



**AN INVESTIGATION OF GST, VAT AND SALES TAX IMPACT ON FMCG SECTOR
IN INDIA**

Mr. VIVEK YADAV

ID: 5917190010

**SUBMITTED IN THE PARTIAL FULFILLMENT OF THE REQUIREMENT FOR
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SECTOR IN INDIA**

CERTIFICATE

To

Mr. VIVEK YADAV

Student ID :5917190010

This is Independent study has been approved to be partial Fulfillment of the
Requirement for Degree of Master in Business Administration in Hotel and Tourism
Management.

.....
Date.....17...../.....MAY...../.....2019.....

(Dr. Teerachote Phongtaveewut)

(Supervisor)

.....
(Associate Professor Dr. Jomphong Mongkhonvanit)

Acting Dean, Graduate School of Business Administration

Date.....21...../.....05...../.....2019.....

Siam University, Bangkok, Thailand

Abstract

Research Title: An Investigation of GST, VAT and Sales Tax Impact on FMCG Sector in India

Researcher: Mr.Vivek Yadav

Degree: Master of Business Administration (International Program)

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Advisor: Dr.Teerachote Phongtaveewut

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The Indian tax system has changed from time to time as recently as when GST came into the limelight, after the prolonged discussion over its implementation. Since the GST has been available to use certain comparisons would be advisable to make. This paper elucidates the three different types of tax structure, such as sales tax, VAT and GST; to probe the benefits under each tax schemes and then to find out which tax structure contributes the maximum profitability in the fast moving consumer goods sector. Furthermore, this paper explains the critical factors and aspects of GST and its impact on different sectors as well, along with the detail analysis of potential market of FMCG sector in India.

There are two research questions in this paper considering the current situation of Indian economy along with detailed analysis of previous research work done by other scholars. The hypotheses were concluded based on the research questions and there were four hypotheses set up for this paper to check and find that which tax structure contributes maximum and minimum impact on the profitability of FMCG sector.

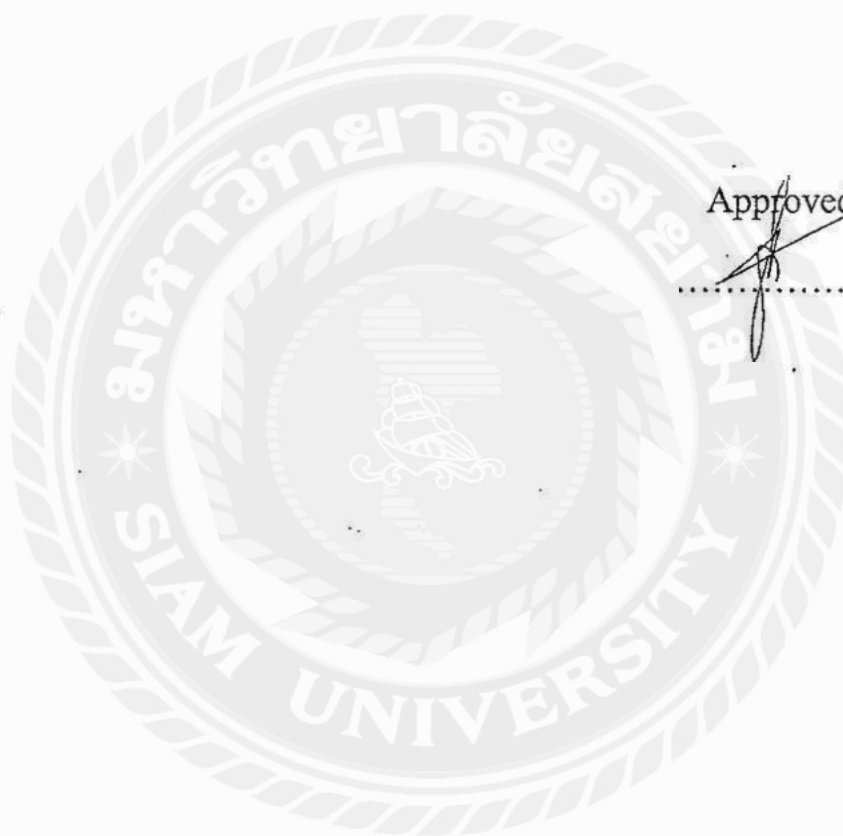
The research methodology of this paper is quantitative and survey questions were set up based on the nature of this research paper. The data gathered for this paper was from primary, as well as secondary. The outcomes of survey findings were well tested by SPSS and well presented in the later part of this paper. The research area for this paper was

assigned in the holy city of India, Varanasi, and survey questions were distributed to 200 traders that were dealing in FMCG related items.

This paper has three independent variables, such as sales tax structure; GST and VAT, with one dependent variable that is profitability of FMCG sector and the recommendation followed by the limitation are presented in the paper.

Keywords: Sales Tax, VAT (Value added tax), GST (Goods and service tax), FMCG (Fast moving consumer goods)

Approved By



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Author

Vivek Yadav

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CHAPTER 1

Introduction

The terminology tax is extracted from Latin word call as “taxare” which means to estimate. In other words, the term tax can be described as a compulsory financial charge or payments in any form that can be collected from an individual, company, or any tax payer legal entity by a state or central authorities who are authorized to do. In case of failure of payments the respective tax payer can come into the eyes of law and can face serious punishable consequences. Most countries have adopted income tax rule in which they charge some percentage of annual income earned by individual, corporation or any who is responsible. Indian tax system consists of three major taxes structure which includes direct tax, indirect tax system and other tax system. Direct tax includes income tax 1961, wealth tax 1951, gift tax 1958, expenditure act 1987, and interest tax act 1974. On the other hand, the indirect tax includes sales tax, service tax, value added tax, custom duty& octroi and excise duty. Other taxes include professional tax, property tax, entertainment tax, stamp duty, registration fees, transfer tax, education cess/surcharge. The basic fundamental of any taxation is that the money government receives from general public, corporation or any other legal entity that are liable to pay tax is to reinvest those money for better infrastructure, maintaining law and order, maintaining peace in the society, improving standard of livings and at same time also to increase country growth, economy, national income and GDP growth rate. According to (Rao and Rao 2105) India raises major tax revenues from domestic taxes such as public investment in order to create planned development strategy. Bagchi and Stern 1994 suggested that that tax policies have been significant factor in terms of transferring funds from public savings to public consumption and investment in India as because tax revenues in India also contributing in some other areas to promote economic activity, reducing gap of gender inequalities of economic growth, increase employment opportunities, increase investment and savings, reduce poverty and hunger etc. Indian tax system is control by ministry of

finance and all the changes from time to time in tax structure were advocated by them. Later 1991, there were significant and very vital efforts were made in restructuring Indian tax system due to introduction of globalization and opening of economy and the recent development in Indian tax system as introduction of GST (goods and services tax) in indirect tax system. Goods and services tax is a form of indirect tax pertinent all over the country. It was introduced as constitution act 2017. This tax structure was imposed by central government and state government on 30 June 2017. The GST controlled by a GST council under the supervision of Finance minister of India. The main objective of GST is to reinstate and relaxed the multiple taxes on goods and services. Under this amendment, goods and services are taxed at following rates such as 0%, 5%, 12% and 18%. There is a special rate of 0.25% allocated on rough and semi-precious stones and 3% on gold.

1.1 BACKGROUND HISTORY OF GST

It was all started back in 2003, when the kelkar task force suggested that there should be a comprehensive goods and services tax on the basis VAT (value added tax) criteria and then there was no news on this topic for long time and then in 2006-2007, introduction of Goods and services was again being the talk in the parliament session. April 1, 2010 it was proposed as a National level Goods and services Tax (GST) to be introduced. In March 2011, the constitution of India enabled the introduction of GST by making amendment into the amendment bill and presented in the Lok sabha (Parliament house). As per the prescribed procedure, the bill required the detailed examination and corrections. In 2012 on 8th November meeting was held to initiate GST between Union Finance Minister and the Empowered committee of State finance ministers. In 2013 the committee provided a detailed discussion regarding GST including the amendment bill after all necessary changes during the meeting which was held at Bhubaneswar.

The meeting which was held at Bhubaneswar came up with three different committees to cover various other aspects of GST are as follows.

- 1) Committee on place of supply rules and revenue neutral rates

- 2) Committee on dual control, threshold and exemptions
- 3) Committee on IGST and GST on imports.

The statutory standing committee of GST which was organized by parliament submitted a report in which it required some recommendations including the recommendations from empowered committee as well as the parliament standing committee to have consultation with the ministry of finance and after detailed examinations most of the recommendations were accepted and those were not accepted needed revision. The final draft of GST was sent to the empowered committee for consideration in September 2013. The empowered committee once again made some necessary recommendations on the GST bill and revised consideration once again needed some revision. In June 2014, with the formation of new government the GST bill needed approval so it was presented into the parliament regarding approval and in 2015 it was passed by the parliament and referred to the select committee of Rajya sabha, which submitted its report on 22nd July 2015.

1.2 RESEARCH QUESTIONS

In this paper, I evaluate and analyze that how this new tax structure can solve various constraints by investigating the impact of GST, Sales tax and VAT on fast moving consumer goods (FMCG). This research paper is well supported by the detail study of literature review about Indian tax system and the mentioned indirect taxes such as; GST, VAT and sales tax structure. The factors or variables to justify the impacts of GST, Sales tax and VAT on FMCG sector have historical continuity and apart from that this research paper will also provide and enhance our understanding about GST in the context of Indian tax policies.

