Goods and Services Tax (GST): Benefit for Small Retailers
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Abstract

Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. GST is levied as a tax on supply of goods or services. Indian retail sector is comprised of organized retail and unorganized retail. The share of organized retail in India is still less than 20 per cent and majority contribution is of unorganized sector. The E-commerce sale is still less than 7% of overall retail sector sales in India. The total registered tax payers under Excise, Service tax and VAT are only 83.5 lakhs and likely to increase to 2 crore in goods and services tax (GST). GST might have negative impact for some sectors in India for short-term due to tax rate impact on existing stock during transition or increase in the tax rate post-GST regime as compared to existing rates. As far as organized retail is considered it would have a positive impact but for the entire retail sector. Transaction in the retail sector is carried out mainly through cash. Unorganized retail sector would likely to participate more by coming in mainstream taxpaying system. This paper evaluates the benefits of GST on small retailers sectors. It is found that GST on any transaction cannot be avoided unless the entire transaction is out of GST system right from manufacturer to retailer. Because of simplicity of taxes like one tax, credit of all type of taxes even small businessmen would like to contribute in India biggest tax reform. The government is also discouraging the purchase from the unregistered dealer as tax on the purchase from unregistered dealer needs to be paid by the registered dealer by way of reverse charge.

KEYWORDS: GST 2017, Benefits of GST in retail sector, Impact of GST on retail sector, Implications of GST on Indian Economy.

Background

Goods and Services Tax (GST) is an indirect tax levied in India on the sale of goods and services. Goods and services are divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. Petroleum products and alcoholic drinks are taxed separately by the individual state governments. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Modi government. The tax replaced existing multiple cascading taxes levied by the central and state governments. The tax rates, rules and regulations are governed by the Goods and Services Tax Council which comprises finance ministers of centre and all the states. GST simplified a slew of indirect taxes with a unified tax and is therefore expected to dramatically reshape the country's 2 trillion dollar economy.

The benefit of GST on retail sector will be huge. Indian Retail sector is one the fastest growing industry in the world. It is expected to grow to 1.3 trillion USD by 2020, registering a CAGR
GST Simplified Tax System: Challenges and Remedies

(Compound Annual Growth Rate) of 16.7% over the 5 years ranging from 2015-2020. India is 5th largest retail destination in the world.

The retail sector is booming everywhere be it metro cities or the Tier-II and tier-III cities. The Government of India has introduced major reforms to attract FDI in the retail industry. The government has approved up to 100 % FDI in single brand retail and 51% in the multi brand-retail. All of these stats signify that the retail sector is as dominant as ever and any reform in the country which anyhow affects the working of the sector shall have a huge impact on it. GST is no ordinary tax reform. It is one of a kind reform which is poised to change the scenario of taxation in the country and legitimately its effects on the retail industry must be considered.

Benefits of GST on Retail Sector

Reduced Taxes:

On an average, the retail industry in the pre GST period (prior to 1st July, 2017) was taxed with a bunch of indirect taxes like VAT, CST, service tax on warehousing, octroi, entry tax. etc. The unified GST taxation system is bound to squeeze the overall taxation burden on the retailer and the taxation percentage will be substantially lower than the previous regime.

Enhanced supply chain efficiency:

The pre GST period had loads of complexities and challenges in the retail supply chain relating to long queues and complex documentation at the check posts which added to the transaction time and costs. All of this has been considerably reduced since the one nation-one tax, has been enforced and the industry has slowly started witnessing lower costs, reduced waiting time and minimal logistics in the overall supply chain, only adding to their bottom line profitability. There would also be a considerable consolidation in the number of warehouses and it is only logical that retailers will prefer to have lesser warehouses serving extended boundaries resulting to a hefty drop in the warehouse costs.

Seamless Input Tax Credit:

GST will reduce the burden of tax on the retail sector as it will set off the tax, starting from the manufacturer – wholesaler – retailer to the customer point. It will benefit the retailers by eliminating the cascading effect of taxes, thereby reducing the overall tax burden.

Stretching of retail markets:

GST undoubtedly will open doors for the new markets as it will subsume all the indirect, state and central taxes and a new scenario of a unified tax across the nation with much clarity and transparency will emerge. The business expansion will become relatively easy across the states and anyone could now sell anywhere with a single GST registration.

Tax on sample items and gifts:

The GST model levies taxes on every supply without consideration and every gift or sample item is now taxed in the new regime, contrary to the earlier ecosystem. Earlier, the gifts and the sample items used in the marketing efforts of the retailers were tax free, however, now the retail
industry will feel the pinch of it and there would be a significant upsurge in the marketing budgets.

**Better strategies:**

GST will force the retailers to re-think their supply chain strategies and re-model their network as it will open a lot of doors and opportunities for retailers to expand their business. It will give them the freedom to draft better business strategies and implement it for further growth of the retail sector.

Reduce complications:

The retailers would be able to carry out the business with more ease as the taxation, and other policies would be streamlined under the new GST rules, and they would not have to waste their time in paying various taxes and waiting to fulfill all other policy requirements of the current taxation system.

Beneficial for start-ups:

The retail sector would start attracting a lot of start-ups as they would have to register their business only once and also claim the benefits of taxation for start-ups under the new GST laws. They would also be able to carry out business operations more freely with the new policies in place and would get more attracted to join the retail sector.

Benefits of GST on the Indian Retail Sector would have ripple effects on the economy and it would overall strengthen and fuel the growth of the retail sector exponentially.

**Finding**

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

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

- It is also widely agreed that GST will usher in a series of changes to how businesses will operate and the Retail Industry will be no exception. This thought piece highlights some of the key areas impacted and a number of changes that the industry will need to imbibe over the coming months to ensure that GST is effectively implemented.

- GST is much more than just a tax reform. It’s a whole new way of conducting business. It’s been over a month now of the GST implementation and it has enveloped more than 6 million businesses across industries and counting fast. The Indian Retail Sector, which is the fastest growing industry in the world, is expected to be hugely benefitted by this potential game changer. GST is supposed to play a pivotal role in stretching the retail scenario to 1.3 trillion USD by 2020, registering a CAGR (Compound Annual Growth Rate) of 16.7% spread over a span of five years from 2015 – 2020.
• Retail is penetrating super-fast in the tier-2 and 3 cities of India (5th largest retail destination in the world) and the industry is well backed up by the FDI policies, which allow 100% FDI on single brand and 51% in the multi-brand retail.

Conclusion

There are many more advantages of GST on retail sector under the new GST laws and it would be a great boost for the retail sector as the policies and taxation would be streamlines under one head. The businesses would flourish more contributing to the growth of the retail industry and in turn of the economy as they would be able to carry out the activities without any hindrances, more freely, and be able to expand the business into different states without worrying about the additional costs. The supply chain will benefit tremendously as the cost of transport and warehousing will reduce under the new GST laws and help the retailers scale their profits, which could also lead to reduced prices for the final consumer over a period of time. The retailer can directly pay the taxes online and will not have to go through a middleman.

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