

## **GOODS AND SERVICE TAX FOR INDIAN FMCG SECTOR: CHALLENGES AND PROSPECTS**

**Dr. Upendra Nath Shukla\***

---

### **Abstract**

Goods and service tax is one of the most significant tax restructuring done by the union government considering one India and one Goods and service tax system. GST mechanism is nothing new but the improvement of the existing VAT system.

Wholesale and retail sector of FMCG market will be prominently affected by GST. Therefore survey of 80 wholesaler/retailers of pharma and grocery sectors having turnover above Rs 50 lakh is done in the city of Lucknow to explore that GST enactment good for long term sustainability of economy. Data is analyzed through SPSS using ANOVA and distributive statistics.

The most significant challenges that immerged are- efficient complaint resolution system for GST, followed by high cost of IT based record keeping by retailers and restructuring of existing supply chain which should be ready to book input tax credit for every transaction. 69% of wholesalers/retailers were optimistic for more economic growth after GST. There was no significant difference found between the perception of growth between pharma and grocery FMCG sector. Overall GST will positively affect all the wholesalers and retailers particularly in Grocery and Pharma, FMCG sector.

**Key Words:** GST, FMCG, Retail, Pharma, Tax, India

---

\* **Assistant professor, Amity Business School Lucknow, Amity University Uttar Pradesh**

**1 Introduction:** The single largest reform in the system of indirect taxes is introduction of GST. Past indirect tax regime in India was historical and complex. The introduction of GST can help ensure a change which addresses these complexities; however, this will involve concerted efforts on the part of all stakeholders. Obviously, the stakeholder required to take the first steps is the Central Government. Provision of a nationwide IT structure, training and financial assistance, especially for the smaller states, and getting an agreement on the changes to the constitution are some of these steps.

Essential food items				
Item	Price/unit before GST	Total taxes (% on pre-tax price)	GST rate	Price after GST
Milk	Rs 45/litre	0	0	Rs 45
Vegetable & Fruits	Rs 50/kg	0	0	Rs 50
Bread	Rs 25/pack	0	0	Rs 25
Basmati rice	Rs 70/kg	0	0	Rs 70
Atta	Rs 30/kg	0	0	Rs 30
Pulses	Rs 110/kg	0	0	Rs 110
Packaged tea/coffee	Rs 150/pack	10.29	5	Rs 143
Packaged chicken	Rs 350/pack	9.03	12	Rs 359
Edible oil	Rs 125/litre	16.82	18	Rs 126

Packaged snacks & drinks				
Item	Price/unit before GST	Total taxes (% on pre-tax price)	GST rate	Price after GST (Assuming same base
Biscuit	Rs 10/pack	25	12	Rs 9
Mithai	Rs 350/kg	9.03	5	Rs 337
Bhujia	Rs 302.5/kg	9.03	12	Rs 310
Chewing gum	Rs 10/pack	42.86	28	Rs 9
Chocolate	Rs 20/pack	33.33	28	Rs 19
Corn Flakes	Rs 150/pack	32.74	18	Rs 134
Cold drinks	Rs 20	53.85	40	Rs 18
Juices	Rs 30/pack	15.38	12	Rs 2

Source: [timesofindia.indiatimes.com/gst/explainers](http://timesofindia.indiatimes.com/gst/explainers)

**2. Significance of the study:** GST is instrumental in the growth of economy of India, because it is like new tonic for smooth functioning of entire supply chain to result in better productivity and profitability. Therefore it's very significant to study the perception of retailers and wholesalers of FMCG sector which has got the significant impact post GST.

**3. Objective:**

To understand the perception of retailers and wholesalers of FMCG sector, about GST in the city of Lucknow.

To understand the major challenges in implementing GST for wholesalers and retailers of FMCG sector.

To study the variance of perceptions of wholesalers/retailers of pharma and grocery sector about the GST for long term sustainability.

#### **4. Review of literature:**

Agogo Mawuli (May 2014) studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor Countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Dr. R. Vasanthagopal (2011) studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India, but the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT Infrastructure.

Garg, G. (2014) while studying the basic concepts and features of good and service tax in India found that it will organize the unorganized sector in India with increased tax revenue, although implementation in terms of technology and awareness will be a challenge.

Sehrawat, *et al.* (2017), found wrinkles of existing indirect tax system and play a vital role in growth of India, Education about the GST is more important to be spread to make the implementation more apt and appropriate.

#### **4. Research methodology:**

Survey of 80 wholesalers and retailers of FMCC sector is done, to understand their opinion about GST.

