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“A Study on impact of GST on Shipping & Logistics Industry”

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Abstract

The Indian Economy now stands as 6th Largest Economy in the world with a GDP. One of the most important and fastest growing sectors of the economy is Logistics Industry. With the industry contributing to 7 percent of the economy. Introduction of GST has eliminated various taxes under the indirect regime and it has allowed firms to redesign the supply-chains allowing opportunities to the Logistics Industry to increase its reach to further locations not limiting its operations to local areas. Currently, logistics industry in India is evolving rapidly and it is the interplay of infrastructure, technology and new types of service providers that will define whether the industry is able to help its customers reduce their logistics costs and provide effective services.

Keywords: GST, Shipping & logistic, Tax regime

INTRODUCTION

Logistics Sector in India is highly fragmented. Due to increased industrial activities, the India logistics industry has gained immense significance over the years and a major contributor of Indian GDP. The India logistics industry is projected to grow at CAGR of 15-20% during the financial year 2016 to the financial year 2020. The primary bottleneck in driving economic growth of this sector is due to multiple tax charged by authorities at interstate check posts. This results in high logistics costs putting extra cost burden on the customers. The logistics costs in India is high (13 per cent of GDP) as compared to developed countries (8-9 per cent of GDP). The India logistics sector is primarily categorized into four segments comprising transportation, warehousing, freight forwarding and value-added logistics.

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Saarth

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Transportation alone holds 60 per cent share of the logistics industry and rest 40 per cent is contributed by warehousing, freight forwarding and value-added logistics. GST implementation will be a game-changing event for businesses and particularly for organized logistics players. Logistics is considered to be the backbone of manufacturing and trading activities in the economy. It has a critical role to play for developing countries like India wherein consumption is growing and demand is always high.

GST (Goods and Service tax) is often referred as the single most important indirect tax reform in India. Looking at the vast size of India's economy and demography, it would not be wrong even if it is labelled as the biggest tax reform in the world. GST is one indirect tax for the whole nation, which aims to make India one unified common market. The GST subsumes most indirect taxes under a single taxation regime. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stages of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes.

Reasons for adopting GST

Our Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas.

This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. In order to simplify and rationalize indirect tax structures, Government of India attempted various tax policy reforms at different points of time. A system of VAT on services at the

Saarth

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central government level was introduced in 2002. The states collect taxes through state sales tax VAT, introduced in 2005, levied on intra-state trade and the CST on inter-state trade. Despite all the various changes the overall taxation system continues to be complex and has various exemptions.

This led to the idea of "One nation One Tax" and introduction of GST in Indian financial system. This is simply very similar to VAT which is at present applicable in most of the states and can be termed as National level VAT on Goods and Services with only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same.

OVERVIEW OF INDIAN LOGISTIC INDUSTRY:

The Indian logistic industry is expected to grow steadily, led by e-commerce penetration, economy revival, proposed GST implementation and government initiatives like "Make in India", National Integrated Logistic Policy, 100% FDI in warehouses, food storage facilities. Furthermore, with respect to India's GDP growth the logistics industry is expected to grow at 1-1.5x as logistics business is directly correlated with economic activity. Despite these reasons, the logistic sector in India remains entangled in several complexities which primarily includes higher logistic costs and complex tax structure. The implementation of Goods and Service Tax (GST) bill is expected to trim the logistic costs up to 20% from the current levels, however, the persisting high logistic costs could only be resolved by development of logistics infrastructure.

The transportation which contributes maximum to the whole pie of logistic sector comprises various means such as road, rail, air and water. India being emerging country with prime dependency upon transportation through land, i.e. through road and rail together which contributes about 60% followed by Warehousing 24.5% compromising industrial and agricultural storage. The current article delineates upon the complex tax structure issue faced by the logistic industry and the benefits that this industry would derive upon implementation of GST, thus providing respite to certain extent to the industry.

Saarth

E-Journal of Research

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ADVANTAGES OF GST TO LOGISTIC COMPANIES

Cost / Time Saving

Bigger warehouses and end market driven logistics planning is likely to result in meaningful costs savings over time. On account of entry taxes and heavy paper work at state check posts, there is an additional 5-7 hours added to the transit time for inter-state transport of goods. Abolishment of entry tax and easier tax compliance procedures is likely result in easier movement of goods across the country.

Forward Integration

As these companies gather scale, that will enable them to offer services at lower costs. As a result, companies for whom transportation is not a core part of their business will increasingly outsource their logistics operations to third party logistics (3PL) and fourth party logistics (4PL) service providers.

Single Rate

Standard tax rates will allow corporations to move away from the practice of building a warehouse in different states to adhere to each state's tax code. A big packaged consumer goods company could thus make do with one large mother warehouse at critical points in the country and employ logistics companies to manage distribution and supply chains.

