

GST AND ITS IMPACT ON PACKAGED FOOD BUSINESS

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ABSTRACT:

This paper deals with the impact of GST on packaged food business. Packaged food means the food which is ready to eat and which do not require any preparation or require little bit of preparation. In Kerala, packaged food business is a growing business and its growth is tremendous. The growing awareness of western lifestyle, urbanisation, nuclear family, increasing disposable income and more women joining the workforce increased the importance of packaged food business in Kerala. Most of the consumers depends on online food delivery services. For reducing the cascading effect on the cost of goods and services, a single taxation system was introduced in India on 1st July 2017. Goods and Service Tax was introduced to reduce the number of indirect taxes and unify the tax structure of the Indian market. The present study is theoretical in nature and tries to find out GST and its impact for the consumers, owners and the overall industry. The article discusses the importance of taxation in the package food business and how the new tax system has affected it.

1.1. INTRODUCTION

In India introduction of GST is an important reform in indirect taxation. It helps to avoid double taxation and enhance the foreign direct investment flow. While managing any type of business, the businessman should understand the tax rule applicable in that particular business and it will help to avoid penalties and interest in addition to unpaid taxes. Two types of taxes are generally applicable for the business namely, direct and indirect. Income tax is a direct tax which business organisation pays directly to the Government based on their earnings or profit. Sales tax is an indirect tax and it is paid by the consumer for the products. Goods and Service Tax has replaced the Central and State indirect taxes namely Service Tax, Excise Duty and Value Added Tax. It was implemented from 1st July 2017 under the unique ideology 'one nation one tax'. The Government of Kerala on July 9, 2016 imposed a 14.5% fat tax on burgers, pastas, pizzas, sandwiches and tacos served in branded restaurants. Fat tax means tax placed on food and beverages containing high amount of fat. Domino's, KFC, McDonalds, Pizza Hut, Burger King and Subway are the prominent global companies in this field. Government introduced fat tax to generate additional revenue for the State and reduce the consumption of junk food which leads to overweight and obesity. More than half of the adults in India were overweight and obese as per the record of the National Nutritional Monitoring Bureau Survey 2017.

Every product pass through various stages of processing before it reaches to the consumers. VAT is included in the selling price of the product. GST was introduced to eliminate the major problems associated with VAT. GST is applicable to both goods and services. It is a tax on value addition at each phase permitting a supplier at each stage to set off through a tax credit mechanism.

The advancement in technology and adopting novel packaging material will give good appeal to the packaged food and increase the business of packaged food market. GST Council has introduced GST rate for unbranded food grains which are pre-packaged and pre-labelled on 18th July 2022.

GST for food Items in India can be 0%, 5%, 12%, 18% and 28%. Many food products are exempted from the levy of GST. The rates of GST applicable for food are given below:

GST RATES APPLICABLE FOR RESTAURANT SERVICES

Sl. No	Types of restaurants	Rate
1.	Food supplied or catering services by Indian Railways/IRCTC	5% without input tax credit
2	Standalone restaurants, including takeaway	5% without input tax credit
3	Standalone outdoor catering services or food delivery service	5% without input tax credit
4	Restaurants within hotels (Where room tariff is less than Rs 7,500)	5% without input tax credit
5	Normal/composite outdoor catering within hotels (Where room tariff is less than Rs 7,500)	5% without input tax credit
6	Restaurants within hotels* (Where room tariff is more than or equal to Rs 7,500)	18% with input tax credit
7	Normal/composite outdoor catering within hotels* (Where room tariff is more than or equal to Rs 7,500)	18% with input tax credit

Source: cleartax.in as updated on January 30th 2024.

