



GOODS AND SERVICES TAX IMPLICATIONS ON SELECTED FMCG PRODUCTS IN KARNATAKA: A PERCEPTUAL STUDY

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ABSTRACT

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The Goods and Services Tax (GST) has had a profound impact on the fast-moving consumer goods (FMCG) sector in India, particularly in Karnataka's Mysore and Mandya districts. This study explores the perceptions of 400 consumers and 100 dealers regarding GST's implications on various FMCG products. Employing statistical tools such as KMO and Bartlett's test, principal component analysis, and varimax rotation, the research evaluates GST's effects on consumption patterns, pricing, and compliance requirements. The analysis reveals significant concerns among stakeholders, including the high rates applied to luxury items, compliance complexities for small-scale dealers, and price sensitivity among consumers. While essential goods with lower tax rates are positively perceived, higher rates on processed and premium products deter affordability and profitability. The study emphasizes the importance of simplifying GST rates and enhancing awareness programs to improve understanding and compliance. Recommendations include tax structure reforms, targeted education initiatives, and policy measures to support small-scale dealers. By addressing these issues, the study aims to optimize GST's impact on the FMCG sector, ensuring equitable benefits for both consumers and dealers while fostering economic growth. This research provides actionable insights for policymakers to refine GST implementation for better socio-economic outcomes.

KEYWORDS: GST, Implication, FMCG products, implementation, etc.,

INTRODUCTION

The Goods and Services Tax (GST) is a widely adopted tax framework implemented in over 160 countries worldwide. Introduced to streamline indirect taxation, GST unifies multiple taxes into a single system, promoting transparency and efficiency. France was the first country to adopt GST in 1954, followed by other nations like Canada, Australia, and Singapore. Each country tailors GST to its economic needs, with tax rates varying from 5% in Canada to 27% in Hungary. GST has revolutionized global trade by eliminating cascading taxes and simplifying compliance, fostering economic growth, and facilitating cross-border commerce.

India introduced the Goods and Services Tax (GST) in July 2017 as a comprehensive reform to unify the country's complex indirect taxation system. GST

subsumed multiple taxes such as VAT, service tax, and excise duty, creating a single tax framework to facilitate seamless trade and enhance transparency. The FMCG sector, a vital component of India's economy, has experienced significant changes under GST, given its dependency on consumer spending and high transaction volumes. Karnataka, particularly the districts of Mysore and Mandya, offers a unique case for analysing GST's regional impact due to its diverse mix of urban and rural markets and a strong presence of agriculture-driven FMCG products.

This study seeks to explore the implications of GST on FMCG products through the perspectives of consumers and dealers. By analysing GST's effects on pricing, compliance, and consumption patterns, the research aims to identify challenges and opportunities within the sector. This paper focuses on five GST rate

categories, ranging from 0% for essential items to 28% for luxury products, assessing their impact on affordability and market dynamics. The findings contribute to understanding GST's role in shaping consumer behavior and dealer operations, offering policy recommendations for more equitable and efficient tax practices.

GST History and FMCG Sector in India

The Goods and Services Tax (GST) represents a landmark reform in India's taxation history, aimed at unifying the nation's complex indirect tax structure. Prior to GST's implementation on July 1, 2017, India's taxation system was fragmented, with taxes such as VAT, excise duty, service tax, and customs duties levied by central and state governments. This led to cascading taxes and inefficiencies in the system. GST replaced this multitude of taxes with a single, comprehensive tax framework that operates on the principles of "one nation, one tax," ensuring uniformity and transparency across the country.

Under GST, goods and services are taxed at different rates ranging from 0% to 28%, depending on the nature of the product or service. Essential commodities, such as fresh produce, are exempt from tax, while luxury goods attract the highest tax slab of 28%. GST is structured into four tiers: CGST (Central GST), SGST (State GST), IGST (Integrated GST), and UTGST (Union Territory GST), catering to transactions within and across states.

As of 2024, India's FMCG sector stands as the fourth-largest component of the nation's economy, contributing approximately 2.5% to the GDP. This industry provides employment to around 3 million individuals, accounting for about 5% of the total factory employment in the country. The sector is segmented into household and personal care products, which constitute 50% of the market share; healthcare products at 31%; and food and beverages at 19%. The implementation of the GST has notably influenced the FMCG industry by streamlining supply chains and reducing logistics costs. However, it has also introduced challenges such as compliance complexities and price adjustments. Despite these hurdles, the sector continues to expand, driven by increasing consumer demand and evolving market dynamics.

GST's influence on the FMCG sector is profound. The elimination of cascading taxes and reduced transportation costs have enhanced operational efficiency for FMCG companies. Smaller firms have benefited from input tax credits, which allow them to claim refunds on taxes paid for raw materials. However, higher tax rates on processed foods and luxury items have affected affordability for consumers and demand for these products.

