

## EFFECT OF GST ON INDIAN LOGISTICS SECTOR

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### ABSTRACT

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#### BACKGROUND

Logistics is an integral activity for economic growth as it involves the management of flow of goods from place of origination to place of consumption. The sector comprises shipping, port-services, warehousing, rail, road and air freight, express cargo and other value added services. The global logistics market currently generates over USD 8 trillion annually and represents around 11% of global GDP. Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple taxes levied by the central and state governments. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at different rates. This paper is an attempt to find out effect of GST on Indian Logistics Sector.

#### KEYWORDS

Indian Logistics Sector, GST, Regression Model, Warehousing, Telecom.

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#### BACKGROUND

Logistics is considered to be the backbone of manufacturing and trading activities in the economy. It has an important role for developing countries like India wherein consumption is growing and demand is always high. Good logistics network ensures delivery of right items in right quantities at the right time to the right place for the right price in the right condition to the right customer.

The logistics sector broadly comprises the road transport sector (Consisting of unorganised small businesses, trucking, fleets and large transport companies), the storage and warehousing sector and finally third-party logistics (3PL).

Initial uncertainties, courtesy goods and services tax (GST), could affect profitability of the logistics sector in the short run, but operational efficiency is bound to improve in the long run.

The logistics sector attracts GST rate of 18%, up from 15% in the previous tax regime.

For manufacturers, the goods and services tax (GST) will now replace multiple state VATs and the need to have a hub across all states will cease to exist. It will also allow firms to employ efficient practices such as bulk-breaking and cross-docking from a central location.

#### Review of Literature

"India's logistics sector would gain the most from the Goods and Services tax (GST) as costs would fall by almost 20 percent," Road Transport and Highways Minister Gadkari said.

Pre-GST, the complex tax structure and paperwork forced the transport industry to spend a lot of resources on tax compliance and deposit of inter-state sales tax, it said.

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With introduction of GST, unnecessary multiple taxes will be eliminated. GST will serve to bring down the logistics cost to about 10-12 percent by facilitating efficient inter-state flow of goods and accelerating the demand for logistics services.

GST has positive effects on other sectors.

Main customers of logistic industry are affected by GST. It means healthcare and pharmaceutical industry; Auto and auto components industry, Lifestyle and readymade garments, High tech, engineering and telecom sector including base towers and mobile telephones are affected by GST.

Logistic Industry changed after GST implementation. There will be few warehouses, greater economies of scale for transport operators and more companies outsourcing their logistics operations. Although economic sentiments are weak, logistics industry continues to grow as retail, e-commerce are growing.

Logistics industry is expected to cross USD 2 billion by 2019. With a promise of growth and improvements, the service oriented logistics industry is also ready to expand beyond the expectations.

The recent Indian logistics sector includes both inbound and outbound segments of the manufacturing and service supply chains. Logistics infrastructure has gained a lot of attention from industry as well as policy makers. The role of managing this infrastructure, to effectively compete has been slightly under-emphasised. Inadequate logistics infrastructure can create bottlenecks in the growth of an Indian economy.

#### Importance of Logistics Sector

Logistics is one of the most important basic industries for any economic growth. The Logistics sector in India has today become an area of priority. The logistics industry in India is likely to grow at a rate of 9-10% over the medium-term, supported by underlying structural positives, as per an ICRA note.

The market size of the logistics sector in India is estimated to be between USD 90-125 billion. Given that the Indian economy has grown to over USD 1.73 trillion, these estimates may already be well below the actual size of the industry. Sources estimate that the industry employs over 45 million people and is going at the rate of 15% with sub-sector growing at even 30-40% per annum. Due to these reasons the Indian

logistics sector is viewed as one of the most attractive in the world.

Global Logistics Market contributes to 11% of Global GDP Whereas Indian Logistics Costs are 13% of Indian GDP (Source: IMA Industry Report -2017).