Therefore, there are three research questions in this paper developed are as follows and categorized in two sections

Main-question

- a) Explain the detail study of FMCG sector in India?

Sub-questions

- a) Discuss the detail study of VAT, GST and Sales tax structure in India?
- b) Discuss the impact of VAT, GST and Sales tax structure on FMCG sector?

1.3 OBJECTIVES OF THE STUDY

Based on the research questions the objectives of the study regarding this paper are as follows:

- a) To study the structure and backdrop of Indian tax system.
- b) To study and understand the abstract of GST and its force on Indian economy and FMCG sector.
- c) To study the critical aspects of Sales tax structure and VAT along with its benefits and drawbacks.
- d) To find out about all three indirect taxes impact on FMCG sector.

1.4 SIGNIFICANCE OF THE STUDY

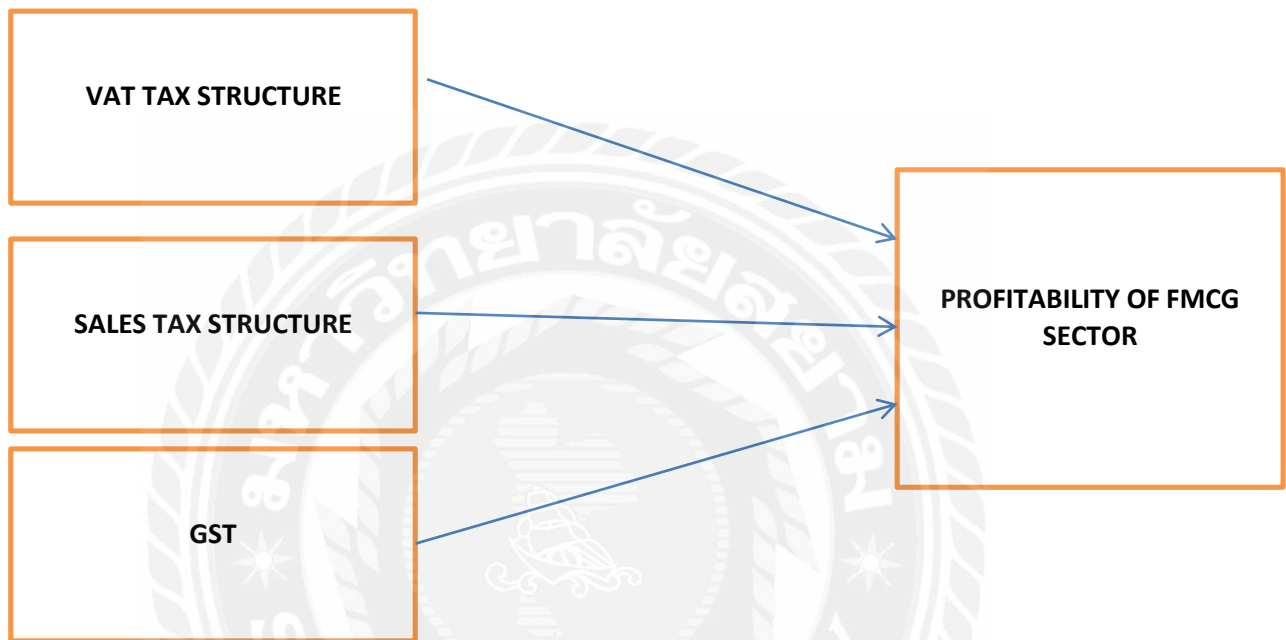
This study provides a complete understanding of different issues which can be raised from the implementation of GST from the perspective of various parties involved in FMCG sector in India. This study will explain about the important variables of GST, possible issues, implementation process, improvement in implementation and what changes for tax payer due to the new tax policy structure. Incorporating the detail analyses of literature review from major tax administration and bodies will provide the better understanding of GST and its impact on FMCG sector in India

1.5 HYPOTHESIS:

- 1) In India the tax framework under GST will be simple and transparent as compared to VAT and Sales tax.

- 2) In India the GST framework has less negative impact on FMCG sector.
- 3) In India the profit calculation of FMCG sector is more in GST framework than in VAT and sales tax.

1.6 CONCEPTUAL FRAMEWORKS



1.7 DEFINITIONS

1.7.1 Sales tax: It has been levied by the government of India on the respective sale or purchase made within the country. It is foisted under the provision of central Government (Central Sales Tax) and the State Government (Sales Tax) legislation committee. In India each and every state has its own respective tax rates slabs and in addition to it there are other certain taxes also such as contracts tax, turnover tax, and purchaser tax as sales tax is the top notch of revenue digger for the Government of India. It is an indirect form of tax in which tax is being charged on the sale of a commodity which is imported, produced or sold for the first time. If that particular product is sold later on it will be exempted from tax. It's the responsibility of a seller to collect and recover the tax from the purchaser of the product or commodity. Imported and exported

goods are not included in this category. Luxury items have higher proportionate of sales tax for example cosmetics.

1.7.2Vat (Value Added Tax): It's a multi-point sales tax which is being paid on purchases. It's collected through installments in every transaction stage from the place of production to place of distribution. The burden of tax is fully borne by the consumer of goods and services within the country. In simple terms, VAT collection can be done from every step and points from the production to delivery of products.

1.7.3GST: In India, GST (goods and services tax) considered to be the biggest beneficiaries in Fast moving consumer goods and provides high amount of relaxation in terms of taxation. In India the FMCG sector is major revenue generating sector

1.7.4FMCG: It's called as Fast moving consumer goods or consumer packaged goods which are sold in the market quickly at relatively lower price examples: packaged foods, beverages, toiletries, over the counter drugs and many consumables. Most of FMCG products have a short life span.

1.8 LIMITATION OF THE STUDY:

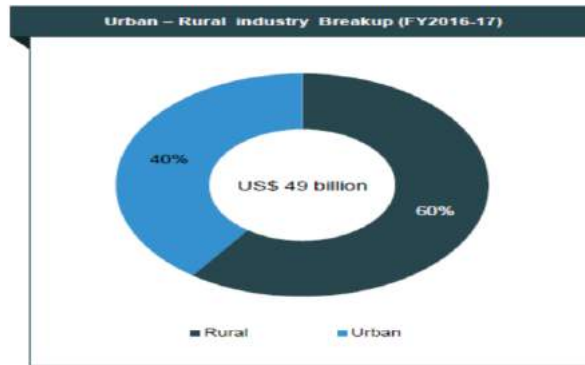
The data collected for this paper is from only one state in India which was Uttar Pradesh (UP) and out of the entire state the data collected from one Province named Varanasi so the result achieved from this study may or may not suitable for other states due to geographical limitations. The total sample size for this study is 100 FMCG products traders located in Varanasi may not represent the entire population of traders available in Varanasi.

CHAPTER 2

Literature review

2.1 FMCG industry in India

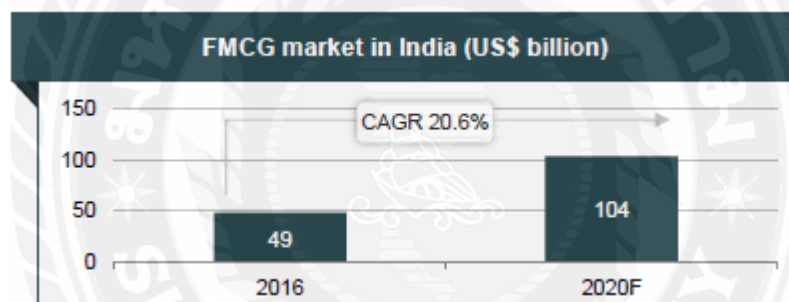
Fast-moving consumer goods (FMCG) sector is known to be the 4th largest sector in the Indian economy and it includes apart from processed food but household items and Personal Care items as well. The food and beverage sector contributes an account of 19 per cent of total FMCG sales in India and household accompanied with personal care contribute jointly 50 percent of total sales of FMCG in India and the healthcare sector contributes of 31 percent of total FMCG sales. The major factors for such huge growth in FMCG sector in India because of certain growth drivers such as: sense of awareness growing in daily lives of people, FMCG products are easily available to cater the needs of people and lastly the change in lifestyles or in taste of people are major factors for people to choose FMCG products on such a large scale. The urban segment who can avail FMCG products easily the account major portion of revenue which around 40 percent and it is considered to be the second most contributor in the field of FMCG sector with a market size accounted approximately for US\$ 19.6 billion in 2016. On the contrary the rural areas in the past few years have shown huge inclination towards the using FMCG products in the last few years and surprisingly it has faster usage of FMCG products comparatively urban areas which are 50 percent of total FMCG sector with a market size accounted for US\$24.5 billion. Semi urban areas contribute 10 percent of revenue share of usage of FMCG which is approximately US\$4.9 billion products.



(Source: IBEF; Indian FMCG industry analysis)

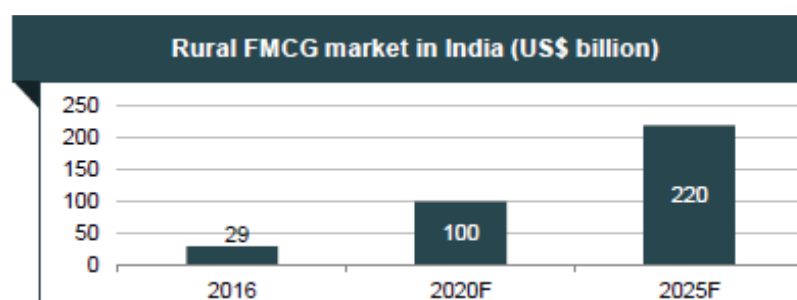
2.1.1 Market potentials and trends

The FMCG market size is US\$49 billion dollars in the year 2016-2017 which is expected to grow more than double by 2020 as forecasted figure according to the India Brand equity foundation accounting US\$104 billion dollars.



