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Impact of GST on FMCG Products and Automobile sector in India

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ABSTRACT

Goods and service tax (GST) is an indirect tax structure designed by the Indian government with the objective to remove tax burden of the society. Its basic objective to reduce multiple cascading taxes levied by the central and state governments like VAT, service tax, entertainment tax, luxury tax etc. The reform process of indirect tax started in the year 1986 with the introduction of the Modified value added tax (MODVAT). The present paper highlights the impact of GST on FMCG products and also on automobile sector in India. In this study it is found that GST has significant impact on FMCG products and has a positive impact on the prices of cars in India expect the hybrid cars ,this would positively affect the car buying decisions of the people.

Keywords: GST, MODVAT, Cascading.

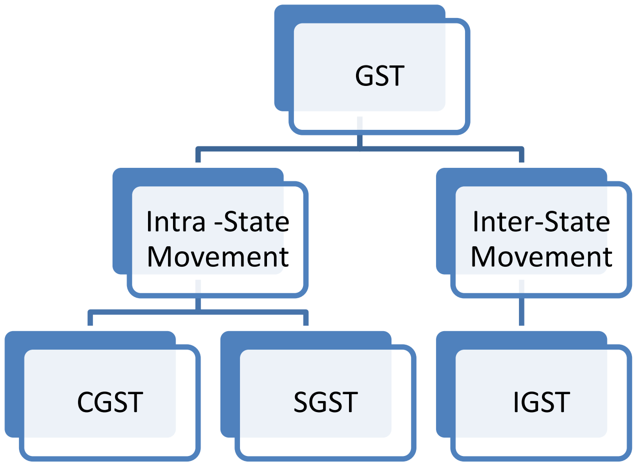
Introduction

GST is a single and nation tax market introduced by Indian prime minister to make Indian market more elastic. This is the tax implement on Goods and services right from the manufacturer to the consumer at the national level. GST was rolled out from 1 July 2017 with the purpose to boost our Indian economy. Earlier in the years consumers pays indirect tax in the form of various kinds such as central excise duty, central sales tax, special additional duty on customs, services tax counter veiling duties whereas state indirect taxes of state government like VAT (Value Added Tax), octroi, Purchase tax, tax on lottery and gambling will be replaced by state goods and service tax, but while introducing GST (Goods and Service tax) consumer have to pay one tax for one nation that is called GST. The Goods and service tax bill or GST bill also referred to as the constitution (one hundred and twenty second amendment) bill, 2014 initiated a value added tax to be implemented on a national level of India. As per the union revenue secretary Hasmukh Adhia “The GST will give a major boost to the “Make in India” initiative by making goods and services produced or provided in India competitive in the national and international markets”

GST was first introduced by France in 1954 and almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country Australia France Canada Germany Japan Singapore Sweden

New Zealand Rate of GST 10%, 19.6%, 5%, 19%, 5%, 7%, 25%, 15% World over in almost 150 countries there is GST or VAT, which means tax on goods and services. It has been seen that after implementing GST the prices of some items have gone up while the price of others have come down before few months ago. The one of the key objectives of GST is to make India a single market where goods and services can flow seamlessly. Formation of tax policies also plays crucial role on the Indian economy through their impact on efficiency and equity. There are some countries which followed unified GST while other countries like Brazil and Canada followed dual GST pattern on which central and state tax were imposed. India is also the country which flows dual system of GST. The concept of GST in India is introduced to become business friendly environment and to do business in ease mode. This tax reforms will help the government to improve fiscal health and system of tax collection more transparent. The Present research paper highlights on the old tax system and GST Tax system of pattern of loans and it also shows the impact of GST on product pricing on goods. Under GST there are 98 products and 50 services which were exempted in India.

Taxes Pattern under GST:_There are three types of tax structure levied on movement of goods and services with the objective to have one tax for one nation.



Milestones in Indirect Tax reform

- 1974- Report of LK Jha Committee suggested VAT
- 1986- Introduction of a restricted VAT called MODVAT
- 1991- Report of the Chelliah Committee recommends VAT/GST and recommendations accepted by Government
- 1994 - Introduction of Service Tax
- 1999- Formation of Empowered Committee on state VAT
- 2000- Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States
- 2003- VAT implemented in Haryana in April 2003
- 2004- Significant progress towards CENVAT
- 2005-06 VAT implemented in 26 more states
- 2007- First GST stuffy released By Mr. P. Shome in January
- 2007- F.M. Announces for GST in budget Speech
- 2007 - CST phase out starts in April 2007
- 2007- Joint Working Group formed and report submitted
- 2008- EC finalizes the view on GST structure in April 2008

Justification of the Study

When we focus onlast few months , GST is an issue discussed all over the country.We already discussed about GST in the introductory part . GST is a wide concept implemeted by our former president Pranab Mukherjee and Prime minister Narendra Modi. The reason behind to take this topic to show the tax burden of consumer before GST tax system and to highlight the different changes in prices of goods and services. GST is one of the biggest tax reforms in india which came into effective on 1 July,before it the prices of products whose tax burden has increased under GST and GST job data in labour force. Number of sectors were effected under GST system and the different tax rate were also designed for various sectors in India. The research paper throws focus on various areas which were largely or quietly effected under GST System. Apart from this , paper also shows how GST Regime enhance the productivity and GDP growth globally.

