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Role of GST in inventory management

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Abstract

GST seeks to unify the entire country into a single market with only one value- added tax levy on all the goods and services across states at the point of consumption, subsuming up to 16 different taxes and levies that are imposed at present. This is expected to make the movement goods across the state borders smoother, faster and easier. GST council has raised the limit on input tax credit against excise duty payment to 60% from 40% of GST liability on items with tax rate above 18%, bringing some respite on sale of inventories stocked up before the implementation of new tax regime on July 1.

Key words: Single Indirect Tax, One Country one Tax, Integrated taxation

Introduction

Inventory management is concerned with keeping enough product on hand to avoid running out while at the same time maintaining a small enough inventory balance to allow for a reasonable return on investment. Inventory is used for stock of goods kept in organization and meant either for sale or for being consumed in production process. Organization has to maintain an adequate stock of goods or inventory in order to provide continuous production and sale of goods and services.

Goods and service tax (GST) is an indirect tax throughout India to replace taxes levied by the central and state governments. It was introduced as the constitution (one hundred twenty second amendment) act 2017, tax slab of GST are 0% to 28%. GST collected during the sale or purchase of goods is independent of the state where the purchase or sales taxes place. Some of the best GST, system across the world like Singapore and New Zealand use single GST, but India has adopted a dual GST model. The change in tax structure is expected to have a huge impact in supply chain in India.

Objective of the study

1. Minimizing funds loaded up in stock of goods.
2. Improvement quality
3. Greater flexibility in manufacturing
4. Improved inventory management
5. Capacity expansion
6. Ensuring regular and continuous sale of finished goods
7. To make better trade-off between cost and customer service.
8. Better forecasting.

GST: Input tax credit limit on existing stock raised to support transition period sales

In a major relief to traders and businessman across the country, the GST council has increased the limit on input tax credit to 60% against excise payments from 40% earlier on items with tax rates at 18% and above without excise payment receipts, bringing some respite on sale of inventories stocked up implementation of the new tax regime on July 1. The input tax credit refund against excise on items with tax rates below 18% would remind at 40% of the total GST liability. Further, the council also ruled that entire 100% input tax credit against excise can be availed on high-value items above Rs.25000 with a chassis number. It must be noted that the input tax credit refund against is already at the full value in cases where the excise payment receipt is available. Distributors and dealer had begun cutting down on the stock of goods lying with theme ahead of the implementation of GST, as the earlier proposed rules provided for theme to claim tax credit for only up to 40% of their total

GST liability against the excise duty already paid on the goods purchased before July 1 without furnishing the original excise payment receipt.

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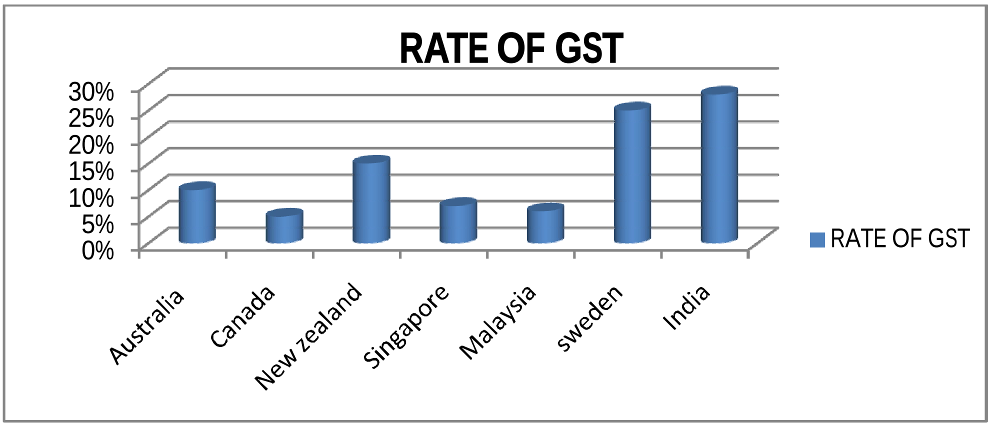
A comparison of GST rates of some countries with the proposed India GST rates is given below:

S.No.	Name of Countries	Rate of GST
1.	Australia	10%
2.	Canada	5%
3.	New Zealand	15%
4.	Singapore	7%
5.	Malaysia	6%
6.	Sweden	25%
7.	India	28%



Impact on supply chain management

The structure of the supply chain in influenced by differential taxes based on geographical location. To remove multiple state taxes, the logistics companies are encouraged consolidate their warehouses instead of maintained one in each state to avoid central tax. This effect brings down the overall cost of product as the inventory cost and inventory carrying cost down. It affects the final cost of product and during selling price down. The cost saved by the companies as a result of GST can be used to invest further to improve serviceability.