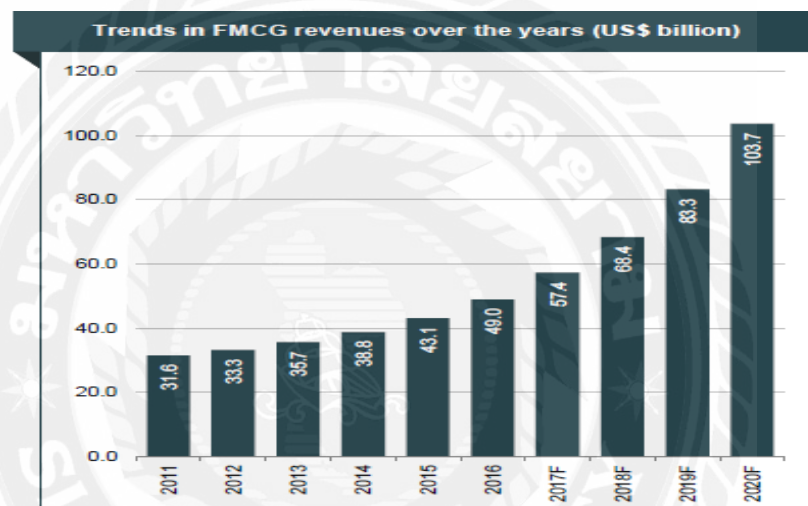
(Source: IBEF; Indian FMCG industry analysis)

The rural areas contribution in FMCG market is significantly rising up in next 10 years as by 2020 it will grow up to US\$100 billion dollars and it will be more than double in next five years approximately US\$ 220 billion dollars.



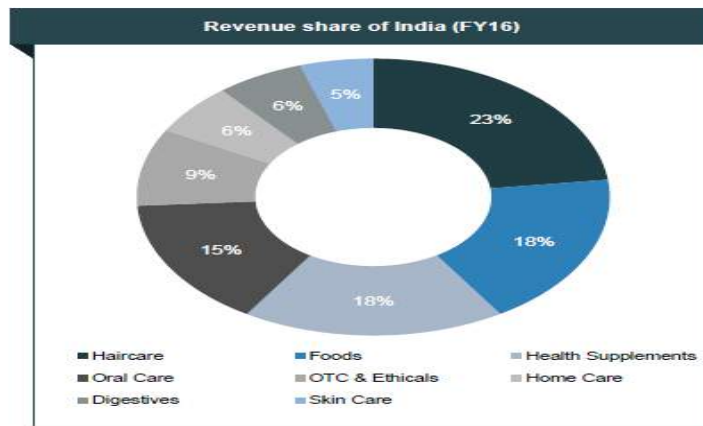
(Source: IBEF; Indian FMCG industry analysis)

The trends in FMCG revenues from the year 2011 to 2017 had been considerably increasing over the years as it was recorded US\$31.6 billion dollars in 2011 and US\$33.3 billion dollars in 2012. In 2013 it accounted for US\$ 35.7 billion dollars and rose to US\$ 38.8 billion dollars in 2014 followed by US\$ 43.1 billion and US\$49.0 billion in 2015 and 2016 respectively. In 2017 it was forecasted that it will reach to US\$57.4 billion dollars. In 2020 it shows that it will scale the forecasted target of US\$103.7 billion dollars which is more than double of 2016 revenues.



(Source: IBEF; Indian FMCG industry analysis)

In revenue share composition of FMCG products categories hair care is the top contributor in revenue contribution in FMCG sector with 23 percent followed by food products and health supplement and oral care as they accounted 19 percent, 16 percent and 15 percent respectively for the year ending 2016. Herbal products and personal care products are expected to grow up to US\$20 billion by 2025 from US\$ 6.5 billion in 2016-2017. There is an increase in number of users in Ayurveda and herbal products which are expected to grow at a rapid rate moving forward.



(Source: IBEF; Indian FMCG industry analysis)

2.1.2 Market players in FMCG sector

	Market leader	Other Leading Players	
Hair oil	 30%	 19%	
Shampoo	 47%	 27%	
Oral care	 54.9%	 10%	 14%
Skin care	 34%	 12%	 3%
Fruit juice	 10%	 30%	

(Source: IBEF; Indian FMCG industry analysis)

- In hair oil category Marico brand owns percent of market share and Dabur owns 19 percent.
- In shampoo category of the market leader is Unilever owns 47 percent and Proctor & Gamble owns 27 percent.

- In oral care Colgate accounts for 54.9 percent followed by Unilever and Dabur
- In skin care sector Unilever is doing really well in order to occupy maximum share of 54 percent.
- In fruit juice arena without any much competitions Dabur is accentuating with 60 percent

2.1.3 Main segments of FMCG market

There are three main segments of FMCG market which are explained as below

- Food and beverages: 19 percent
Industry type: health, beverages, staples/ cereals, snacks items, chocolates, bakery items, ice creams, tea, coffee, soft drinks, processed fruits and vegetables, dairy items and flour of branded companies only.
- Healthcare: 31 percent
Industry type: OTC products and ethical items only.
- FMCG is the 4th largest sector in the Indian economy
- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (19 per cent) comes next in terms of market share
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector
- The number of online users in India is likely to cross 850 million by 2025.
- Retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 672 billion in 2016, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies
- People are gracefully embracing Ayurveda products, which has resulted in growth of FMCG major, Patanjali Ayurveda, with a revenue of US\$

1.57 billion in FY17. The company aims to expand globally in the next 5 to 10 years.

FY00	FY17
▪ Indian FMCG Industry – US\$ 9 billion	▪ Indian FMCG Industry – US\$ 49 billion
▪ Market size of chocolates – <US\$ 100 million	▪ Market size of chocolates – US\$ 1,766.6 million
▪ Market size of personal care – <US\$ 3 billion	▪ Market size of personal care – US\$ 12.58 billion
▪ HUL's share in FMCG market (personal care) – >50%	▪ HUL's share in FMCG market (personal care) – 37.4%

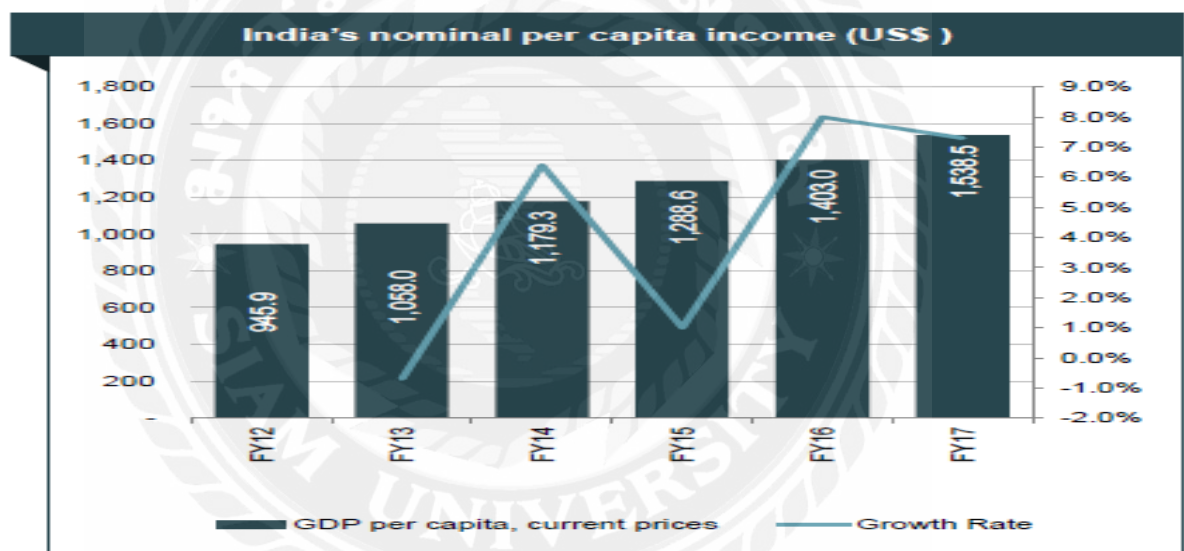
Source: Dabur Annual Report, Economic Times, Emami Annual Report, McKinsey Global Institute, CII, Boston Consulting Group Report

2.1.4 Growth drivers for India's FMCG sector

- **Easy access:** The availability of products over the years have become really hassle free also with the explosion of e-commerce accessibility has become easier. Products and services have been reaching to customers with so ease and in more convenient pace and time. There are certain online shopping platforms are available which making products available all the time such as: Grofers, Flipkart and Amazon
- **Rural areas increase in consumption:** India geographical areas have more rural areas the urban and semi urban areas and the population is also more than urban so it is automatically evident that the consumption rate in rural areas will be more than others. Godrej Company is introducing One Rural program me to collect more revenues from the rural portion of India.
- **Transition towards organized market:** Due to rise in awareness about the brands the unorganized markets growth have been declined and growth of

organized market has been increased. Modern retail sector have shown improvement so it will increase the sale of FMCG sector.

