The Study of Goods and Services Tax on Multinational Companies in India

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Abstract-Although India has third largest economic growth, it can be much faster if we had an ideal tax system which collects taxes at different stages of manufacture, supply, wholesale, retailing and final consumption. These tax paid at different stages is not on the entire price but only on the value added. Keeping this in mind a new taxation system known as Goods and Services Tax (GST) was introduced in India, in order to remove the previous tax system which misses lead things and slower the economic growth. Due to the new introduction of the taxation system, many sectors of business were affected. Multinational Companies (MNCs) also faced changes. Import-export of MNCs, Customs duty application on MNCs and various effects on various MNCs are the things covered in this paper.

Keywords- *Multinational Companies (MNCs), Goods and Service Tax (GST), Integrated Goods and Service Tax (IGST), Fast-moving consumer goods (FMCG), Input Tax Credit (ITC)*

INTRODUCTION

In the nation-building series, knowingly or unknowingly people move towards the path that leads towards the new opportunities which can be helpful in building the dreams of an individual. Something similar happened in our country which changed the whole marketing world of the country in a midnight. The government which is working day and night for the betterment of the individuals of the country, has taken a decision after many debates, disagreements, discussion, and arguments of bringing in the goods and Services Tax (GST) in the India. The aim of bringing GST was to provide facilities to the promised group of people, mainly concentrating on poor class. The reason that present government is focusing more than anything else on improvement of the poor class is to develop the country. Every country has two levels – individual and national. It is not the government which has to be powerful, it is the people living in that country which makes the country powerful. In order to make the country prosperous and develop it, the individual of the country should be satisfied. If the individuals does not even have the basic needs like food, shelter and clothing then it would lead to crimes in the country and in turn create a problem in the progress of the country. Therefore it is most important for the government to keep the individuals happy and take care of them or we can say that we have to go down the pyramid and focus more on the individuals of the country. Not only concentrating on the individual, a country has to have minimum barriers between the different classes of the society because, our constituency was framed in such a way to give equal opportunity and rights to all, and GST will bring many economic reforms as it is good example of Co-operative Federalism which will help in the growth of the nation [1]. It is the first time in the history of India that both state and central government will be heading towards same direction by implementing GST. The idea of taxation was described by the Chanakya is somewhat similar to GST [2]. The great scientist Albert Einstein once said that the most complex thing to understand is the Income Tax. Especially in a country like India where we have 29 states and 7 union territories, it is very difficult to maintain the taxation system as every state will have different prices for different products even if they are few kilometers apart (In case of Delhi, Noida and Gurugram) . To get rid of so much confusion like sales tax, service tax, VAT etc. one single taxation system GST was introduced to maintain uniformity in the country. The GST system is more transparent and will also help the country to move towards modern taxation system. Not only that, it will also reduce the amount of black money [1]. Any system has both advantage and disadvantage. GST is the path-breaking legislation for New India, the advantages include – Simpler procedure for online payment, Increased efficiency in logistics, regulating the unorganized sector, composition scheme for small business and a higher threshold for registrations [3]. However it did not bring good changes for many business people - earlier only people above 1.5 crore turnover had to pay the tax but now even the small business enterprises has to pay the tax. Though GST bought ‘one nation one tax' system, it affected various industries differently depending upon whether the company deals with distribution, manufacturing, service provider or retailing [4]. GST has encouraged the ability of manufacturing sector, as various indirect taxes created problems for manufacturers and distributes by increasing their outgoing costs. Therefore GST came as the rescuer for this sector by erasing the burden and encouraging the sector to grow dynamically. But the problem with GST is that, companies not registered under tax bracket has to now get itself registered which will lead to the avoidance of lesser tax. Although the increased limits for registration helped the Indian Startups, it also helped the agricultural sector by bringing the uniformity in the taxes of transportation of agricultural products from one states to another state [4].

OBJECTIVE OF STUDY

The study comprises following objectives.

1. Understanding the concept of GST
2. Performing Impact analysis of GST on Multinational Companies
3. To study the change in taxes on import and export
4. To study interest of foreign companies in the Indian market after GST implementation

RESEARCH METHODOLOGY

The research mostly focuses on the behavior of Multinational Companies towards GST implementation in India. The material is to be justified with the real data gathered from various newspapers, journals and other forms of mass media. Descriptive type research is to be the primary form of adaptation for persuasion of this research keeping the objectives into considerations. Various statistics from accessible secondary data is to be observed to make the conclusion of the study.

