

# ClearTax for GST



## GST Impact on Logistics Companies

## Table of Contents

**Introduction**

**Segmentation of Logistic Companies:**

**Complex tax structure**

**Impact on Logistics Services (Centralised Billing)**

**Procurement and Input Services**

**INPUT SERVICES-PLACE OF SUPPLY**

**INPUT TAX CREDIT**

**IMPACT- ISD REGISTRATION**

**ISD MECHANISM-CAPEX**

**ISD MECHANISM-CAPEX**

**IMPACT OF GST**

**PRESENT V/S GST COMPLIANCES**

## Introduction

### Highlights:

- The implementation of GST will lead to lower transit time and thereby generate higher truck utilisation.
- This will boost demand for high tonnage trucks and lead to overall reduction in transportation costs.
- It will facilitate seamless inter-state flow of goods, which is expected to directly accelerate demand for logistics services.
- Impact: The logistics sector is largely fragmented and comprises many unorganized players. Several players in the unorganised sector avoid tax which generates a cost gap between them and the organized players.
- With the GST coming into picture, we expect an overall positive impact, with a reduction in the cost competitiveness as all the players will be brought under a uniform tax base, thereby improving growth opportunities for the organized players.

### Segmentation of Logistic Companies:

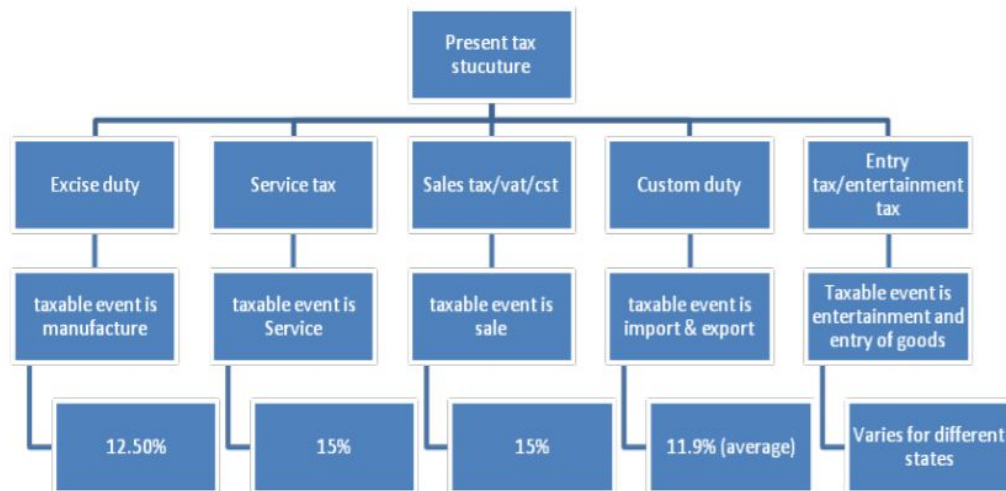
- Warehousing
- Value Added Logistic
- Freight
- Forwarding

The Indian logistic sector is primarily categorized into four segments comprising transportation, warehousing, freight forwarding and value-added logistics.

The transportation which contributes maximum to the whole pie of logistic sector comprises various means such as road, rail, air and water. India being emerging country with prime dependency upon transportation through land, i.e. through road and rail together which contributes about 60% followed by Warehousing 24.5% comprising industrial and agricultural storage.