GST RATE ON FOOD ITEMS

Particulars	GST Rate
GST on fresh and/or chilled vegetables	Nil
GST on frozen vegetables	Nil
GST on dried vegetables that are packaged and labelled	5%
GST on dried leguminous vegetables other than pre-packaged and labelled	Nil
GST on dried leguminous vegetables that are pre-packaged and labelled	5%
GST on fresh/dried coconuts, grapes, apples, bananas, and pears, among others	Nil
GST on fruits like grapes, apples, bananas, pears, mangoes, citrus fruits, and berries, among others	Nil
GST on vegetables, fruits, nuts, and edible plant parts that are preserved using sugar	12%
GST on fruits, nuts, and edible plant parts that are preserved and/or prepared using vinegar and/or acetic acid.	12%
GST on fresh milk, pasteurized milk (excluding UHT milk), and milk and cream (not concentrated nor contains added sugar or sweeteners)	Nil
GST on milk and cream that is concentrated or contains added sugar or sweeteners	5%
GST on curd, lassi, and buttermilk, other than pre-packaged and pre-labelled	Nil
GST on curd, lassi, and buttermilk that is pre-packaged and pre-labelled	5%
GST on yoghurt and cream, whether containing sugar/flavouring or not	5%
GST on fresh or chilled meat and fish	Nil
GST on meat that is packaged and labelled	5%
GST on birds' eggs in shells	Nil
GST on birds' eggs which are not in a shell	5%
GST on rice other than pre-packaged and labelled	Nil
GST on rice, pre-packaged and labelled	5%
GST on wheat or meslin (i.e. maize flour) other than pre-packaged or labelled	Nil
GST on wheat or meslin, pre-packaged and labelled	5%
GST on rye other than pre-packaged and labelled	Nil
GST on rye, pre-packaged and labelled	5%
GST on cereal flours other than of wheat or meslin, rye, etc., pre-packaged and labelled.	5%
GST on chocolate and food preparations containing cocoa	18%

Source: cleartax.in as updated on 30th January 2024

Tax on packaged food is not a business-friendly policy. It is not possible to pass the entire burden to consumers. Imposing tax on packaged food makes it less affordable and more costly for the consumers. In this context it was attempted to identify the impact of GST on packaged food for the consumers and the industry.

1.2.STATEMENT OF PROBLEM

Food is essential for each and every person and when taxes are charged on food, consumers are forced to pay more income in the form of GST in addition to food cost. In India GST was introduced to create a national market, improve the working of the business and reduce tax complication. For consumers it was introduced to reduce the tax burden of consumers. On 18th July 2022, the GST Council introduced GST on packaged food also. Consumers have indifferent opinion about implementing GST on packaged food. An analysis of impact of GST on packaged food to the consumers and the industry is made in this study.

1.3. OBJECTIVES

1. To find out the impact of GST on packaged food business.
2. To identify the level of satisfaction of the customers about GST on packaged food products.

1.4. SIGNIFICANCE OF THE STUDY

Food is the basic necessity of life and packaged food is available at reasonable cost, longer shelf life than their fresh counterpart is some of the reason why this business seems attractive. Packaged food business is increasing day by day and India has many popular packaged food companies like Nestle, Amul, Parle, Britannia, Haldiram's and many more. The main categories of packaged food are canned processed food, ready to eat food, bakery products and meal replaced food, diet snacks, processed meat and probiotic drinks. The Government has introduced GST on packaged food and that created some impact on consumers and manufacturers. The study helps to know the effect of GST implementation to the owners and consumers which will help the policy makers to make necessary changes in the tax related policies so that the purchasing power of consumers may not be affected.

1.5.SCOPE OF THE STUDY

The study analysed the impact of GST on packaged food business. For the purpose of the study, data were collected from 50 respondents in the Thiruvananthapuram corporation area, Kerala, India.

1.6.RESEARCH METHODOLOGY

RESEARCH DESIGN

The study is descriptive and analytical in nature.

DATA COLLECTION AND SAMPLING

The study is based on primary and secondary data. Primary data was collected through questionnaire from 50 respondents. Purposive sampling technique was used for the study.

Secondary data were collected from various sources. Tables are used for presenting the data and for analysis simple statistical tools like weighted score and percentages were used. To substantiate the analysis, existing literature on the topic and personal observation of the researcher were used.

(Aithal, 2019) conducted a review on global implications of GST and Indian scenario. They analysed the impact of GST in different sectors of the economy. The invention of GST in the economy made a huge employment opportunity in the commerce and technology sector. According to them unified GST will help to reduce the cost of the product which will be expensive in previous years, ease the tax policy, eliminate number of indirect taxes and it will increase the tax revenue by extending the tax support. It will help the producers by decreasing the tax load and provide credit by the dues paid by the producers. This may help to control the flow of black money and may lead to the progress of the Indian economy.

(Babu & Sridevi, 2019) analysed the impact of GST on consumers. GST will have different impact on different goods and services used by consumers. The GST impact on consumers may bring down the prices of certain goods may lead to increasing demand of certain goods and services which would benefit the consumers. But it will not make everything cheaper. If the Government will take care of essential commodities prices there will not be any hike in essential commodities and the consumers will not suffer.

(Dey, 2020) ascertained the impact of tax reforms with the implementation of GST in India. Whenever any reforms were laid down by the Government there is no exception to the common man. According to

him, the indirect tax structure before the implementation of GST was very complex. After introducing GST there was a reduction in prices for FMCG products. On the other hand, there was a hike in prices for luxury cars, gold, textiles etc.