CONTENT

In this paper, we will be mainly focusing on the impact analysis of the GST on various Multinational Companies (MNCs) associated with Indian economy, this study will cover possible merits and demerits of GST on MNCs. India in recent years has become the hub for many MNCs to come and set up their branch. The production cost has fallen down as the transportation of goods will not charge anything extra than just the price of goods and of course the transportation charges. Since the small scale companies now have to register itself and pay the tax, therefore they cannot sell their products cheaper which they earlier did because they saved money without paying tax, so now there will not be much price difference in the products of the MNCs and the small scale companies. Due to Central Sales tax (CST), MNCs had to pay extra for keeping their goods in different states but now stock transfer is not chargeable and will save their extra costs. Earlier MNCs were set up based on the taxes of the area as the taxes were different for different locations, but now they can concentrate on some real factors like efficiency, commercial viability etc. of their goods [5]. The Countervailing Duty (generally 12.5%) and Special Additional Duty (generally 4%) no more exists. These were some of the advantages for the MNCs. With above points it can be proved that it is the only misconception of the people who think GST has not benefited for the foreign entities, as IGST looks after all the services and goods across Indian state borders, also international exports that is exports out of India need not be payable and imports will be claimable, but imports will cost same as it will cost for the transportation inside the country [6]. Instead of monthly collecting the GST, GST in form of IGST will be collected at the time of Imports itself. To claim the taxes, companies need to keep the record of the taxes which they have already paid. These claiming can be done with two ways, the selling company has to be listed with GST else the Indian company wanting to purchases and is also listed can repel the charges and charge them on IGST along with Customs Duty associated with imports and will be eligible to claim the IGST. The purchasing company can also claim the tax if the company selling goods collects the tax for the monthly transactions GSTR5 mainly dealing with non-residential foreign taxable person and is also registered foreign taxpayer with GST. The probability of this scenario is very less as the foreign company might not have a particular place for business, because of they may be of consulting, specialized skills and educational background, these sectors people register themselves for 90 days and then must prepay the estimated taxes they are expecting to collect. Since the taxpayer is physical present India, the transactions will be counted as intrastate and will be related to SGST/CGST, other than that if they receive any goods in their office which is outside India can also claim the input tax credits as it is subjected to IGTS [6]. The petroleum company will not be able to claim for the input tax as it is beyond proximity and this does not solve the main aim of the GST of the cascading taxes. The MNCs related to engineering, consulting, advisory etc. will become expensive than before. The Chaos will be created as the companies now have to register for 12 monthly return and it will have to file depending upon the transactions done in the number of states [5]. Adopting to the new system will take time, but once adopted will be very beneficial for both India and the MNCs. In this paper, we have covered the Analysis of some MNCs like Nestle, Citigroup, Sony, Mahindra and Mahindra and Hewlett Packard in India and it's after the implementation GST.

INFLUENCE OF GST

Multinational companies started noticing the GST in India a while before its implementation. Companies like Avalara, the key player in getting small businesses tax compliance and automation has also faced their share of a curve with the adaptation of GST. Taxation on destination basis is fundamental of GST. Most MNCs in India being a foreign-based organization are subject to GST on a marginal scale. This is especially true for Integrated Goods and Service Tax or commonly known as IGST. The taxation of IGST mainly deals with the trade crossing Indian state border but is also applicable for international shipments [6]. Another huge impact of GST can be observed on the Fast-moving consumer goods (FMCG). A lead company in the FMCG sectors had roughly twenty-three warehouses located in the states of India but all changed after implementation of GST. This is mainly because the need for warehousing in Indian decreased with GST as a centerfold for trade. Most companies have already developed the warehouses keeping GST into consideration for coming to any case scenario [7]. Also, the nominal impact of GST on FMCG is not limited to Multinational Companies but domestic-based companies too as "Made in India" gains its place in the market with some inflation and deflation on Indian market with GST. Although Goods and Service tax comes with its own perks for the Indian economy, same cannot be said for some of the FMCG firms both domestic and Multinational.