Objectives of the Study

This research study has the following objectives which are as follows:

1) To analyse the concept of GST
2) To analyse the impact of GST on consumable goods and autombile sector in India.

Research Methodology

This research study is based on the secondary data collected from various journals, newspaper and other statistical data. The research is empirical and micro in nature.In this study, we have taken the items which covers 18% slabs of present GST system.

Taxes Subsumed under GST

GST is a single tax imposed on the supply of goods and services.We already know GST came in to effective on 1 July 2017 by replacing all multiple taxes of central and state government. This subsumption woould leads to free flow of tax credit in intra and inter-state levels. There are number of benefits seen under GST system which are as follows:

- It helps to do business in easy mode
- It helps to improve the income tax syayem more strong inder the subsumed indirct taxes
- It would also lead to the economic devlopment of the nation.
- Eliminate the cascading taxation system.

The below table shows the various indirect taxes which were subsumed under Goods and Service tax in India.

Table 1

Central Level	**State Level**
Central Excise Duty	State Value Added Tax
Duties of Excise (Medicinal and Toilet Preparations)	Entertainment Tax (other than the tax levied by the local bodies)
Additional Excise Duty	Central Sales Tax (levied by the Centre and collected by the States)
Service Tax	Octroi and Entry tax
Additional Customs Duty commonly known as Countervailing Duty	Purchase Tax
Special Additional Duty of Customs	Luxury tax
Cesses and surcharges in so far as they relate to supply of goods or services	Taxes on lottery, betting and gambling
	Taxes on Advertisements
	State Cesses and surcharges in so far as they relate to supply of goods and service

Source: www.cbec.gov.in

Tax Slabs in India under GST

The government of India decided the various tax slabs under the GST system. GST tax structure consist of a four slabs which are as mentioned in the below table.

Table 2

Tax Rate		
Zero Tax Rate	Goods	Goods like milk, fruits, vegetables, bread, salt, bindi, curd, sindoor, natural honey, bangles, handloom, besan, flour, eggs, stamps, printed books, judicial papers, and newspapers.
	Services	All hotels and lodges who carry a tariff below 1,000 are exempted from taxes under GST.
5% Tax Rate	Goods	The goods which will attract a taxation of 5% under GST include skimmed milk powder, fish fillet, frozen vegetables, coffee, coal, fertilizers, tea, spices, pizza bread, kerosene, medicines, agarbatti, insulin, cashew nuts, lifeboats etc.
	Services	Small restaurants along with transport services like railways and airways will come under this category.
12% Tax Rate	Goods	Items coming are the tax slab of 12% include frozen meat products, butter, cheese, ghee, pickles, Ayurvedic medicines, sausage, fruit juices, bhujia namkeen, tooth powder, umbrella, instant food mix, cell phones,
	Services	All Non-AC hotels business class air tickets will attract a tax of 12% under GST.
18% Tax Rate	Goods	Some of the Items are flavored refined sugar, cornflakes, pasta, pastries and cakes, preserved vegetables, tractors, ice cream, sauces, soups and mineral water.
	Services	All those AC hotels which serve liquor, IT and Telecom services and financial services along with branded garments will be part of this tax slab.
28% Tax Rate	Goods	Over 200 goods will be taxes at a rate of 28%. The goods which will be part of this category under GST are deodorants, chewing gum, hair shampoo, sunscreen, pan masala, dishwasher, weighing machine, vacuum cleaner. Other items include shavers, automobiles, hair clippers,
	Services	Five-star hotels, racing, movie tickets and betting on casinos and racing will come under this category.

Source:wishfin.com

- GST would apply to all goods and services except Alcohol for human consumption.
- GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural gas) would be applicable from a date to be recommended by the GSTC.
- Tobacco and tobacco products would be subject to GST. In addition, the Centre would continue to levy Central Excise duty.
- A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of Rs. 20 lac (Rs. 10 lac for special category States as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (i.e. to pay tax at a flat rate without credits) would be available to small taxpayers (including to specified category of manufacturers and service providers) having an annual turnover of up to Rs. 50 lac. The threshold exemption and compounding scheme would be optional.
- The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as well as across States as far as possible.
- Exports would be zero-rated.