(Kelkar et al., 2019) analysed the impact of GST in different areas of Indian economy. FMCG sector which is also called consumer packaged food is the key taxation contributor both direct and indirect in the economy. They analysed the impact of GST on consumer goods sector, brokers and equity investment, cement industry, food industry, information technology services, infrastructure sector, small scale enterprises, telecom, automobile and auto ancillaries. Manufacturing companies have to pay taxes to transfer the stock from the warehouses among the States. The food processing sector will root difficulty in extending GST in view of the fact that production and distribution of food is largely unorganized in India. According to them it is a huge step in support of realizing Make in India and digital India initiative. It is suggested that government should opt plans and policies in this regard for positive implementation and their result.

1.7. DATA ANALYSIS AND DISCUSSION

1. Distribution of sample by their personal characteristics

Table 1 shows the demographic profile of the respondents. It is clear from the table that more female respondents (54%) participated in the survey than male respondents (46%). 62% of the respondents have educational qualification as degree. As far as nature of employment is concerned majority of the respondents (46%) are salaried person. 54% of the respondents have monthly income of above Rs.40000.

Table 1
Distribution of sample by their personal characteristics

Characteristics		Total	Percent
Gender	Male	23	46
	Female	27	54
	Transgender	0	0
Total		50	100
Educational Qualification	Below S.S.L.C	0	0
	S.S.L.C	0	0
	Plus Two	0	0
	Degree	31	62
	Post-Graduation	13	26
	Professional Qualification	6	12
Total		50	100
Nature of Employment	Unemployed	2	4
	Salaried person	23	46
	Self-employed	4	8
	Student	21	42
Total		50	100
Monthly Income	Below Rs.20000	17	34
	Rs.20000-Rs.30000	4	8
	Rs.30000-Rs.40000	2	4
	Rs. Above 40000	27	54
Total		50	100

Source: Primary Data

2. Opinion about benefits of GST on packaged food business

Table 2 shows the opinion of respondents regarding the benefits of GST on packaged food business. Total weights have been used for calculating rank. GST will help to reduce the billing process and filing was given the first rank followed by second rank to transparency in tax collection third rank to create

accountability followed by fourth rank is to maintain same price across the country for packaged food products. Fifth preference was given to free movement of packaged food. Benefit of simplified tax system and certainty in tax administration shared sixth rank. Eight rank is given to promote packaged food products. Respondents are giving ninth and tenth ranking to the benefit of it reduce the cost of manufactured packaged foods in India and put an end to black money.

Table 2
Opinion about benefits of GST on packaged food business

Statement	Score					Total	Total Weight	Rank
	5	4	3	2	1			
Reduced the billing process and filing	8	8	27	6	1	50	166	1
Promotes Indian packaged food products	7	6	15	9	13	50	135	8
Creates same price across the country for packaged food products	8	4	18	17	3	50	147	4
Simplified tax system	4	6	20	16	4	50	140	6.5
Reduced the cost of manufactured packaged foods in India	4	6	22	4	14	50	132	9
Put an end to black money	6	2	6	19	17	50	111	10
Transparency in tax collection	10	4	25	10	1	50	162	2
Leads to free movement of packaged food	10	7	10	13	10	50	144	5
Certainty in tax administration	2	11	20	9	8	50	140	6.5
Create accountability	2	11	26	6	5	50	149	3

Source: Primary Data

3. Opinion about the drawbacks of GST on packaged food business

Table 3 shows the opinion of respondents regarding the drawbacks of packaged food business. Respondents gave first rank to the reason that unorganised packaged food business sector is large. Second rank is given to the reason that increased legal formalities for managing packaged food business. Third rank is given for the reason that it is required to use e-portal facility for GST payment. Fourth rank is given for the reason that it increased the price of packaged food and related services. Fifth rank is given for the reason that it creates malnutrition. Rise in inequalities in wealth, increased unemployment, food adulteration, no clarity regarding GST rates on packaged food, creates complexity in tax administration have sixth, seventh, eighth, ninth and tenth rank respectively.

