

Impact of GST on Logistic Sector in India

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Abstract

Logistic sector plays a very significant role in the development of our nation. The Indian Logistics industry is expected to grow steadily. But The Logistics costs in India are high when compared to developed countries. This is primarily due to complex tax structure and poor infrastructure. Currently the freight that moves across the country is taxed multiple times. So this paper is an analysis of what the impact of Goods and Service Tax will be on Logistic Sector in India primarily in Transportation, Warehousing and Logistics Service Providers.

Keywords: GST, Freight Forwarding, Logistics Service Providers

I. Introduction

The logistics sector broadly comprises the road transport sector (consisting of unorganized small businesses, trucking, fleets and large transport companies), the storage and warehousing sector and finally third-party logistics (3PL). These can be further classified into big and small players and asset heavy/light companies. Given this classification, comparing industry performance as a whole is a complicated exercise. We tackle this by analysing data pertaining to 166 companies during 2010-2015 from the Centre for Monitoring Indian Economy (CMIE)'s industrial database to arrive at some useful insights into the industry's performance. We look at two key performance measures—profit after tax (PAT) as percentage of income and profit before interest, taxes, depreciation and amortization (PBITDA) as percentage of income. Between 2010 and 2015, PAT has declined for all sub sectors and shows volatility for the logistics and the storage sector (see graphic). PBITDA is an important measure that reflects operating efficiency and ranges between a low of 7% for the road transport sector to a high of approximately 20% for the storage sector. There is considerable variation between the sub-segments as well as within them, as can be seen from. Operational efficiency could have been falling for a variety of reasons, heavily affecting overall transportation costs as the logistics sector has been traditionally beset with several problems. This includes complicated networks, increasing coordination costs across the supply chain coupled with deficient infrastructure, entry taxes and poor vehicle-load-carrying capacities, resulting in delays and damages. Additionally, the myriad number of taxes had made logistics a cumbersome and costly process. Logistics firms had responded by installing hubs and transit points in many

states to avoid the state value added tax (VAT)—goods directly supplied to dealers attract state VAT whereas transfer from warehouse is treated as stock transfer and do not—and also take advantage of demand seasonality across the country. However, this resulted in further complications and a lack of clarity for businesses, leading to allegations of tax evasion. The e-commerce space with its marketplace model has particularly been at the receiving end of these complaints. Recently, the Karnataka tax department pulled up Amazon for allowing sellers to register fulfilment centres as additional place of business. This led to the state cancelling the licences of many small merchants registered on Amazon. The e-commerce companies, on the other hand, complain that laws have not kept pace with new-age business models. This has also led to states such as Telangana wooing companies by promising streamlined and transparent taxation policies.

II. Literature Review

GST Impact on Logistics Industry

The result of 17 tumultuous years has been viewed by the entire world on the midnight of June 30. Bringing together 1.3 billion people and USD 2 trillion economy, the impact of GST on Logistics Sector in India is nothing less than magnanimous. By replacing over a dozen Central and State Taxes, Goods and Services Tax is the country's biggest tax reform in the last 70 years of Independence. According to the economists, this reform will make way for the modernization of Asia's third-largest economy in the years to come. Before GST, the transportation of goods across the state borders was levied with different tax rates. The goods were examined by the state authorities and then levied with appropriate duty on freight which was a cumbersome and time taking process. This usually caused delays in deliveries and called for heavy documentation. With GST, single tax is being charged on the manufacture, sale and consumption of goods throughout the country. The main aim of having a unified indirect taxation system is achieved with the rollout of this bill, making India a unified common market. Based on the method of Input Tax Credit, Goods and Services Tax is collected at every stage of purchase or sale of goods and services. The interstate transportation of goods has improved and become easier, simplified and more efficient with this new regime. According to a report by the World Bank, in comparison with the global benchmarks, transportation in India used to take more than the optimal time making logistics cost double, sometimes even triple, as much. In a nutshell, about 13% of the GDP is made up by the cost of logistics in India. This figure can be compared with other western countries where logistics cost is about 8%.

GST Impact on Freight Forwarding

Goods and Services Tax has curbed the taxes involved in interstate and intrastate sales. This has not only made way for the structural re-engineering of the network of logistics but has also expelled the previously existing ineptness. The list of benefits of this Bill for the freight

and logistics network is endless. Seamlessness in function, more competent and efficient cross-state transportation, lesser paperwork and reduction in costs are just a few to name. The savings on time comes as a bonus benefit of this Bill. Not only transportation, the problem of duality of taxes on transactions such as leasing of equipment's and goods has also been eliminated. As a result of the uniformity in tax rates across states, the consolidation of warehouses with a simultaneous elimination of smaller warehouses is encouraged. This would indirectly boost the freight and logistics sector in the long run as the supply chain systems will be improved. However, as fuel makes the major component and cost of this sector, a rise in the prices of fuel has added cost to the whole supply chain. This could be a problem for at least the initial years. Also, electronic permits might come around as a burden on the conduct of business. Hence, it is immensely important to keep a close eye on the aspects of valuation of services. It is important to judge the applicable place of supply to a given transaction, which is another sensitive spot for the industry.

Impact of GST on supply chain

Current Issues and challenges in the freight and logistics industry

The cost of logistic in India is higher than many western countries around the globe because of multiple issues and reasons. Amongst many issues, the major ones include a complex system of taxation and a poor rate of customs efficiency. These issues affect the international export logistics stratum making the industry more expensive and complex. Moreover, the lack of exercise of efficient IT -enabled tracking and tracing mechanisms and the low support and comfort from the existing Indian infrastructure has, over the period of time, negatively impacted the performance of this industry.