**Sampling unit:** FMCG retailers and wholesalers of grocery and pharma sectors having annual turnover above 50 lakhs. (Two main constituents of FMCG market with major GST implications.). Cronbach alpha was found to be .87, which establishes the reliability of sample. Instrument was validated from the industry experts and previous studies .

Wholesalers and retailers having annual turnover of Rs. 50,000,00/- are chosen using simple random sampling for the study. Following hypothesis is to be tested.

**Hypothesis H(0):** There is no significant difference of perception between pharma and grocery retailers/wholesalers that **Single GST enactment is Very good for long term sustainability of economy.**

Data is analysed by using SPSS.

**5. Analysis and discussions:** analysis would be done on following three major aspects as derived from review of literature.

- Analysis of perception of retailers and wholesalers of FMCG about GST.

- Analysis of challenges in implementing GST for wholesalers and retailers of FMCG sector.
- Analysis of variance of perceptions of wholesalers/retailers of pharma and grocery sector about the GST for long term sustainability .

**Hypothesis H(0):** There is no significant difference of perception between pharma and grocery retailers/wholesalers that **Single GST enactment is Very good for long term sustainability of economy.**

### 5.1 Analysis of perception of retailers and wholesalers of FMCG about GST

Retailers/ wholesalers are asked that “Single GST enactment is Very good for long term sustainability of economy.” They were supposed to rate it on the scale of 5. The responses are tabulated as following.

Table: **Single GST enactment is Very good for long term sustainability of economy**

<b>Single GST enactment is Very good for long term sustainability of economy</b>			
	Frequency	Percent	Cumulative Percent
Disagree	8	10	10
Can't Say	17	21.3	31.3
Agree	32	40	71.3
Strongly Agree	23	28.8	100
<b>Total</b>	<b>80</b>	<b>100</b>	

It's found that 31.3 % respondents were either disagree to it or were neutral, whereas 68.8% were either agreed or strongly agreed to it, which is favorable for the GST implementation.

Following table clarifies those pharma retailers having more mean scores that Single GST enactment is Very good for long term sustainability, indicates that pharma retailers are more pessimistic than grocery retailers.

**Table : Opinion of grocery retailers/wholesalers Vs Pharma retailers/wholesalers**

Descriptive								
Single GST enactment is Very good for long term sustainability.								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Grocery Retailer	40	3.85	.975	.154	3.54	4.16	2	5
Pharma Retailer	40	3.90	.940	.151	3.59	4.20	2	5
Total	80	3.87	.952	.107	3.66	4.09	2	5

## 5.2 Analysis of challenges in implementing GST for wholesalers and retailers of FMCG sector.

Six numbers of major challenges as perceived by wholesaler and retailers while practicing GST is identified from the review of literature and interview by wholesaler and retailers. They were asked to these challenges on the scale of five from strongly disagree to strongly agree. Mean and standard deviation of the responses are estimated and tabulated in descending order of mean.

### Descriptive Statistics

Challenges: As perceived by wholesaler and retailers	N	Mean	Std. Deviation
	Statistic	Statistic	Statistic
GST complaints resolution system is not efficient	80	3.84	0.878
IT based Record keeping is difficult and expensive	80	3.55	0.94

Supply chain restructuring is Difficult	80	3.25	1.153
GST server is very slow	80	3.24	1.15
Supplier Name mismatch in the GST network creates problems of payments	80	3.16	0.849
Prices of the products should be raised	80	2.35	1.057