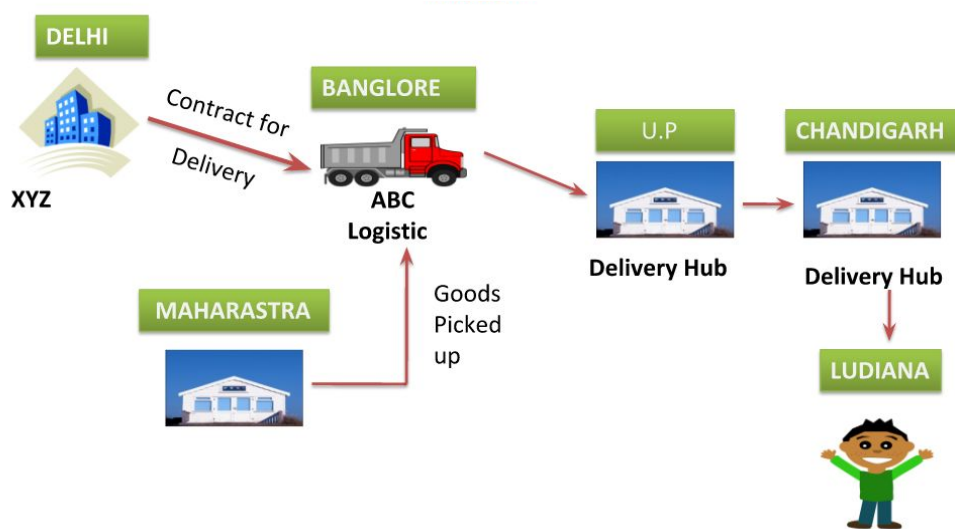
## Complex tax structure

Currently, each of India's 29 states taxes goods that move across their borders at various rates. As a result, freight that moves across the country is taxed multiple times.



## Impact on Logistics Services (Centralised Billing)

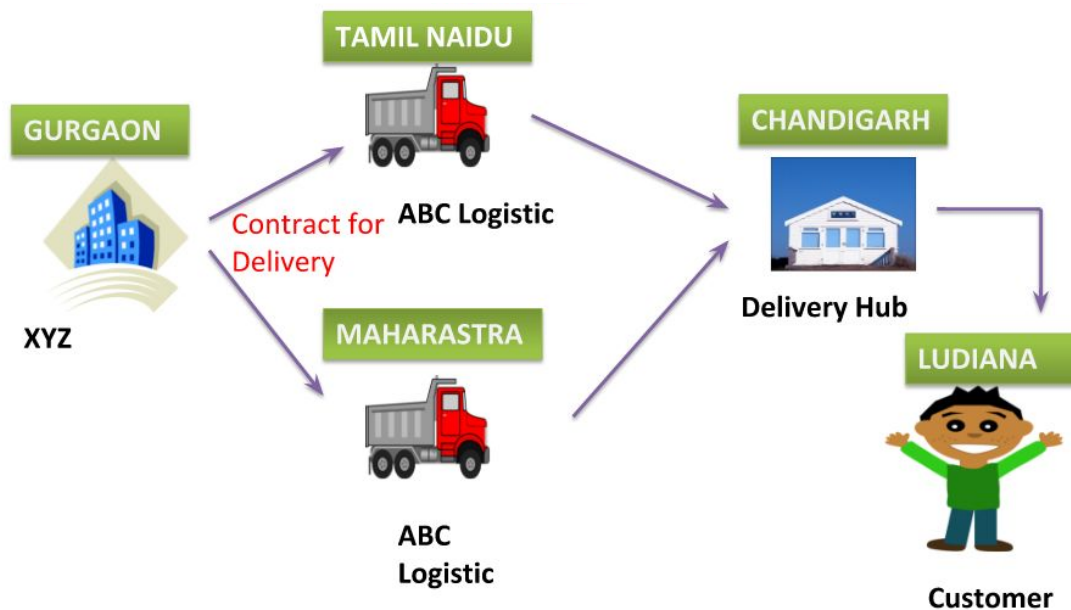
### Model 1



### Explanation of Model 1:

1. Delivery services are provided by ABC Logistic to sellers such as XYZ and other sellers
2. ABC Logistic to enter in to a contract (for delivery services) on a PAN India basis (for instance contract is entered into with XYZ, Delhi)
3. Registered place of ABC Logistic, Karnataka, being the contracting party to be place from where the service is supplied – location of delivery hubs, state of pick up and delivery not to matter .
4. Transit hubs places of temporary storage for sorting and distribution and not place from where services are provided.
5. Goods pass through transit hubs in various states in each delivery as illustrated in previous slide.
6. Value of the consignment handled cannot be split and assigned to each delivery hubs which are merely used in the course of provision of services.
7. Logistics to be considered as interstate supplies – ABC Logistic to bill IGST to XYZ

