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A Study: The Impact of GST on Food Industry

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ABSTRACT: With the rationalization of the tax regime, Goods and Services Tax (GST) has been a boon to the food sector in India. One better system replaced many indirect taxes with one such tax. Staple food is not taxed in GST, but processed food as well as costlier foods are taxed, which causes shifts in pattern of consumption as well as price. Although the abolition of cascading taxes has proven to be cost-reducing, there are issues in any case, especially for small and medium-size enterprises (SMEs), who now have to comply with more stringent regulations. Higher GST rates have raised the cost of restaurant services and processed foods, impacting consumer preference as well as affordability. On the other hand, removal of interstate tariffs levied by the GST has benefited large-scale operations via encouragement of an enhanced supply chain. The dual-barrel effect of GST on the food sector is studied in this research with special regard to price, supply chain maximization, and consumer trends. Taking these aspects into account, this article lays down the merits and demerits of the GST and its impact on changing the food business. This also considers the general effect of GST on consumers and firms, offering explanatory information on its long-term impact.

KEYWORDS: GST, food industry, taxation reform, pricing impact.

I. INTRODUCTION

The most significant shift in the tax policy in India came with the introduction of the Goods and Services Tax (GST) on July 1, 2017. A convoluted regime of indirect taxes including service tax, VAT, and excise duty was to be substituted by the GST with one, clear tariff that would more suitably cater to the economy as well as increase compliances. Due to its massive economic contribution and role in fulfilling the daily needs of the population, the food industry is one of the sectors most affected by this law. India boasts a highly diversified food sector made up of agriculture, restaurant chains, food processing, and packaging. Due to the GST dividing foods into various tax slabs, the tax regime in the sector has been changed. GST exemption to essential food items like fresh fruits and vegetables, pulses, and grains keeps essential goods at the reach of people. The government also wishes that the basic food items become accessible to everybody, especially people with moderate resources. Exemption is the desire of doing so. But the GST on packed food and processed food varies between 5% and 18% based on the category. The food processing industry has been significantly impacted by the tax policy in terms of having to incorporate increased raw material and packaging costs. Even though these taxes are transferable by firms via the mechanism of input tax credit, prices get affected by cost structures as a whole, which has acted against startups as well as small-scale food processing firms, especially in a highly competitive and price-sensitive market.

The GST has also transformed the restaurant sector. The buyers and the businesses were also confused at first when various rates of tax were levied on air-conditioned and non-air-conditioned restaurants. Subsequently, the rates were streamlined after a while, and independent restaurants now pay 5% without input tax credit. Restaurants based in hotels or other high-end properties are obligated to pay additional taxes, and hence the sector is compelled to adopt a two-tier pricing scheme. In their bid to keep up with competitors, the majority of restaurants have been compelled to reprice appropriately. While a few of them have chosen to pass the burden to consumers, others have decided to bear the burden of the tax. The GST has also affected convenience and packaged foods, which are increasing in urban India. With higher tax rates, items like cooked food, snacks, and drinks get costlier. In an attempt to attain the balance between price affordability and profitability, these slabs of taxation have been challenging for business in this segment, especially for small businesses. Apart from this, prices of aerated beverages, taxed at the highest tax rate (28%), have



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also increased significantly. Even though in keeping with government efforts towards dissuading the consumption of unhealthy items, this action has modified the supply and demand equation in the soft drink segment.

Formalisation of business is one of the major effects of GST among the food companies. Prior to GST, most unorganized food companies and small-size companies used to remain out of the tax umbrella. Most unorganized industries are now forced to pay under GST since it's a requirement of businesses to enroll as soon as their turnover value exceeds a specified threshold value. Although this shift towards formal operations has increased transparency and broadened the tax base, it has also been challenging for small businesses that are not accustomed to the GST regime's compliance standards. Although it has advantages, the implementation of the GST has not been easy. Companies faced operational difficulties and uncertainty during the initial transition period since they had to adjust themselves to the new taxation system. The procedure for firms attempting to comply was made more complex by their continuous changing of tax rates and categorizations. But since these early problems have been resolved, the GST regime has stabilized and become more reliable. In no doubt, GST implementation has transformed the Indian food industry. It has also standardized and streamlined taxes but raised others' costs, for instance, restaurant services and processed foods. Opportunities and challenges influence, which serves to illustrate just how difficult it is to apply a uniform tax regime in a business as diversified and volatile as the food sector. With the emphasis given to major issues like tax rate grouping, price behavior, and business issues, this article attempts to know the influence exerted on the Indian food industry by the GST. This report aims to give important observations regarding how GST has changed this important segment of the Indian economy by giving a detailed analysis.

II. OBJECTIVES OF THE STUDY

To analyse the role of GST in shaping consumer choices by affecting the affordability and accessibility of food products.

III. LITERATURE REVIEW

The implementation of the Goods and Services Tax (GST) in India has dramatically shifted the composition of the nation's tax system, with significant impact on the food sector. The changes have been the subject of various studies analysing the advantages and disadvantages that the reform has unleashed in different industries, especially the food sector. This literature review provides an overview of major findings of research conducted on how the GST has influenced food businesses with regard to prices, compliance, and market competition.