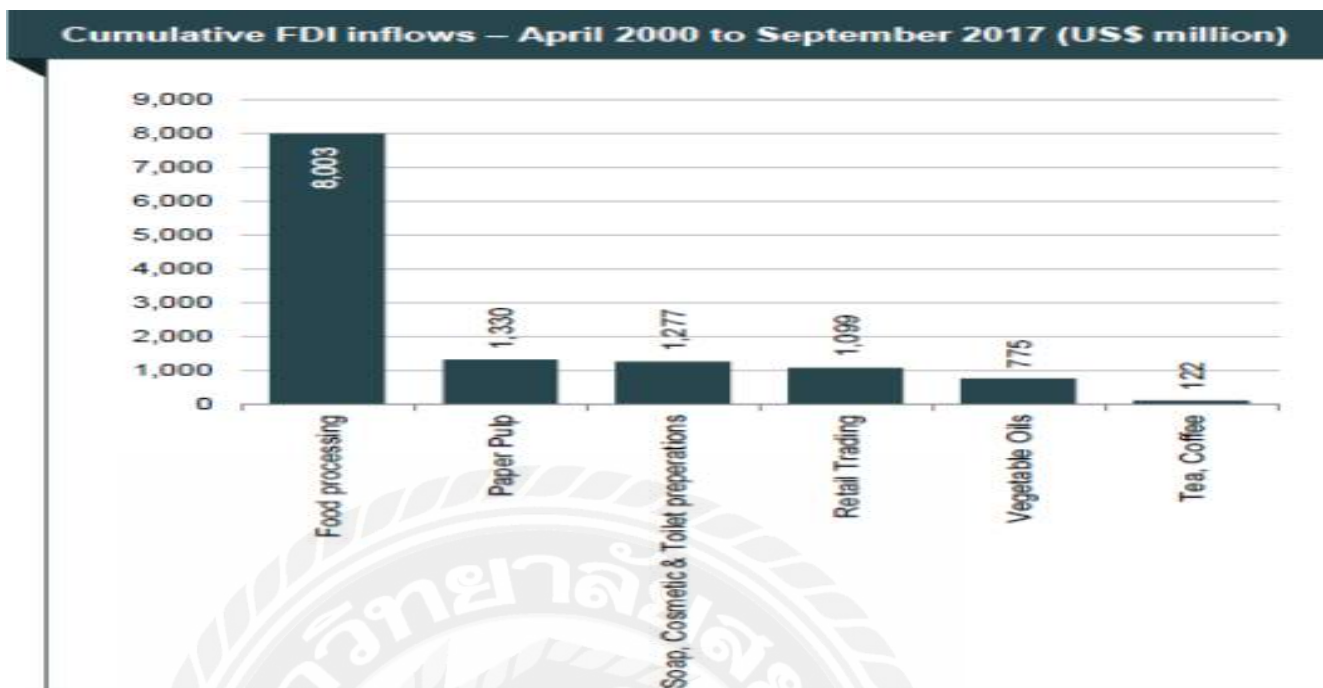
- **Growth in market penetration:** Many investors are coming into this sector to invest funds which explains that the demand is growing for FMCG products.
- **Growth in national income:** Rise in economy brings rise in GDP and it brings rise national income of general people as from the figure below it shows that there is an increase in national income from 2016 to projected 2017 (6.5 percent to more than 7percent). Now day's many people are encouraged to spend more on FMCG sector with the increase in national income.



(Source: IBEF; Indian FMCG industry analysis)

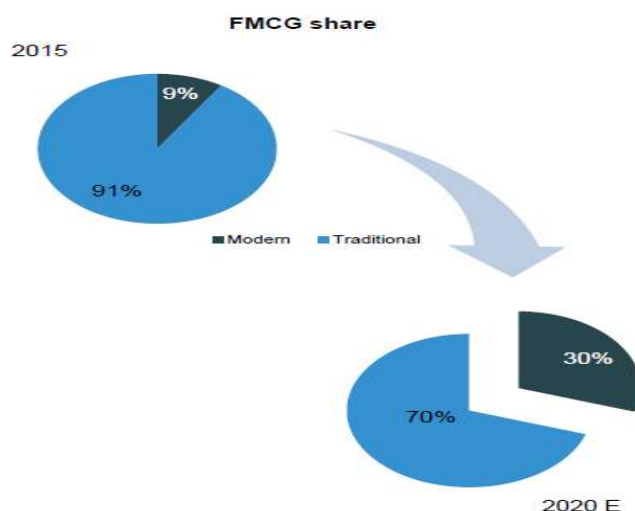
- **Rise in FDI inflow in India:** In India, full 100 percent ownership is allowed in food processing and single brand retail and 51 percent is allowed in multi brand retail items. The growth in FDI inflows from the period April 2000 to September 2017 with an extraordinary figure of US\$37.18 million. The major foreign investments have been done in food processing followed by paper pulp and cosmetics. The least foreign investments have

been done in Tea and coffee items.



(Source: IBEF; Indian FMCG industry analysis)

2.1.5 Growth of FMCG share in Modern retail



In 2015 the modern retail sector was accounted for just only 9 percent which means people were not aware of FMCG goods and 91 percent was allocated to traditional retail sector. On the flip side, the growth in modern retail sector accompanied with FMCG share is projected to reach 30 percent by 2020. This above figure explains that the growth in FMCG sector in upcoming years is progressive and positive.

2.1.6 FMCG industry organizations

- Indian Dairy Association
- All India Bread Manufacturer's Association
- All india food Preserver's Association
- Indian Soap and Toiletries Manufacturer's Association

2.1.7 Conclusion

The FMCG sector study elucidates certain points favoring FMCG sector a great potential prospects for investors from domestic as well as foreign base. The current market size of FMCG sector is more than US\$50 billion dollars and it will grow more than double by 2020 as it will account approximately US\$104 billion dollars. The consumption rate in rural areas will also be increasing in the forthcoming years as by 2020, will worth around US\$100 billion dollars and US\$220 by 2025. The primary reasons for increase in market potential of FMCG sector in India because of easy access of FMCG products in urban and rural areas, increase rate of rural areas consumption due to India's large geographical areas are rural. Moreover, increase in national income of general public is also favoring the growth of FMCG sector in India and increase in FDI

inflow is also having a significant contribution towards the growth of FMCG sector in India. In a nutshell, the FMCG sector is huge and wide in India and later in study will try to find out the different indirect tax structures such as sales tax structure, VAT and GST impact on FMCG items. The FMCG items are concluded into three categories which are discussed above in this chapter.

2.2 VAT TAX STRUCTURE

Vat is a different kind of tax which is being charged on sale of goods and services when they are sold to customer. It's very useful for the country's economy development and in growth of GDP as well. The value added tax on goods and services is paid by the producers to government and then producers charge the same tax to customers or end users so basically it's directly paying by customers to the government. VAT is charged on every step requires in producing goods and services. Any individual or company who generate transaction worth more than INR 500,000 is eligible to pay VAT. VAT is taxable on local goods as well as imported goods.

2.2.1 Features of Value Added Tax in India.

- 1) Same tax will be charged for same type of goods and services. For example, TV of different brands will be charged same.
- 2) It makes taxation process easier, simpler and transparent
- 3) It reduces the chances of tax evasion
- 4) It encourages transparency in sale process

2.2.2 Calculation of VAT

It's the difference between the Input tax and Output tax.

$$\text{VAT} = \text{Output Tax} - \text{Input Tax}$$

Output tax is the tax which is being received by the seller regarding their sale of goods and services. The input tax is on the other side is the tax paid by the seller for raw materials and for procurement in order to produce finished goods.

Calculation of VAT (source: www.bankbazar.com)

Purchase	Input tax	Sale	Output tax	VAT
50,000 (Buying price of FMCG products, especially raw materials)	13.5% (VAT in Uttar Pradesh) X 50,000= 6,750 INR	100,000 (Sale price of goods and services, especially finished goods)	13.5% (VAT in Uttar Pradesh)X 100,000= 13,500 INR	13,500- 6,750 = 6,750 (Total amount payable)

2.2.3 IMPORTANCE OF VAT

- To enhance better trade practices.
- To provide transparency in taxation system
- To ensure better compliance in tax calculation in each stage of production.
- To provide solution in solving country's fiscal deficit scenarios.

2.2.4 VAT IMPLEMENTATION IN VARIOUS STATE OF INDIA:

1. **NIL VAT RATE:** In many states as VAT are not being charged on certain items and in most unorganized sector on the items such as salt, khadi dress, condoms etc.

2. **1% VAT RATE:** This VAT charge is basically for the items on high price goods such as gold, silver and precious stones.
3. **4-5% VAT RATE:** These percentages are charged for items like oil, coffee, medicines etc.
4. **General VAT RATE:** General VAT rates are in the range of between 12-15% for alcoholic items.

