GST – Impact on sales for manufacturers

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Manufacturing sector has been given prime importance by the present Central Government and 'Make in India' program is one such initiative. It is hoped that such schemes along with GST could bring India on the world map as hub for manufacturing. India is among the top ten manufacturing countries in the world and presently this sector contributes 10% of GDP. The new proposed GST law which could replace the present indirect tax laws from 1st April 2017 would have huge **positive impact** on manufacturing sector in India generally. In this article, few of the important aspects having impact on sales of manufacturing sectors have been discussed.

Under the present indirect tax laws, both central and state governments levy taxes such as Excise duty, VAT/CST, Entry tax, Octroi etc., on goods which results in cascading effect of taxes at certain stages. The tax rates are not uniform across the States in India on goods. Credit is restricted by State as well as Central laws. It was expected that the cascading effect of taxes on goods would get reduced with seamless credit concept and passing of credit without much restrictions in GST. GST could bring substantial change in the present sales pattern.

Reduction in sale price for goods presently liable for Standard tax rate

Most of the goods manufactured and sold by manufacturers in India would be liable for Central Excise duty at around 12.5% along with VAT at general rate of around 15%. Adding Octroi, entry tax, in between CST purchases, limitations on credit on petroleum, electricity where inputs and capital goods suffer duty/ tax. This results in total tax of around 28 – 32 % on sale of standard rated goods. In GST regime, the standard rate of goods could be around 20% thereby reducing the tax burden on the customers by around 8-12 %. This would put the manufacturer in better position to bring down the prices of their vendors as well as themselves. Final customers also would be benefited by this to the extent this benefit is passed on.

Increase in sale price for goods presently liable for Concessional tax rate

There are certain goods like steel products, carton packing materials which are manufactured by small scale industries also where no excise duty is paid, thereby excise duty on value addition is avoided. Further these goods are eligible for concessional / lower rate of VAT of around 5% in most of States in India. Total tax in such cases could be in the region of 15%. In these cases, the final price of goods would get increased to the customers as they would end up paying 20% GST. It may be noted that in the initial years these goods may also be merit rated at 12%. In such a scenario, it would be very critical for manufacturers to plan for GST impact on sale at the earliest by ensuring that their procurement is also tax efficient.

Pricing of goods which are presently exempted from indirect taxes

Goods like agricultural implements, solar energy goods are presently exempted from excise duty and also from VAT in many States. In these cases the value addition is entirely not subjected to tax/ duty. The total tax cost here maybe only 6-9 %. There are few goods which are exempted from excise duty but liable for VAT or vice versa. In GST regime, the general exemptions are unlikely to continue. These exempted goods could be liable for GST at the merit GST rate of around 12%. Here also the increase would be felt when sale is to the end consumer. In case of intermediate goods manufacturer, it would be advantageous as net cost of goods would be reduced.

Therefore, the manufacturers of the goods should plan for revising the final price of the goods considering the fact that credit would be eligible on all goods and services used in relation to manufacture of goods liable for GST. Seamless credit of taxes paid on purchases and expenses would definitely reduce the cost of production and provide leeway for decrease in sale price of goods.

Decision on continuation of multiple depots / sales offices / branches

Most manufacturers have set up sales offices / depots / branches which could be on account of tax planning or need to cater to regional market etc. The tax planning could have been made considering levy of CST on interstate supplies which is ineligible for input credit setoff for customers, different VAT rates in various states for same products. In some cases it may have been due to Just In Time concept adopted by the customers.

In GST regime, rate of taxes are expected to be same in all States (with minor differences). There is levy of GST on all supplies including stock transfers to branches / depots / sales offices. The taxes paid on interstate supplies would be eligible for setoff against the output tax liability. Considering these factors, manufacturers should take decision to continue / discontinue such additional place of business. The other factors to be considered in decision making are as follows:

a) Transportation cost involved in sending goods to depots and sale there from.
b) Cost of compliance in each location under GST like payment of taxes, filing returns.
c) Cash flow involved on account of GST levy on stock transfers
d) Administrative cost like rent, office maintenance etc. for additional places.

Cheaper exports and impact on Form H purchases

Even under present tax regime, most of indirect taxes paid like excise duty, VAT, service tax in relation to export of goods is eligible for either exemption or refund. The exemptions / refund are resulting in cheaper exports. In GST regime, manufacturers could expect even cheaper exports due to following factors:

a) Traders would be eligible for IGST on imports and service tax credit to extent admissible.
b) Taxes like CST paid on procurements would not be a cost in GST as all taxes paid on procurements are either eligible for credit or refund.
c) There would be no levy of entry tax.
d) Number of forms and compliance expenses involved presently, like obtaining exemption certificate from excise department, filing multiple refund applications would get reduced.
e) Faster refunds are expected under GST (80% immediately) as compared to present refund schemes. Present schemes are dead slow and expensive as it involves satisfaction of VAT officers / service tax officers / Excise officers.

Sales / marketing officers could consider these factors for the purpose of pricing of goods to be more competitive in the international market.

Discount schemes to be relooked into

There could be various types of discounts such as cash discount, trade discount, seasonal discounts etc. Under present indirect tax laws, the discounts allowed to customers would be eligible for deduction mainly:

a) When discounts are allowed as regular practice or in terms of agreement entered and
b) When the discounts are disclosed on the invoice.

There have been decisions allowing deduction of post removal discounts only when the discounts are linked to specific invoices through which goods are cleared.

However, in GST regime (Section 15- Value of supply), discounts allowed at the time of supply would be eligible for deduction. However, the post supply deduction would be allowed for deduction only when:

a) Discount is established as per the agreement and is known at or before the time of supply
b) Discounts are specifically ***linked to relevant invoices***

Therefore, the discounts would be allowed if discounts can be linked to specific invoices. In this regard, proper planning is required in framing the discount policy in such a way that the same could be linked to invoices.

Arrangement with dealers / consignment agents

In case of entities which have appointed dealers / consignment agents, there is a need to relook at the agreement clauses. Under the present laws, the goods could be transferred without payment of any taxes. However, in GST regime, the supplies including transfers would be liable for GST. Such dealers / consignment agents would be treated as separate taxable persons for GST purpose. Considering all these changes, there is a need to educate dealers / agents.

Conclusion

The points discussed above are only illustrative and list can go on. There is a need for GST impact study for all manufacturers to understand the impact of GST on the goods being manufactured. The impact study for business should result in net inflow for the businesses. It is a very good opportunity for the professional who is taking care (CFO, GM – Finance etc) as well as the practitioners to serve the employer/ clients respectively. While the professional learns and earns, his clients get value / benefit. This window of service, however, is going to be value additive only upto 1 month prior to GST implementation.

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