

The 'logic' of GST in the logistics sector:

Even though the Goods and Service Tax (GST) regime has had a bright side for the logistics industry, there are some worrying trends observed as well. CARGOTALK explores the impact of GST on logistics and freight forwarding business that has had a significant share in the economy.



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Following the roll-out of Goods and Services Tax (GST), it has been observed a number of times on how the logistics sector has become the most beneficial one with reduction in logistics cost, warehouse consolidation, simplified tax structure, to name a few. The list of benefits of this Bill for the freight and logistics network is endless.

Despite the number of benefits, what is worrisome is that the industry shall lose some ₹20,000 crore international freight forwarding business to international competitors because of a tax parity issue, according to estimates. Freight forwarders, who act as an intermediary between the client and various transportation services, discuss their pain points and share pertinent recommendations to the government.

Bharat J Thakkar, Past President and Permanent Member - Board of Adviser, ACAAI and Co-Founder & Joint Managing Director, Zeus Air Services, says, "The current system of Cenva Credit is not the finest system since there are artificial restrictions and the credit is not available on services used for construction of offices or warehouses. It is unfortunate that the same artificial restrictions find place through Section 16(5) of the CGST Act. If services are used and consumed in different states, there is a possibility of accumulation of SGST credits in different states. The whole objective of GST would be lost if a service provider is not in a position to avail and utilise the credits. Credits should be capable of easy distribution and should be available for set-off or refund claim based on the single PAN based registration of one central location."

Rajiv Sachdeva, Managing Director, Rahat Continental, shares, "This is a very big loss to the entire community. Implementation of GST, especially in freight,



has gone against the 'Make in India' campaign where in the consumer saves revenue by not importing products and rather manufactures them locally and eventually pays GST equivalent or more than the importation saving. It's already been six months since GST has been implemented and the government should reevaluate their decision."

Pushendra Pratap Singh, Chief Commercial Officer, Eusu Logistics, explains, "As per the recent implementation of the IGST and GST by the government, Section 13(9) of GST Act 2017 directs the freight forwarding companies to levy GST on all shipments to India, whereas, the disturbing part is that the overseas companies are free from taxation. This simply gives a cushion to the competitors; those who want to export or import goods from India would prefer overseas companies as there is no liability of GST/IGST rather than the Indian companies who are bound with the taxes. The reason overseas suppliers to India prefer Indian freight forwarders is the fact of their familiarity with the Indian customs procedures which is somewhat quite different from other countries, documentation and other related formalities. That



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is why there has been a growth, a feel of increase if we look at the last eight to 10 years of trade. But with the GST coming into the picture, as the overseas companies are unable to claim the input credit, they are preferring our competitors from overseas companies and have stopped preferring Indian freight vendors. This certainly pushes the Indian logistics as well as Indian freight forwarders on the back seat. Simply put,

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we are getting elbowed by overseas companies."

"Here we also must look at an additional loss due to the IGST which attracts a tax on services covering the goods, other value-added service like packaging/handling/labeling etc thereby, making our service costlier. All these aspects certainly are going to affect the growth of the industry as well as will affect our bottom line," he continues. Sharing

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the recommendations, Thakkar adds, "The credit should be based on the invoice raised by the service provider without insisting on the matching of invoice data through the systems. Further, the central location which is allowed a single registration should be allowed to take all credits in that location. Wherever service providers provide services with reference to logistics such as transport, warehouse, transit warehouse, go-down,

CFS, customs broking, etc. the billing address of the service receiver should be considered as the place of supply."

Secondly, on the advance issue, Thakkar explains, "The GST law contemplates tax on advances for supply of goods or services. In our business, in most cases, we have to remit the service charges or fees in advance. If advances are subject to GST, unless an appropriate invoice is issued for the advance and the necessary filing is done, the credit would not be available. There is an issue in Section 16 (2) which provides that the registered person must receive the goods or services or both."

"It is recommended that suitable changes are required to provide for credit in the hands of the buyer/recipient when GST has been paid on advances," he adds.

Ensuring betterment through the tax regime

Sharing the consequences of the GST law, Thakkar says, "India has imposed GST on international transportation of goods whereas international transportation is not subject to GST by many countries including countries such as Singapore, Malaysia, Australia and New Zealand. Freight forwarding business in India would come to a complete standstill since the GST favours freight forwarders located outside India. While it has been consistently promised that the tax position would be the same pre and post GST and service tax was not applicable on export freight on account of Rule 10 of the POP Rules; GST becomes applicable on export freight by virtue of Section 12(8) of the IGST Act."

Sachdeva says, "Post GST, international freight forwarding has become an expensive proposition. I do not see any betterment in our business, rather