2.2.5 VAT RATES IN DIFFERENT STATES

STANDARD VAT RATES FOR STATES/UNION TERRITORIES	
RATE	STATE/UNION TERRITORY
12.5%	Arunachal Pradesh, Delhi, Goa, Haryana, Maharashtra, Manipur, Sikkim, Tripura
13%	Madhya Pradesh
13.25%	Nagaland
13.5%	Assam, Bihar, Jammu & Kashmir, Kerala, Meghalaya, Mizoram, Odisha, Uttar Pradesh, Uttarakhand, West Bengal
13.75%	Himachal Pradesh
14%	Chhattisgarh, Jharkhand, Karnataka, Punjab, Rajasthan
14.5%	Andhra Pradesh, Puducherry, Tamil Nadu
15%	Gujarat

(Source: Goods and services tax-18 percent or above: States Centre wrangle over potential losses- indianexpress.com)

2.2.6 Conclusion

The VAT calculation looks expensive for customer as its being doubly charged according to the calculation achieved above and it's very complex to understand that stages of actual VAT being paid the producer, manufacturer or consumer. VAT relatively is very expensive because of the multiple times VAT charged for the same product and it makes the product expensive for customer to buy that particular product. Furthermore, if VAT increases it will increase the inflation rates as well which is not an ideal sign for middle and lower class level people especially. VAT gives sense of doubt on government implementation on this structure of filling tax as stated earlier its doubly charged so customer might feel of paying double tax for same product. VAT in India is relatively complex

method to understand and it's not an easy task to calculate every stage and it can be costly procedure to implement for the full billing system. It requires customer to be very conscious otherwise they won't be able identify if they have paid more or less. Refund of getting tax will not be availed if there is no tax payable on final product being exempt or taxable at lower rate. It can cause inflation in the price of goods and services. The manufacturer and dealers in this case have to pay tax in advance and they can't wait for the customers purchasing. End users have no benefits with tax structure.

2.3 SALES TAX STRUCTURE

In simple terms sales tax can be defined as a type of tax paid to government for the sale of goods and it is an indirect form of tax policy which governments charge to manufacturer or seller of any items. It is entirely depends upon the government sales tax policy as in every states have got different percentage of sales tax but due to introduction of GST it has been replaced.

2.3.1 Types of Sales Tax:

There are different ways to calculate sales tax which are explained as below

- a) Retail Sales Tax – This tax is being charged on sale of retail goods and it directly paid and borne by the final customer.
- b) Manufacturers' Sales Tax – This tax is being charged on the manufacturing of certain goods.

- c) Wholesale Sales Tax – This tax is being charged on sellers who sale wholesale goods and services.
- d) Use Tax – This is a tax levied on the consumer for goods which are purchased without sales tax (generally from vendors who are not under the tax jurisdiction).

2.3.2 Calculation of states tax structure



(Source: tradingeconomics.com; Ministry of Finance, Government of India)

As it can be seen from the above graph that sales tax over the years had increased as from 2008 to 2014 was stabled in the range of 12.36-12.50 percent range and later in 2015 and 2016 had reached to approximately 15 percent. Finally, 2017 and 2018 it went up to 18 percent (Ministry of finance, Government of India).

In order to calculate sales tax, the basic formula to derive it explained below (bankbazaar.com)

Sales tax= Cost of items x Sales tax rate

Let's say the cost of "X" FMCG product is INR50, 000 and the current sales tax rate @ 18% so by substituting the figure in the formula; the sales would be

Sales tax= 50,000 x18% = 9,000 INR

2.3.3 Conclusion

The difference between VAT and sales tax in India as sales tax are not charged on multiple levels compared to VAT which is bit relaxing from customer point of view but overall its expensive as current sales tax rate in India is approximately 18% which is highly expensive in some cases for FMCG products as if the product worth is less but due to added up sales tax structure it will turn out to be expensive. Likewise, VAT many customer cannot afford it. The calculation of sales tax proves that it is not creating positive impact on FMCG items because it will discourage the customers to buy and use FMCG products and this will hamper the growth potential of FMCG products in India. The sales tax in India is relatively high as discussed earlier and in some cases they are higher than the price of product as well for example items like alcohol and cigarettes are being taxed more than their making price as alcohol are taxed as 50% and cigarettes are taxed up to 22%. In some state such as Kerala, alcohols are taxed up to 70% and cigarettes are taxed up to 30% (central sales tax, India). This brings the abuse use of tax on certain industries also most businesses have to charge higher price in order to make more profit. On the contrary, if the sales taxes are higher which will bring the price of products higher and it will discourage the consumers to increase the purchasing power so ultimately, the manufacturing cost of producers would be relatively high.

2.4 GST

GST is an indirect tax form which is being charged on manufacturing goods and sale and consumption of goods and services within national boundary of country. GST main aim is to unify all different forms of taxes into one and this is to boost the country economic growth as because in India there are different forms of taxes such as VAT, service tax, sales tax, entertainment tax, octroi tax and luxury tax. The GST has replaced all the taxes and implemented one tax for the normal resident of the country and is monitored by the central government. It is calculated not on the manufacturing stage but on the consumption stage. The main reason for the implementation of GST is to create friendly tax environment as it was very confusing before in order to calculate taxation and it will bring the inflation rate also down if GST will be effective in use. The GST will replace all the indirect tax in India. At the central level, GST will replace central excise duty, service tax, customs duties. At the state level, the GST will replace state VAT.

GST rates as discussed are categorized in five standard tax rates- 0%, 5%, 12%, 18% and 28%. Under the new and modified tax regime, favors the FMCG products (gsthelplineindia.com). FMCG products such as toothpaste, hair oil and soaps are charged less than 18% and some other FMCG products such as milk, eggs, cottage cheese, wheat, rice, curd, fresh vegetable are exempt from tax. Sanitary napkins are being charged in the range of 10-11%. The GST rates as mentioned are lower, favor both owners and consumer. It favors consumer because the cost price comes down as there is absence of multiple tax so it makes products cheaper. It favors owners because it reduces the cost of logistics and distribution of products as its being charged once which is at the final end of the product, the chances of multiple tax under VAT regimes is not being applied here

so the product reaches from place of production to place of consumption without any sort of tax on it and when the consumer buys it, pays the GST at point of purchase (GST council, India).

2.4.1 Calculation of GST

FMCG products are so many and GST rates on products are different from the range of 0% to 28% as there is not a single standard rate for all the products. In this calculation, researcher tries to take the average of all the GST rates and calculate the possible amount to check the tax burden on FMCG products.

(Source: Cleartax.in)

GST tax rates are 0%, 5%, 12%, 18% and 28% so the average of these taxes is 12.6%

Let's assume the FMCG products values INR 50,000 and the average tax is 12.6% which arrived after adding all six tax slabs and divide by 5, gives 12.6%

$GST = 50,000 \times 12.6\% = 6,300$

2.4.2 Conclusion

GST calculation explained that it causes less manufacturing cost because of the avoidance of multiple taxes and makes the products available for customer cheaper. It reduces the transportation cost and logistics charges. It adds more revenue to government and purchasing power of customers. This chapter answered the main question of this research study by analyzing the FMCG sectors in India and its numeric analysis. FMCG sectors in India is definitely having growth potential and with coming years India will become a large FMCG market which will open its gate for more FDI investments so with current GST rates, it will always create the constant demand for FMCG

products as GST rates are cheaper. This chapter also answered partially the impact of VAT, sales tax and GST on FMCG sector with help of investigating their benefits and drawbacks accompanied with the calculation in order to check the burden. Furthermore, if the tax rates are lower, will create less burden on consumer and consumer will buy FMCG goods and it will grow the market potentials. According to the calculation results achieved so far GST seems more favorable on FMCG products. This will be fully justified in chapter 4 by achieving statistical results.



CHAPTER 3

Research methodology

3.1 RESEARCH METHODOLOGY

This chapter explains about the research method which has been used in the research paper. Research methodology is very important to justify the accuracy and authenticity of research. The main objective to attain this research paper is to measure the impact of VAT, sales tax and GST on the profitability of FMCG sector. In the end of research process it will explain which tax structure contributes maximum profitability to FMCG sector. This paper is partly descriptive and partly explorative and the data collection is gathered from both primary as well as secondary sources.

3.1.1 Independent variables

- Sales tax structure
- VAT tax structure
- GST tax structure

3.1.2 Dependent variables

- Profitability to FMCG sector

3.2 DATA COLLECTION

Primary data: In this section the questionnaire has been distributed to 100 traders in Varanasi city, Uttar Pradesh, India who deals in buying and selling FMCG goods and services. The responses from traders have come in the form of personal interview, telephonic conversation, through observation during their working hours and discussions.

Secondary data: In this section the data collected from past research works which had done by different researchers in the related areas of this paper. The

ways to gather data in this section was from the journals, reports, books, conference papers, magazines and periodicals which had been issued by the government of India especially by ministry of finance. The data in this section had been used from past five year's data 2013-2018.

3.3 SAMPLING METHOD

The total sample selection for this study was on the basis of convenience sampling. It's a non-probability sample technique in which subjects are chosen on the basis of convenience, accessibility and proximity based on the nearness in space, time or relationship. Researcher in this study selected 200 samples. The questionnaire was distributed to 200 traders and these 200 traders later will provide the details and proportions of trader's types and their nature of business.

3.4 STATISTICAL METHOD

This paper uses statistical package for social sciences (SPSS) for the analysis because statistical tools are very important to measure the reliability test by using cronbachs reliability test for questionnaire to check whether list of questions are accurate enough to justify the research paper. In this paper correlation test by using Spearman and Pearson correlation test between independent variables and dependent variables have also been used.

3.5 FORMULA

3.5.1 Cronbach's alpha reliability test

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$$

N = Number of items

C-bar = Average of inter item covariance among the items.

V-bar = Average variance.