Table 3
Opinion about the drawbacks of GST on packaged food business

Statement	score					Total	Weight	Rank
	5	4	3	2	1			
No clarity regarding GST rates on packaged food	10	11	18	11	0	50	170	9
Creates Malnutrition	10	17	15	8	0	50	179	5
Food adulteration	10	11	20	9	0	50	172	8
Unorganised packaged food business sector is large	17	12	13	8	0	50	188	1
It is required to use e-portal facility	9	21	15	4	1	50	183	3

for GST payment								
Increased the price of packaged food packaged food and related services	12	13	21	2	2	50	181	4
Creates complexity in tax administration	10	4	21	12	3	50	156	10
Increased legal formalities for managing packaged food business	6	25	19	0	0	50	187	2
Increased unemployment	13	13	13	9	2	50	176	7
Rise in inequalities in wealth	11	13	21	3	2	50	178	6

Source: Primary Data

4. Satisfaction on applying GST on packaged food

Table 4 shows the satisfaction on applying GST on packaged food. Among the 50 respondents, 46% of the respondents were satisfied and 42 % of respondents had indifferent opinion regarding level of satisfaction on the implementation of GST on packaged food business. 2% of the respondents were dissatisfied and 4% of the respondents were highly dissatisfied.

Table 4
Satisfaction on applying GST on packaged food

Level of satisfaction	Score	Percent
Highly satisfied	0	0
Moderately satisfied	23	46
Neutral	21	42
Dissatisfied	2	4
Highly dissatisfied	4	8
Total	50	100

Source: Primary Data

1.8. FINDINGS AND SUGGESTIONS

The study analysed the impact of GST on packaged food business. The researcher explored the benefits and drawbacks of GST on packaged food products towards consumers, manufactures and the packaged food industry. GST has replaced most of the indirect taxes and cascading impact on the final price. GST is created for the efficient tax collection, reduce corruption and easy movement of products throughout the country. The Central Government has introduced GST for pre-packaged and labelled food products on 18th July 2022. As food is an essential item this tax policy affect the customers and overall the packaged food business.

In the analysis of benefits of GST on packaged food business, the respondents gave first rank to it will help to reduce the billing process. GST portal is introduced by the Government for GST filing and billing process. This will help the businessman to create and process the bills easily. GST portal creates transparency to the dealing of the manufacturers. Respondents have an opinion that it creates more transparency and accountability in tax collection. All the packaged food business owners are answerable to the government and the society and the main aim of introducing GST is to one nation one tax system. The free movement of packaged food is secured through the elimination of customs duties and GST simplifies indirect taxes in India by subsuming different taxes and cess levied by Central and State Government of India. GST at the initial stage reduces the revenues of packaged food business owners. GST aims to bring many Central and State taxes under one single head.

While analysing the drawbacks of GST on packaged food business respondents ranked first unorganised packaged food business sector is large. Second rank is given to the reason that there is increased legal formalities for managing packaged food business. In any tax system, registering the business is a foremost

activity. Government has introduced penalty for not registering business under GST. E-invoicing is compulsory from 1st April 2022 for the registered taxable person having aggregate turnover exceeding rupees 20 crores in any of the preceding financial years. Another reason they raised that GST increased the price of packaged food. The consumer price index assigns weights to various goods and services and high weight is allotted to food and beverages. The levy of GST increased the rate of inflation of Indian economy and affected purchasing power of the households in general and rural area in particular. The purchasing power of households shall be reduced due to the imposition of GST and would result in reduced consumption of protein rich diets. Prepackaged food products are the major source of employment in rural areas. Implementation of GST reduces the consumption capacity of households which may result in reduction of packaged food businesses. It may increase the unemployment in Indian economy. GST applicability only arises on prepackaged food, if the items are sold in loose quantity, it may create rise in the food adulteration in the market. As the rate is frequently changing consumers are not aware about various slab rates applicable for food. Increase in GST registrations raise additional work burden to GST departmental officers in monitoring the small dealers. The levy of GST on packaged food reduces the individual savings and purchasing power of the society and may result in demographic shift. It is suggested that packaged food business is a major employment sector for the women and weaker sections of the society. Widening the tax base may create unemployment, inflation, and reduce the foreign exchange reserves of our country. The Government has to implement policies after analysing the adverse effect of the policies. Government has to create more accepted policies for regulating and controlling the packaged food business under unorganised sector. If it not regulated in a proper manner that will reduce the demand of the packaged food and increase the food related issues. The responsible authorities have to implement good mechanism for controlling the business of packaged food and it is necessary to timely communicate the continuous amendment of the policies among the public.

1.9.CONCLUSION

Tax is an important source of revenue for the Government. Levying of tax will help to reduce the inequality in income and wealth. It can be used to improve the developmental activities of the less developed areas of the State. It is safer for the Government to avoid borrowings from different entities. It may contribute to the sustainable development of the State. Introduction of GST is an important milestone to increase the tax base and widen the global market of India.

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