST on Indian economy and FMCG sector.

3.3 Scope of the project-

The project covers possible impact of GST on FMCG sector. It also explains the perspective positives and negatives of GST implementation to FMCG sector. The project highlights various problems faced by retailers and wholesalers while filing GST. They are also asked about the effect of GST on the prices of raw materials and products. A questionnaire of 10 questions was used to gauge the awareness of GST amongst retailers and wholesalers of FMCG.

3.3 Type of research-

The project is descriptive in nature as it describes the various attributes of GST and its impact on Indian economy in general and on FMCG specifically.

3.4 Method of data collection-

Primary data collected through sample survey from retailers and wholesalers of FMCG shops. So, for this purpose I have most popular tool of primary data collection through direct communication. The tool I have used is a structured questionnaire.

3.5 Questionnaire design

In this research, the questionnaire was designed in closed- ended questions format. All the questions were multiple choice questions. They are easy to understand and the respondents didn't need much time on reading the questions again and again. The questions were straight forward and quick to respond. Closed- ended questions come in a variety of forms and they are usually categorized based on the need to have specific options for the respondents, so that they can select them without any hesitation. When the data was obtained and compared, these closed ended questions provided better insight. Closed – ended questions collect data that can be used to draw generalized conclusions based on statistical analysis.

3.6 Statistical tools-

- MS Excel: pictorial and graphical representation of data.

3.6 Sample-

While deciding about the sample of research, it is required from the research's point to pay attention to these under mentioned points

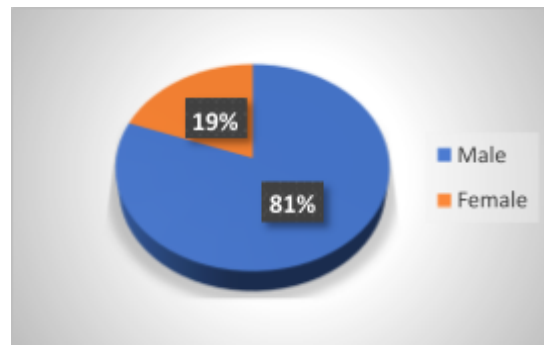
1. **Sample units-** A decision has to be taken concerning a sampling unit before selecting a sample, sampling unit may be a geographical area, so in this research sampling unit is Bihar & Greater Noida
2. **Source of data-** Data required for the study was collected through primary sources (online survey).
3. **Sampling size-** This refers to the number of items to be selected from the universe to constitute a sample. This is a major problem for the researcher. The size of sample should neither be excessively large or small, it should be optimum. This size of population must be

kept in view for this also limits the sample size. Sample size in this project is 57.

IV. DATA ANALYSIS & INTERPRETATION

Analysis of the data

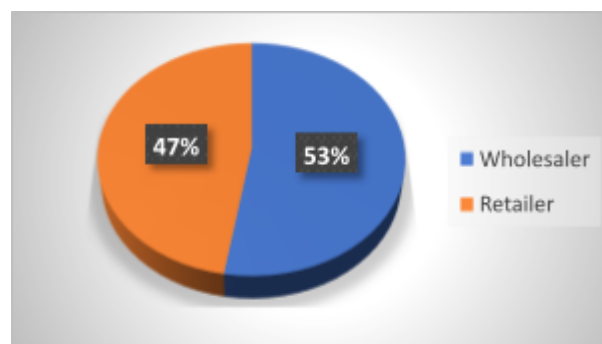
1. Your gender?



INTERPRETATION

For the above Pie- chart 46 people out of 57 (80% approx.) were males which means that most of the wholesalers and retailers in the FMCG sector are Males whereas 11 are Females.

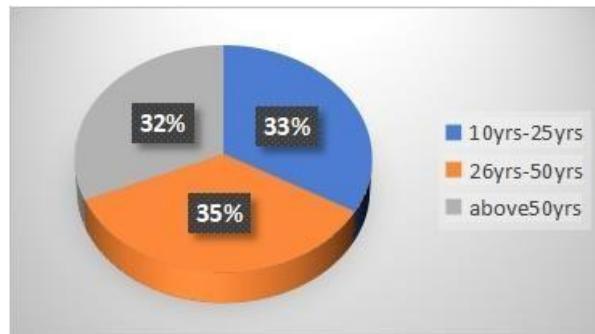
2. Are you a wholesaler or retailer of FMCG?



