Goods and Services Tax
Transport and logistics (T&L) sector
The implementation of GST will be the biggest indirect tax reform the country will undergo. Over the past year, the government has indicated its commitment to bring in GST. This is evident from its acceptance of the states’ demands for compensation for five years, exclusion of specified products and setting up of various committees to expedite the implementation of GST. The committee under the Chief Economic Advisor (CEA) has also provided its recommendations on the best suited revenue neutral rate (RNR) for the economy. Draft business processes have also been released for comments.

The government’s commitment towards implementing GST can also be seen from its investment in the technology platform, i.e., the Goods and Services Tax Network (GSTN), appointment of its IT vendor, and recent initiatives such as the commencement of industry consultations.

Most of all, the passing of the Constitution (Amendment) Bill in the Lok Sabha can be said to be a significant milestone achieved. The deadlock in the Rajya Sabha, however, continues.
Why GST

The indirect tax regime in India is not only complex (with multiple taxes applicable on a business) but also widely seen to be inefficient and opaque. One of the features of the current system is that taxes are non-creditable either due to restrictions in the law or because there is no fungibility between central and state levies. Furthermore, as a result of multiple applicable levies, an assessee engaged in the manufacture of goods, sale of goods and provision of services has to comply with payment, reporting and audit requirements under different tax authorities.

The GST regime is slated to overhaul the present indirect tax regime with the objective of addressing the above mentioned issues.

The significant change proposed under the GST regime is that GST will entail one effective levy of tax on a business as compared to the multiple levies of tax. GST will be a dual tax levied by both central and state governments on the supply of goods and services.

GST will replace almost all indirect taxes, i.e. Excise Duty, Service Tax, Value Added Taxes (VAT), Central Sales Tax (CST) and Entry Taxes; however Basic Customs Duty (BCD), taxes on specified petroleum products (for a specified period), alcohol for human consumption, tobacco products, electricity and real estate will continue to apply.

Local supply of goods and services will be taxed by the Centre (CGST) and the states (SGST). Interstate sales (including stock transfers) and imports will attract an integrated GST (IGST) collected by the central government. This tax will then be distributed between the central and the destination state governments. A key aspect of GST is the seamless flow of input credits that will be available to a business.

Representation of GST and credit flow

**Local supply of services**

<table>
<thead>
<tr>
<th>CGST transfer</th>
<th>SGST transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSTN</td>
<td></td>
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</tbody>
</table>

**State government**

- SGST transfer

**Central government**

- CGST transfer

**Credit availment**

- CGST + SGST

**Local supply (CGST + SGST)**

An assessee will be allowed to utilise the input credits in accordance with the mechanism provided in the table below:

<table>
<thead>
<tr>
<th>Levy on procurement</th>
<th>Adjustable against output tax (in specified order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CGST</td>
<td>• CGST</td>
</tr>
<tr>
<td>SGST</td>
<td>• SGST of the same state</td>
</tr>
<tr>
<td>IGST</td>
<td>• IGST</td>
</tr>
</tbody>
</table>

Along with the uncertainty on the passage of the Constitution (Amendment) Bill, the debate is also on the probable GST rate that will apply on its implementation. The Government of India had set up a committee under the Chief Economic Advisor (CEA), which recommended a standard rate of GST in the range of 17–18%. The GST regime will also provide for a concessional rate as well as exemptions for specified essential goods and services.

Though the concept of GST is to bring about a single tax rate across all supplies, the states have been demanding a uniform floor rate to be fixed with flexibility granted to levy taxes within a specified band over and above the floor rate. In addition, to compensate the origin states for any loss in revenue that may incur on account of the introduction of GST, it is proposed to levy a 1% additional tax on the interstate sale of goods for a period of two years (or such other period as may be recommended by the GST Council), which will be non-creditable. This levy is not in line with the objectives the GST regime seeks to achieve, i.e. fungibility of input credits and removal of tax cascading. The opposition political parties have demanded that this proposal be withdrawn, the proposition of which is being considered by the government.

GST is a consumption-based tax and will accordingly be payable in the destination state. For the purpose of determining the state wherein a supply is consumed, the government is in the process of drafting the Place of Supply Rules. It remains to be seen whether these rules can provide a clear set of principles, taking into consideration the various scenarios that will arise on account of a service provider/recipient being present in multiple states.

