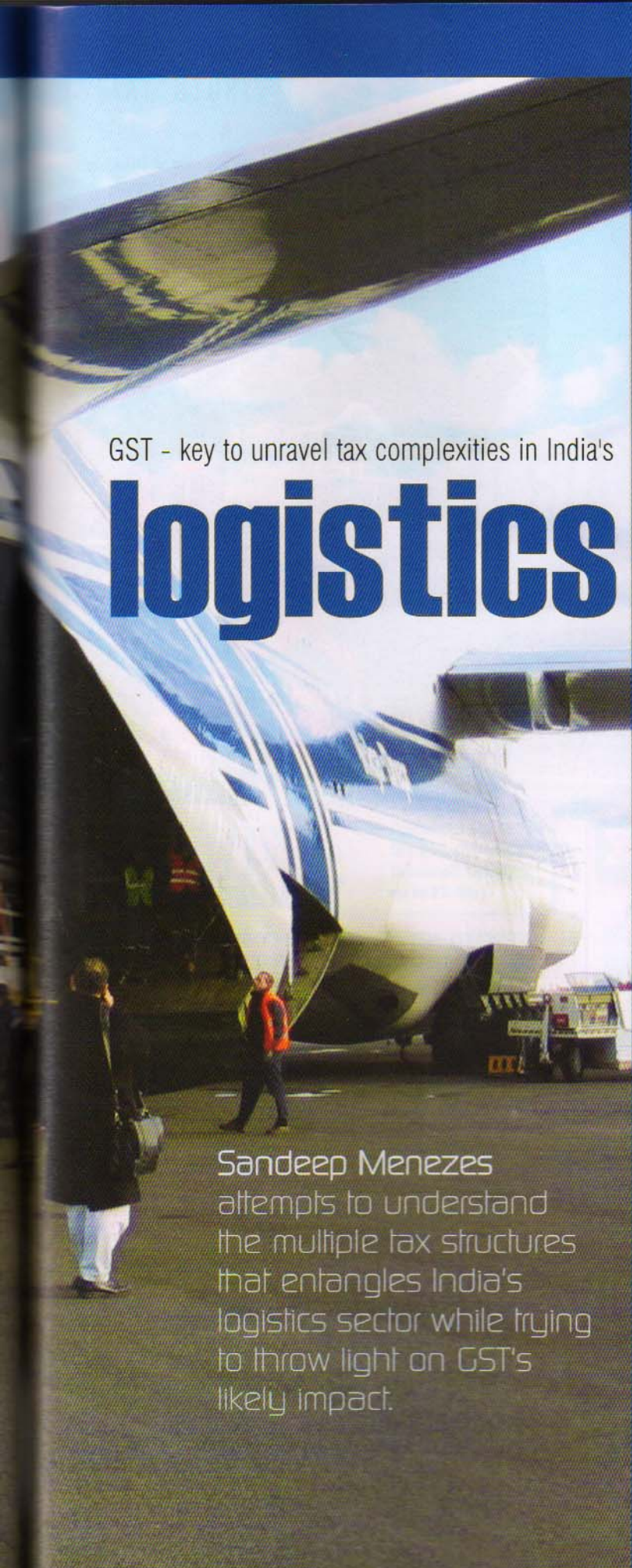


SPECIAL STORY





GST - key to unravel tax complexities in India's

logistics sector

Sandeep Menezes attempts to understand the multiple tax structures that entangles India's logistics sector while trying to throw light on GST's likely impact.

Logistics infrastructure spend has tripled from \$10 billion in 2003 to an estimated \$30 billion last year. But India still spends around 13 per cent of its GDP on logistics, which is higher than in USA (10 per cent), Europe (11 per cent) and Japan (10 per cent).

Across India, the complexities of existing tax structure ensure overall costs are higher while goods movement is slow - thereby hurting our ability to compete on a global scale. Therefore it is essential to unravel India's existing tax complexities to lower its logistics costs so that the nation can compete globally through competitive pricing and ease-of-operation. The key to the solution lies with the imminent Goods and Services Tax (GST).

CURRENT SCENARIO

India's existing tax structure is quite complex. There are Central level taxes in form of excise, customs duty and Central Service Tax (CST), 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. The only option to avoid this multi-tax scenario is to create a stock transfer between inventory stocking points within states.

Therefore nearly all 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. According to Vineet Agarwal, Joint Managing Director, TCI Group, the present network is highly dependent on the Tax Structure (CST) impact



Logistics is crucial to defence supplies

while planning warehouses, besides four other factors viz. Response time to customer, distribution network, location of supplier/manufacturing plants and supply chain cost. The proposed levy of Goods and Services Tax is slated to change the manner in which the indirect taxes are levied and perceived in India. The implementation of GST will replace many indirect taxes levied on goods and services by the Indian Central and State governments. It is hoped that GST will also catalyze investments into Information Technology to help in avoiding delay and detention of trucks which in turn will not only ensure fast delivery of goods, it will catalyze the industry towards better fleet utilization, modern fleet where the optimum performance of the machine translates into revenue and not overheads.

However, the dual GST system if adopted which comprises of Central Goods & Service Tax and State Goods & Service Tax then some states may enforce online declaration of transit pass/behati in order to ensure sale of goods (which is meant for other states) within the state territory. This may render the use of Hub-Spoke very difficult and can negate the very essence and most significant expectation from GST, Agrawal cautioned.

OPPORTUNITY TO REDUCE COSTS THROUGH SUPPLY CHAIN REALIGNMENT

GST proposes to be a comprehensive indirect tax on manufacture, sale and consumption of goods and services nationally, Agrawal felt. With introduction of GST trade boundaries between states will not exist and companies can consolidate their supply chains which will result in seamless supply across country. The major cost reduction implications would be around:

- Introduction of GST will also reduce the number of warehouses required to be maintained in different states, thereby resulting in a substantial increase in demand for integrated logistics solutions.
- The proposed implementation of GST and the development of logistics parks and free trade warehousing zones will speed up formation of regional hub-based infrastructure and an environment conducive for rationalization of the logistics network. This will help reduce intermediaries and streamline supply chain operations.
- GST implication is likely to bring in transparency in the taxation system prevalent in India and also open up the Indian shipping and logistics market to foreign companies as the latter will not have to deal with the problems of cascading taxes. It would enable shippers to facilitate seamless credit across the entire supply