Impact of Goods and Service Tax (GST) on Logistics Sector in India

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Abstract

Logistics 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 (GST) will be on Logistics Sector in India primarily in Transportation, Warehousing and Logistics Service Providers.

Keywords: *GST, Freight Forwarding, Logistics Service Providers*

I. INTRODUCTION

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. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing and often security.

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. 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.

II. REVIEW OF LITERATURE

Introduction of GST would make Indian products competitive in the domestic and international markets. This would instantly spar economic growth. (Girish Gang-2014- Basic concepts and features of GST in India- International Journal Of Scientific Research And Management- vol. 2 ISSUE 2 PP 542-549)

The ambitious GST would help the transport sector in improving its efficiency besides reducing the logistics costs. GST will help the country in two areas- logistics cost will come down and efficiency will increase both within India and exports. (Decan Chronicle May 15, 2016).

As per World Bank estimates, delays are caused by roadblocks, checkpoints and other stoppages could cut freight times by 20 to 30 percent and logistics costs by 30 to 40 percent. With proper GST implementation, this can boost India's manufacturing sectors by almost 3 to 4 per cent of net sales.

The passage of GST bill, when it happens, can spur large warehouse related investors by logistics providers to derive cost savings from route and warehouse optimization (Business Line July 3 2016- 'Transport Corporation of India: En route to growth').

The joint study report of Transport Corporation of India and India Institute of Management, Calcutta on operational efficiency of freight transportation by road suggests that government shall resolve issues regarding GST with varies stakeholders to reduce the stoppage delays that take place for documentation check and tax collections.

III. OBJECTIVES OF THE STUDY

The objective of the study is to analyse the impact of GST on various sectors of logistics such as warehousing, transportation and freight forwarding because almost 70 percent of the total spent on logistics in India consists of transportation, warehousing and freight forwarding.

IV. METHODOLOGY OF THE STUDY

Being an explanatory research, the methodology is based on secondary data which includes compilation of research articles of the experts in the field published in journals, articles, news paper and magazines.

V. CURRENT ISSUES AND CHALLENGES OF LOGISTICS INDUSTRY IN INDIA

The logistics costs in India are high as compared to developed countries. This is due to varies issues and challenges faced by this industry. Apart from being entangled in complex tax structure, the key challenges of logistics are truck regulations, poor infrastructure, trained, manpower, lack of training institutions and information and communication technology poor warehouse and storage.

In current tax system goods move across the countries border at different tax rates. Due to this, freight movement which happens within the country is taxed multiple times. Moreover, there are long queues at interstate check posts, as the authorities examine the freight which is moved and levy taxes which are applicable. Truck delays amount to 6-7 hours of wait time at interstate check posts which includes lot of manual work by the authorities. Since 65% of the freight in India moves by road, it is a fact which leads to see the logistics experts to look into the GST as a crucial area of concern in India.

VI. IMPACT OF GST ON WAREHOUSING

Warehouses are an important in the supply chain. growth in production and organized retail, the major segment which contributes towards the Indian logistics industry is the warehousing sector. A warehouse placed strategically not only improves the levels of customer service but also reduces the burden on other supply chain elements.

The implementation of GST will play a major role in the warehousing sector. The current tax structure is quite complex - there are central level taxes in form of excise, customs duty and Central Service Tax, and then there are varying state level taxes in form of VAT and other levies like Octroi, state level Cess, etc. The problem is that, state level taxes are applicable on top of central taxes. Which means the manufacturer/supplier is paying taxes on taxes. Only way to avoid this multi tax scenario is to create a state transfer between industry stocking points within states. Hence, most industries - like manufacturing/third party logistics players - generally have warehouses/offices in each state to reduce tax burden of Central Service Tax (CST). Thus, planning is more driven by logic of saving taxes, rather than achieving operational efficiency.

So currently, most of the companies operate with multiple warehouse strategy, having different warehouses in different states, to avoid interstate taxes. With GST in place, India will become a common market without any difference between interstate or intrastate sales. It will allow companies to operate a large central warehouse rather than operating multiple warehouses. Hence, the companies will be forced to re-engineer their business operations to leverage efficiencies of scale, locations, warehouses and routes. The networks associated with warehousing and transportation hubs will the impacted the most in the supply chain. The location of warehouses will change to ensure proximity to manufacturing hubs or consumption markets. This would allow companies to expand their existing warehouses, develop new warehouses or indeed shut down several existing setups.

Let's look at two scenarios that show how a consumer goods (CG) manufacturer sells its goods to the distributor and how that impacts the location of the warehouse in a non GST environment.

VII. SCENARIO- A: INTRASTATE STOCKS TRANSFER SALE

Let's assume a firm operates a warehouse in another state and does a stock transfer of its goods to the warehouse before actually selling it to the distributor in that state. According to the current tax laws, this transfer carries no Central Sales Tax (CST) since no sale has been realized. In this case the VAT is applied only after a sale is made to a distributor using the warehouse. Also, the VAT paid by the distributor to buy from the warehouse used as an input tax credit. This scenario is shown in the following table.