The proposed GST regime may not be perfect, but it will be an important reform to accelerate the growth of the economy to a double-digit figure.
**GST processes: What to expect**

The registration, payment and refund processes under GST will be routed through a centralised common portal set up by GSTN. The common portal will act as an interface between the taxpayers, authorities, banks, RBI and accounting authorities.

At the back-end, the portal will be integrated with the IT systems of the central and state governments. The GSTN will be linked to the government databases to verify the data submitted on the GST portal by the taxpayer at the time of registration or filing of returns.

**A snapshot of GST compliances**

- **Registration** may be required in each state where the place of business is present.
- Different verticals of the same business may obtain separate registrations.
- Threshold is determined on a pan-India basis.
- Concept of ‘input service distributor’ may continue for services.
- Release of the draft process for the transition of registrations of existing assesses to the GST regime.

- **Payments to be made only via challan**
- Three modes of payment – Internet banking or debit/credit cards – Over the counter – NEFT/RTGS

**What’s in it for the industry**

The overall tax on the supply of indigenous goods is approximately 29.27%. 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, thereby facilitating a consumption-led growth.

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.

It is also anticipated that 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 will contribute to the ‘Make in India’ and ‘ease of doing business’ initiatives of the government.**
**GST and what it means for the T&L sector**

**Opportunities for T&L sector**

In the medium-to-long term, GST will be a key enabler for businesses to rejig their supply chain, in accordance with various business considerations.

**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.

**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, the interstate movement of goods will be subject to IGST, wherein all movements will be ‘tax paid’. 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.

**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.

**E-commerce**

Under the present indirect tax regime, the e-commerce industry is facing significant challenges. 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.

Under the GST regime, it is expected that clear guidelines on the taxability of e-commerce transactions will be issued, providing much-needed relief to the e-commerce industry.

**Free Trade Warehousing Zones (FTWZ)**

If the GST law extends benefits of tax-free supply to an FTWZ unit for onward exports, the FTWZ units will be able to attract significant volumes.

**Effective resolution of issues in GST will present significant business opportunities to the T&L sector.**

**Supply chain considerations under the GST regime**

Supply chain design will be based on demand management and logistical benefits rather than tax costs.
Proactive efforts will create a ‘first-mover’ advantage in the T&L sector. The industry needs to evaluate the following steps from a supply chain perspective:

**Identify industries that need to revisit their supply chain**
- FMCG, pharmaceuticals, e-commerce startups and white goods

**Timeframe for rejig of supply chain**
- Immediate: Remodel cost of supplies with revised credit and tax
- 24-36 months post GST implementation: Consolidation of warehouse, redesign of route map and adoption of technology-enabled fulfilment centre model

**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
- Reconfigure current fleet size and type to align to emerging needs
- Explore 3PL/4PL opportunities
- Develop a strong team to manage sophisticated technology-enabled fulfilment centre

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**Taxability of T&L services**

1. It is assumed that the services depicted above are business to business (B2B) services.
2. Furthermore, the broad taxability has been determined on the assumption that the service provider has obtained registration in each state where the services are deemed to be supplied.
3. The tax implications have been determined on the assumption that the place of supply for the T&L sector will be the location of the service recipient.
**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.

To capitalise on opportunities that the GST regime offers, the industry must engage in discussions with the government.
Are you GST ready?

When will GST be implemented?
Do I know the impact on my business?
How will GST impact the pricing of my services?
Are my IT systems geared up for compliances and reporting under GST?

GST is expected to play a transformative role in the way our economy functions. It will add buoyancy to our economy by developing a common Indian market and reducing the cascading effect on the cost of goods and services. We are moving on various fronts to implement GST from the next year.
— Arun Jaitley, Union Finance Minister, during the Union Budget 2016–17

GST is a critical component of improving the ease of doing business. Apart from having a common market, which will make our cost of production and our competitiveness far more effective... (GST) will also make a big contribution to logistic cost and transactions costs that we today are faced as economy (sic).
— Shaktikanta Das, Secretary, Department of Economic Affairs, Ministry of Finance

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