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Impact Of GST With Special Reference To Food Retail Market

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ABSTRACT

In today's scenario we pay various taxes i.e. Direct and Indirect taxes, which are felt as encumber on us and due to these taxes the corruption is mounting. So, to overcome from all these taxation system the Central Government has decided to make one tax system i.e. Goods and Services Tax (GST). GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and augment the economic growth of a country. More than 150 countries have implemented GST so far. However, the plan of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 but is yet to be ratified by the Rajyasabha. However, there is a huge shade and cry against its implementation. GST is one of the most critical tax reforms in India which has been long until decision. It is a comprehensive tax system that will subsume all indirect taxes of State and central Governments and whole economy into seamless nation in national market. It is expected to remove the burden of existing indirect tax system and play an important role in growth of India. The benefit of **GST** on retail sector will be huge. Indian Retail sector is one the fastest growing industry in the world. It is projected to grow to1.3 trillion USD by 2020, registering a CAGR (Compound Annual Growth Rate) of 16.7% over the 5 years ranging from 2015-2020. GST includes all Indirect Taxes which will help in growth of economy and proves to be more beneficial than the existing tax system. GST will also help to increase speed the overall Gross Domestic Product (GDP) of the country. GST is now accepted all over the world and countries are using it for sales tax system. This paper will help to show that, what will be the impact of GST in food retail sector after its implementation.

1. INTRODUCTION

Globalization has paved the way for many industries to accelerate its growth trajectory and retailing is said to be one of such industry exhibiting the highest potential to induce growth. The emergence of global market coupled with IT revolution has fueled the growth of retailing across the world. Retail sector development has shown two varied progress to the world. Retailing provides a crucial link between producers and consumers in modern market economy. Retail in India is most dynamic industry and represents a huge opportunity both for domestic and international retailers. First, the developed countries or western countries have shown a matured stage due to heavy growth of modern retailing.

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Food retailers have undergone enormous change in the last two decades. Several factors have contributed to this change: substantial industry consolidation; globalization; retail form at proliferation; alternative delivery options; and threatened profit margins. Above all, the changes impacting food retailing, the change in consumer demographic and demand preferences have driven consumers to demand greater convenience, higher quality, more variety, and better nutrition, and more services while maintaining a focus on price. Retailers experimented with new ways of selling. They brought some key ideas that formed the basis of self-service operations in grocery retailing; a layout that encouraged the circulation of customers throughout the store; the arrangement of products that permitted customers to compare and handle all the items. Recently, food retail trade has tended to become more concentrated, operating through larger and fewer outlets. This development has been driven both by factors internal to the retail trade and by consumers factors; a few examples of factors affecting the trend are economics of scale, better storage possibilities and increased mobility.

GROWTH OF FOOD RETAIL

The global food retail industry include various types of food products such as cereals, meat, packed foods, organic food items, breads, vegetables and fruits, seafood, dairy products, including ice creams, milk items and others and various other household food items. The global food retail markets incorporate the retail sales of variety of food products, both packaged and unpackaged, along with retail sales of alcoholic beverages and non-alcoholic beverages. Alcoholic beverages include beers, wines, spirits, cocktails and others whereas non-alcoholic beverages include soda, soft drinks, juices, fizzy drinks and others.

In reference to growing fashion of hypermarkets and supermarkets, the retailers have started using big data to understand the needs of consumers by providing answers to their questions. Hypermarket and supermarket retailers assist consumers in deciding the item to buy by telling them about the quality and benefits of the items with the help of trained personnel at the stores. At these foods retail markets, food products and items are available in large quantities and at cheaper prices. Additionally, large food market retailers can afford to offer huge discounts to sell off their stocked items at reasonable prices and are therefore driving the growth of food retail market.Based on distribution channel, global food retail market can be divided into convenience food stores, hypermarkets and supermarkets, specialists and independent retailers, and others.

Global food retail market is tremendously contributing in the growth of several other industries such as food packaging and food processing industries. These industries are responsible for creating jobs and generating employment at a large scale. Large food retailers usually offer their own brands along with well established brands. Governments of different countries have taken various measures to ensure food safety and hygiene of food products; these are some reasons fueling the growth of food retail market.Some of the major factors that are driving the growth of global food retail market include growing consumer preference for private label brands, growing supermarket shopping culture and increasing consumers spending on food products. The demand for high quality food packaging and food retailing services, easy to use products, freshness and

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food safety assurance are some of the trends that can be seen in the global food retail market.Rapidly increasing middle-class population in the emerging markets and expanding online grocery retail shopping are the factors laying opportunities for the growth of global food retail market.

2. GOODS AND SERVICES TAX (GST)

GST is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017,following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy. The rate of GST in India is between double to four times that levied in other countries like Singapore.

For instance, the existing VAT system has some stringent regulations, wherein, a discrepancy of even two rupees in tax filing could warrant a fine of INR 10,000 from the department. Given these complexities of tax filing, most small retailers, with their moderate educational background, are most likely to struggle, managing such affairs. Therefore, it is necessary measures should be taken to educate these retailers on GST, along with simplicity of process. Else, there is every possibility of these small retailers collapsing.