One of the major perks of GST comes in form of Avail ITC [10]. ITC or Input Tax Credit means taxation in form of input credited in form of taxation on the output. Before GST paying output as VAT was not used to get back any service tax paid for the Annual Maintenance Contracts (AMCs) but with GST one can take full advantage of ITC.

Another subjected change after GST is with the import and export in India. When importing or exporting goods to any country the company must pay the corresponding custom duty or traffic. Before GST the importing or exporting entity had to pay Value-added Tax (VAT) along with the import/export duty. But after GST the scenario changed as the technique of valuation were considered on Cost, Insurance and Freight (CIF) basis stating that customs duty and charges payable are to be exerted on the entire shipping value. Currently, customs duty and the IGST are together implemented of any trade involving international border. Fig 1 shows some of the implemented import duty on raw material in India.

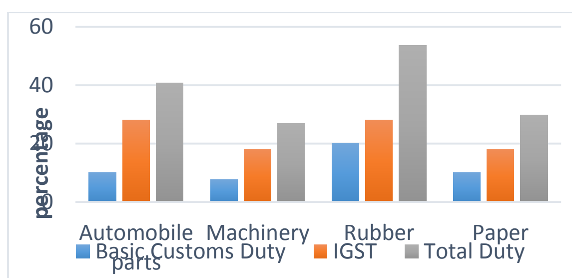

Fig 1. Import duty on raw material and parts in India (April 2018) [9]

GST affects various MNCs differently. Manufacturers have the upper hand being more beneficial as GST reduces the cost of production and remove differential valuations taxation, hence less tax means less cost. Multinational Companies looking for manufacture have their share of advantages as GST will reduce the cost of manufacture in India. Before GST factory location was chosen on tax basis as different states had different taxation scheme allowing states with less tax to have more factory units. But with GST as one tax for all, MNCs no longer have the desire for one state in particular for manufacturing location but whole nation as one.

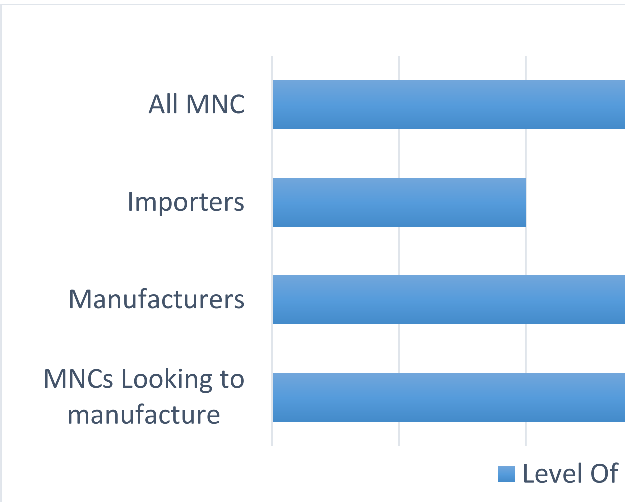

Fig 2. Benefits of GST for Various Types of MNCs in India [11]

Duty free shops which are free from the liability of remission of few local and national taxes or duties, are located in the International airports of the country. The goods purchased by the international travelers need not pay the extra taxes in airports to maintain the uniformity in the International states. Some countries do not apply taxes on the imported goods where as others do. The Authority of Advance Ruling (AAR) confirmed that the duty free shops at the Indira Gandhi International airport (Delhi airport) will not be given relief from the taxes. Before the implementation of GST that is, 1st July 2017, the supply of goods were no different from the exports of the goods because of which CST and Value added taxes (VAT) were not applied on these goods. AAR stated that according to the Integrated GST Act the shops lie under the circumference of Indian borders and hence have to pay the taxes even if the supply is from overseas. This rule was made after the request from the Rod Retailer Private Ltd, which has an outlet at Indira Gandhi International Airport.

The companies which do not have any transaction for the 6 consecutive months, as they can easily file for the return of money. The council of GST is planning to allow the companies to file the return policy twice in a year that is after every six months. According to the counselling, 40% of the filed companies need not pay any kind of taxes and the companies with turnover around 1.5 crore or less need not fill the HSS code in the return form. Depended on the turnover of the companies the dates for filling the return will be decided, for example, companies with less than 1.5 crore turnover has to fill the form before 10th of the respective month and the companies with turnover above 1.5 crore can fill the for till 20th of the respective month. The form needs to be filled very carefully as the amendments can be made only after three months after filling the form. For the input tax credit the data will be compared for supplier with the invoice data.