Despite initial challenges, GST has largely been a transformative reform for the FMCG sector. By creating a unified market and enhancing transparency, it has paved the way for long-term growth and competitiveness in the sector. The ongoing adjustments and policy refinements continue to shape its impact, ensuring that the benefits of GST are maximized for all stakeholders.

LITERATURE REVIEW

Mohan Kumar and CA Yogesh Kumar (2017) analysed the impact of GST on the FMCG industry in India, emphasizing the transformative potential of GST on business parameters, particularly supply chain management. The study, based on secondary data and statistical methods like mean, standard deviation, and ANOVA, highlights that GST can improve operational efficiency while necessitating adjustments in business strategies to align with tax reforms. **Sanket Dhanorkar (2017)** discussed the varying effects of GST on FMCG firms depending on their product mix. He noted that tax reductions for some products could benefit consumers through lower prices, while higher tax slabs (28%) might lead to increased costs being passed on to consumers, impacting demand and affordability.

Hiremani Naik and Sudina (2017) explored the dual implications of GST on the FMCG sector, utilizing expert opinions and secondary sources. Their findings underscore the necessity of understanding GST's positive and negative outcomes on a sector critical to the Indian economy. **Jayashree, et al. (2017)** conducted primary research on GST's influence on FMCG, revealing how multiplicity in taxation previously affected manufacturing and distribution decisions. By employing statistical techniques, they concluded that GST's unification of taxes could significantly streamline operations, despite initial challenges.

Sreeshma, et al. (2018) examined GST's impact on branded textile products, revealing limited effects on consumer preferences for price and quality. While focused on textiles, the study provides insights into consumer behavior under GST's pricing structure, which can be extrapolated to FMCG goods. **Sreekumar, P. G (2018)** conducted comprehensive research into consumer and supplier perceptions of GST in FMCG. His SWOT analysis highlights GST's potential to simplify taxation and its drawbacks, such as increased compliance costs, which require proactive government interventions to optimize implementation.

Dharani (2019) analysed the broader economic implications of GST on FMCG, describing it as a revolutionary but delayed reform. She emphasized its ability to replace multiple indirect taxes and improve business efficiency, while acknowledging lingering

implementation challenges. **Rekha, D. M., and Swathi (2019)** identified reduced logistics and warehousing costs as a major advantage of GST for FMCG companies. However, they observed increased working capital requirements, influencing consumer purchasing behavior and financial planning within the sector.

Jones, E.C. (2023) analysed the impact of GST on the fast-moving consumer goods industry in the article review synthesized various studies to assess GST’s effects on pricing, supply chain efficiency, and compliance costs within the FMCG sector. The findings highlighted both opportunities and challenges, emphasizing the need for continuous evaluation of GST policies to optimize their impact on the FMCG industry.

Chatterjee, A. (2023) explored the challenges and opportunities presented by GST in the Indian FMCG market in the study examined how GST influenced market dynamics, consumer behavior, and business strategies within the FMCG sector. The study concluded that while GST streamlined taxation and reduced logistical costs, it also necessitated significant adjustments in pricing strategies and compliance mechanisms for FMCG companies.

Kumar, S., and Pandey, S. (2023) discussed strategies for FMCG companies to adapt to GST In their article, the authors provided insights into how FMCG firms can navigate the complexities introduced

by GST, including restructuring supply chains, leveraging technology for compliance, and revisiting pricing models to maintain competitiveness in the post-GST era.

OBJECTIVES

1. To analyse the compliance challenges faced by dealers under the GST framework.
2. To evaluate the impact of GST on consumer purchasing behavior within the FMCG products in Mysore and Mandya districts.
3. To identify the implications of varied GST rates on FMCG products.
4. To provide recommendations for enhancing GST policy and awareness to benefit consumers and dealers in the FMCG products.

RESEARCH METHODOLOGY

The study adopts a mixed-method approach to analyse GST’s implications. Data were collected from 400 consumers and 100 dealers in Mysore and Mandya through structured questionnaires. Quantitative techniques, including KMO and Bartlett’s tests, were employed to assess sampling adequacy and data reliability. Factor analysis with varimax rotation was used to identify key components influencing perceptions. The study focused on five GST rate categories: essential food items (0%), basic foods (5%), processed foods (12%), instant foods (18%), and luxury items (28%).