3.5.2 Pearson correlation formula

$$r = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

r = Pearson r correlation coefficient

N = number of observations

$\sum xy$ = sum of the products of paired scores

$\sum x$ = sum of x scores

$\sum y$ = sum of y scores

$\sum x^2$ = sum of squared x scores

$\sum y^2$ = sum of squared y scores

3.5.3 Spearman correlation

The following formula is used to calculate the Spearman rank correlation:

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

ρ = Spearman rank correlation

d_i = the difference between the ranks of corresponding variables

n = number of observations

3.6 Survey Instruments

The researcher used questionnaire format to gather information in order to examine, analyze and deduce the relationship between independent variables and dependent variables. The questionnaire comprise of four parts.

3.6.1. Demographic information

First part comprise of general demographic questions about the respondents. It includes questions such as asking the information about gender, turnover, time period of doing business, and nature of their business. The questions belong to this group are close ended questions in which respondents have to just tick the box. There are total numbers of 4 questions.

Part A: Demographic

1. Gender
 - ☐ Male
 - ☐ Female
2. Monthly Turnover
 - ☐ Less than \$1,000
 - ☐ \$1,000- 2,000
 - ☐ \$2,001-3,000
 - ☐ \$3,001-4,000
 - ☐ More than \$4,000
3. Time period of doing trading
 - ☐ 1 year
 - ☐ 2 years
 - ☐ 3 years
 - ☐ 4 years
 - ☐ More than 4 years
4. Nature of trading business
 - ☐ Household related
 - ☐ Healthcare related
 - ☐ Food & beverages related
 - ☐ Others (please specify)_____

3.6.2 Sales tax structure

In this section the researcher asked questions based on understanding of literature review about sales tax structure in India. The questions are based on likert scale in which each respondents was required to rate the question on the scale of 1 to 3 from question 5 to question 7 and question 13 to question 14.

Secondly, scale of 1 to 5 from question 8 to question 12. The total numbers of questions are 10 in this section.

5. Sales tax rates comparison from the previous year

- ☐ No change = 1
- ☐ Decrease = 2
- ☐ Increase = 3

6. Sales tax impacts on goods prices

- ☐ No change =1
- ☐ Decrease in prices =2
- ☐ Increase in prices = 3

7. Sales tax impacts on margins

- ☐ No change =1
- ☐ Decrease in price = 2
- ☐ Increase in price = 3

8. Benefits under incentive schemes

- ☐ Highly satisfied =1
- ☐ Satisfied=2
- ☐ Not really = 3
- ☐ Unsatisfied =4
- ☐ Highly unsatisfied =5

9. Uniformity in sales tax structure

- ☐ Strongly agree =1
- ☐ Agree =2
- ☐ Not sure = 3
- ☐ Disagree =4
- ☐ Highly disagree =5

10. Satisfaction over the availability of sales tax credits on goods.

- ☐ Strongly satisfied =1
- ☐ Satisfied =2
- ☐ Neutral =3

- ☐ Unsatisfied =4
- ☐ Highly unsatisfied =5
- 11. Transition from sales structure to another would be smooth.
 - ☐ Strongly agree =1
 - ☐ Agree =2
 - ☐ Neutral =3
 - ☐ Agree =4
 - ☐ Strongly disagree =5
- 12. Communication effectiveness of sales structure.
 - ☐ Highly effective
 - ☐ Effective
 - ☐ May be or may be not
 - ☐ Ineffective
 - ☐ Highly ineffective
- 13. Sales tax structure effect on your business model.
 - ☐ Moderate
 - ☐ Significant
 - ☐ Insignificant
- 14. Level of awareness of sales tax structure
 - ☐ Good
 - ☐ Medium
 - ☐ low

3.6.3 VAT structure

In this section the researcher asked questions based on understanding of literature review about VAT in India. The questions are based on likert scale in which each respondents was required to rate the question on the scale of 1 to 3 from question 5 to question 7 and question 13 to question 14. Secondly, scale of 1 to 5 from question 8 to question 12. The total numbers of questions are 10 in this section.

- 15.VAT comparison from the previous year
 - ☐ No change = 1
 - ☐ Decrease = 2

- ☐ Increase = 3

16.VAT impacts on goods prices

- ☐ No change =1
- ☐ Decrease in price =2
- ☐ Increase in prices = 3

17.VAT impacts on margins

- ☐ No change =1
- ☐ Decrease in price = 2
- ☐ Increase in price = 3

18.Benefits under incentive schemes

- ☐ Highly satisfied =1
- ☐ Satisfied=2
- ☐ Not really = 3
- ☐ Unsatisfied =4
- ☐ Highly unsatisfied =5

19.Uniformity in VAT

- ☐ Strongly agree =1
- ☐ Agree =2
- ☐ Not sure = 3
- ☐ Disagree =4
- ☐ Highly disagree =5

20. Satisfaction over the availability of VAT credits on goods.

- ☐ Strongly satisfied =1
- ☐ Satisfied =2
- ☐ Neutral =3
- ☐ Unsatisfied =4
- ☐ Highly unsatisfied =5

21. Transition from VAT to another would be smooth.

- ☐ Strongly agree =1
- ☐ Agree =2
- ☐ Neutral =3
- ☐ disagree =4

- ☐ Strongly disagree =5
22. Communication effectiveness of VAT.
- ☐ Highly effective
 - ☐ Effective
 - ☐ May be or may be not
 - ☐ Ineffective
 - ☐ Highly ineffective
23. VAT effect on your business model.
- ☐ Moderate
 - ☐ Significant
 - ☐ Insignificant
24. Level of awareness of VAT
- ☐ Good
 - ☐ Medium
 - ☐ low

3.6.4 GST

In this section the researcher asked questions based on understanding of literature review about GST in India. The questions are based on closed ended type of questions. The total numbers of questions are 6 in this section.

25. Do you think implementing GST will cause increase in price of goods and services?
- ☐ Yes
 - ☐ No
26. Do you think all business should follow GST and not multiple tax payments?
- ☐ Yes
 - ☐ No
27. Do you agree with the implementation of GST in India?
- ☐ Yes
 - ☐ No
28. Which systems do you think is more beneficial to both government and people?

- ☐ Sales tax
- ☐ VAT
- ☐ GST

29. Do you think GST will burden the people or consumer?

- ☐ Yes
- ☐ No

30. Do you think India is ready for GST system?

- ☐ Yes
- ☐ No

3.6.5 Profitability of FMCG sector

In this section the researcher asked questions based on understanding of literature review about sales tax, VAT and GST in India and its overall impacts on the FMCG sector. The total numbers of questions are 9 in this section.

Questions	Yes	No
I think sales tax structure is more beneficial than other tax structure for health care products.		
I think sales tax structure is more beneficial than other tax structure for household products.		
I think sales tax structure is more beneficial than other tax structure for food and beverages items		
I think VAT is more beneficial than other tax structure for health care products.		
I think VAT is more beneficial than other tax structure for household products.		
I think VAT is more beneficial than other tax structure for food and beverages products.		
I think GST is more beneficial than other tax structure for health care products.		

I think GST is more beneficial than other tax structure for household products.		
I think GST is more beneficial than other tax structure for food and beverages products.		

3.7 Data analysis

Descriptive statistics in this research paper are used to deduce the descriptive information by using frequency, cumulative frequency, standard deviation, variance, maximum value and minimum value in order to provide information for the following cases:

- In this section, demographic data which includes gender ratio, monthly turnover, nature of trading, total time period of doing business,
- In this section, sales tax structure includes impact of sales tax structure on prices and margins, communication effectiveness, awareness level, transition, burden of tax inputs.
- In this section, VAT includes impact of VAT structure on prices and margins, communication effectiveness, awareness level, transition, burden of tax inputs.
- In this section, GST includes the implementation, risk and potentials.

Inferential statistics

Inferential statistics in this section is to deduce correlation investigation between variables.

- In India the tax framework under GST will be simple and transparent as compared to VAT and Sales tax.
- In India the GST framework has less negative impact on FMCG sector.
- In India the profit calculation of FMCG sector is more in GST framework than in VAT and sales tax

This also includes the reliability test using cronbach's alpha testing in order to find the accuracy between the questionnaires to justify whether these survey questions fit for the research prospective.



CHAPTER 4

4.1 Demographic analysis

4.1.1 Gender ratio

		Frequency	Percent
Valid	Male	135	67.5
	Female	65	32.5
	Total	200	100.0

In this research paper, the total number of respondents were 200 and out of this 67.5% were reported as male candidates and 32.5% reported as female.

4.1.2 Monthly turnover

		Frequency	Percent
Valid	less than \$1,000	19	9.5
	\$1,000-2,000	16	8.0
	\$2,001-3,000	20	10.0
	\$3,001-4,000	115	57.5
	More than \$4,000	30	15.0
	Total	200	100.0

The traders who were dealing in FMCG products 57.5% of them were making monthly turnover in between \$3,001-\$4,000 and 15% of them were making more than \$4,000 per month turnover. The traders who were making less than \$1,000 were 9.5%

4.1.3 Time period of doing trade

The vast majority of respondents were trading FMCG products for more than 5 years accounted as 50.5% and followed by 23% of respondents were doing for 4

years. The least majority of respondents were doing trade business for 1 and 2 years.

		Frequency	Percent
Valid	1 year	17	8.5
	2 years	17	8.5
	3 years	19	9.5
	4 years	46	23.0
	More than 4 years	101	50.5
	Total	200	100.0

4.1.4 Nature of trading business

The high proportionate of respondents were dealing in household related products in FMCG category accounted as 43.5% and the second high proportionate of respondents were dealing with food and beverage related products were estimated as 28.5%. The least were dealing in healthcare related as 22.5% only.

