R.Tulsian & Co.
CHARTERED ACCOUNTANTS

Goods and Services Tax

- Transport and logistics (T&L) sector

Shashwat Tulsian, Partner

I am a Qualified Chartered Accountant, Lawyer and Company Secretary. As a result, I have a unique ability to manage multi-disciplinary projects and to navigate complex challenges. I have helped work on more than 5000 such projects for multinationals over the last few years.

"Logistics Management is a fast growing Global industry .The growing warehousing industry has created huge opportunities. It is up to the government, policymakers and private players to tap this opportunity and accelerate the growth rate of logistics industry. Proactive efforts will create a 'first-mover' advantage in the T&L sector and that needs GST implementation."

Nisha Kulthia, Partner

I am a Qualified Chartered Accountant,Company Secretary. I like to think strategically and i'm driven to help businesses solving their financial and taxation needs. I also like to add value to research on economy and industry Analysis and its impact on business.

"Supply chain design will be based on 'demand management and logistical benefits' rather than 'tax costs'. I would recommend contacting your CA for understanding the impact of GST and plan accordingly."

What is the GST?

GST is a 'destination-based' tax, which means it's charged where goods are consumed, as opposed to where they are produced.
Because it shifts the power that several Indian states have had in imposing indirect taxes on the production and movement, a centralised GST Council has been set up that will decide which taxes will fall in the purview of states and which can be subsumed into the GST.

WHY GST?

We have always heard that 'Business drives tax, and not the other way round'. However, in the Indian context, indirect taxes have driven businesses to re-structure and model their supply chain, systems etc. owing to multiplicity of taxes and costs involved.

Rate?

The exact tax rate has not yet been determined, but is likely to be 17-18%. A new Council, composed of the Union Finance Minister, Union Minister of State for Revenue, and State Finance Ministers, will recommend rates, levy period of additional tax, principles of supply, and special provisions.

What is GST Bill ?

The full form of GST is Goods and Service tax. So, it is also called as Good and Service Tax bill. GST is a tax levied when consumer buys any good or service. There are three components of GST-

- *Central GST (CGST) – it will be Levied by Centre*
- *State GST (SGST) – It will be levied by State*
- *Integrated GST (IGST) – It will be levied by Central Government on Intestate supply of Good and Services*

GST Network (GSTN)

A Special Purpose Vehicle (SPV) has been set up to provide shared IT infrastructure and services to the Central Government and state governments, tax payers and other stakeholders for implementation of GST.

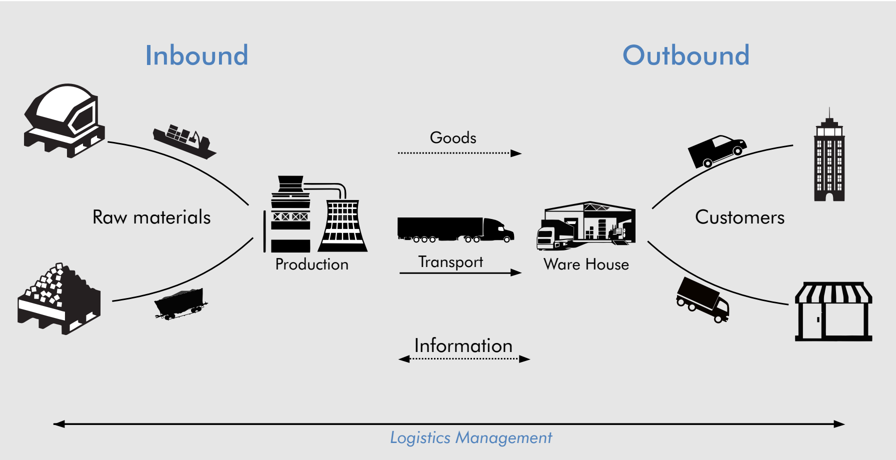
Logistics- supply chain services

The Indian logistics market has evolved from traditional transport companies to a full-fledged logistics service provider, which offers various supply chain services

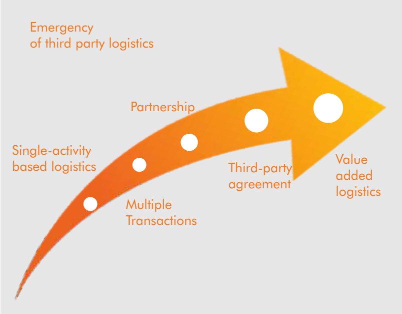
- Transportation
- warehousing
- Distribution
- other value additions.

