

Impact of GST on Retail Sector: A Study

B.D. Hansraj¹, M. Naga Sulochna²

Abstract

Goods and Services Tax started in India From 1st July 2017. GST, which was including all other taxes has been believed to eliminate other additional taxes on the inner state goods and services. Its main aim is to eliminate state boundaries and developed common market by removing indirect taxes and mitigates cascading. Retail Sector which became a backbone for Indian Economy accounts for around 10% of GDP. Supply chain network design, which is a critical activity in Retail Industries offers the opportunity of cost saving. Retail market has to assess their Supply chain strategy and need to remodel their network. This paper makes an attempt to bring out Impact of GST in Retail Sector

Keywords: GST; Retail Sector; Supply Chain; GDP; Cascading.

Introduction

GST is termed as an indirect federal sales tax to the cost of goods and services. . This GST is added to the price of product. This means when a customer purchases a product he pays the sales price plus GST. This GST is collected by the seller and then forwarded to the government. . This helps us to realize “one Nation-One Tax –One Market.” As per the opinion of experts, GST will minimize the cost of goods and services which will boost the economy and make India competitive globally. This will further increase the slogan of “Make in India”

Framework of GST

- GST is a tax that would accrue to the jurisdiction where goods and services are finally consumed.

Proposed Tax Structure in India

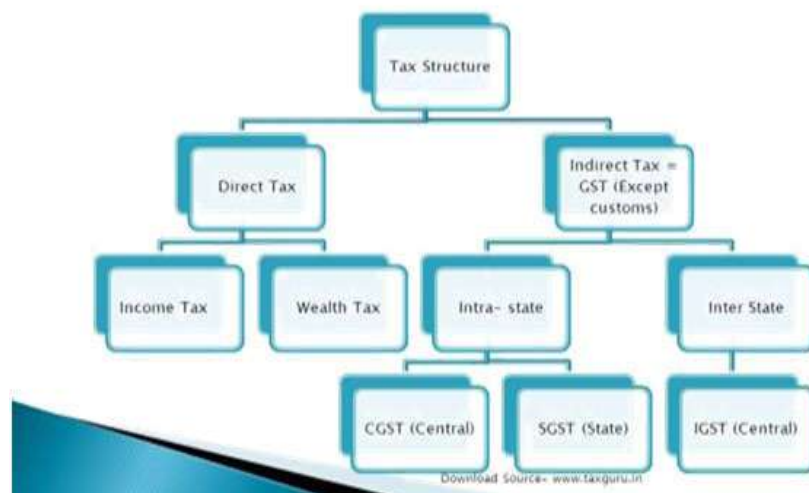


Fig. 1:

Author's Affiliation: ¹Research Scholar, Osmania University, Hyderabad, Telangana, India - 500007. ²Assistant Professor, Department of MBA, CMR Technical Campus, Jawaharlal Nehru Technological University, Hyderabad, Telangana State, India - 501401.

Reprint's Request: M. Naga Sulochna, Assistant Professor, Department of MBA, CMR Technical Campus, Jawaharlal Nehru Technological University, Hyderabad, Telangana State, India - 501401.

E-mail: nsulochana.gummadi@gmail.com

Received on 13.06.2018, Accepted on 21.06.2018

- A single tax system would remove multiple taxable events such as manufacturing (excise) sales (VAT) and services as before.
- Transaction of goods and services among the various states are liable to central GST (CGST) and state GST
- All the Inter State transactions such as stock transfers and imports become liable to Integrated GST (IGST)

Review of Literature

Abhinav Jain, Co-founder & director, Beacon (22 June, 2017) opines that though GST is saving cost at the back end but causing a major pain in the Retail Segment. Rental cost which incurs a service tax of 15%, unlike other industries Retailer can't give up these cost but has to view it as additional expense.

Krish Iyer, Wal-Mart India President & CEO June 1, 2017, viewed GST as a new way of doing business. He further added that GST will create one unified national market and hence make supply chain and Indian retail sector more efficient. With GST the bottlenecks around the country a check post, octoi-payments and therefore the amount of time that the trucks have to wait and hence their lack of easy movement of goods from one state to the other.

A Vinod Kaushik Retail sector in India 26 sep 2016, observed that the Indian retail industry is one of the fastest growing industries in the world. Retail industry in India is expected to grow to US\$1.3 trillion by 2020, registering a compound annual growth rate of 16.7% over 2015-2020. India is among the highest in the world in terms of per capita retail store availability. India's retail sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. The government of India has introduced reforms to attract Foreign Direct Investment in retail industry. The government has approved 51% Foreign Direct Investment in multi-brand retail and increased FDI limit to 100% (from 51%) in single brand retail.

Methodology

The present paper is exploratory and based on secondary data. The organized data have been collected from Journals, Websites and Books.