Table-I :Scenario: A Intrastate Stocks Transfer Sale

Supply Chain Point	Landed Cost	Margin (INR)	Input VAT (INR)	Price before Tax (INR)	VAT	CST	Total Tax (INR)	Full Price (INR)
Firm	400	100	0	500	0%	0%	0	500
Warehousing	500	0	0	500	4%	0%	20	520
Distributor	520	40	20	540	4%	0	21.60	561.60
Retailer	561.60	30	21.60	570	4%	0%	22.80	592.80

Scenario-B: CST Sales to Distributor

Let's assume the firm decides to sell its goods directly to the distributor located in another state without holding in that state. In this case, the firm pays CST on this interstate sale. The rest of the transactions in the supply chain remain the same

Table-II

Supply Chain Point	Landed Cost (INR)	Margin (INR)	Input VAT (INR)	Price before Tax (INR)	GST	Total Tax (INR)	Full Price (INR)
Firm	400	100	0	500	4%	20	520
Warehousing	0	0	0	0	0%	0	0
Distributor	520	40	20	540	4%	21.60	561.60
Retailer	561.60	30	21.60	570	4%	22.80	592.80

Scenario B- CST Sales to Distributor

In the scenario B the final price Rs. 603.20 for the consumer increases in comparison to the final price that (Rs. 592.80) paid by consumer in the scenario A. It shows that distributor will like to buy from a warehouse in the same state rather than buying directly from the firm in another state. This type of provision in the current tax structure has forced firm to locate warehouses in all states where they do business. Instead of focusing on supply chain efficiency that can be generated from strategically located warehouse, the firm focuses on saving their margin.

VIII. IMPLEMENT GST

With the introduction of GST, the tax barriers on cross- border sales will be removed. This can be shown in the following two scenarios

Scenario: A-Complete elimination of Central Sales Tax (CST) charged in interstate sales.

In this case a firm sells directly to the distributor in another state without paying the CST, the calculation shown below verifies that this would not lead to any loss of margin for the firm and distributor and retailers can enjoy their share of margin without increasing the final price of goods.

Table III : CST Charged on Interstate Sales Eliminated

Supply Chain Point	Landed Cost (INR)	Margin (INR)	Input VAT (INR)	Price before Tax (INR)	GST	Total Tax (INR)	Full Price (INR)
Firm	400	100	0	500	4%	20	520
Warehousing	0	0	0	0	0%	0	0
Distributor	520	40	20	540	4%	21.60	561.60
Retailer	561.60	30	21.60	570	4%	22.80	592.80

Scenario-B: Elimination of GST but Interstate Transfer Charged with Provision of Input Costs.

Let's assume that CST is abolished and interstate sales is taxed with input credit allowed on the subsequent sales. Even in this case the margin for companies, distributor and retailers are maintained without affecting the final price for consumers. This is depicted in the following calculations.

Table IV : Eliminate CST-Interstate Sale or Transfer Charged

Supply Chain Point	Landed Cost (INR)	Margin (INR)	Input VAT (INR)	Price before Tax (INR)	VAT	CST	Total Tax (INR)	Full Price (INR)
Firm	**400**	**100**	**0**	**500**	**0%**	**2%**	**10**	**510**
Warehousing	**0**	**0**	**0**	**0**	**0%**	**0%**	**0**	**0**
Distributor	**50**	**40**	**0**	**550**	**4%**	**0**	**22**	**572**
Retailer	**572**	**30**	**22**	**580**	**4%**	**0%**	**23.20**	**603.2**

The scenarios clearly shows that with the advent of GST, having warehouse in every state where a firm does business will no longer remain a necessity. So the supply chain can be designed purely on logistics costs and customer consideration and not on tax consideration.

IX. IMPACT OF GST ON TRANSPORTATION

GST will have double positive impact in transport sector in India. 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 per cent and transport costs by 20-30 per cent leading to fall in prices by 3-4 per cent which will, in turn, reduce costs for customers and logistics companies, making the latter more efficient and profitable. Supply will also be able to match demand to a large extent. With lesser paperwork goods will be transported faster, with far lesser check points. Hence the ambitious GST would help the transport sector in improving its efficiency within India and exports besides reducing the logistics costs.

However, since 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.

X. IMPACT OF GST ON THIRD PARTY LOGISTICS SERVICE PROVIDERS

Logistics companies in India has evolved over the years from being mere 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, management consulting, logistics optimization, etc. and complementing them with advanced supply chain facilities. Currently in India the development of third party logistics service providers (3PL) and four party logistics service providers(4PL) are very slow due to tax regime which adding to the logistics woes of the country. The following table shows the role of 3PL in India as compared with other countries

Table V : Role of 3PL in India

Country	Logistics Cost/GDP	Role of 3PL
India/China	13-20%	Less than 10%
US	9-10%	60%
Europe	10%	30-40%
Japan	11%	80%

GST will offer a huge opportunity for both logistics companies in India and their customers. With the implementation of GST and phasing out of CST, provides a significant opportunity for logistics companies in India to revise their infrastructure because the decisions on location of warehouse and distribution is purely based on operational and logistics efficiency rather than tax consideration. Hence GST will lower the cost of logistics outsourcing and will boost outsourcing in supply chain. So there will be an increase in the role of 3PL and 4PL logistics service providers and more organized LSP will be emerging and the existing 3PL and 4PL in unorganized sector will be expected to improve their service levels because taxes will no longer be added costs for the businesses.

XI. 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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