Logistics Management

Logistics management is concerned with getting the Right product, in the Right quantity, in the Right condition, to the Right place, at the Right time, to the Right Customer and at the Right cost.



Third-party logistics (3PL)



Trend changed towards providing **customised services** and started being **outsourced** to specialised, organised players players in the industry.

Reasons- organised players in Logistics (3PL)

Outsourcing of manufacturing activity: India has become a manufacturing hub for most industries. The main reasons for this are increasing domestic consumption and the cost-effectiveness of outsourcing manufacturing activities. Some industries have gained tremendous traction over the last few years, cashing in on the ongoing trend of the economy. These include the following:

- Automotive
- Retail
- Pharmaceutical
- Agriculture

- Entry of global organised players in the retail sector.
- Development of improved international trade activities.
- Changing customer choices and global competition.

In a way this has put the pressure on managing costs to cut down on direct material costs, administrative costs and have tried streamlining internal production processes.

Note: *It has been observed that the maximum cost savings can be achieved by managing the supply chain efficiently*

Definition of 'Supply' for those in the Business of Supply(The Logistics)

Most logistics companies operate in several models, which includes:

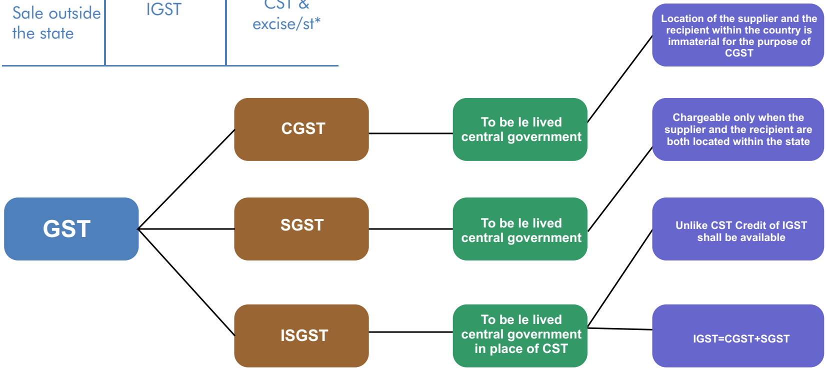
- End to End Supply Model
- Warehouse + Supply Model
- Manufacturing + Storage + Supply Model

Note:*All of these models include the supply of goods (being the primary objective of the industry).*

Current Taxable Event: manufacture, sale of goods or provision of service

Taxable event under the GST: Mere 'supply' of goods and services.

Transaction	NEW system	OLD system
Sale within the state	SGST and CGST	Vat & excise/st*
Sale outside the state	IGST	CST & excise/st*



New tax policies to reduce supply chain costs

The government has introduced good tax structures to reduce supply chain costs and also to encourage the participation of private players in the system.

- Octroi was one of the traditional taxes introduced by the government.
- The overall tax on the supply of indigenous goods is approximately 29.37%. With the implementation of GST, the RNR rate will be much lower than the present tax rates on goods. This will lead to a lower tax burden for consumers.
- On account of seamless credits, the issue of tax cascading will be minimised to a large extent (with certain exceptions). Procurement costs may be reduced on account of reduction of non-creditable taxes. This will make the Indian industry competitive.

Improved efficiencies due to reduction of trade barriers
One of the factors leading to the downtime of vehicles is trade barriers, such as
check-post inspection,
filing of waybills/entry permits,
compliances under Entry Tax laws and local levies.

Under the GST regime:

1. The interstate movement of goods will be subject to IGST, wherein all movements will be 'tax paid'.
2. Additionally, the GSTN will have an audit trail of the movement of goods across the state boundaries. Representation by the industry should be made to the government for the removal of check-post related compliances. This will lead to optimisation of delivery schedules and the operational costs of transporters, resulting in competitive pricing.

Anticipation: In the medium-to-long term, the Indian industry will be able to migrate to an efficient supply chain model as against the present supply chain model, which is dependent on tax considerations vis-à-vis operational considerations.

GST and what it means for the T&L sector

Re-evaluation of sourcing and manufacturing decisions

Among other factors, sourcing and manufacturing decisions are presently dependent on indirect tax considerations. In the GST regime, due to fungibility of credits, these decisions shall be made from a supply chain perspective.

Consolidation of warehouses

GST presents an opportunity for industry players to consolidate their warehouses and set up larger facilities, which will bring in supply chain efficiencies.