Previously, all of India's states used to levy different rates of tax on goods that cross their borders. This shows that the movement of freight across the country was taxed multiple times. With the Goods and Services tax in action, the taxes levied by the Central (i.e., excise duty, countervailing duty and service tax) and State (Value -added tax, Octroy and entry tax, luxury tax, etc.) governments are replaced by a single tax. In other words, on a specific product or service, the same level of taxation is levied across the entire country, irrespective of it being manufactured and sold in another state. The previous rate for most goods was 26.5% which included Cen vat of 14% and VAT of 12.5%. However, with GST, this has been reduced to a fixed rate ranging between 18-21%

Post GST Logistic Industry Model

The post-GST Logistic Industry Model depicts the following structural changes:

- A large number of warehouses have become fewer and larger making India one big market.
- The overall number of vehicles involved in transportation have depreciated. However, the size of the vehicles might increase eventually as a result of the adoption of the

hub-and-spoke model in segments such as warehousing, container freight stations and inland container depots.

- This new regime has led to a lot of savings, stoppage of wastage and fewer instances of delays.
- The involvement of companies in logistic operations will eventually increase manifold as a result of greater economies of scale for transport operators.

Advantages of GST to Logistic Companies

- **Cost and Time Saving** – GST has led to saving a lot of time and cost for this industry as the new regime has made way for bigger warehouses and logistics planning that is end-market driven. During the transportation of goods via state borders, the addition of 5-7 hours due to entry taxes and cumbersome paperwork at check posts has been cut down. One can now expect easier movement of goods across the country and timely deliveries as a result of abolishment of multiple taxes in the procedure.
- **Forward Integration** – Customers can look forward to services at lower costs as the companies that do not consider transportation as an integral part of their function will now outsource their goods to third party logistics and fourth party logistics service providers.
- **Single Rate** – As the the companies now bear a single tax rate across the states, the practice of building multiple warehouses is discouraged. Hence, companies can now focus on sticking to one large warehouse on important locations in the country and make use of logistics companies to manage distribution and supply chains. This practice would save time, effort and cost simultaneously.

III. Methodology

The Sector's Growth and Evolution

Logistics companies in India have evolved over the years from being meagre first-party logistics providers (1PL) to second-party logistics providers (2PL) to integrated fourth-party logistics providers (4PL) by providing a complete package of logistics services, including transportation, warehousing, pool distribution, packaging solutions, inventory management, management consulting, logistics optimization, last-mile delivery etc. and complementing them with advanced supply chain facilities. The Indian logistics industry is continually growing at a rate of 15 per cent. With over seven million goods vehicles moving around the country, the freight volume has reached 1,325 billion ton per km, a figure that is supposed to double by 2025. However, as a nation, we spend almost 14 percent of our GDP on transportation and logistics, whereas in developed countries the spend is around 6-8 percent.

GST Could Help the Logistics Industry Reach its Potential

The Goods and Service Tax (GST) promises to integrate India's multi-layered indirect tax system into a single unified one, unshackling India from its bureaucratic web and improving the ease of doing business. The changes in the proposed indirect tax system could reduce transportation cycle times, enhance supply chain decisions, lead to consolidation of warehouses, etc. which could help the logistics industry reach its potential in terms of matching high-quality service levels and growth. In this article, we look at the various aspects of the logistics industry that may be affected by GST, and how industry dynamics are likely to change once GST is implemented.

Improvement in Transit Times

Road transportation is the most preferred and economical way to transit bulk goods, however, the Indian road transportation industry is heavily unorganized and there are a lot of in-transit delays incurred due to various regulatory impediments, especially at the state borders. These unproductive transit hours coupled with the regulatory hassles reduce the efficiency of logistics service providers compared to their international counterparts. Having a unified market under the new GST regime would assist the smooth flow of goods within the country as India will become a seamless market without any difference in the interstate or intrastate market.

Although, border checkpoints may not be done away with immediately, however, reduced compliance scrutiny at these checkpoints will reduce transport hassles. This change will enable logistics companies to deliver goods more efficiently and optimize delivery timelines and improve capacity utilization. The reduction in delivery timelines would also lead to a certain remodelling of the current transportation structures. Service providers would be incentivised to leverage hub-and-spoke supply chain networks by operating large central warehouses and remodelling transportation routes.

Reduced Paperwork and Consolidation

In a unified taxation structure, a lot of taxes will be subsumed such as entry tax, OCTROI will be removed. Removal of such taxes will definitely ease the burden of paperwork on the logistics service providers. There are a lot of instances where-in vehicles are trapped at the border due to issues with state specific documentation; moreover, logistics service providers need to have specific registration for certain states. A single tax window will unburden the logistics players from such processes and will facilitate quick movement of vehicles across borders. A major impact of GST will be the consolidation of smaller stock-transfer

warehouses into large warehouses in seven major pockets of the country. This will lead to a reduction of overall logistics costs and lead to increased business volumes, which in turn will help boost the GDP drastically.

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 leads 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. The unorganized sector would have to shape up and join hands with the organized players for setting up economies of scale. In a nut shell, the successful implementation of GST could reduce transportation cycle times, enhance supply chain decisions, lead to consolidation of warehouses etc. which could help logistics reach its potential in terms of service and growth. So it will be great boom for the logistics sector which leading to accelerated economic growth

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