Objectives of the study

- To understand the impact of GST on Retail Sector
- To Analyze pre and post GST Tax Structure

Overall Impact of GST in general on Retail Sector

Retail is one of the major industries in India and also one of the largest in the world. The Indian retail industry is expected to reach 1.3 trillion by 2020 the annual growth rate of 16.7%. GST is applicable to almost every retail supply, affecting the cost for the consumers. Find out the details about the impact of GST on Retailers.

• Reduce Multiple Taxes

GST effectively replaces all the multiple indirect taxes being applied to the supply of retail products. Before GST, retailers had to pay multiple taxes, including VAT, CST, service tax, excise duty, etc, amounting to around 30% of the product cost. After GST, there is only a single tax, varying from 12 to 28% on different products. GST also reduces the cascading of taxes as the credit for input taxes can be now claimed by retailers.

• Input Tax Credit

Unlike the previous tax regime, GST has the provision of input tax credit, in which a retailer can claim credits for the tax previously paid by him on the purchase of inputs. This not only saves tax but also it reduces the cascading effect of taxes.

• Reduced Complications

The less number of taxes means less complexity. Also, GST is a completely digital tax system, that means retailers can plan and file the returns online without having to manage a lot of physical documents, accounts, etc.

• New Promotional Strategies

The new GST tax regimes has forced retailers to re-plan and implement a completely new promotional strategy in sharp contrast to the erstwhile strategy of promotional gifts and items. This is primarily because under GST all supply channels are accountable and accordingly attract some tax.

• Ideal for Startups

The Government has already announced tax

rebates for entrepreneurs and startups. With GST getting rid of the complications associated with the retail sector, it is inevitable that budding startups would tap into this opportunity.

A Comparison between pre and post GST Tax Structure

An Illustration with an example of supply chain, consisting Manufacturer Wholesaler, Retailer and

Customer, showing the impact with and without GST-

Assume, Manufacturer, started production of one Product, he had all the necessary things to manufacture the Product. Now, Manufacturer should have certain people known as wholesalers and further wholesalers will have retailers, so that item reaches to the Customer.

Table 1: Pre and Post GST Tax Structure

Pre GST Tax Structure

Particulars	Manufacturer	Wholesaler	Retailer	Customer
Cost of Production	1000	1724	2164	
Value added	500	200	300	
Total	1500	1924	2464	
Add : excise duty@ 12.5%	190	-	-	
Total	1690	1924	2464	
CST @ 2%	34	-	--	
Total	1724	1924	2464	
VAT @ 12.5%	-	240	308	
VAT set off	-	-	-240	
Total	1724	2164	2532	2532

Table 2:

Post GST Tax Structure

Particulars	Manufacturer	Wholesaler	Retailer	Customer
Cost of Production	1000	1800	2100	
Value added	500	200	300	
Total	1500	2000	2400	
GST @ 20%	300	400	480	
GST Set off	0	-300	-400	
Total	1800	2100	2480	2480

Findings

1. In pre GST to manufacture a product levying excise duty @ 12.5%, CST @ 2%, cost Rs. 1724 and when transferred to wholesaler adding VAT @ 12.5%. it costs Rs.2164 and finally when it is transferred from Retailer to customer levying again 12.5% of VAT at Retailer and the selling price becomes Rs.2532.
2. In post GST, to manufacture the same product excluding excise duty and CST and levying GST
 - 20%, it cost Rs.1800 and when transferred to wholesaler a value of Rs.200 is added and GST
 - 20% is levied and GST levied at wholesaler is set off, costs Rs.2100.the same procedure is followed at Retailer point and product final selling price comes to Rs.2480.
3. Here it is evident that the cascading effect of Pre GST is completely eradicated in the post GST and the cost of the product has been reduced by Rs.

(2532-2480) Rs. 52. Reduction in cost will result in reduction in selling price, decreasing in selling price will increase the purchasing power in the hands of customers. This is how the retail sector will see a boost in sales.

Conclusion

The impact of GST on retail sector is going to be optimistic from both operations and taxation point of view. Retail businesses will grow more, thus contributing to overall growth of Indian economy. GST will remove total indirect taxes, increase supply chain efficiency and facilitate input tax credit. The end price for consumers will also reduce due to GST. Except some clauses, GST will promote retail sector in a huge way. It can be understood that by the passage of the Goods and Services Tax as a uniform tax rate. It will be considered as a very positive development in Retail Sector.

References

1. <https://retail.economictimes.indiatimes.com/news/industry/gst-will-make-indian-retail-sector-more-efficient/58944890>.
 2. <https://taxguru.in/income-tax/impact-gst-retail-sector.html>.
 3. <https://www.vccircle.com/how-gst-will-impact-indian-retail-biz/>.
 4. [https://en.wikipedia.org/wiki/Goods_and_Services_Tax_\(India\)](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)).
 5. <https://blog.allindiaitr.com/how-will-gst-impact-retail-sector>.
 6. <https://www.legalraasta.com/gst/benefits-of-gst-on-retail-sector/>.
 7. Http://www.taxmanagementindia.com/visitor/detail_rss_feed.asp?ID=1226.
-