### Model 2

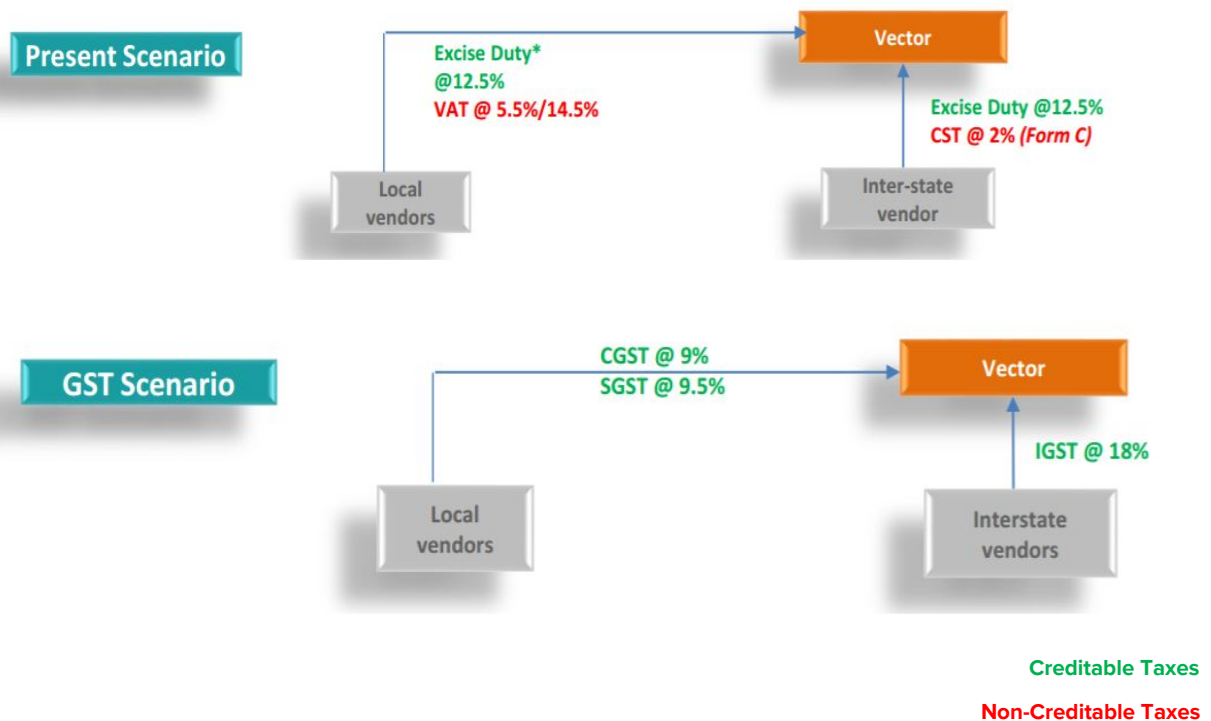


## Explanation of Model 2

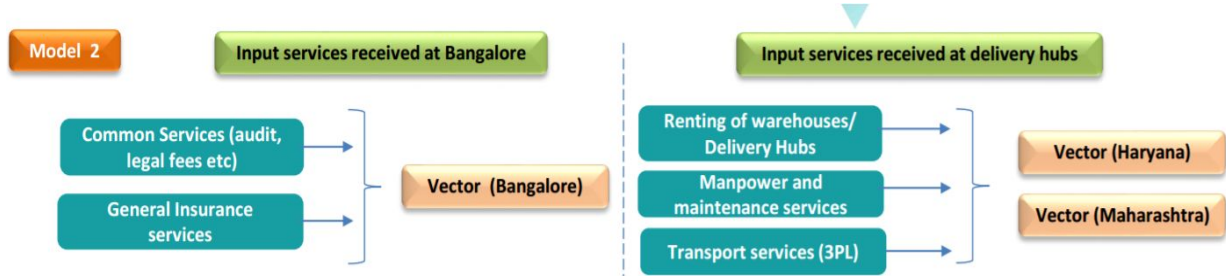
1. Possibility of logistics services linked to each location of the recipient from here the goods are picked up for delivery (ie, from Tamil Nadu, Maharashtra in the above case) or are returned to (in case of reverse logistics)
2. ABC Logistic could opt for de-centralized registration for logistics services in each of the location state from where goods are picked up
3. State-wise billings to be determined based on pick-up locations (registered locations of the seller)
4. Logistics services to be considered as local supply = (CGST +SGST) to be charged on the billing to the sellers