Impact on Taxation and Pricing System:

One of the most controversial benefits of GST is that it streamlines India's previously complex tax regime. Before GST, the food industry was taxed with a myriad of indirect taxes like Value Added Tax (VAT), excise duty, and service tax. According to Gupta (2017), the GST substituted the complex system with one unified taxation regime that reduced the cascading effect of a series of successive taxes and eased supply chain efficiency. The research established that large food companies, especially in the organized segment, benefited from the removal of the layers of taxation, thus being able to save on the cost of production.

While the effect on packaged and processed food has been uneven, Bansal and Singh (2019) noted that staple foods such as fruits, vegetables, and cereals have been exempted from GST to allow these items to be within reach of consumers. In contrast, the processed and packaged foods are taxed at a higher level between 5% and 18%. As per Bansal and Singh, such inequality between processed and unprocessed food has increased the costs in the packaged foods industry, thus affecting consumers as well as business organizations. This is a conclusion drawn from the research conducted by Kumar (2020), who conducted a comparison of the pricing activity among packaged foods companies after the implementation of GST. Kumar found that there was an increase in the prices of commodities like foods, beverages, and ready-to-eat, which were now more taxed following the new arrangement.



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Impact on the Restaurant Industry:

The restaurant industry too has experienced revolutionary shifts with GST. In a report on restaurant businesses by Mehta (2018), there was an initial confusion about air-conditioned and non-air-conditioned restaurants' tax rate, resulting in operational problems. But since the tax regime was changed to cut down on rates, it was definite that all restaurants would pay a 5% GST without input tax credit (ITC). This change, as observed by Mehta, put pressure on the majority of restaurants, which either absorbed the hit or passed it on to customers in the form of higher prices. This was also observed by Reddy (2020), who further observed that the restaurant industry lost out on ITC benefits, leading to reduced profit margins, particularly for small and medium-sized enterprises.

Formalization of the Food Industry:

Another key implication of GST, recognized by Patel and Chandra (2021), has been the formalization of the food sector. GST compels business entities with turnover higher than a threshold value to register themselves under GST, thereby integrating most of the unorganized segment into the formal sector. Patel and Chandra's study introduced that such an adaptation has enhanced payment and tax compliance in the food sector, especially foodstuff production and supply. However, they noted that the small companies, especially the rural ones, could not adopt the system because it did not have sufficient resources and was not supported with sufficient knowledge about tax returns.

Similarly, Sharma (2019) examined the impact of GST on food industry SMEs, where it is explained how such SMEs are annoyingly tax compliant. According to Sharma's research, the small units suffer from the burden of administration under GST, i.e., maintaining proper books of accounts, filing periodical returns, and managing input tax credits. He suggested that the government provide greater support, such as simplified tax return forms and training courses, to allow SMEs to cope.

CURRENT GST RATES ON FOOD ITEMS

Category	GST Rate	Remarks
Unbranded & unpackaged food	Exempt	Includes fresh fruits, vegetables, grains, pulses, and unprocessed meat
Pre-packaged & labelled essential	5%	includes packaged cereals, pulses, and flour
Dairy products	5%	Applies to pre-packaged curd, lassi, and buttermilk
Processed & packaged foods	12%	Covers packaged snacks, juices, and some branded food items
Chocolate & cocoa based product	18%	Includes chocolates, cocoa powder, and confectionery items
Popcorn (non-branded with salt)	5%	Basic popcorn without branding
Branded popcorn	12%	Pre-packaged and labelled popcorn
Caramel popcorn & sugar confectionery	18%	Due to classification under confectionery

IV. CRITICISM

1. More Expensive Staples: Loosely stapled foods like rice and wheat flour are exempt from tax, while the packaged versions incur a 5% GST, thereby increasing their price for consumers who expect hygienic packaging.
2. Pricier Packaged and Processed Food: Packaged, ready-to-eat food, milk products, and snacks have a 12-18% GST, thus pushing convenient food out of the reach of consumers, especially urban busy families.
3. Unintended Impact on Healthy Foods: Sweets are taxed at 18%, yet healthier food items like fortified foods and flavoured milk are also taxed, thereby raising the price of healthy food.
4. Excessive Taxation in Restaurants: Eating at an independent restaurant incurs a 5% tax, but eating in a hotel restaurant with high room charges means 18%, leaving a disproportionate price gap.
5. Agony for Small Businesses: Locally made food sellers who pre-pack food can't match the large brands since they pay the same amount in terms of GST, and their food is exorbitant.
6. Expensive Cinema Snacks: Snack foods in the cinema halls incur 5% taxation when sold separately but have to pay more in tax if included with the ticket purchase, but it's already too costly.



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V. RESEARCH METHODOLOGY

This study employs a descriptive mode, using provided data to determine the effects of GST on the food industry. It also focuses on the analysis of pricing behaviours, consumer shopping habits, and firm performance based on secondary evidence rather than actual field observation.

