IMPACT OF GST ON FMCG SECTOR

Index

S.No	Particulars	Page no
1.	Introduction	3
2.	Tax Rates on FMCG products before GST	4
3.	GST Rates on FMCG Goods	5
4.	Input Credits on Goods	6
5.	Impact on FMCG Companies	7-9
6.	Conclusion	10

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Introduction

The fast moving consumer good (FMCG) sector of India comprises more than 50 percent of the food and beverage industry and another 30 percent from personal and household care.
The sector is likely to see a significant impact once the Goods and Services Tax (GST) is implemented as the companies set up warehouses across the states in a bid to have a more tax efficient system.

Reduction in Logistics and Distribution Cost
In FMCG sector, substantial savings can be generated by companies in logistics and distribution costs as GST will eliminate the need for multiple sales depots. Effective distribution cost for FMCG companies accounts to approximately 2 to 7% of their turnover, which is expected to drop to 1.5% after implementation of GST

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Tax Rates on FMCG Products before GST

Before the implementation of GST in India, most of the FMCG products were taxed at rates ranging from 22 to 24 percent. Here are some examples.

The tax on detergents was 23% while sanitary napkins used to be taxed at the rate of 10-11%.

Skincare products including shampoo were taxable at 24-25% standard rate. Some daily use FMCG products like butter, ghee and cheese were taxed at comparatively lower rates of 3 to 5 percent.

As we can see, the average tax rate on FMCG products before GST was not more than 24-25%.

Let's see how it changed after GST.

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GST Rates on FMCG Industry

The goods and services tax (GST) was introduced with **Five standard tax rates** – 0%, 5%, 12%, 18%, and 28%.

Under the new tax regime, the average tax on FMCG products is in the range of 18 to 20 percent, which is clearly lower than the previous tax system. However, if you see the GST impact on individual products, the tax rates of some commodities have increased while decreased for many others. Here are some examples.

The tax on detergents is 28% which is higher than before. The tax on toothpaste, hair oil, and soaps is reduced from previous 22-24% to 18% under GST. Some basic use commodities such as milk, eggs, paneer, wheat, rice, curd, fresh vegetable, etc., are kept free of tax.

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Input Credit on Goods

Input Tax Credit means reducing the taxes paid on inputs from taxes to be paid on output. When any supply of services or goods are supplied to a taxable person, the GST charged is known as Input Tax.

The concept is not entirely new as it already existed under the pre-GST indirect taxes regime (service tax, VAT and excise duty). Now its scope has been widened under GST.

During pre-GST era, cross-credit of VAT against service tax/excise or vice versa was not allowed. But under GST, since these taxes will be subsumed into one tax, there will not be restriction of setting off this input tax credit.

The conditions to claim Input Tax Credit under GST is a very critical activity for every business to settle the tax liability.

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Impact on FMCG Companies

The post GST tax rate for the FMCG industry is capped at 18 to 20 percent. All the major players in the industry have welcomed GST with open arms. However, few firms in the sector are adversely affected by the tax rate charged on their products.
Like Ayurvedic players ,are upset with the ayurvedic products being charged GST at the rate of 12 percent. The leading companies manufacturing ayurvedic products had expected that the government would set such products at a lower tax slab rate, given the fact that the government was heavily promoting traditional Indian medicines.

Most of the reputed FMCG sector companies, including HUL, Patanjali, and ITC in India have already started passing on the benefits of reduced tax to their consumers, either in the form of reduced prices of their goods or by increasing the product amount for the same cost. The lower cost has motivated people to invest more in this sector and has reduced the overall cost of living. Similarly, no tax on basic food products like milk, cereals and eggs would allow people to freely spend on these items.

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Impact on FMCG Companies

Warehouse

FMCG companies had to set up warehouses that covered every state and facilitate the sale of goods to distributors locally. These warehouses were set up usually in the states where the effective tax was low. With the implementation of GST in the country, now the FMCG companies can set up their warehouses wherever they want without any difficulty.

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Impact on FMCG Companies

Logistics

GST is proving to be beneficial for the FMCG sector as the industries are saving a fair amount of logistic expenses. Earlier, during the pre-GST regime, the distribution cost on the FMCG sector was charged at 2 to 7 percent, which has now been reduced to only 1.5 percent after the GST implementation. The companies are experiencing huge impact as there are changes seen such as cost reduction due to the payment of tax, smooth supply chain management, CST removal and claiming ITC under the GST regime. This result will lead to cheaper consumer goods.

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Conclusion

GST is beneficial for some companies while not for other companies in the FMCG industry, but it is certainly going to have a positive impact on this sector in the long term.

The lower tax on many products including logistics services has enabled manufacturers to perform their business transactions more freely and cost-effectively. This has also empowered common man to purchase more and save money on their purchases.

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