Adding more insights to our apprehensions about GST; in the current system, taxes are levied both by the Centre and states, and are hidden. As a customer, one is only exposed to VAT. Now suddenly when customers will see their taxes being hiked up to 18% instead of 5% VAT, they are more likely to pressurise or request the neighborhood retailer to sell products without any bill. However, if the retailers are unable to take input credit on the goods bought, they will end up forfeiting all their GST benefits completely.

GST Vs. VAT, OTHERS

It also likes to chart out what makes GST better than VAT. To begin with, VAT is state-specific with a limit of Rs 10 lakh in turnovers, whereas, GST unifies the market with a registration limit of Rs 20 lakh. Moreover, VAT has TIN-based registration, while GST registration is PAN-based.Likewise, while GST comes with a seamless flow of input tax credit, CST on inter-state transactions comes with no input tax credit. Adding to its complexities, VAT requires declaration forms like C, H, etc., while GST needs no declaration forms.Similarly, in VAT one can claim for returns within 45-60 days from the end of a quarter, while in GST, the returns start coming in from the 20th of the succeeding month in a phased manner.

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Furthermore, VAT has no specific mode of payment, while in GST if payment exceeds Rs 10, 000, one need to make it through the electronic mode. Last but not the least, VAT has no rating system for a business, whereas, GST rating is based on timely filing of returns and payments.Hence, on a concluding note we would like to say that, just the way we are certain about the benefits of GST in the retail segment, we are confident that it will bring relief to the consumers as well by eliminating a plethora of taxes such as CST, Octroi and excise, among others.

IMPACT OF GST ON THE FOOD RETAIL SECTOR IN INDIA

a. Reduced taxes – In the current tax structure, most of the retail products are subject to 30 % indirect taxes on average. This includes excise duty, VAT, CST, service tax on warehousing, consulting and rent, Octroi and entry tax. The main impact of GST on retailers will be a significant reduction of the tax burden on the retailers.

b. Seamless Input tax credit – In the current tax structure, input tax credit is available on VAT but not available on service tax and import duty. In the proposed GST regime, there will be set off on taxation starting from producer's point to the consumer point. GST will make an impact by eliminating the cascading effect of taxes thereby reducing the total tax burden on the retail sector.

c. Increased Supply chain efficiency –Major impact of GST will be on the warehouse networks of retail industries. As CST is abolished, Industries will have no motivation to operate warehouses in each state wherever they operate. This will lead to 20 % – 30 % consolidation of warehouses. Transportation will benefit due to state boundaries becoming insignificant. The long queues and wait time at check posts and state boundaries will be reduced further reducing the lead-time.The impact of GST will be evident on supply chains, as their designs would be efficiency-oriented and not in alignment with the taxation system.

d. Tax on gifts and promotional items – As per the model GST law, any supply without any consideration will attract tax. It is a common practice in Indian retail sector to offer free products for promotion or one plus one free offers. In the current taxation system; these free products, samples and gifts were tax-free. Once GST is implemented, such gifts will also be considered for tax and the retailers would have to rethink their promotional strategy.

e. Better Opportunities & Growth of Retail Market – Upon implementation of GST, analysts predict unification of markets. Thus, biggest of the impacts of GST will be in the widening of potential markets for the retailers. Retailers would be ready to explore markets across diminished boundaries leading to better growth of the retail market.

The impact of GST on retail sector will be very positive from both taxation and operations point of view. Retail industries will have to re-assess their current supply chain strategy and re-model their network. Supply chain network design will be a critical activity for the retail industries as it offers the opportunity of cost saving in tune of 1 % – 1.15 % of sales.

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INDUSTRY GETTING READY FOR GST IMPLEMENTATION

Goods and Services Tax Act come in to with effect from 1st July 2017. The government has received industry specific requests to address some of the issues as they are finding it difficult to deal with the changes under the new indirect tax regime. While this transition will not pose a big challenge for manufacturers, as they are already tightly regulated by the excise law, wholesalers and retailers in the country may face some heat.

PRE IMPLEMENTATION IMPACT

We may witness a similar destocking activity during the transition phase as it happened on the time of demonetization. This will mainly be for easy availment of input tax credit. Wholesalers and retailers currently registered under state VAT law would have paid VAT on all the stock held at the sunset date of the current tax regime. Though provisions have been incorporated in the GST Bill wherein VAT paid under current regime will be allowed as input credit under the GST regime, however, the government has imposedcertain conditions for availing this credit and thus wholesalers and retailers may lose some part of this credit under the new regime.To avoid such scenarios, wholesalers and retailers are expected to de-stock the inventory during the transition phase and eventually re-stock under the new GST regime.

POST-IMPLEMENTATION IMPACT

Post GST implementation, these wholesalers and retailers will not be able to evade tax as the complete value chain will be tracked online. This may also result in a change in the modus operandi of the businesses working on thin margins. Also, we may observe a steep rise in demand for goods as a result of re-stocking by wholesalers and retailers.

3. CONCLUSION

Conclusively, the impact of GST on food retail sector is going to be positive from both taxation and operations point of view. Food Retail businesses will flourish more, thus contributing to overall growth of Indian economy. GST will depose total indirect taxes, upsurge supply chain efficiency and facilitate seamless input tax credit. The end price for consumers will also reduce because of GST. Except some clauses, GST will benefit retail sector in a big way.

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