INTERPRETATION

For the above Pie- chart the number of wholesalers (30) and retailers (27) is almost equal.

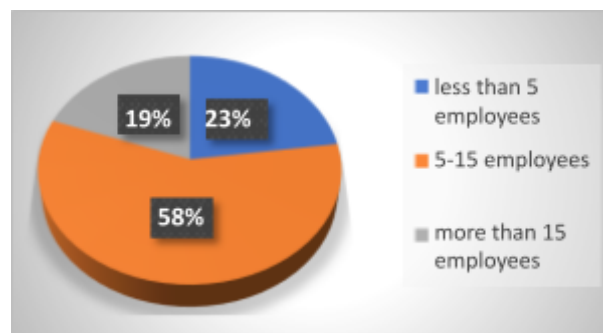
3. Your age group?



INTERPRETATION

In the above pie- chart the age group of most retailers and wholesalers is between 26 years – 50 years where as 18 people above 50 years and 19 people between 10 years and 25 years.

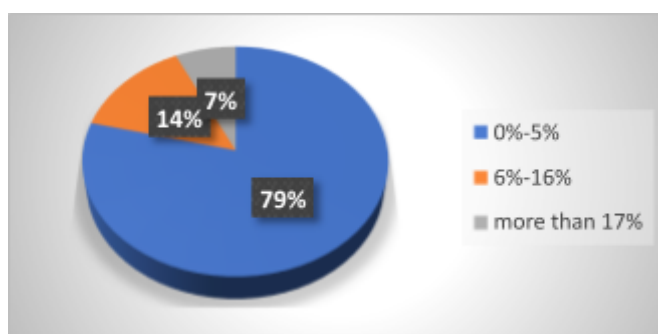
4. How many employees do you have?



INTERPRETATION

In the above pie-chart the greatest number of employees (33) that a wholesaler and retailer have is between 5 and 15 employees whereas least number of employees (11) are more than 15 employees and 13 have less than 5 employees.

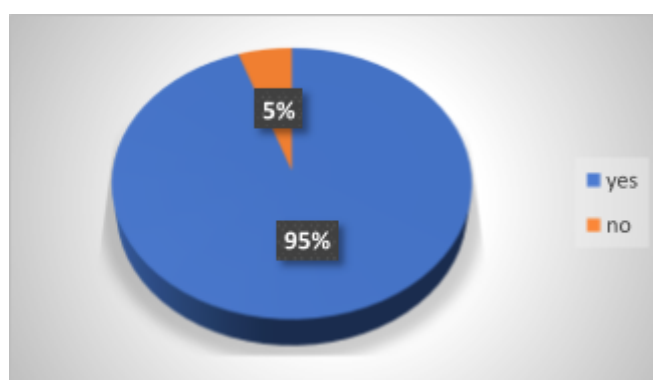
5. What percentage of your goods get expired?



INTERPRETATION

For 45 sellers 0%-5% of the goods get expired on the other hand for 8 sellers 6%- 16% of the goods get expired and the only 4 sellers the percentage of goods expired is more than 17%

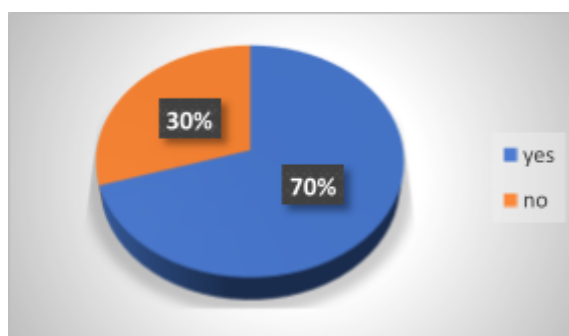
6. Do you have a GST number?



INTERPRETATION

In the above pie-chart 54 people have a GST number whereas 3 people do not have a GST number this shows the awareness of people.

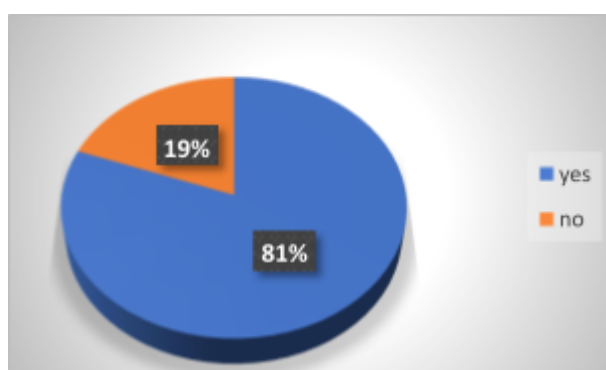
7. Is GST a good step by the government?



