



**Dyasparva International Educational Consortium**

**Dyasparva International Journal of  
Commerce & Management**

-- Venture of C. D. Jain College of Commerce, Shrirampur



## IMPACT OF GST ON WHOLESALE AND RETAIL TRADE

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### Abstract

India is amongst the fastest growing economies of the world, with retail trade contributing an estimated \$600 billion+ to the economy. The impact which GST, the unified indirect tax structure introduced by the Government of India on July 1 2017, brings on such a major economic lever will be highly significant. Further, the implications of this new taxation procedure on the trader will vary on the nature of the trade, i.e., wholesale or retail. The present paper is an attempt to explain the opportunities within the new tax reform that traders can leverage, and how they can prepare themselves from a GST perspective.

(Keywords: GST, Wholesale market, Retail Market, Cash Flow, Financial stability)

### What is GST?

“Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.

GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer’s/ service provider’s point up to the retailer’s level where only the final consumer should bear the tax.”

### Need of GST

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

### Model GST

- The dual GST model proposed by the Empowered Committee and accepted by the Centre has dual system for imposing the tax. GST has two components i.e.

(i) Central GST      (ii) State GST

- Central Excise duty, additional excise duty, services tax and additional duty of customs (equivalent to excise), state VAT entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST

### **GST salient features**

- It is applicable to all transactions of goods and service.
- It is to be paid to the accounts of the Centre and the States separately.
- The rules for taking and utilization of credit for the Central GST and the State GST are almost same like previous tax system.
- Cross utilization of ITC between the Central GST and the State GST is not be allowed except in the case of inter-State supply of goods.
- The taxpayer need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- There will be two parallel Statutes – one at the Centre and other under the respective State GST Act – governing the tax liability of the same transaction.
- All the traders have to pay both the types of taxes i.e. CGST and SGST.
- It covers all types of person carrying on business activities, i.e. manufacturer, job-worker,
- Importers have to register under both CGST and SGST as well.

### **IMPACT OF GST WHOLESALE MARKET**

The wholesale market is fundamental to extending the reach of goods and services to the interiors of the country, especially the rural markets. Most wholesalers operate in cash transactions because of which there is a good chance that some transactions are not accounted for, which was previously a concern but ceases to be one under GST.

Given below are the main advantages that GST brings to wholesalers.

- Transparent tax management:** The introduction of technology into the taxation system can be an opportunity to bring about transparency in tax management. Rather than relying on cash transactions, wholesalers will now get an opportunity to go digital. They will also be able to avail the facility of input tax credit. Input tax credit is where the businessman will be able to claim tax on all input goods and services.
- Cash flow stability:** As the entire supply value chain including tax flows will be on GST records, wholesalers will be better connected to retailers and suppliers. For example, the payment for a consignment will reflect in the accounting records of the supplier company as well as the wholesaler, leaving no ambiguity about payables and receivables. This will make it easier to process payments and get tax returns in a timely manner, thereby improving the cash flows of traders.
- Reorganization of supply chain:** GST will enable high visibility and streamlining of the supply chain, providing wholesalers with a transparent view of supply movements. However, in the initial transition phase, many wholesalers may undergo de-stocking since they would have already paid VAT on their current stocks, and would like to avail of the input tax credit on the basis of the GST rules.

- iv. **Ease of borrowing:** Because financial and tax transactions will now be recorded in the GST system, even small traders will have digital records of their company finances and credit status. These digital records will act as a ready reckoner of information when a trader opts for a loan. Borrowing funds online and doing business will now be easier.

### RETAIL MARKET

Almost 92% of the retail sector in India is unorganised, operating in cash payments. They are, essentially, the tangible representation of FMCG multinationals to end-consumers; yet they are challenged by chronic issues such as the lack of technology enablement and low operating margins. A majority of the retail market consists of “kirana stores”, which are often the smallest link of the trade chain.

Here are the benefits of the new taxation system for retailers.

- i. **Input tax credit facility:** As mentioned for wholesalers, retailers too would be able to claim taxes paid for input products and services availed. This will present a cost advantage to retailers.
- ii. **Ease of entry into the market:** The market is expected to become more business-friendly due to the clarity of processes related to procurement of raw materials and better supply logistics. This is a good opportunity for new suppliers, distributors and vendors to enter the market. The registration process has also become very clear under the GST, aiding entry into the market.
- iii. **Information availability:** Small retailers often do not have complete visibility into their stock receipts, payments, etc. and are forced to blindly rely on the word of the supplier. GST will streamline this supply and cost challenges and empower the retailer with readily available information through digital systems.
- iv. **Better borrowing opportunity:** The retailer scope for business growth can be increased by increasing the retailers’ access to finance. As all transactions will have digital footprint, it will be easy for financiers to assess the repaying capacity of retailer and take the decision whether to give loan or not.

However, like any new reform, there are certain challenges that need to be addressed. We see that both retailers and wholesalers must manage the following eventualities of GST implementation.

- i. **Higher costs of input services:** Input services such as manpower, legal, professional services, auditor services, travel expenses, etc. will now be taxed at 18% as against the earlier bracket of 15%, leading to higher costs to the wholesaler.
- ii. **Additional costs to upgrade technology:** Many wholesalers, especially rural ones, are not technology-savvy and will need to rely on help from their supplier companies to undergo a technological transformation. This means that supplier companies may need to increase commissions for wholesalers— an added cost to the company, or wholesalers and retailers themselves will need to invest in new systems, incurring additional expenses.

### Conclusion

GST has positive impact on wholesale as well as retail trade including import. The trader needs to understand the GST rules and implement it into his business. Initially they may find it

difficult, but in long term it is beneficial to all. Use of ICT in GST will help to maintain all records digitally and there will be less scope for tax evasion and tax avoidance.

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