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Retailing in India

Trends, Opportunities and challenges



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ACCESSING IMPACT OF GST ON RETAIL SECTOR IN INDIA'

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Abstract :

The Indian retailing industry has undergone dramatic changes because of the government's recent liberalization in the retail sectors along with the country's rapid economic development and emerging consumers groups with market power. Despite the increasing importance of India in the global market little to known about apparel retail sectors in India and the information available is fragmented and underdeveloped. The purpose of this paper is to access the impact of GST on retail trade operating in the Indian Market.

Key words: India, GDP, GST, Retailing, positive & negative Impact

Introduction:

Retail business in India is a key pillar of the economy and accounts for about 10% of the GDP. The Indian retail market is estimated to be more than US\$600 billion and one of the top five retail markets in the world by economic value.

GST is also known as Goods & Service Tax is defined as the giant indirect tax structure designed to support and enhances the economic growth of a country. More than 150 countries have implemented GST so far. However the idea of GST in India was mooted by Vajpayee Government in 2000 and the constitutional amendments for the same was passed by the Loksabha on 6th May 2015 but is yet to be verified the Rajysabha. However, there is huge hue and cry against its implementation. It would be interesting to understand that how the GST affects on retailing in India.

Research Methodology:

This paper presents the impact of GST on retail industries in India. Information and Data about the Research Paper has been collected from the various secondary sources such as Websites, Research Articles, Research Books, Government Reports and Journals.

Objectives:

The following are the main objectives of the Research Paper.

- To study the GST & Indirect Taxes levied by State & Central Government
- To enlist the benefits from GST in India
- To Find out the positive and negative impact of GST on retail industry
- To present the success of GST on Retail Industry.

GST & Indirect Taxes Levied By State & Central Government:

The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the states and



the Centre. The taxpayer would need to submit common format for periodical returns, to be both the Centre and to the States GST authorities. Since all indirect taxes levied by the States and the Centre will be merged into one CST then we would exactly know how much tax we pay which at present is difficult to understand. No distinction would make be between imported and Indian goods and they would be taxed at the same rate. The seller or service providers collect the tax from their customers. The success of GST would rest upon efficiency, equity, and simplicity.

Table 1

STATE TAXES	CENTRAL TAXES
Value Added Tax (VAT)	Excise
Entertainment Tax levied by States	Additional Excise Duty
Luxury Tax	Excise Duty under Medical and Toilet Preparation Act.
Tax on Lottery, Betting and Gambling	Service Tax
Entry Tax other than local bodies	Additional Custom Duty commonly known a countervailing Duty (CVD), Special Additional Duty(SAD)
	Surcharge
	CENVAT

(Source: Empowered committee of the state finance ministers, government of India)

Benefits of GST:

GST comes in as a boon for the Indian Economy as the GDP is expected to grow 2 to 3% as a boost in exports and consumption is being predicted by the experts. An increase in tax revenue for the government is also expected. The experts have enlisted the benefits derived after implementation of GST.

- It would introduce two tiered one-country-one-tax regime.
- It would subsume all indirect taxes at the centre and at the state level.
- It would not widen the tax regime by covering goods and services but also make it transparent.
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness to goods and services.
- It would bring down the prices of goods and services and then by, increase consumption.
- It would create business-friendly environment, thus by increase tax -GDP ratio.

Impact of GST on Retailing :

The imminent implementation of GST is expected to result in greater transparency, an improved flow of credit and reduced trade barriers from a tax perspective. The timely release and revision of the draft GST model law, GST rules and documentation templates reflect the government commitment and keenness to implement the GST law in India in 2017.

Retail sector would be one of the highest benefiting sectors from GST bill, waiting for long now to finish the cascading impact of taxes for the growth of the industry. With GST, the



journey from manufacturer to retailer and to end customer would simplify and generate savings including the logistic, warehousing, distribution and retailing. While there are positive and neutral impacts on retail and related industries, many sectors like telecom would adversely impacted. From a short term perspective, the GST might have a minor impact on the inflation in the longer run it will reap more benefits for the economy affecting high investments across sectors.