		Frequency	Percent
Valid	Household related	87	43.5
	Healthcare related	45	22.5
	Food & beverages related	57	28.5
	Others	11	5.5
	Total	200	100.0

4.1.5 Statistical information

		Gender ratio	Monthly turnover	Time period of doing trade	Nature of trading business
N	Valid	200	200	200	200
	Missing	0	0	0	0
Mean		1.3250	3.6050	3.9850	1.9600
Median		1.0000	4.0000	5.0000	2.0000
Std. Deviation		.46955	1.12931	1.30895	.97114
Variance		.220	1.275	1.713	.943
Range		1.00	4.00	4.00	3.00
Minimum		1.00	1.00	1.00	1.00
Maximum		2.00	5.00	5.00	4.00
Percentiles	25	1.0000	3.0000	3.0000	1.0000
	50	1.0000	4.0000	5.0000	2.0000
	75	2.0000	4.0000	5.0000	3.0000

4.2 Sales tax structure analysis

		Frequency	Percent
Valid	No change	54	27.0
	Decrease	50	25.0
	Increase	96	48.0
	Total	200	100.0

Sales tax impacts on goods prices

		Frequency	Percent
Valid	No change	46	23.0
	Decrease in prices	40	20.0
	Increase in prices	114	57.0
	Total	200	100.0

	Frequency	Percent
Valid		
No change	64	32.0
Decrease in margins	81	40.5
Increase in margins	55	27.5
Total	200	100.0

	Frequency	Percent
Valid		
Highly satisfied	17	8.5
Satisfied	15	7.5
don't know	28	14.0
Unsatisfied	55	27.5
Highly unsatisfied	85	42.5
Total	200	100.0

	Frequency	Percent
Valid		
Strongly agree	27	13.5
Agree	14	7.0
Not sure	44	22.0
Disagree	44	22.0
Highly disagree	71	35.5
Total	200	100.0

Satisfaction over the availability of sales tax credits on goods

	Frequency	Percent
Strongly satisfied	14	7.0
Satisfied	24	12.0
Neutral	22	11.0
Unsatisfied	52	26.0
Highly unsatisfied	88	44.0
Total	200	100.0

Transition from sales structure to another would be smooth.

		Frequency	Percent
Valid	Strongly agree	14	7.0
	Agree	20	10.0
	Neutral	14	7.0
	Disagree	118	59.0
	Strongly disagree	34	17.0
	Total	200	100.0

Sales tax structure effect on your business model.

		Frequency	Percent
Valid	Medium	35	17.5
	Significant	43	21.5
	Negative	122	61.0
	Total	200	100.0

Communication effectiveness of sales tax structure.

		Frequency	Percent
Valid	Highly effective	19	9.5
	Effective	16	8.0
	May be or may be not	20	10.0
	Ineffective	43	21.5
	Highly ineffective	102	51.0
	Total	200	100.0

Level of awareness of sales tax structure

		Frequency	Percent
Valid	Good	39	19.5
	Medium	106	53.0
	Low	55	27.5
	Total	200	100.0

In India, the sales tax on different FMCG products have increased compared to their previous year slabs according to the findings and it also shows that it has affected and impacted on the general price level of goods and services by 57%

based on findings and this consequently caused impact on the margins for FMCG products trader by causing decrease in margins by 40.5%. The above table suggests that benefits from sales tax facility are highly unsatisfied among the traders by 42.5% and it reflects that there is no uniformity in sales tax structure as out of total population from this survey 35.5% traders were highly unsatisfied and 22% were disagrees with the uniformity in sales tax structure. FMCG products traders in Varanasi are highly unsatisfied with the sense of satisfaction over the availability of Sales tax credits on goods by 44% and 26% of them were unsatisfied. There were 59% traders agreed that transition from sales structure to another tax structure would be smooth from traders point of view. The communication effectiveness of sales structure among traders is highly ineffective by 51.0% and ineffective by 21.5% followed by the level of awareness of sales tax structure as 53% traders were having medium to low awareness of sales tax structure. Hence it proves from the above responses that Sales tax structure is not highly appreciating among FMCG traders as it's affecting their margins and enabling them to pay more taxes to the government.

Correlations		Sales	FMCG profitability
Sales Tax	Pearson Correlation	1	.566**
	Sig. (2-tailed)		.000
	N	200	200
FMCG profitability	Pearson Correlation	.566**	1
	Sig. (2-tailed)	.000	
	N	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

Correlations				
			Sales Tax	FMCG profitability
Spearman's rho	Sales Tax	Correlation Coefficient	1.000	.590**
		Sig. (2-tailed)	.	.000
		N	200	200
	FMCG profitability	Correlation Coefficient	.590**	1.000
		Sig. (2-tailed)	.000	.
		N	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

This also derived from the correlation test based on the surveys responses were gathered as stated that sales tax doesn't contribute profitability in FMCG related business as it shows highly insignificant result both in Pearson and Spearman test.

4.3 VAT structure analysis

The FMCG products traders mentioned that they found no change in VAT structure compared to the previous year as 58.5% reportedly but it has impacted in increase the general prices of the FMCG related products. Moreover, this has brought decline in profits and margins as 41.5% respondents mentioned. The benefits under incentive schemes 29% respondents mentioned that they are highly unsatisfied by the benefits under VAT structure and 36% mentioned that they are unsatisfied. There is a lack of uniformity as 21% FMCG traders reported that disagreement with the uniformity in VAT. Traders approximately 33% reported that they don't have satisfaction over the availability of VAT credits on goods and transition would be smooth accounted as 24%. The communication effectiveness of VAT is effective enough as 52% traders mentioned that VAT effect on the business model is negative and almost 65% said that it has negative effect on the business model. The most surprising fact from this survey is that traders have good level of awareness of VAT but still it hasn't been very encouraging and adaptive from FMCG trader's perspective.

		Frequency	Percent
Valid	No change	117	58.5
	Decrease	26	13.0
	Increase	57	28.5
	Total	200	100.0

		Frequency	Percent
Valid	No change	62	31.0
	Decrease in prices	15	7.5
	Increase in prices	123	61.5
	Total	200	100.0

		Frequency	Percent
Valid	Highly satisfied	11	5.5
	Satisfied	27	13.5
	Not really	32	16.0
	Unsatisfied	73	36.5
	Highly unsatisfied	57	28.5
	Total	200	100.0

		Frequency	Percent
Valid	Strongly agree	23	11.5
	Agree	21	10.5
	Not sure	46	23.0
	Disagree	67	33.5
	Highly disagree	43	21.5
	Total	200	100.0

		Frequency	Percent
Valid	Strongly satisfied	15	7.5
	Satisfied	21	10.5
	Neutral	34	17.0
	Unsatisfied	64	32.0
	Highly unsatisfied	66	33.0
	Total	200	100.0

		Frequency	Percent
Valid	Strongly agree	48	24.0
	Agree	48	24.0
	Neutral	104	52.0
	Total	200	100.0

		Frequency	Percent
Valid	Highly effective	41	20.5
	Effective	104	52.0
	May be or May be not	55	27.5
	Total	200	100.0

		Frequency	Percent
Valid	Positive	71	35.5
	Negative	129	64.5
	Total	200	100.0

		Frequency	Percent
Valid	Good	144	72.0
	Medium	56	28.0
	Total	200	100.0

Pearson significant test was conducted based on the data gathered and it proves that VAT structure is not an ideal tax system for FMCG products business. It shows that there is an insignificant result between VAT and FMCG profitability

Correlations		FMCG profitability	VAT
FMCG profitability	Pearson	1	.567**
	Correlation		
	Sig. (2-tailed)		
	N		
VAT	Pearson	.567**	1
	Correlation		
	Sig. (2-tailed)		
	N		

Spearman rho test also conducted and mentioned that the VAT is not very enthusiastically adopted by FMCG traders for dealing their business activities. The result shows weak connection between VAT and FMCG profitability.

Correlations			FMCG profitability	VAT
Spearman's rho	FMCG	Correlation Coefficient	1.000	.459
		Sig. (2-tailed)	.	.000
		N	200	200
	VAT	Correlation Coefficient	.459	1.000
		Sig. (2-tailed)	.000	.
		N	200	200

4.4 GST analysis

Do you think implementing GST will cause increase in the price of goods and services?

		Frequency	Percent
Valid	Yes	18	9
	No	182	91
	Total	200	100.0

Do you think all business should follow GST and not multiple tax payments?

		Frequency	Percent
Valid	Yes	135	67.5
	No	65	32.5
	Total	200	100.0

Do you agree with the implementation of GST in India?

		Frequency	Percent
Valid	Yes	143	71.5
	No	57	28.5
	Total	200	100.0

Which systems do you think is more beneficial to both government and people?

		Frequency	Percent
Valid	Sales tax	29	14.5
	VAT	70	35.0
	GST	101	50.5
	Total	200	100.0

Do you think GST will burden the people or consumer?

		Frequency	Percent
Valid	Yes	62	31.0
	No	138	69.0
	Total	200	100.0

Do you think India is ready for GST system?