Courier Service vs Goods Transport Agency (GTA)

The perennial question among various logistics service providers would be whether to classify themselves and their services under the bucket of Courier Services or Goods Transport Agencies. Although both of them fall within the service tax regime, the complex CENVAT Credit rules and procedures applicable on GTA services may influence services providers to avoid classifying themselves as GTA services. In addition, the requirements of issuing a consignment note and the applicability of the reverse charge mechanism for payment of service tax are differentiating factors pertaining to GTA services. The transport industry also enjoys certain thresholds/exemptions, which could be done away with in the GST regime.

E-commerce

Current Tax System: Disputes exist with respect to payment of VAT in the **destination states**.
Some of the states have also levied **entry tax** on e-commerce goods.
Further, the industry has also faced significant bottlenecks due to scrutiny at **check posts.**

Expected Under GST : single unified market across India and allow free movement and supply of goods in every part of the country

Negative
The tax collection at source (TCS) guidelines in the GST regime will increase administration, documentation workload for ecommerce firms and push up costs.

Exemption on Petroleum

“Drawback for the logistics industry under GST”

Although GST brings a sense of respite for the logistics industry, there is one major drawback – keeping petroleum outside the purview of GST. If corrected in time, this could give the logistics industry another reason to appreciate the GST regime.

Issues to be addressed under GST

Shipping and freight forwarding

- Currently (with effect from 1 June 2016), inbound international freight is taxable whereas outbound international freight is zero rated. Under the GST regime, international freight (inbound and outbound) should be zero rated so as to enable service providers to avail the benefit of credit on inputs and input services. This will be in accordance with international practices adopted in Canada, Singapore, the UK and EU.

- It is expected that abatements may continue for domestic transportation services. In composite logistics contracts, where the same is treated as a bundled service, the benefit of abatements may not be available to the service provider. This may create competitive issues where customers opt to contract with individual service providers enjoying the said abatements. Clarity should be provided on whether the benefit of abatements is given even in composite contracts.

- Ancillary services used for the export of goods should also be afforded the same treatment as international freight, i.e. zero rating. This will be in accordance with international practices adopted in Canada, Singapore, the UK and EU.

- Non-taxability of freight rebate earned on account of the difference between purchase and sale of freight should be clarified under the GST regime.

Logistics service provider

- To incentivise the logistics sector in India, lower GST rates for capital equipment, inputs and input services for setting up warehouses and other infrastructure should be provided.

- Current exemptions extended to FTWZ should be extended under the GST regime. Supplies to an FTWZ should be zero rated.

- Check posts and waybills should be eliminated under the GST regime.

Express industry

- For services rendered to the e-commerce industry, it needs to be clarified whether the vendor or the marketplace will be liable to GST.

- Clarity should be provided on the place of supply in the case of e-commerce transactions.

- Issue of taxability of delivery of goods to and from Jammu and Kashmir (J&K) to be clarified.

Aviation industry

- International freight should be zero rated.
- Ancillary services for export should be zero rated.
- Aviation turbine fuel (ATF) is excluded from the purview of GST for two years after the implementation of GST. ATF credit should be allowed under the GST regime to freight carriers.
- Exemptions for maintenance, repair and overhaul (MRO) service providers available under the present regime should be continued.

Actions that logistics service providers need to undertake

Identify focus industry's immediate needs post GST implementation

Develop technology capabilities and processes to adhere to **new tax credit** system

GST will entail a new set of compliance requirements for which new development of IT needs.

Explore 3PL/4PL opportunities.

References

- http://www.cii.in/Publications.aspx?enc=fSTC8XiYaIuWcrOJ/n1U2Q==
- CII Institute of Logistics

About RTC

R.Tulsian and Co. LLP is a full services multinational chartered accountancy and legal services firm having its head quarters in India. We have a multinational presence with clients in USA, Europe and Australia. We also have a strong PAN India presence in important strategic locations including Kolkata, New Delhi, Bangalore, Mumbai and Gujarat, North East India, among other places.

Our practice is more than 60 years old and our services include Tax advisory and compliance including Direct and Indirect taxation,International transactions including Cross Border Transactions and Structuring, Accounting, Bookkeeping, Payroll,Transaction Advisory services, Auditing, Corporate Laws including Companies Act and other allied laws, consulting with FEMA laws and RBI laws, Due Diligence, Risk Management and Mitigation, Outsourcing services and Business development.

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