Implementation of GST in various countries

VAT/GST has been introduced over several decades, with France being the earliest entrant today, 150 countries have some form of VAT/GST, with the United States being a prominent absentee from this list. There are different models of VAT/GST currently in place. Singapore taxes virtually everything at a single rate, while many countries (France, Italy, UK) have multiple rates. In some countries (e.g., UK), a reduced rate on necessary items is applied with basic goods being exempted to minimize the regressive impact of the tax (Zhou, *etal*, 2013).

Table 3

Advanced Economies	Implementation Year	Initial Year
Australia	2000	10.0
Canada	1991	7.0
France	1954	20.0
Germany	1968	11.0
Italy	1973	12.0
Japan	1989	3.0
Korea (South)	1977	10.0
United Kingdom	1973	8.0
Emerging Market Economies		
China	1994	17.0
India	2017 (GST)	15.0$
Mexico	1980	10.0
Russia	1991	28.0
Saudi Arabia	2018*	5.0
Turkey	1985	10.0

Note: 1. * to implement VAT from January 1, 2018

2. $ Average of standard rates – 12 and 18 per cent.

Source: OECD (2016); Ernst & Young (2017); Yan Xu (2011);
Charlet & Jeffery (2010); Koulayev (2009)

Analysis of Impact of Goods and Service Tax on FMGC Products which comes under 18% Tax Slabs in India

This study shows how the Indian government eliminates the cascading impact of taxes on production and distribution of cost of goods and services. The GST council has finalized the four tax rate slabs for all the goods and services categories under the GST. Almost 50% of goods and services were under 18% tax rate slabs. The items which came under 18% tax rate are flavored refined sugar, cornflakes, pasta, pastries and cakes, preserved vegetables, ice cream, tractors, ice cream, sauces, soups and mineral water. This table analyzes the impact of GST from manufacturer to consumer by taking example as below.

Table 4: Statement shows the Impact of GST on Producing Goods

	Old Tax System	**New Tax System**
Manufacturer to Wholesaler		
Cost of Production	45000	45000
Input Tax Credit (Assuming Nil)	-	-
Add: Profit Margin	5000	5000
Producers Basic Price	50000	50000
Add: Central Excise Duty @ 12%	6000	-
Add: Value Added Tax@ 12.5 on Rs.56,000	7000	-
Add: Central GST @ 9%	-	4500

Add: State GST 9%	-	4500
Sale Price	63000	59000
Wholesaler to Retailer	(63000-7000)	(59000-9000)
Cost of Production	56000	50000
Available Input Tax Credit for set off	7000	9000
Add: Profit Margin	5000	5000
Total	61000	55000
Add: Value Added Tax@ 12.5	7625	-
Add: Central GST @ 9%		4950
Add: State GST 9%		4950
Total Price to the Retailer	68625	64900
Retailer to Final Consumer	(68625-7625)	(64900-9900)
Cost of Goods	61000	55000
Input Tax Credit	7625	9900
Add: Profit Margin	5000	5000
Total (1,32,000) (1,20,000)	66000	60000
Add: Value Added Tax@ 12.5	8250	-
Add: Central GST @ 9%	-	5400
Add: State GST 9%	-	5400
Total Price to the Consumer	74250	70800
Total Tax Payable in all Transactions	14250	10,800
Verification : VAT @12.5%(74,250 x12.5/112.5) = 8250 + 6000 (CENVAT)		
(6000+7000)	**13,000**	
(7625-7000)	**625**	
(8250-7625)	**625**	
Verification : GST @18% (70800 X 18/118)=10800		
4500+4500		**9000**
9900-9000		**900**
10800-9900		**900**

Source: www.taxguru.in

In the above table an analysis is done to show the impact of GST on manufacturer, wholesaler, retailer and consumer. In an old tax system the burden of sale price was Rs. 63000 but after introducing GST in the tax rate system sale price reduced by Rs. 4000 which is a positive impact on wholesaler. When we highlight on the total price of wholesaler to retailer it was Rs.68625 under the pre GST system but after the post GST system the total price wholesaler to retailer was Rs.64900 which is a major indirect tax reforms in India.

Under the pre GST regime, total price of goods retailer to consumer was Rs.14250, it includes value added tax (VAT) at the central and the state level. GST is an important step towards taken by the Indian government to reduce the tax burden of the consumer.

Analysis of Impact of GST on Automobile Sector in India

Number of changes has been seen under the Goods and Service Tax regime in various sectors. Among all these changes in the sectors, automobile sector is one of the important sectors which enhance the revenue of the Indian government. Under the GST System there is no need to pay two percent central sales tax (CST). This two percent GST will be an integrated GST (IGST) which will be fully creditable by the dealer when he sells the car in the other state. Under the GST system no much difference seen in the prices of the small cars. A GST of 28% plus 1% cess for petrol cess and 3%for diesel won't be a much change seen on the prices of small cars. The above table highlights on the changes in the cars prices in India.