## Procurement and Input Services

Cenvat Credit availed on duty paid for procurement of Capital Goods.



## INPUT SERVICES-PLACE OF SUPPLY



Place of Supply in case of renting to be the place where the immovable properties (i.e., warehouses) are located. Accordingly, GST paid in the state of delivery hubs to be available as credit in the respective state.

### Points for discussion:

Credit accumulated in delivery states can be transferred to Bangalore through ISD mechanism

Alternatively, option of self supply to transfer credits could be explored to avoid compliance with respect to ISD credit distribution

Planning around contracting structure – contract to be executed at the central office of ABC Logistic to the extent possible – detailed analysis of the contracting structure of key input services vis-à-vis ISD mechanism under GST to be undertaken.

## INPUT TAX CREDIT

Restrictions on input tax credits on inputs/ input services used for private or personal consumption, construction services, etc

Some key current restrictions no longer there under GST – Rent a cab service

Detailed transition provision inserted.

Detailed transition provision inserted

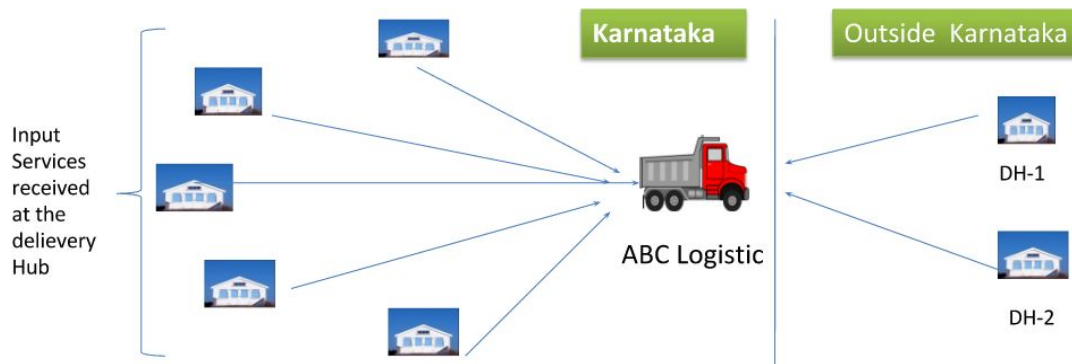
Credit can be taken of unutilized CENVAT Credit/ Value Added Tax

Such credit cannot be taken unless the said amount was admissible as CENVAT Credit under the earlier law and is also admissible as input tax credit under the GST regime

Unavailed credit in respect of capital goods under the earlier law shall be allowed to be taken

No input tax credit can be taken in respect of any invoice for supply of goods and/or services, after the filing of the return for the month of September following the end of financial year to which such invoice pertains or filing of the relevant annual return, whichever is earlier