		Frequency	Percent
Valid	Yes	141	70.5
	No	59	29.5
	Total	200	100.0

The above tables explain that traders strongly believed in GST that the impacts will not generate increment in price index and will do easement towards the traders and buyers. The introduction of GST will eliminate the multiple tax situations that happened in previous tax systems where the products and services are charged every point as nearly 68% traders mentioned that business should follow GST tax system in their business activities. The huge majority of 71% respondents mentioned that the implementation of GST is an ideal tax structure for FMCG business operations and almost 51% respondents mentioned that it will be beneficial for both the government and the general public followed by 35% and

14.5% for VAT and sales tax structure respectively. The adaption of GST will be a great opportunity for traders and tax payers especially in FMCG sector as 71% respondents mentioned that India is ready for GST.

Correlations			
		FMCG profitability	GST
FMCG Profitability	Pearson Correlation	1	.830**
	Sig. (2-tailed)		.000
	N	200	200
GST	Pearson Correlation	.830**	1
	Sig. (2-tailed)	.000	
	N	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

Pearson significant test was conducted based on the data gathered and it proves that GST structure is an ideal tax system for FMCG products business. It shows that there is a significant result between GST and FMCG profitability

Correlations				
			FMCG Profitability	GST
Spearman's rho	FMCG Profitability	Correlation Coefficient	1.000	.730**
		Sig. (2-tailed)	.	.000
		N	200	200
	GST	Correlation Coefficient	.730**	1.000
		Sig. (2-tailed)	.000	.
		N	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

Spearman rho test also conducted and mentioned that the GST is very enthusiastically adopted by FMCG traders for dealing their business activities. The result shows strong connection between GST and FMCG profitability.

4.5 FMCG analysis

I think sales tax structure is more beneficial than other tax structure for health care products.

		Frequency	Percent
Valid	Yes	42	21.0
	No	158	79.0
	Total	200	100.0

I think sales tax structure is more beneficial than other tax structure for household products.

		Frequency	Percent
Valid	Yes	54	27.0
	No	146	73.0
	Total	200	100.0

I think sales tax structure is more beneficial than other tax structure for food and beverages items

		Frequency	Percent
Valid	Yes	63	31.5
	No	137	68.5
	Total	200	100.0

According to the survey responses, the sales tax structure is not very useful for tax purposes in FMCG sector as based on the findings 79% traders in survey mentioned that it's not beneficial for health care products followed by 73% of them had mentioned that it's not beneficial for household items as well. Lastly, 68% mentioned that it's not beneficial for food and beverages items also.

I think VAT is more beneficial than other tax structure for health care products.

		Frequency	Percent
Valid	Yes	46	23.0
	No	154	77.0
	Total	200	100.0

I think VAT is more beneficial than other tax structure for household products.

		Frequency	Percent
Valid	Yes	52	26.0
	No	148	74.0
	Total	200	100.0

I think VAT is more beneficial than other tax structure for food and beverages products.

		Frequency	Percent
Valid	Yes	59	29.5
	No	141	70.5
	Total	200	100.0

According to the survey responses, the VAT is not very useful for tax purposes in FMCG sector as based on the findings 77% traders in survey mentioned that it's not beneficial for health care products followed by 74% of them had mentioned that it's not beneficial for household items as well. Lastly, 70.5% mentioned that it's not beneficial for food and beverages items also.

I think GST is more beneficial than other tax structure for health care products.

		Frequency	Percent
Valid	Yes	125	62.5
	No	75	37.5
	Total	200	100.0

I think GST is more beneficial than other tax structure for household products.

		Frequency	Percent
Valid	Yes	133	66.5
	No	67	33.5
	Total	200	100.0

I think GST is more beneficial than other tax structure for food and beverages products.

		Frequency	Percent
Valid	Yes	151	75.5
	No	49	24.5
	Total	200	100.0

According to the survey responses, the GST is very useful for tax purposes in FMCG sector as based on the findings 63 % traders in survey mentioned that it's beneficial for health care products followed by 67% of them had mentioned that it's beneficial for household items as well. Lastly, 76% mentioned that it's beneficial for food and beverages items also.



CHAPTER 5

5.1 Conclusion

The chapter explains what have been achieved in all other different chapters and are explained below

The first chapter explains the introduction of the topic as it investigates the GST implementation impact on FMCG sector in India. This study particularly deals in health care, household and food and beverages items in FMCG sector and it will measure the importance of different tax structures and how they impact on traders business. There are three different tax structures have been taken into consideration for this study such as GST, sales tax, VAT and their effects on the profitability of FMCG sector. This chapter set up the research question to find out whether GST can contribute growth or loss to the FMCG sector followed by the analysis of critical factors of GST which can contribute growth to the FMCG sector. This study needs to achieve the different objectives such as structure and backdrop of Indian tax system, GST and its forces on different sectors, GST on its benefits to FMCG sector critically. There are three hypotheses adopted for this study that in India does GST will be a simple and transparent task followed by GST offers less negative impact on FMCG and profit calculation from FMCG sector is more comparatively Sales tax and VAT. The conceptual framework described the independent variables such sales tax, VAT and GST impacts on the profitability of FMCG sector as dependent variables.

The second chapter explained and answered the research questions about the structure and backdrop of Indian tax system and also probed the abstract of GST and its different forces on different sectors. This chapter explains the Indian tax system in very much in detail along with the detail study of FMCG sector in India. This chapter also tested the first hypothesis and it has proved in this chapter with the help of detail study.

The third chapter designed the research methodology and this study is entirely based on quantitative study in which survey questions were set up and were asked by traders who were dealing in FMCG related products in Varanasi, Uttar Pradesh, India. There were 200 respondents who answered 39 total questions and all the respondents have answered the questions that were selected for this study. The survey question was designed in five categories and analyzed the demographic, sales tax, VAT, GST and FMCG parts in detail. The methodology was chosen is to find out the hypotheses are true or not for this paper.

The fourth chapter explains the results and findings achieved through survey and tested in SPSS. The data arrived from SPSS are well mentioned in chapter 4. In this chapter, the hypotheses are answered as well the research questions.

Findings

- Nearly 48% of respondents have mentioned that sales tax rates are increased from the previous year.
- The maximum percent of 57 have stated that sales tax can increase the price of food and beverage items.
- Almost 70% people have said that benefits under sales tax incentive schemes are not satisfying and highly unsatisfying.
- The vast majority of respondents (56%) have stated that there is no uniformity in sales tax structure.
- 44% respondents are highly unsatisfied with available tax credits.
- 59% respondents agreed with the fact the transition from sales structure to another structure would be smooth.
- There is a lack of communication effectiveness of sales structure as 51% respondents referred that communication effectiveness of sales tax structure is highly ineffective.

- The sales tax structure effect on business model is negative referred by 61% respondents and the level of awareness of sales tax structure is from medium to low stated by 53% respondents.
- The sales tax contributes less profitability to the FMCG sector as .566** correlation testing proved that there is a weak significance of sales tax structure towards the profitability of FMCG products related business. According to the Spearman's rho correlating testing also suggested that there is weak significance of sales tax structure and profitability of FMCG sector as it has weak relation of .590** which means traders don't think that sales tax structure is an ideal tax structure for FMCG profitability.
- 59% of total respondents referred that VAT has not changed comparatively from the last period.
- Approximately 62% have stated that VAT generally increases the prices of goods and services.
- The high proportion of respondents (75%) mentioned that benefits under VAT are unsatisfied and highly unsatisfied.
- There is a clear non satisfaction among traders (65%) regarding VAT credits on goods
- The VAT contributes less profitability to the FMCG sector as .567** correlation testing proved that there is a weak significance of VAT towards the profitability of FMCG products related business. According to the Spearman's rho correlating testing also suggested that there is weak significance of VAT and profitability of FMCG sector as it has weak relation of .459** which means traders don't think that VAT structure is an ideal tax structure for FMCG profitability.

The GST contributes high profitability to the FMCG sector as .830** correlation testing proved that there is a strong significance of GST towards the profitability of FMCG products related business. According to the Spearman's rho correlating testing also suggested that there is strong significance of GST and profitability of FMCG sector as it has strong relation of .730** which means traders think that GST is an ideal tax structure for FMCG profitability. Hence it proves the second and third hypotheses of this research paper that based on findings that GST contributes positive impact on the profitability of FMCG related business comparatively sales tax and VAT as later contribute more of a negative impact on the profitability of FMCG products related business.

Recommendation

As it's evident that GST implementation in India is very new process and it can be a very complex and tedious task for FDI companies which are coming to India not only in the field of FMCG sector but in other sectors as well. This paper will be very useful for them to overview the factors and pros and cons of GST. This paper will guide the foreign investors to forecast their growth if they enter into INDIA for their operations. Moreover this paper is also very helpful for current university or college students who are preparing for cost accounting and chartered accounting exams as it will enhance their knowledge about GST, sales tax, VAT and FMCG sector. Interestingly, this paper will also be very advisable for those industries that were previously paying more taxes in sales tax and VAT tax regime such as pharmaceutical, capital goods, large scale and small scale industries can take the advantages of GST.

Limitation

This paper offers certain limitation such as the calculation of number of active traders that are dealing in FMCG sector in organized and unorganized ways. There is not any database available to find out the actual number of traders in

FMCG sector so researcher has to personally and physically visit the traders shop during their working hours and it was an expensive and time taking process to collect and gather the data. The additional limitation in this paper was prior background knowledge of Indian tax system among the traders so it was a very hectic task to educate them first in some cases. The collection of data took a very long time of approx. 4 months to finally achieve at the respectable number. This paper has certain limitation but it is still advisable and helpful for the future references.



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