

Impact of GST on Consumer Durables Segment

The current tax structure is deeply engaged with complexities in the method of payment, a myriad of direct and indirect taxes and perplexing compliance requirements. In order to rid the taxation system of this ambiguity, the GST Law will see the light of day on the 1st of July. This fuels a promise of 'One Nation, One Tax'. Under this singular tax, as many as 17 indirect central and state tax levies are to be mitigated, thus ending years of complication and tax cascade. After receiving an overwhelming response in both the Lok Sabha and Rajya Sabha, this ambitious law is going to change the way India does business. Thronging the nation with its digitalized approach, every sector of the economy will experience its implications.

The consumer durable industry majorly, stands by the implementation of GST as it eliminates the problem of double taxation. With a revised cost structure, this industry will be one of the most positively impacted sectors. This will simplify the taxation for the end consumer and will attract more buyers that will boost the sales of consumer durables like TVs, ACs, refrigerators, etc.

In a bid to ease the muddled up taxes and scores of additional taxation at various points of the journey of goods from production to the consumer, one of the hindrances involved was in interstate transportation of goods which will be solved. In the past, in the event of a vehicle crossing a state border, a CST tax was levied and contributed to the added expense and the delay due to queuing of vehicles. Since CST will be subsumed in GST, companies will no longer be required to have depots/warehouses in close proximity of their different markets. Most of the times, these warehouses were forced to operate below their capacity thus increasing their operating costs. With the absence of these warehouses, it is estimated to see almost a 10-15 % dip in cost for logistics, the benefit of which will be reflected onto the costs of consumer durables. Thus, as GST replaces the central sales tax on inter-state sale of goods and several other levies, costs for manufacturers will notice a relative slash. This will help companies channelize their investments better and also enhance their business.

Each state is bound by its own set of taxation policies and rules of governance. This fragmentation accounts for about 20-30% of the price. A law promising a common market will mean an end to the wide variance in prices for the same product across the country. The consumer durables sector happens to be an

inventory-heavy sector. With the advent of GST, uniformity in tax rates will be widespread. This will ease the pressure faced by this industry.

When GST goes live, consumer durables will be placed under the 28% tax slab. Though it is the highest tax slab, a majority of goods are currently taxed at 26-31 per cent rate, depending on their nature and usage. However, one thing that companies may have to watch out for is whether excise duty exemption zones continue to get that benefit.

Lastly, implementing GST from July 1 will be a challenge for the industry and the government due to a lack of infrastructure. The workplace scenario in India mainly operates on a manual basis. The shift to a digital method requires time and practice. Hence the Government should consider relaxing penal provisions for a couple of quarters to help it comply with the new tax regime. The government is working overtime to roll out the goods and services tax regime from July 1 and has held several workshops and seminars to familiarize traders and the industry about the new indirect taxation structure. To summarize, like all we too await July 1st - Implementation of the much awaited GST.