## IMPACT- ISD REGISTRATION

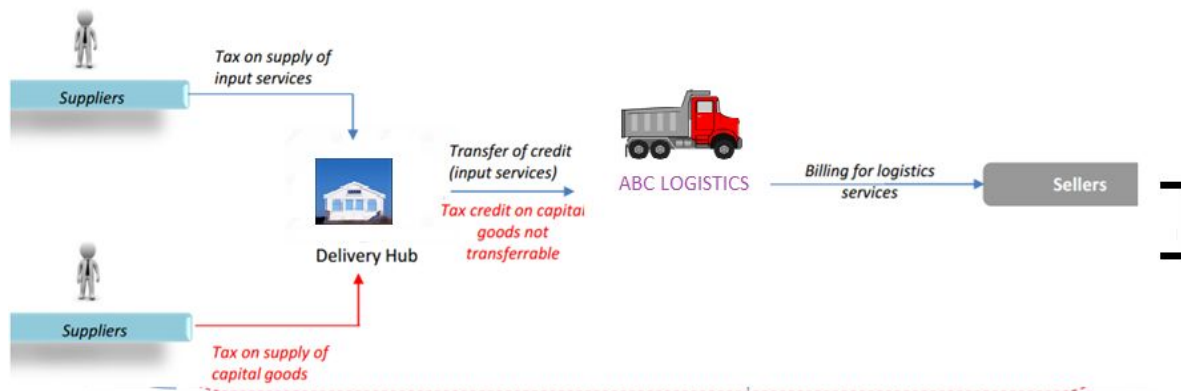


### Key points for discussion

Tax accumulated on input services to be distributed – ISD registration to be obtained in each state which has delivery hubs

Whether every delivery hub has to be individually registered or a state wise registration is sufficient (nomenclature used in Section 19 of the model GST law says registration to be applied in every state)

## ISD MECHANISM-CAPEX



Input Service Distributor” has been defined under Section 2(56) of the model GST Law. As per the definition, the concept of ISD is only for GST paid input services and does not include GST paid on procurement of capital goods. Tax credit availed by delivery hubs (for capex) cannot be transferred through ISD mechanism .



## ISD MECHANISM-CAPEX

Issues : Tax credit on capital goods / inputs procurements in the delivery hubs that cannot be transferred may end up being a cost

### Option 1 – Self supply

- Output liability on such invoice to be off set by the non-transferrable credit available
- Head office to avail input tax credit based on the invoice issued by the delivery hubs
- This could be an alternate to ISD model
- Valuation challenges to be addressed
- Each delivery hub to obtain GST registration and then issue a tax invoice to the head office in Karnataka which may result in manifold increase in compliance such as filing input and output details, GST returns, etc.

### Option 2 – Obtain capital goods on lease

- Obtain all the capital goods on lease (treated as service) on which the supplier would charge GST
- GST paid on such lease would qualify as an input service – Section 2(55) of the Model GST Law
- Delivery hubs can then avail the credit of the GST as input services and then transfer the same to the head office under the ISD mechanism.

## IMPACT OF GST

S.No	Particulars	Current Regime	Under GST
1	Registration	Centralized registration (Service Tax) with respect to PAN India contracts	All the delivery hubs/ pick up centres to be registered by ABC Logistic (Model 2)
2	Contracting with sellers	Contracts entered on a PAN India basis	Contracts on a PAN India basis to continue (Invoice to be from each registration)

3	Billing and invoicing – for logistics	Invoices issued under a centralized system (from Karnataka)	Invoicing from each location of ABC Logistic
4	Payment of taxes	All the services are subject to service tax at the rate of 15%	Services would be subject to CGST + SGST or IGST depending on the location of the contractual recipient
5	Increased CENVAT Credit on account of capital goods	A service provider is not eligible to avail credit of VAT/CST paid on procurement of capital goods	The taxes paid would be available as credit
6	Entry Tax	Entry tax is a tax levied on entry of goods (as specified) into the local area for consumption, use or sale, same is a cost	No Entry Tax
7	VAT/CST on inputs procured at the delivery hubs	CST/VAT charged on local/interstate input procurements are not eligible as credit under the current regime	While there are minimal input procurement in the delivery hubs, the taxes on such procurement would no more be a cost in the system
8	Increased CENVAT Credit – rent a cab	a service provider is not eligible to avail credit of ST paid on rent-a-cab services	the taxes paid would be available as credit
9	Increased CENVAT Credit – Swachh bharath cess	a service provider is not eligible to avail credit of swachh bharath cess	Under GST, such cess would no more be levied

## PRESENT V/S GST COMPLIANCES

S N	Particulars	Current Regime	GST Regime
1	Registration	<ul style="list-style-type: none"> <li>No requirement for obtaining State wise registration</li> </ul>	<ul style="list-style-type: none"> <li>Separate registration required in each state for each legal entity</li> </ul>

