

IMPACT OF GST ON LOGISTICS & WAREHOUSING SECTOR

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Overview

Transportation & logistics Includes:

- Transportation & logistics is a much wider term. It covers various service providers and services provided by all modes of transportation (e.g., air, road, rail and sea).
- It also comprises related services such as warehousing, handling and value added services such as packaging, labeling, assembling etc.
- Transport service is used both as intermediate input and in final consumption.
- 60% of logistics in 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% and transport costs by 20-30% leading to fall in prices by 3-4%.
- 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. Also, the reverse charge mechanism applicable to GTA (Goods Transport Agencies) would continue under GST.

Overview

Warehousing Includes:-

- Warehousing decisions will henceforth be driven by considerations like location of major customer / market and optimization of goods movement. Since any supply would be taxed, branch transfers would get discouraged leading to optimization of transport. Elimination of statutory forms (C-Form, F-Form, E1-E2 etc.) would reduce the requirement for scrutiny at state borders.
- Geographically central locations will benefit more, e.g. Nagpur, the centre of the country, is already benefiting from a change that will allow companies to move goods across state borders without being hamstrung by local levies.
- The consumer durables sector is expected to witness maximum drop in the logistics costs as percentage of total sales, as their warehouses are built at different states to avoid interstate tax. Mostly, the consumer-oriented industries are going to have high impact of GST on its operations model rather than capital intensive industries.

Overview

Warehousing Includes:-

- The existing interstate taxation system has forced the companies to create and maintain warehouses in each state. Currently, there are around 20-30 warehouses per company, one in every state, in addition to this 20-30 Carry & Forwarding agents per state making the supply chain longer and inefficient, GST tax will be levied on transportation of goods and full credit will be available on interstate transactions. Logistic costs are expected to be decreased by 1.5-2.00% of sales on account of optimization of warehouses leading to lower inventory costs which are set up across states to avoid paying 2% corporate sales tax and phasing out of interstate sales tax. There is immense scope for optimization of costs

How & Where GST is expected to Fill the Gaps?

- **Increased efficiency in inter-state transportation of good at reduced costs**
GST impact is felt in this area, by reducing lengthy clearance processes and complex paperwork at numerous inter-state points to a thing of the past. This automatically means drastic cut in travel time as well as sizeable cost-cutting in logistics by almost 30-40%.

How & Where GST is expected to Fill the Gaps?

- **Overhaul of the Supply Chain Management via consolidation of warehouses**

A lesser discussed effect of the GST, and yet, the logistics industry would stand nowhere without organized, robust warehouses. With the implementation of the reformed tax structure, sweeping changes are expected to seep through this segment, with companies vying for overall operational efficiency than mere tax efficiency. With GST having rolled out, companies will now find the global **hub-and-spoke model for freight movement** much more feasible. This means fewer warehouse centres in strategic locations instead of smaller ones scattered in each and every state; in turn, leading to less time wasted at multiple points, less paperwork and faster movement of goods, not to mention, a central regulation percolating down to the many distributors via the **secondary despatch model**.

How & Where GST is expected to Fill the Gaps?

- **Entry of new stakeholders while boosting the presence of existing participants in the logistics market**

Who would have thought online truck booking would ever be a thing? This interestingly has shaped up as a shining reality though, given the country's massive daily domestic consumption and its formidably huge road network (approximately 4.7 million km) pitted against the countless transportation challenges faced by logistics firms and their carrying agents (such as truckers,shippers)alike.

However, with internet and modern technology making inroads into this sector as well, **online truck booking** has developed into an enviable convenience businesses truly cannot afford to overlook.

How & Where GST is expected to Fill the Gaps?

- **Bringing in transparency in logistics activities, thereby reducing overall corruption**
By eliminating the roots of parallel economy (and resultantly, black money), the GST is expected to act as a formidable deterrent to across-the- border corruption and monopoly of local booking agents, by allowing broader scope for fair play which benefits all parties involved – businesses, consumers, states and the Centre.

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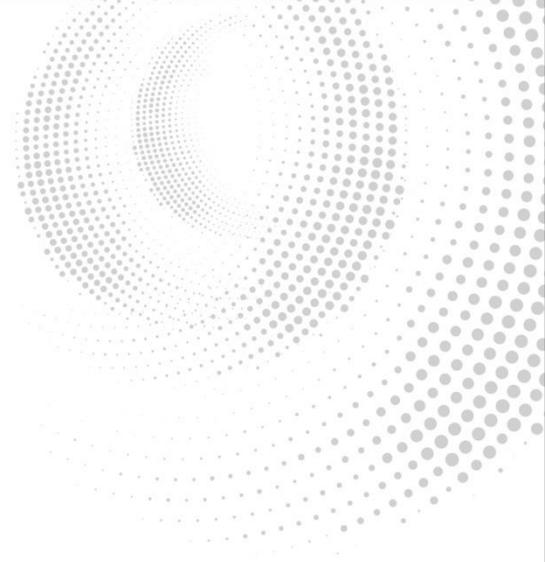
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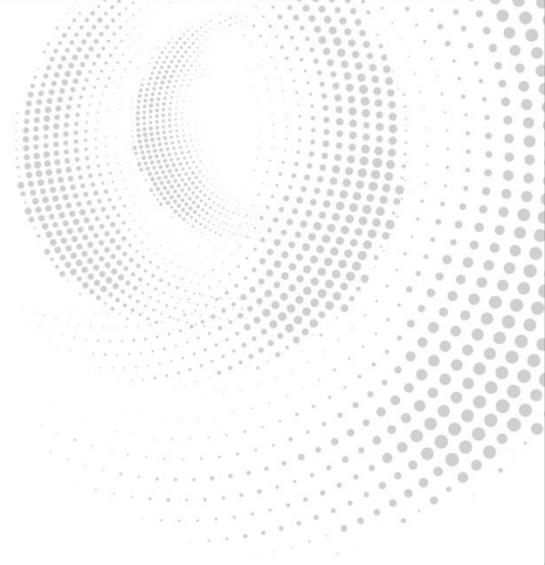
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