The above is ranked based on the mean scores as following figure 1

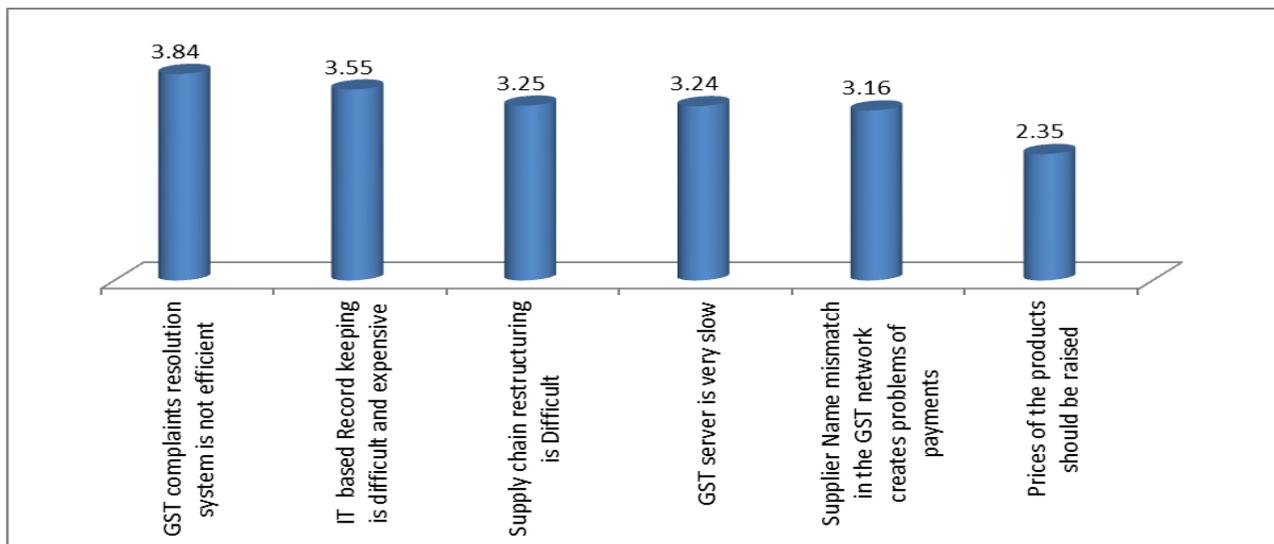


Figure 1 : Ranking of Problems related to GST for wholesalers and retailers of FMCG

First and foremost challenge faced by the retailers /wholesalers is- GST complaints resolution system is not efficient followed by problem of computer based record keeping, Supply chain restructuring, Slowness of GST server, Supplier name mismatch in GST network and price hike.

### 5.3 Analysis of variance of perceptions of wholesalers/retailers of pharma and grocery sector about the GST for long term sustainability:

To study the same ANOVA is used as following.

### Test of Homogeneity of Variances

Single GST enactment is Very good for long term sustainability.

Levene Statistic	df1	df2	Sig.
.414	1	77	.522

Above table shows that p values are more than .05, which is non-significant, hence it can be said that variance is homogeneous. Also the data is normally distributed therefore Anova can be further applied as following.

### ANOVA

Single GST enactment is Very good for long term sustainability.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.044	1	.044	.048	.826
Within Groups	70.690	77	.918		
Total	70.734	78			

As P value is .826 which is more than .05, hence it's non-significant. Therefore it is concluded that there is no significant difference of perception between pharma and grocery retailers/wholesalers that Single GST enactment is Very good for long term sustainability. It can be clearly understood by the below bar

diagram.

