NEWS | ALLIED INDUSTRY

GST will give food processing a new boost

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Today in India the latest news for discussion is GST. Everyone is discussing the impact of GST, what it is and how it will impact various products and services. The most important of the same is its impact on food processing industries. The industry has been given a new boost by government policy by opening up the sector for 100% FDI. The major purpose behind the same is to boost the agriculture and related product like milk, fruits and vegetables etc.

Presently we have basically two major taxes which are Central Excise levied by Central government on manufactured goods and VAT levied by state on all sale and purchase of goods. The other taxes which are levied and are going to be subsumed are customs duty at Central level. At state level the octroi/LBT and entertainment tax will be subsumed. There is one more tax which is levied on the sale and purchase of interstate sales which is commonly known as CST.

The new taxes would be called CGST levied by Central government, SGST levied by state government and IGST will replace CST. The IGST would be sum of the rates of CGST and SGST. Thus all the goods sold would be charged both the taxes CGST and SGST and if sold in interstate sales then would be charged with IGST. Thus if for example the CGST rate is 8% and SGST rate is 8% then IGST would be 8%+8% totaling 16%.

The food processing industry has several exemptions and reduced rate of duty under Excise and VAT. Especially those products which are agriculture produce are specifically kept outside the purview of the excise but are taxed in some states and exempt in some states under VAT. There is fear that all these raw material and finished products would be now covered under both the taxes and taxes would increase.

Dairy farming, poultry farming, stock breeding, the mere cutting of wood or grass, gathering of fruit, raising of man-made forest or rearing of seedlings or plants are specifically excluded from the agriculture definition and goods are meant to include apart from movable property growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under the contract of supply.

Thus it is clear that trading in the agriculture produce would get covered under GST which currently is taxed only under VAT at nil or concessional rate. Also dairy farming and poultry farming is excluded from the definition of agriculture which gives indication that milk too may get covered under GST which at present is covered under VAT or CST only.

There are possibilities that these activities, which are covered under only VAT, would face

higher tax rate for being covered under both CGST and SGST. About 200 items, like premium tea, ready-to-eat food, branded biscuits can lose the concessional rate of duty in the GST regime, thus making it a bit costly. Central government is planning to reduce the list of exemptions under excise from 300 items to 90 items.

The food industries are having concession rate of taxes or nil taxes on some of its raw material for example fruits, vegetables, fruit juices, puries and primarily processed goods under both Excise and VAT or at least under Excise. For example purchase of lime fruit, tomato, beet etc on which the rate of tax under Excise and VAT is nil.

In case of fruit juices Excise is nil but VAT is 5%. Under GST these nil rate may not exist and there would be increase of tax may be by two times since both CGST and SGT would be-come applicable. Thus fruit juices, puries may be taxed at 5% plus 5% totaling 10% (CGST and SGST). These will not have cost impact since the same will be cenvatable i.e. the input tax credit would be available to be utilised to pay the tax on finished product. But the same would have impact on the cash flow of the firm since initially the higher amount of tax would be required to be paid on raw material.

The agriculture produce also faces the mandi tax as of now there is no clarity whether mandi tax or APMC would remain or will be subsumed. But octroi, LBT and entry tax will be no longer applicable. These may reduce the cost of the raw material to the extent that they would be included in SGST and the same would be available as set off to pay against the tax on value addition, which is not available as set off under present system even though the tax rates under GST would be higher.

Thus there would be reduction of net purchase cost due to abolition/subsumed of Octroi/LBT even if the rate of tax under GST is higher than the current tax rate. The benefit to the wholesaler and distributor would be much more since they would be able to claim set off of CGST which at present not available under excise.

At present the VAT is also charged on the Excise duty thus there is double taxation. Under GST, CGST and SGST would be charged on the same value. To simplify the same let’s consider the example, say a finished good price at present Rs 1000 the Excise is say 10% and VAT is 10%. Thus under GST the tax on tax will be removed and there would be net reduction of cost of goods.

The transportation would become more efficient due to removal of octroi/LBT/Entry tax barrier

which will save lot of time. These indirectly would reduce the lead time for the companies and they would be able to reduce the inventory and thereby reduce the inventory carrying cost and working capital requirement. The reduction in time for transportation would also bring down the cost of transportation.

Due to reduction of number of taxes the complexities of tax laws would reduce and thereby the companies can utilise the manpower more efficiently towards increasing productivity and thereby create more cost efficiency and increasing profitability of the company.

Apart from above the cost of various services like telephone, mobile, internet, various consultants would also increase which will in general increase the need for working capital. To the end consumer the tax rates would increase due to increase in some products since on the same at present there is no excise duty and only about 5% VAT or 2% CST is applicable but once GST is effective both CGST and SGST would become applicable.

For example, on tea being considered as garden product/agri product only VAT at 5/6% or CST at 2% is applicable, similarly on milk powder there is 5% VAT or 2%. Also on coffee beans/seeds there is VAT of 5% but no excise. All these products which at present are considered to be agri produced and not covered un-der excise would get covered and taxed under CGST. Thus could increase the cost for consumers.

The GST would need robust software which would be able to create report required to be uploaded in timely manner. Unlike the earlier tax reforms, in the GST probably the government machinery is more equipped and ready to take up the challenges of the country wide one tax system. There would be need of real time uploading of transactions entered by the company with the detailed information of each transaction.

The challenge would be to enter the data without any error and omission. If error occurs in uploading of the data would in consequence affect the tax credit and tax liability. Government also has incorporated compliance rating and if the rating of the company falls below some grade than company may be penalised.

The accounting staff would need to be trained for both to fill the required details correctly and on real time basis. There are also apprehensions that the number of returns to be filed would increase drastically.

The industry will have to first understand the working of the GST on the above basis. It will then need to under-stand the gaps in its present system for example if every transactions need to be

entered in the return and statements to be submitted then what changes would be required in the present accounting or financial softwares like ERP and SAPs or accounting softwares like Tally or TFAT. Train the accounting staff with the help of tax consultants and experts in the field of GST/Indirect taxes and software vendors.

Apart from the accounting staff even the purchase department of the company would be required to be trained to effectively bring down the costs of purchases by considering not just the tax aspect but also the cost of transport, lead time of procuring.

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