LITERATURE REVIEW

In International Journal of Pure and Applied Mathematics, Volume 120 No. 5 2018, 3635-3642, an article was published regarding “GST AND ITS IMPACT ON LOGISTICS INDUSTRY IN INDIA -AN ECONOMIC ANALYSIS”

Sivashankari K & Kirubakaran K have identified that The Indian logistics industry is required to develop relentlessly. In any case, the logistics costs in India are high when contrasted with created nations. This is basically because of complex duty structure and poor foundation. As of now the cargo that moves the nation over is saddled different circumstances. So this paper is an examination of what the effect of Goods and Service Tax (GST) will be on Logistics Sector in India principally in Transportation, Warehousing and Logistics Service Providers. Catchphrases: GST, Freight Forwarding, Logistics Service Providers.

Saarth

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In International Journal of Innovative Research in Management Studies, Volume 2, Issue 8, September 2017, the research paper was published regarding “IMPACT OF GST ON INDIAN LOGISTICS SECTOR”

V.Jothi Francina, Dr.K.Selvavinayagam & R.K.Pradeep have studied that Goods and service tax is a colligation of multiple taxes levied by both Central (i.e., excise duty, countervailing duty and service tax) and state (Value-added tax, Octroi and entry tax, luxury tax, etc.) governments when an end-user purchases goods or services. It means same level of taxation would be charged on a specific product or service across the entire country irrespective of being manufactured and sold in different states. Logistics is generally the detailed organization and implementation of a complex operation. In a general business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. This paper is an analysis of what the impact of Goods and Service Tax (GST) is on Logistics Sector in India primarily in Transportation, Warehousing and Logistics Service Providers.

In IOSR Journal of Business and Management (IOSR-JBM), e-ISSN: 2278-487X, p-ISSN: 2319-7668, a research paper was published regarding “A Study on Impact of GST in Indian Logistics”

Nandgopal P & Vijay K Rajan have studied that The goods and services are divided into five tax plates to collect taxes - 0%, 5%, 12%, 18% and 28%. Oil and alcohol products are taxed separately by individual state governments. There is a special ratio of 0.25% on semi-precious stones and 3% on gold. In addition, 22% or other rates are higher than 28% of sales tax applicable to certain items such as soft drinks, luxury cars and tobacco products. Before GST, the legal tax rate for most goods was about 26.5%, after GST, most of the goods are expected in the tax range 18% Logistics in general is the detailed implementation of a complicated process. In general, logistics is the management of the flow of objects between the starting point and the point of usage to fulfill the needs of companies or customers. Resources managed in logistics can include material items such as food, materials, animals, tools and fluids. As well as abstract elements, such as time and information. Logistics usually

Saarth

E-Journal of Research

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includes physical material, information flow integration, material handling, production, packaging, inventory, transport, storage, and safety.

In Research Review International Journal of Multidisciplinary, Volume-04, Issue-03, March-2019, and the research paper was published on “Impact of GST on Various Sectors of Indian Economy”

Nidhi Garg has studied that GST is an indirect or consumption tax levied in India on the supply of goods and services. It is considered as the biggest tax reform in India since independence. The main purpose of implementation of GST is to bring whole country under the single tax so that the double taxation or cascading effect of taxes may be removed. It is an effort by government of India to move the taxation structure of economy to the destination based consumption tax. GST has replaced several taxes like central excise duty, service taxes, entertainment taxes, VAT, central sales tax, octroi, luxury tax, state surcharge and several other surcharges on supply of goods and services. This paper will focus on the concept of GST, its features and its impact on several sectors of Indian economy. Data has been collected from the several secondary sources like research papers, books, journals and websites.

RESEARCH OBJECTIVES

- To understand the concept of goods and service tax
- To find out short effect of GST on Shipping and logistic industry.
- To study benefits and limitation of GST on various sectors of Indian economy.

RESEARCH DESIGN DATA COLLECTION

This article is descriptive in nature as it describes the impact of GST on several sectors of Indian economy.

DATA COLLECTION

The data for the research paper can be collected through several secondary sources like magazines, articles and research papers published online and offline, newspapers and websites.

Saarth

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IMPACT OF GST ON LOGISTIC AND SHIPPING INDUSTRY

The planned GST system seeks to replace several state and federal taxes and tariffs for a single tax at the point of sale. The prevailing complicated tax structure in India meant that logistics decisions, including the choice of setting up inventory and distribution centres, are taken on the basis of tax regime such as Central Sales Tax and State Value- Added Tax (VAT) rates, rather than on operational efficiency. Tax optimisation and administration is often considered over the operational and logistics efficiency.

GST is all set to unleash a new era of developing logistics infrastructure and take investments to the next level. Given that the inefficient and longer supply chains with warehouses in almost every state is fiscally preferred in the existing regime, it will now overhaul and compress the entire logistics set-up.

HOW THE INTRODUCTION OF GOODS AND SERVICE TAX (GST) WOULD BENEFIT THE INDIAN LOGISTIC INDUSTRY?

The planned dual GST model (central GST and state GST) proposes to replace around 29 state and federal taxes and tariffs for a single tax at the point of sale. The current combined Centre and State statutory rate for most goods works out to be 26.5% (CENVAT of 14%, and VAT of 12.5%), whereas post GST implementation the same is expected to reduce to standard rate of about 18-21% which will be levied on most goods and all services.

