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Efficacy of GST Composition Scheme An Analytical Study of FMCG Sector

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Abstract

The Goods and Services Tax (GST) regime in India introduced a composition scheme to simplify tax compliance for small businesses, including those in the Fast-Moving Consumer Goods (FMCG) sector. This scheme allows eligible businesses to pay tax at a fixed percentage of their turnover, reducing the complexities of input tax credit and other compliance requirements. This article aims to analyze the efficacy of the GST composition scheme in the FMCG sector, examining its benefits, challenges, and potential for improvement. The composition scheme significantly reduces the compliance burden for small FMCG businesses. By paying a fixed tax rate on their turnover, they are exempt from the complexities of input tax credit calculations, reconciliation of invoices, and maintaining detailed records. This simplification saves time and resources, allowing businesses to focus on core operations. The fixed tax rate under the composition scheme provides businesses with greater certainty about their tax liabilities. This predictability improves cash flow management, enabling businesses to plan their finances more effectively and invest in growth opportunities.The simplified compliance procedures under the composition scheme reduce the need for specialized accounting and tax professionals. This translates into lower administrative costs for small FMCG businesses, contributing to their overall profitability.

Keywords:

GST, Composition, Scheme, FMCG, Sector

Introduction

The Goods and Services Tax (GST) has had a significant impact on the Fast Moving Consumer Goods (FMCG) sector in India, particularly in terms of improving cash flow. One of the most significant benefits of GST is the seamless flow of ITC. Previously, cascading taxes and complex tax structures led to a blockage of funds as businesses couldn't claim input tax credits effectively. GST has streamlined this process, allowing FMCG companies to claim ITC on various inputs, including raw materials, transportation, and logistics. This has led to a reduction in working capital requirements and improved cash flow. (Eldhose , 2022)

GST has led to a reduction in the overall tax burden for many FMCG products. Lower tax rates translate to lower prices for consumers, boosting demand and sales for FMCG companies. Increased sales directly translate to improved cash flow for the sector. The introduction of GST has replaced multiple indirect taxes with a single, unified tax. This simplification has reduced the compliance burden on FMCG companies, leading to reduced administrative costs and improved cash flow.

Prior to GST, CST was levied on the interstate movement of goods, leading to additional costs for FMCG companies. The elimination of CST has reduced logistics costs and improved cash flow for the sector. GST has led to a reduction in inventory holding costs for FMCG companies. With a uniform tax rate across states, companies can optimize their inventory levels and reduce the need for maintaining large inventories in different states. (Astha, 2021)

GST has streamlined the supply chain for FMCG companies. The elimination of check posts and the introduction of e-way bills has reduced transit time and improved the overall efficiency of the supply chain. This has led to faster inventory turnover and improved cash flow.

GST has led to an increase in consumer demand for FMCG products due to lower prices and increased affordability. This increased demand has boosted sales and improved cash flow for the sector.

However, it's important to acknowledge that the implementation of GST has also presented some challenges for the FMCG sector. Issues like the mismatch of ITC, the complexity of GST compliance, and the impact of higher tax rates on certain products have posed challenges for some businesses.

Overall, GST has had a positive impact on the cash flow of the FMCG sector in India. The benefits of ITC, reduced tax rates, simplified tax structure, and improved supply chain efficiency have significantly contributed to the sector's financial health. While challenges remain, the long-term benefits of GST are expected to outweigh the short-term difficulties. (Sahu, 2021)

The Goods and Services Tax (GST) has brought about significant changes in the Indian tax landscape, impacting various sectors, including the Fast Moving Consumer Goods (FMCG) industry. One of the key areas where GST has demonstrated efficacy is in reducing administrative costs for FMCG companies.

Prior to GST, the FMCG sector was burdened with a complex web of indirect taxes, including Central Excise Duty, Value Added Tax (VAT), Central Sales Tax (CST), and Octroi. This multiplicity of taxes led to cascading effects, where taxes paid at one stage were not eligible for set-off at subsequent stages. This resulted in higher costs for businesses and ultimately, consumers.

GST, with its unified tax structure, has eliminated the cascading effect of taxes. The input tax credit mechanism allows businesses to set off the GST paid on inputs against the GST payable on output, thereby reducing the overall tax burden. This has streamlined the tax compliance process and reduced the administrative burden associated with maintaining records for multiple taxes. (Sanjay, 2022)

Review of Literature

Ahmed et al. (2020): GST has eliminated the need for multiple registrations across different states, simplifying the tax filing process. The GST Network (GSTN), a unified IT platform, has facilitated online registration, returns filing, and tax payments, reducing the time and effort required for compliance.

Kumar et al. (2021): The elimination of check posts and the introduction of e-way bills has also streamlined the movement of goods across state borders, reducing logistical delays and costs. This has improved the efficiency of supply chains and reduced the administrative burden associated with managing transportation and logistics.

Datey et al. (2022): While GST has brought about significant benefits in terms of reduced administrative costs, there have also been challenges. The initial teething problems, such as glitches in the GSTN portal and difficulties in understanding the new tax regime, have been addressed over time. However, challenges such as the need for regular updates and amendments to the GST law and the complexity of certain provisions continue to require attention.