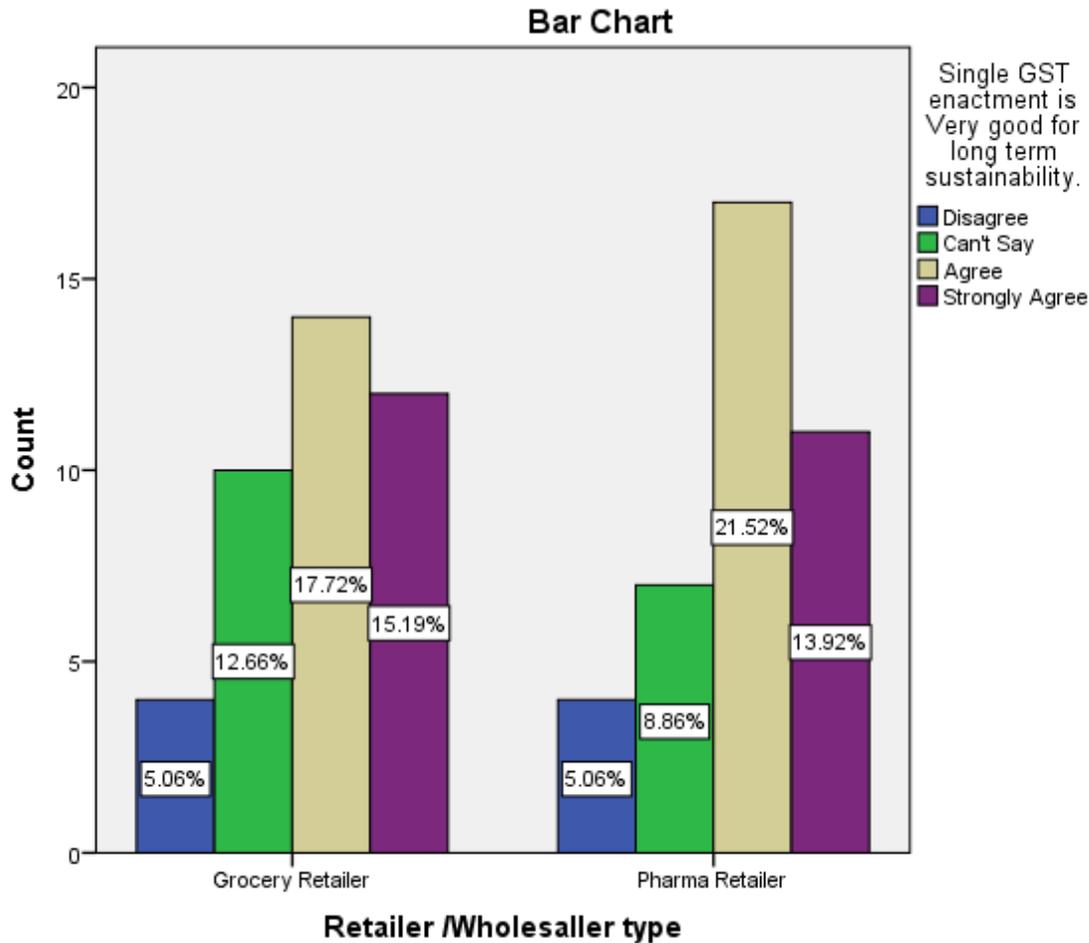


Figure 2: Comparitive perception about GST between pharma and grocery retailers/ wholesalers

## 6. Recommendations–

Based on the above analysis and discussion following recommendations are made for policy makers and retailers/wholesalers.

GST rates have not been raised for the necessity items of groceries and medicines resulting into encouraged grocery and pharma FMCG sector which is the most significant component of FMCG sector as a whole. Hence such retails and wholesalers must use it as a business opportunity with more transparency in business.

Profit margin of Pharma and groceries will increase in long run due to payment of multiple taxes while doing intrastate business.

It's found that 31.3 % respondents were either disagree to it or were neutral, whereas 68.8% were either agreed or strongly agreed to it, which is favorable for the GST implementation. Policy makers must encourage this sector to promote GST by way of providing few benefits while doing digital payments for GST.

Pharma retails/ wholesalers appear more optimistic for GST as pharma industry is relatively more organized and controlled as compared to grocery sector. Therefore pharma sector must be encouraged to be the part of GST mission first followed by grocery retailers.

Strong complaint handling system must be developed by the government as small retailers and wholesalers might find it difficult to file GDT returns due to lack of complaint resolution about GST.

Government must train the youth for GST under skill India in an efficient manner so that retailers and wholesalers might get enough expertise to handle book-keeping for GST.

The whole supply chain must be encouraged to adapt GST for end to end success to GST.

Speed of the GST server must be enhanced to increase efficiency of GST network system. Data updating and correcting must be very prompt so that retailers may be able to file the hassle free returns on time.

Price hike is not the solution instead enhancement of supply-chain would be the key to success in long run both by domestic and multinational companies.

At the beginning same level of efforts and strategy is required for both pharma and grocery retailers, as there is no significant difference of perceptions are found between them about GST.

**7. Conclusion:** Service tax and exercise duties will be subsumed by Central GST (CGST) whereas VAT, octroy and sales tax will be subsumed by State GST(SGST). Integrated GST (IGST) will be charged when goods move from one to other state. Quick grievance handling mechanism for quick resolution of problems of small businessmen is most critical aspect for the success of GST. Trained manpower with strong book-keeping by the retailers/ wholesalers is the second most significant factors for the accomplishment of GST. Overall considering the changing demographics of India with aware customers has made the environment more conducive for the success of GST in India in times to come.

**References:**

Agogo Mawuli (2014): "Goods and Service Tax- An Appraisal "Paper presented at the the PNG Taxation Research and Review Symposium, Holiday Inn, Port Moresby,29-30.

R. Vasanthagopal (2011), "GST in India: A Big Leap in the Indirect Taxation System", International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011.

Ehtisham Ahamad and Satya Poddar(2009), "Goods and Service Tax Reforms and Intergovernmental Consideration in India", "Asia Research Center",LSE,2009.

Garg, G. (2014). Basic concepts and features of good and service tax in India. International Journal of scientific research and management (IJSRM), 2(2), 542-549..

Nitin Kumar (2014), "Goods and Service Tax in India-A Way Forward", "Global Journal of Multidisciplinary Studies", Vol 3, Issue6, May 2014.

Pinki, Supriya Kamna, Richa Verma(2014), "Good and Service Tax – Panacea For Indirect Tax System In India", "Tactful Management Research Journal",Vol2, Issue 10, July2014

Monika Sehrawat & Upasana Dhanda, 2017. "GST in India: A Key Tax Reform," Working Papers id:11851, eSocialSciences.

<https://timesofindia.indiatimes.com/gst/explainers/gst-impact-on-your-grocery-bill/articleshow/59393122.cms> accessed on 06.01.2019

<http://cam.mycii.in/>. All you need to know about GST, accessed on 06.01.2019