Table 5: Impact of Goods and Service Tax on Car Prices in India

Body Length / Category	Engine Capacity	Examples	Current Taxation (Excise Duty +Various Cess + NCD +VAT)	Post GST	Difference
All Sub 4-metre vehicles	Less than 1.2L petrol	Maruti Suzuki Alto, Maruti Suzuki Baleno, Hyundai120, Hyundai i10,Volkswagen Polo, Tata Tiago, Toyota Liva	31.5	29% (28% + 1% Cess)	2.50%
All Sub 4-metre vehicles	Less than 1.5L petrol	Maruti Suzuki Vitara Brezza, Maruti Suzuki Dzire diesel, Hyundaii20 diesel, Mahindra TUV 300, Ford EcoSport diesel, Tata Tigor diesel	33.25%	31% (28%+3% Cess)	2.25%
All Sub 4-metre vehicles	More than 1.2LPetrol 1.5L Diesel	Ford Eco Sport petrol(1.5-litre petrol), Hyundai i20(1.4-litre petrol auto)	44.70%	43% (28%+15% Cess)	1.70%
Cars larger than 4-metres (not including SUVs)	More than 1.2LPetrol 1.5L Diesel	Honda City, Maruti Suzuki Claz, Mini Cooper Diesel, Mercedes- Benz E-Class	51.60%	43% (28%+15% Cess)	8.60%
All SUVs larger than 4 meters	Petrol and Diesel engines irrespective of displacement	Mercedes- Benz GLC,Audi Q7, Hyundai Crrets Ford Endeavour, Volkswagen Tiguan, Toyota Fortuner, Mahindra XUV 500,Tata Hexa	55%	43% (28%+15% Cess)	12.00%
All Hybrid Cars		Toyota Prius,Honda Accord Hybrid, VolvoXC 90 TB, Lexus ES300h	30.30%	43% (28%+15% Cess)	13.30%
Electric Cars		Mahindra e20, Mahindra e Verito	20.5% (6% excise+14.5% VAT)	12%	7.50%

www.cardekho.com

Table 5 indicates the impact of goods and services tax on car in India. This table describes the various categories of car with their capacity. GST council proposed a 28% tax slab on luxury goods. In this study it has e cars in the Indian been seen that most of the cars in the Indian market become slightly cheaper except for the hybrid cars under the GST system. 28% tax slab proposed by the GST council for automobile sector irrespective of their make, engine, capacity or model. However over and above this 28% an additional cess will be levied which can be 1%, 3% or 15% depending on the particular car segment.

Findings

GST is one the important step taken by the Indian government towards the indirect tax reform in our country. Before July 2017 Indian indirect tax structure involves in multiple taxes which financially overburden the society. Now all the indirect taxes which enhance the burden of the society subsumed in GST in the form of SGST and CGST. In this study it has been that GST has positive impact on consumable products .Apart from this GST have a significant impact on car prices in India as compare to its existing tax rate.

There are certain points discussed as below on the basis of findings:

- GST reduces the tax burden of the Indian society by reducing the overburden of multiple taxes and it leads to double taxation and cascading effect.
- It reduces the cost of production for manufacturer this leads to maintain a proper balance between manufacturer to wholesaler and wholesaler to retailer and finally retailer to consumer.
- It leads to increase the revenue of the government which boosts our Indian economy at large.
- After the introduction of GST transparency has been seen in the Indian indirect tax structure whether it is food industry, FMGC sector, Housing and construction industry and services like information and technology enabled services, Financial services etc. beyond that small enterprises is also get affected under the GST regime.
- It will help to boost our Indian economy by increasing the GDP growth rate because it create a single and unified tax rate system all over the India.
- It will help the producer and seller to better understand the GST system at global level. Apart from this, it makes tax filing system easier on goods and services.
- It is found that prices of the automobile sector slightly increase or decrease in some segments. When we focus on non- premium cars their prices comes down under the GST but while on the other hand prices of premium cars seem to be hiked due to high rate of cess.

Suggestions

- Present process of GST should be improved so that manufacturer and seller can easily file their tax return.
- Government should conduct various training programme to the seller for filing of GST so they become familiar with that.
- There is need for Indian government to overview the tax slabs of some products as decided by the implication of GST for the betterment of the Indian economy.
- Government should provide certificate of appreciation to those producer and seller who are continuously paying their actual amount of GST.
- Government should reduce GST cess for reduction in the cost of premium segment car of automobile sector.

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