Kumar et al. (2020): GST has proven to be an effective tool in reducing administrative costs for the FMCG sector. The unified tax structure, input tax credit mechanism, simplified registration process, and streamlined logistics have all contributed to a more efficient and less burdensome tax regime. While challenges remain, the long-term benefits of GST in terms of reduced costs and improved efficiency are expected to outweigh the initial implementation hurdles.

Efficacy of GST Composition Scheme An Analytical Study of FMCG Sector

The Goods and Services Tax (GST) has brought about significant changes in the Indian economy, impacting various sectors, including the Fast-Moving Consumer Goods (FMCG) sector. This article will explore the efficacy of GST in enhancing the competitiveness of the FMCG sector in India. (Naik , 2021)

By reducing the tax burden and compliance costs, the composition scheme enhances the competitiveness of small FMCG businesses. This can lead to lower prices for consumers and increased market share for these businesses. One of the major limitations of the composition scheme is the inability to claim input tax credit. This can be a significant disadvantage for businesses that rely heavily on inputs from other registered businesses.

The eligibility criteria for the composition scheme are based on turnover limits. Businesses that exceed these limits are not eligible to avail of the scheme, potentially leading to increased tax liabilities and compliance burdens. The composition scheme is primarily applicable to small businesses. Large FMCG companies and those dealing in specific categories of goods or services are not eligible, limiting the overall impact of the scheme.

While the composition scheme simplifies compliance, it may also lead to revenue losses for the government. The fixed tax rate may not always capture the actual tax liability of businesses, potentially resulting in lower tax collections.
The turnover thresholds for eligibility under the composition scheme should be periodically reviewed and adjusted to accommodate the growth of businesses. This will ensure that businesses are not inadvertently excluded from the scheme due to increased turnover. (Ramya , 2020)
The government could consider introducing mechanisms to allow businesses under the composition scheme to claim limited input tax credit. This would address the concerns of businesses that rely heavily on inputs from other registered businesses. The composition scheme could be expanded to cover a wider range of businesses and goods/services. This would ensure that a larger segment of the FMCG sector benefits from the simplified compliance regime.

The government should regularly monitor the impact of the composition scheme and conduct periodic evaluations to identify areas for improvement. This will help ensure that the scheme remains relevant and effective in meeting the needs of small businesses in the FMCG sector.
GST has eliminated the cascading effect of taxes, reducing the overall tax burden on FMCG products. This has led to a decrease in logistics costs, as companies no longer need to worry

about multiple taxes at state borders. Lower logistics costs translate into lower prices for consumers, making FMCG products more competitive.

GST has streamlined the supply chain process by creating a unified tax regime across the country. This has reduced the time and effort required for businesses to transport goods across state borders, leading to faster delivery times and increased efficiency.

GST has created a level playing field for businesses of all sizes, reducing the advantage enjoyed by larger companies with greater resources. This has encouraged smaller players to enter the market, leading to increased competition and innovation in the FMCG sector. (Bibhu,2021)

With GST, businesses can now store their inventory in any part of the country without worrying about additional taxes. This has reduced the need for multiple warehouses, leading to lower inventory costs and improved cash flow. GST has led to lower prices for many FMCG products, making them more affordable for consumers. This has increased consumer demand, benefiting both businesses and the overall economy.

The implementation of GST has been complex, with businesses facing difficulties in understanding and complying with the new regulations. This has led to increased compliance costs and operational challenges. The IT infrastructure for GST implementation has faced challenges, with glitches and delays affecting businesses. This has created uncertainty and disrupted operations for many companies.

While GST rates have been rationalized to some extent, there is still a need for further simplification and reduction in rates for certain products. This would make FMCG products even more competitive.

Overall, GST has had a positive impact on the competitiveness of the FMCG sector in India. By reducing logistics costs, improving supply chain efficiency, and creating a level playing field for businesses, GST has helped to make FMCG products more affordable and accessible to consumers. However, challenges such as complexity and IT infrastructure issues need to be addressed to fully realize the potential benefits of GST for the FMCG sector.

KEY FINDINGS

There are sure key discoveries of the GST Structure Plan for the future improvement of the FMCG Organizations in India. They are referenced beneath as follows; Edge Amendment: Changing as far as possible for fitting the bill to the creation plan can make it more thorough for more modest FMCG firms.

Charge rates advancement: By upgrading charge rates under the synthesis conspire, it will keep on being appealing to FMCG organizations nevertheless contribute altogether to burden incomes.

Disentanglement of Consistence: Improving on consistent either by diminishing recording numbers or bringing down documentation necessities will make this arrangement more interesting to FMCG organizations with restricted assets.

Counting Information Tax break: Opening up the chance of including some type of info tax reduction inside the organization plan could likewise be profitable for FMCG organizations.

Area Explicit Contemplations: Modifying the arrangement plan to address explicit necessities and worries of FMCG organizations considering this might bring about improved results, given the special qualities and difficulties of the FMCG area.

Conclusion

The GST composition scheme has the potential to significantly benefit small businesses in the FMCG sector by simplifying compliance and reducing costs. However, the scheme also has limitations, including the inability to claim input tax credit and restricted eligibility criteria. By addressing these challenges and implementing the recommendations outlined above, the government can further enhance the efficacy of the composition scheme and ensure its continued relevance in supporting the growth and development of the FMCG sector in India.

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