INTERPRETATION

Most of the people believe that GST is a good step by the government (40). Whereas 17 people believe that it is not a good step that the government took.

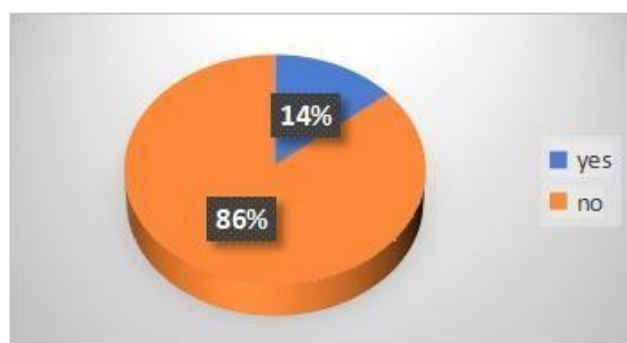
8. Has GST affected your business?



INTERPRETATION

According to the above pie-chart 46 people believe that their business has been affected due to GST and 11 believe that it hasn't.

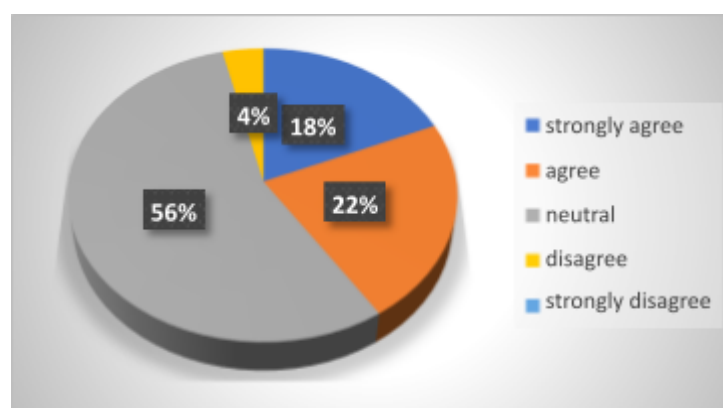
9. Have you received GST refund?



INTERPRETATION

As in the above pie-chart 49 people have never received a GST refund and 8 people have received a GST refund.

10. Is GST a way for the government to earn more taxes?



INTERPRETATION

According to the above pie-chart most of the people (30) are neutral and don't have an opinion on it whereas 12 people agree that it is a way to make more taxes 10 people strongly agree 2 people disagree and 3 people strongly disagree

V. CONCLUSION

GST would ensure that there would be no more corrupt system of collecting taxes, eliminating all the present drawbacks related to the structure of indirect tax collection. Thus, we have a taxation system that is both good for business as well as consumers. With respect to India, the GST system would radically enhance the position of each stakeholder. There arises a need for changing the old system of taxation.

The implementation of GST will enable India to bargain for itself within the framework of international trade organizations because the GST will increase the tax net by including small and medium enterprises in its fold. The Indian market will thus be stabilized like never before and Indian firms can also compete against foreign firms.

The GST is one of the latest policies put forward. The objective of the GST is to have simplicity in taxation and transparency in all transactions. The FMCG industry, which plays a key role in the market sector, has been affected in one way or the other due to GST. In this regard, it can be seen that there is an effect of GST in terms of different areas relating to FMCG industries. However, it is just three years since the implementation of GST, so its effects cannot be completely known.

After questioning 57 retailers and wholesalers about GST we can conclude that their businesses have been affected due to GST.

Based on the analysis, we have found that the retail and wholesale firms who file their GST individually have difficulties in doing so. This is because GST filing is relatively new and thus traditional businesses find it difficult to file their GST.

Inflation in the price of raw material of FMCG impacts the price of goods, and hence there is a direct relation between the price of the raw material and sales, as the increased price will eventually have to be borne by the consumer. Another factor that we identified during our research is that if the government gives relief to FMCG companies, the purchasing power of the consumer increases since the prices decrease.

The purchasing power can be influenced by credit period too. Many of the advanced nations follow GST, and India too should see benefits in this regard.

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