All the companies may it be big or small needs to file the return every month. Last year after 1st July every month 3 return were filled and yearly 1 return was filled in total 37 returns were filled, which lead to many problems for the companies. After finding the lope holes in this system the committee then planned to reduce the number of fillings in a year, which will be very helpful for the companies, however the problem of matching the taxes with tax credit will remain same.

IMPACT ANALYSIS OF GST FOR VARIOUS MULTINATIONAL FIRMS

Nestle

From the New Delhi, India, Nestle had decided to cut off the prices of their products like Maggi Ketchup, Cereal food for babies and the dairy products. This is due to introduction of GST (Goods and Service Tax). After the reduction effect in GST milk powder rate, prices of the everyday dairy is seen to be reduced by 4 to 5%. The company also said that the GST preparedness including engaging with and training over 3,500 suppliers, 1600 distributors would covering the direct value chain and aware the programs. Before GST consumer goods firms were paying 24 to 25% taxes including excise duty, VAT and entry tax. With a tax rate of 18% under GST, there could be a significant reduction of 6-7% in taxes [12].

Citigroup

From the Citigroup report, the new blueprint of GST structure is likely to be 'non-inflationary' or not in sudden rise of cost as most of the products found in the Consumer Price Index (CPI) value will face taxation at a current level rate. A four tier GST tax structure was accepted by GST council, with low rates for essential items. Also for highest in luxury items also. The faulty items will also attract the consumers. According to the global financial services major, essential goods like food grains will be 0 taxed while some harming/non-essential goods like tobacco, luxury cars will be taxed higher than 28%. They also said that if services move to 18% tax, inflationary would not much effect, provided the tax implied is smooth [14].

Sony

From the Kolkata, West Bengal, India, Sony has put a target of Rs 250 crore sales in the Eastern Region as a strategy plan of aiming 25% growth during the festive season. Mr Kenichiro Hibi, Sony India Managing Director, said that the company is hopeful for the sales in festive season with customer demands. He said that the impact of the goods and services tax has moderated by now. Hibi said that they are expecting much bigger turmoil due to transition to GST. However, the industry has managed much better and the impact has moderated by now. They expect a good festive sales since the underlying consumer demand is strong. Hibi also said that the effective process in the online television space where scores of brands have entered and are under-cutting prices to gain market [13].

Mahindra and Mahindra

Mahindra and Mahindra announced on the reduction of prices of their utilities in their vehicles and SUV up to an average of 6.9% on the GST benefit to the customers. For small size cars, 1.4% is reduced. The company performed inflation on commercial vehicles in India by an average of 1.1% and 0.5% for light and heavy commercial vehicles. But they increased the prices of hybrid vehicles to only a limited extent. The company Mahindra and Mahindra stated that. The change in price for end customers will vary across the states or even various cities in a state. The company has decided to make no changes in prices of tractors. They believe their landmark will reform drastically and ease business India. It will also benefit consumers, thus being a win-win for all [15].

Hewlett Packard

HP Inc. India is re-evaluating its earlier proposal to set up a new manufacturing facility in India after the GST implementation. A study is underway right now, they have not taken a final decision yet. The HP company, US, said that the new manufacturing facility is totally designed and dedicated for printers and seen as a commitment to Honorable Prime Minister, Mr. Narendra Modi's 'Make in India'. HP India said that the retail price of ink cartridges has increased by 12 to 15 %, and 8 to 10 % for MFP. After GST, MFP were taxed at 28%. There is a boost of the prospects of the company's existing manufacturing facility in Pantnagar, Uttrakhand. HP is a market leaders with almost a third of the PC market in India [16].

CONCLUSION

In this paper, we have discussed what GST is and how it affects Indian economy on a global scale. We have also studied the implementation of Integrated Goods and Service tax or IGST and how it affects the international trading in various sectors. We have looked at some existing data any analyzed how it has affected the various companies in India. We have seen how GST has played its role in changing market of FMCGs over a year. Along with interstate trading, we have studied how the import duty with customs duty and VAT has changed since the implementation of GST. We discussed the role of ITC and how it is a major advantage of GST. We have also seen how different type of MNCs has different benefits. We also studied various Multinational Firms or companies doing business in India and how they faced the change in taxation where some gained and some not.

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