After implementing GST, the design of the supply chain will be based on customer service and logistic cost. It also offers flexibility into demand and supply watching. Firms would also enable by GST to increase the accuracy of the forecast. Bigger warehouse and smaller warehouses can be merged into one and space optimisation will be achieved.

Impact on warehousing

The location of warehouse is generally chosen to minimize the cost of delivery for both the company and the customer. Other factory considered are access arterial highways, access to highways, ports etc. for shipment and labour availability. The local state taxes are also a factor considered by companies before locating a warehouse. Some companies prefer to have warehouse in every state of the country to avoid local taxation while transporting from one location to another. With the implementation of GST, logistics companies can have restructure their warehouse locations and can have one central warehouse or can go for warehouse at specific locations or can adopt a hub and spoke model. With GST the local state taxes are eliminated and there will be only one goods and service tax across the entire country. This enables the companies to achieve cost efficiency in their operations and thereby transferring this cost benefit to the end consumer in the supply chain.

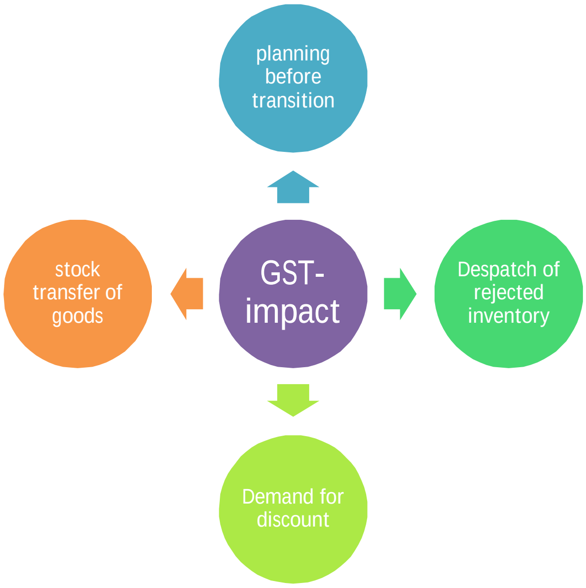
Advantages

On warehousing with respect to GST is that companies can consolidate stock at their warehouses. Demand variation at a particular warehouse can also be reduced. This in turn improves demand planning and improved inventory management.

Disadvantages

With respect to warehousing is that companies face challenges during route planning will having to deal with deliveries across a bigger geography. In case of services or deliveries which require lower lead times, the service level might be impacted

GST- IMPACT IN INVENTORY MANAGEMENT



Planning before transition

There is a need to plan time of purchase during transition phase considering the factors such as credit eligibility, entry tax levy, days of delivery etc. presently, the interstate purchases suffer 2% CST against form C with is non-creditable. During transition phase, such purchases could be delayed by maintaining appropriate stock levels. In case entity has more interstate sales, then customers could also reduce purchase volume to save on CST cost. Therefore, stock requirements to be studied well in advanced to plan for stock levels. The absence of check post would reduce the transit times also.

Despatch of rejected inventory

Rejected inventory needs to be returned to suppliers especially when the VAT input credit/ CENVAT credit has been availed on such inventory. Otherwise the benefit of tax deduction or recredit may not be eligible for the suppliers which ultimately burden the person returning the goods. Therefore, identification of inventory due for return to the suppliers is critical during transitional phase.

Demand for discount

There could arise a situation where there is a need to procure more goods before implementation of GST if such a scenario arises, quantity/trade discounts could be demanded from the suppliers which would reduce the procurement cost of supplies. Comparing the tax rates as per the present rates in indirect taxes and tax rate in GST could be necessary to decide on such purchases.

Stock transfer of goods

It is usual practise for most of the manufactures to open branches in different places either within the state or outSside the state for transport convenience or to avoid charging of CST which is non-creditable. Presently, transfer of excisable goods to other places including branches would be liable for applicable excise duties but not subject to VAT. In GST regime, all supplies including branch transfers would be subject to GST. This would have impact on cash flow. Therefore, the need for branches and level of inventory to be maintained at branches to be relooked during transitional phase.

Conclusion

GST is a win-win solution for all stakeholders. It is a key enables for increased prosperity. As the next level of logistics are the evolving in India and the corresponding regulatory policies has to be taken care well ahead of the GST introduction to have a positive and expected impact. Further, on account of the delay in implementation of GST, it is critical to gauge the opportunity loss for the various stakeholders.

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