For initial years the Central Government would be managing the finance compensating all the states for five years incurring revenue losses. Before going in to business technicalities, let us make you understand as to how it will have a direct impact on prices. The final price to the user/customer under the GST regime which includes 10% tax on price.

Positive Impact on Retail and Related Industries Supporting Retail

1. Rentals are one of the main costs of retail services sector attracting a service tax at 14.5% on total rental cost. Currently, the retailers can not set off these costs like the other industries. Under GST taxes on services would be available for set off against taxes on goods. With this move, the tax burden to be paid on rental would benefit the cash flow and profitability of the lessee and retailers.
2. Overall purchasing price explained in above cost scenario would reduce the tax burden and overall pricing and better margins.
3. Simplification of taxes and getting GST in the country would attract more FDI's and FII's Investments, GST being the globally accepted tax structure.
4. Overall retail inflation would reduce, making industry more competitive with no cascading effect cutting across States.
5. FMCG sector with companies like HLL, Colgate, would be able to generate benefits in logistics and distribution by eliminating the multiple sale depots and distributions centers. Currently, they pay around 25% taxes including VAT, Entry Tax, Excise Duty and GST being @ 17.19% would be significant reduction in tax on them. As a result, a significant portion of direct benefits will be passed on to end consumers because of a highly competitive market.
6. E-commerce would get additional push for growth by making processes is integrated across the country and elimination of cascading effect of taxes on customers bringing efficiency in the prices. GST would allow free movement of goods across country.
7. Automobiles service industry would have drop in prices by filtering the taxes.
8. Mobile phone and Handset prices likely to come down even out across States. Manufacturers are also likely to pass on to consumers cost benefits. They will get from consolidating their warehouses and efficiently managing inventory. For handset makers, GST will bring in case of doing business as they may no longer need to set up State specific entities and transfer stocks to them and invest heavily in to logistics of creating warehouse in each state across the country.

Negative Impact on Other Industry :

1. In case of Pharmacy Retailers, GST rollout could be negative, as it is likely to increase indirect tax. Indirect tax paid by pharmacy companies could increase by 60% and MRP BY 4 %. This would increase the price of medicines to consumers.



2. IT companies can have several delivery centers and offices working together to service a single contact. With GST, companies might require each centre to generate a separate invoice to every contracting party. Duty on manufactured goods is going to go up from existing 14.15% to 18%, which means the cost of electronics from mobile phones to Laptop- will rise.
3. Consulting services, currently paying 15% as service tax could have the negative impact after high of GST @ 18-20%.
4. With Insurance policies of life, health and motor costing more from April 2017 as taxes will go up to 300 basis points, it is going to affect the overall price to the end consumer.
5. For Food companies, if the recommended 40% "sin/demerit" GST for sweetened beverages & tobacco products is levied and then prices may increase by over 20%. They may see increase in effective tax as many companies enjoy concessional rate of excise.
6. In telecom sector, the call charges, data rates will go up if tax rate in the GST regime exceed 15%. Tower firms won't be able to set off their input duty liabilities if petro products continue to stay outside GST framework.
7. Key petroleum products like crude, natural gas, high speed diesel and ATF have been kept out of GST. Clarity is awaited for others. Compliance cost is likely to rise because of dual indirect mechanism.
8. GST will be negative for wine, turbine generator manufactures like Suzion and InoxWind, as pressure on developer margins & internal rates of return could eventually force reduction in prices and realizations up to 10-13%. However, if components are included in the exemption list, the impact of GST will be nullified.
9. In Utilities Exclusion of 'sale of electricity' from GST could potentially raise the cost of coal-fired and renewable energy for Discoms. Profitability of independent power producers selling via medium/long term PPAs is unlikely to be dented as cost escalation would likely be passed on.

Success of GST In Retail Sector:

The GST system is basically structured to simplify current indirect system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods and they would be taxed at the same rate. Many Indirect taxes like sales tax, VAT etc. will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST play a dynamic role in retail industry which effects the growth and development of our country.

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