The proposed goods and services tax (GST) will help companies reduce logistics cost by redesigning their supply chains with four key structural changes

- India becomes one big market, there will be fewer and larger warehouses.
- GST will result in larger trucks on road while the overall number of vehicles will go down. The new tax will result in greater adoption of a hub-and-spoke model in segments such as warehousing, cold chain, container freight stations and inland container depots.
- GST will also bring in scale to logistics companies as there will be a lot of savings, stoppage of wastage and lower delays,
- These above changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations.]

Saarth

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Transportation & logistics Includes:

- Transportation & logistics is a much wider term. It covers various service providers and services provided by all modes of transportation (e.g., air, road, rail and sea).
- It also comprises related services such as warehousing, handling and value added services such as packaging, labelling, assembling etc.
- Transport service is used both as intermediate input and in final consumption.
- 60% of logistics in India moves by road and time spent at interstate check posts due to difference in taxes between states accounts to idle time (60% of total journey time) which will get eliminated in GST regime. Hence, transport time would reduce by 30-40% and transport costs by 20-30% leading to fall in prices by 3-4%.
- Petroleum products are kept outside the scope of GST currently, and since nearly 50% of all goods transported is motor spirit, some of the benefits of GST may not reach end customer. Also, the reverse charge mechanism applicable to GTA (Goods Transport Agencies) would continue under GST.

Major Changes Expected in Transportation and Logistics due to GST

Consolidated Warehousing:

Industry players could consolidate their warehouses and set up larger facilities, which would bring in supply-chain efficiencies. Current supply-chain models have to depend more on tax considerations instead of the more logical operational considerations. Tax rationalization is also likely to increase third-party outsourcing for logistics and lead to companies focusing more on their core competencies.

Improved efficiencies due to reduction of trade barriers

With the removal of trade barriers, the downtime of vehicles (check-post inspection, filing of waybills/entry permits, compliances under entry tax laws, and local levies) is likely to reduce. After GST, interstate movement of goods will be subject to IGST, under which all movements will be 'tax paid'. Additionally, the GSTN will have an audit trail of the movement of goods across state boundaries, which would lead to optimization of delivery schedules and operational costs of transporters, resulting in competitive pricing.

Shift in sourcing and manufacturing decisions

Saarth

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Currently sourcing and manufacturing decisions are dependent on indirect tax considerations. Under the GST regime, due to fungibility of credits, these decisions will be made from a supply-chain perspective – which will lead to logistics hubs in new locations. Free-flowing movement of goods across the country would result in logistics players gaining larger volumes and nationwide contracts from clients. To fulfil large and long-distance consignments in the new scenario, logistics players would need a significantly larger share of heavy trucks (20+ tonnes); they would also need mini trucks for efficient last-mile delivery. Currently most logistics service providers have a large share of medium-sized trucks in their fleet and a very low share of large truck-trailers or small trucks.

Ecommerce and Free Trade Warehousing Zones (FTWZ)

Under the present indirect tax regime, the ecommerce industry is facing significant challenges in terms of VAT payments in destination states. Clear guidelines on the taxability of ecommerce transactions would provide much-needed relief to the ecommerce industry. If GST extends benefits of tax-free supply to an FTWZ unit for onward exports, these units will be able to attract significant volumes.

Logistics is considered to be the backbone of manufacturing and trading activities in the economy. It has a critical role to play for developing countries like India wherein consumption is growing and demand is always high. We can fairly assume that a well organized and mature logistics industry has the potential to leapfrog the “Make In India” initiative of the Government of India to its desired position. In simple words, logistics can be considered as the movement of goods from its point of origin to the point of consumption. A well planned logistics and supply chain ensures delivery of right items in right quantities at the right time to the right place for the right price in the right condition to the right customer. And if not well managed, everything goes for a toss. The stakes remain high for both consumer and supplier.

logistics players in India have been maintaining multiple warehouses across states to avoid CST levy and state entry taxes. Most of these warehouses are operating below their capacity and thus adding to their operational inefficiencies. However, once GST sees the light

Saarth

E-Journal of Research

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of the day, most of the current challenges of this industry will be a story of the past as India will become one single market wherein goods can move freely inter-state without any levy. This will further bring warehouse consolidation across the country and we can witness mega logistic hubs and high investments in infrastructure wherein 100% FDI(Foreign has already been allowed).

Conclusion

From the above analysis, it is clear that the implementation of GST will have a significant impact on logistics sector in India. If GST is properly implemented, then it will have a double positive impact on the logistics industry that is logistics costs will come down and logistics efficiency will increase both within India and exports. So, the main objective of logistics management, that is customer satisfaction at least logistics costs, will be achieved with the implementation of GST. The GST implementation will also lead to emergence of organized service providers since taxes will not be added costs for the business. In the current scenario, the logistics sector is a highly fragmented industry with very few large organized players.