DATA ANALYSIS AND INTERPRETATION

Table 1.1: KMO and Bartlett’s Test of Implication for GST (Mysore and Mandya)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.488
Bartlett’s Test of Sphericity	Approx. Chi-Square	46.507*
	Df	36
	Sig.	.013

*p<0.05

Table 1.2: VARIMAX - Rotated Component Factors for Implication for GST (Mysore and Mandya)

Sl. No.	Factors	Rotated Component Factors				Communalities
		1	2	3	4	
1	Tax invoice	-.261	.351	-.033	.618	.574
2	Debit and credit notes	.685	.433	.117	-.177	.702
3	Accounts and records	.306	.002	-.521	-.075	.371
4	Returns	.102	.804	.134	-.011	.675
5	Payment of tax	.723	-.089	-.186	.191	.601
6	Refund	.430	-.341	.422	.458	.689
7	Assessment	-.172	.020	.053	-.685	.502
8	Audit	.034	-.454	.213	-.133	.270
9	Inspection	.089	-.022	.828	-.133	.712
	Eigen values	1.388	1.288	1.252	1.170	5.098
	Percentage of Trace	15.42	14.31	13.90	12.99	56.63

Note: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization

Over the Table 1.1 highlights the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy as 0.488, indicating moderate suitability for factor analysis, and Bartlett’s Test of Sphericity with a significant chi-square value of 46.507 ($p < 0.05$), confirming data appropriateness.

Above the Table 1.2 identifies four rotated component factors: tax compliance, tax rates, product pricing, and consumer awareness, explaining 56.63% of the variance. Notably, “inspection” with a factor loading

of 0.828 indicates the importance of compliance scrutiny, while “payment of tax” (loading 0.723) underscores critical financial obligations. The communalities range from 0.270 to 0.712, reflecting varying contributions of variables to these factors. These results reveal that compliance complexity and pricing concerns are significant aspects of GST’s implications in the region, necessitating targeted interventions for policy refinement and stakeholder education.

Table 1.3: KMO and Bartlett’s Test of implications of Rate of GST on FMCG (Mysore and Mandya)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.517
Bartlett’s Test of Sphericity	Approx. Chi-Square	72.569**
	Df	15
	Sig.	.000

** $p < 0.01$

Table 1.4: VARIMAX - Rotated Component Factors Implications of Rate of GST on FMCG (Mysore and Mandya)

Sl. No.	Factors	Rotated Component Factors			Communalities
		1	2	3	
1	GST on Food and Beverages	.042	.030	.816	.669
2	Essential Personal care and Hair care products	.800	.054	-.187	.678
3	Cosmetics and Perfumes products	.819	.089	.138	.697
4	Oral care products	.106	.845	.261	.793
5	Home care products	.059	.850	-.286	.808
6	Health care products	.491	.090	-.548	.549
Eigen values		1.568	1.456	1.171	4.195
Percentage of Trace		26.13	24.26	19.51	69.91

Note: Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization

The Kaiser-Meyer-Olkin (KMO) measure of sample adequacy, as shown in Table 1.3 above, is 0.517, indicating a moderate fit for factor analysis. Bartlett’s Test of Sphericity yielded a significant chi-square value of 72.569 ($p < 0.01$), confirming that the data is appropriate for further statistical exploration.

Table 1.4 highlights three rotated component factors—product affordability, compliance ease, and tax structure awareness—that collectively explain 69.91% of the variance. Key findings include high factor loadings for “home care products” (0.850) and “oral care products” (0.845), reflecting their substantial impact on consumer perception of GST rates. Additionally, “cosmetics and perfumes” scored 0.819, emphasizing their sensitivity to tax rate changes. These results underscore the necessity of addressing pricing strategies and compliance challenges to enhance GST’s effectiveness in the FMCG sector. Tailored policy measures and increased consumer education are essential for mitigating these impacts and optimizing sectoral outcomes.

In summary, the data analysis underscores the mixed impact of GST on FMCG products. While the tax

system has streamlined indirect taxation and enhanced transparency, challenges persist regarding rate disparities, compliance burdens, and consumer education. These findings highlight the need for policy interventions to address these issues and optimize GST’s impact on the FMCG sector.

FINDINGS

- Essential food items (0%) and basic foods (5%) are perceived positively, but concerns arise over affordability for processed (12%) and luxury items (28%).
- Price sensitivity is a significant factor, with consumers noting price hikes in mid-range and premium categories post-GST.
- Compliance costs and procedural complexities are primary concerns for small-scale dealers.
- Higher GST rates on luxury FMCG products deter consumer purchases, affecting dealer profitability.
- Limited awareness of GST’s rationale and benefits leads to misconceptions about its impact on product prices and affordability.

SUGGESTIONS

- Reduce disparities in GST rates, particularly for mid-range FMCG products, to ensure fair pricing and consumer accessibility.
- Conduct targeted campaigns to educate consumers and dealers about GST's objectives and benefits.
- Introduce subsidies or tax credits to mitigate compliance costs for small businesses.
- Implement regulatory mechanisms to monitor and control unjustified price hikes post-GST implementation.

CONCLUSION

GST has significantly transformed the FMCG landscape in Karnataka's Mysore and Mandya districts. While the unified tax system promotes transparency and simplicity, challenges persist in terms of rate disparities, compliance costs, and consumer awareness. Addressing these issues through policy reforms and education initiatives can enhance GST's effectiveness and ensure equitable benefits for consumers and dealers alike. This study contributes to understanding GST's regional implications and offers actionable insights for policymakers and stakeholders.

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