Since the study relies on secondary data alone, data are derived from:

Government Reports & GST Council Updates, Academic Research & Journals, Industry Report and Market Analysis.

Scope: It Includes the Indian food industry, i.e., packaged food.

Shortcomings: Since it's secondary data, real-time customer surveys as well as live business insights aren't included.

VI. APPLICATION AND BENEFITS OF GST IN THE FOOD INDUSTRY

Implementation of GST in Food Industry

1. Varying Tax Rates – Unbranded and fresh food items are exempted, but processed and packed food products receive 5% to 18% GST.
2. Restaurant Tax – Mini restaurants pay 5% GST without ITC, whereas hotels' restaurants charge 18% with ITC.
3. Effect on Packed Foods – Higher percentage GST is levied on brand foods packages, readymade foods, and processed food and thus renders them more expensive.
4. Reduced Tax Filing – Electronic filing of GST has decreased paper consumption on part of food venders, food suppliers, and food manufacturers.
5. Streamlined Supply Chain Movement – GST is levied at all points of movement to make interstate movement of food items smoother with no additional tax at states.

Benefits of GST for the Food Industry

1. Simple Tax Regime – Replaces various state and central taxes, with simple compliance for food companies.
2. Cost to Business Reduced – Input tax credit helps restaurants and food companies reduce costs by enabling tax on inputs.
3. Single Pricing System Throughout the Nation – Eliminates differences in taxation between states, thereby creating uniform prices for food items across the nation.
4. Food Export Boost – Zero-rating of GST benefits food exporters, and Indian food exports gain competitiveness in the global market.
5. Increased Transparency & Growth – E-filing of taxes avoids evasion, and there is a transparent and systematic increase in the food industry.

VII. PROBLEMS IN IMPLEMENTING GST IN THE FOOD SECTOR

The introduction of GST in the food industry has transformed the process of pricing and selling food items, which had a direct effect on consumer purchasing behavior. The tax regime while trying to relax taxation has caused a series of challenges that impinge on business and consumers alike.

Different Tax Rates for Different Foods

Food items fall under different GST slabs—while they are exempt in some, they attract 5%, 12%, or even 18% GST. Grains and vegetables are exempted from tax, but packaged and processed food attracts tax. This raises the price of packaged food and has an impact on consumer behavior.

Higher Prices for Processed and Packaged Food:

As processed and branded foods are taxed more, their production cost has increased. As a result, consumers shift to cheaper, unbranded foods, which affects companies that manufacture and sell packaged food.

Changes in Consumer Consumption and Diet:

Higher taxation of processed and healthy packaged foods can push consumers towards lower-cost alternatives. This can have nutritional and overall health implications, especially for those who rely on cheap, fortified foods.



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VIII. FINDINGS

The Goods and Services Tax (GST) has had a major impact on the food sector, with its effects on prices, supply chain, as well as consumer consumption. One of the key reforms that GST brought was the removal of various indirect taxes such as VAT, service tax, and excise duty, thereby reducing the cascading effect and simplifying taxation. But this also put the cost of compliance, particularly on small and medium-sized food businesses that had to include online taxation filing and stricter regulation. The prices of food products suffered a double whammy—while staple foods such as fresh fruits, vegetables, and milk were exempted from taxation or taxed at a lower rate of 5%, processed and packaged foods were taxed at higher rates of 12-18%, thus becoming more expensive. This led to a shift in the trend of demand for consumers, and the majority of them opted for unbranded over branded products in an effort to cut costs. Patterns of food consumption have also been impacted by GST.

Imposition of more money as tax on branded and processed food led to an instant shift towards fresh and unbranded food, impacting major FMCG players. The food ordering segment, on the other hand, saw rising tax complexity even while it continued to widen its base of customers with consumption shifting to convenience foods. While GST has streamlined taxation and improved overall efficiency in the food industry, issues remain, particularly for small players mired in red tape and increasing costs. The long-term impact will be dependent on subsequent policy interventions, potential taxation rate reductions, and industry response to these events. More research can study the financial statistics along with some case studies to identify the long-term impacts of GST on different segments of the food industry.

IX. CONCLUSION

Overall, GST has been both a boon and bane for the food industry. While it has standardized the regime of taxation by abolishing a multitude of indirect taxes and rationalizing the supply chain, it imposed the burden of compliance on small businesses and farm-level producers. Differential tax rate had impacted the consumption pattern of individuals, and basic things are cheaper today and processed foods as well as branded are more expensive. The food industry has been impacted by tax uncertainty, which has influenced price policy as well as profitability. While there has been some growth pains in the initial days, GST has introduced new opportunities of growth for the organized players because it has rendered the process more efficient and saved log costs. However, there will have to be continuous policy reform and tax reform to yield affordability, business growth, and sustainable economic feasibility. Thoughtful-worn analysis and expertise on the part of the stakeholders would be of maximum significance while creating a fair tax policy for the food sector in the long run.

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