

What Marketing dept needs to know - IDT

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What The Marketing Executive/ Manager needs to know about Indirect Taxes?

The successful marketing man knows the customer's needs well, understands his business, the cost of products / services sought to be sold, looks at serving the customer better. In this article we look at a few options/ situation and understand the impact. The central excise duty & service tax rate is 12.36 percent , VAT could be around 5 percent or 14 percent depending on the State and product. CST for interstate sale is 2 percent subject to "C form".

The indirect tax aspects/ knowledge of such a person could be as under:

1. Understand the role taxes play with the customer:
 - a. The customer who is **an intermediary manufacturer** may be able to avail the central excise duty and utilise the same for payment of duty on his final product. Therefore with such customer the quote should be basic + CED extra.
 - b. Such a customer may also be able to avail the VAT credits similarly.
 - c. Such a customer may also be exporting the goods. In that case option to supply without payment of duty can be examined.
 - d. Such a customer maybe manufacturing exempted products. [Defense – research sector..] In that case the credit of CED would not be available. Maybe the job work route to avoid loading the CED on the cost of product can be examined for supply to customer. Alternatively getting the same sourced from a SSI manufactured where no duty wouldbe added could be thought of.
 - e. Such a customer maybe a 100 percent EOU where supplies can be made without payment of duty and also claiming duty drawback as available.
 - f. The customer maybe **a final consumer** of the goods. Then whether the credit is available to him is important. If yes then all options from a) to e) above would apply. If not which is more probable, then the CED is a cost unless he is an exporter.
 - g. The customer maybe **an importer outside India**: In this case the option of reducing costs by importing raw materials without payment of duty, claiming the export benefits under Foreign Trade Policy like drawback, rebate, refund, Focus Market Scheme, Focus Product Scheme, Incremental Export scheme, Star exporter scrips..... maybe examined.
 - h. There could be other varieties of buyers...

2. Understand the role taxes play in our concern:
 - a. Indirect tax can be upto 20+ percent of the cost as customs duty [normally 10 percent of value of imported parts] , CED of upto 6-7 percent of the cost, Input services upto 1-1.5 percent of cost, VAT amounting to 3-4 or 10-11 percent of the cost. The availment of these could ensure that one is very competitive. **The benefit of credits can be passed onto the customer by reducing the base price.**
 - b. Exports provide methods to get the refund/ recouping of these taxes and therefore these could be excluded when bidding.
 - c. The sale mix as on date may be resulting in accumulation of credit [more of exports/ supply to 100 percent EOU] Whether concern able to get refund if not then focus on local sale as the non receipt of refund becomes a cost.
 - d. What is the material cost of the product. More the proportion, more is the credit and vice versa.
3. Understand the other expectations of the customer like – Just In Time, Getting to do the sub assembly with another component and avoid the process for the customer to do... Enable them without break in the chain and also exposure under local VAT laws.
4. At times the marketing team, not being able to understand the indirect tax implications agrees to some conditions to close out the orders but does not realise that the impact of tax may make the order a loss from the concerns perspective.

The marketing executive therefore for being able to be customer centric, negotiate better and quote properly would need to have some specialise knowledge of indirect taxes which would help him to discharge his function in a value additive manner.