		<ul style="list-style-type: none"> <li>• Option of obtaining single or centralized registration for multiple places of business</li> <li>• Online registration through Automation of Central Excise and Service Tax (ACES) website</li> <li>• No provision for separate registrations of each business vertical in a State</li> <li>• No provision linking credit to registration. Courts have allowed pre-registration credit in certain cases</li> </ul>	<ul style="list-style-type: none"> <li>• Concept of single/centralized registration for multiple places of business not provided</li> <li>• Registration to be done through GST common Portal ie Goods and Services Tax Network ('GSTN')</li> <li>• Separate registrations may be obtained for each business vertical in a State (optional)</li> <li>• Registration is mandatory for collecting and claiming GST credit</li> <li>• Provision for migration of existing registrants – no clarity on migration of centralized registration</li> </ul>
2	Filing of returns	<p>Centralized registration – one return for multiple places of business; Decentralized registration – separate return for each place of business • Half-yearly periodic return for service tax • Separate return for input service distributor ('ISD') to be filed half-yearly • Annual return recently introduced – first return yet to fall due • Revision of return can be made within 90 days</p>	<ul style="list-style-type: none"> <li>• Statement towards outward and inward supplies to be filed by 10 and 15th of the succeeding month respectively</li> <li>• Monthly periodic return including details of inward and outward supplies, CENVAT credit, tax paid to be filed by 20th of succeeding month</li> <li>• Common return for CGST, SGST, IGST</li> <li>• Three returns each month per registration</li> <li>• Separate return for ISD to be filed monthly</li> <li>• Annual return reconciling value of supplies with Financial Statements to be filed per registration</li> <li>• No specific provision for revision of returns; Corrections/ adjustments for past period to be made in subsequent/ future return(s)</li> </ul>

3	Payment of tax	<ul style="list-style-type: none"> <li>Service tax payments required to be made on a monthly basis, ie by 6th of succeeding month</li> <li>One tax payment each month per registration.</li> </ul>	<ul style="list-style-type: none"> <li>Tax payments to be made before last date of filing monthly periodic return</li> <li>Three tax payments per registration for CGST, SGST, IGST</li> </ul>
4	Debit / credit notes	No provision for issue of credit/debit notes under service tax law. Under VAT legislation, credit/ debit notes may be issued in situations where goods are returned post sales	Corrections/ adjustments can be made through credit/debit notes linked with original invoice
5	Invoicing	No requirement of State wise issuance of invoice • Details in invoice – registration number, recipient’s name and address, description of service, taxable value, service tax payable	State wise issuance of invoice for each supply (to the extent such supplies are made from such state) • Details in invoice – invoice number, date, taxable value, registration number, buyer’s address, place of supply, tax amount, tax rate, HSN codes for goods/ Service Accounting code for services
6	Record keeping	<ul style="list-style-type: none"> <li>If records maintained under any other law, that would suffice for service tax purpose as well</li> <li>No requirement to maintain separate records for each State/ business vertical.</li> </ul>	<ul style="list-style-type: none"> <li>Books of accounts to include – record of manufactured goods, inward or outward supply, stock of goods, input tax credit availed, output tax payable</li> <li>Separate accounts for each states / verticals registered under GST bearing unique registration number</li> </ul>
7	Audit	<ul style="list-style-type: none"> <li>No requirement for assessee to get his accounts audited</li> <li>Commissioner may carry out scrutiny, verification, checks of records at any registered premises</li> <li>Special audit may be ordered by Commissioner in case specified defaults by</li> </ul>	<ul style="list-style-type: none"> <li>Assessee whose turnover exceeds prescribed limit to get accounts audited by Chartered Accountant or Cost Accountant</li> <li>Commissioner may undertake audit of business transactions at any place of business</li> <li>Separate audit for each registration</li> </ul>

		assessee to be conducted by Chartered Accountant or Cost Accountant	<ul style="list-style-type: none"><li>• No clarity whether single or separate audits for CGST, SGST and IGST</li></ul>
--	--	---	--