### Growth Aspects in Logistics Industry

1. The increase in investment by private and public sector will uplift the logistics sector.
2. Secondly, with India being the next manufacturing hub, increase in trade with Asia, Europe and North America will promote an increase in demand for the logistics services. This initiative will act as a major growth driver for both the public and private logistics players in the region.

However, the timely implementation of the proposed GST is expected to reduce the overall logistics costs and also simplify the tax structure, making the operation robust.

### Objectives of the Study

1. To find out effect of GST on Logistic Sector in general.
2. To find out effect of GST on Logistic Sector by considering its customers (Using Regression Model).

### Methodology of the Study

Research is based on secondary data, articles taken from various websites, newspaper. Research Design used in above study is Exploratory and Casual Research.

### What is GST?

GST is a multi-stage tax, it provides for an input tax credit mechanism.

GST is considered as more efficient tax system as compared to earlier Indian tax system.

### The Advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes.
- Rationalisation of tax structure and simplification of compliance procedures.
- Harmonisation of Centre and State tax administrations, which would reduce duplication and compliance costs.
- Automation of compliance procedures to reduce errors and increase efficiency.

### Destination principle

The GST structure would follow the destination principle. In the case of inter-state transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

### Why GST instead of the other higher tax

1. **Sensitise the business ecosystem.**
2. **Lower business cost:** Businesses pay multiple taxes and high levels of tax-on-tax. But with GST these multiple taxes will reduce.
3. **Increase the Global competitiveness:** GST incurred on inputs can be recovered along the supplies chain, all levels.
4. **Equity:** With GST, Taxes are levelled fairly among all the businesses.

5. **Transparency:** Consumer will get the benefit under GST.

### A) Effect of GST on Logistics Sector in General

Additionally, Earlier the Multiple numbers of taxes had made logistics cumbersome and costly process. For manufacturers, the goods and services tax (GST) has now replaced the multiple state VATs and the need to have a hub across all states will cease to exist. It will also allow firms to employ efficient practices such as bulk-breaking and cross-docking from a central location.

After GST implementation, there will be few warehouses, larger trucks on road while the overall number of vehicles will go down, greater adoption of a hub-and-spoke model in segments such as warehousing, cold chain, container freight stations and inland container depots.

These above changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations.

So we can conclude that GST in general will have positive effects on Logistics Sector in Long run.

### B) Effect of GST on Logistics Sector by considering Customers of Logistics Sector.

#### Main Customers of Logistics Sector are-

1. Healthcare and pharmaceutical industry
2. Auto and auto components industry
3. Lifestyle and readymade garments
4. High-tech, engineering
5. Telecom sector including base towers and mobile telephones.

### Logistics Sector depends on Other Sectors. Effect of GST on each Sector is determined as Positive or Negative.

#### I) Effect of GST on Healthcare and Pharmaceutical Industry

GST would have a constructive effect on the Healthcare Industry particularly the Pharma sector. It would help the industries by streamlining the taxation structure since 8 different types of taxes are imposed on the Pharmaceutical Industry today.

GST would help the Pharmaceutical companies in rationalising their supply chain reduction in the overall transaction costs with the withdrawal of CST (Central Sales Tax). GST is also expected to lower the manufacturing cost which will help in reduction in the overall cost of technology.

With the implementation of GST, Medical Tourism is also projected to grow manifold. So, Overall Effect of GST on Healthcare and pharmaceutical industry is positive. Positive effect means GST will help in the growth of Health and Pharmaceutical industry.

#### II) Effect of GST on Auto and Auto Components Industry

The two taxes charged to the end consumer on car and bikes currently are excise and VAT, with an average combined rate of 26.50% to 44% which is higher than the expected rates of 18% and 28% under GST. Therefore, there will be less burden of tax on the end consumer under GST.

GST would help the manufacturers in procuring auto parts at a cheaper cost due to an improved supply chain mechanism under GST. GST will be beneficial for the people in the market for small family cars. Currently, there are a lot of free

services/warranties offered by the car manufacturers due to the competitive nature of the industry. These free goods/services are not taxed under current tax laws.

Implementation of GST would reduce the cost of manufacturing of cars and bikes due to the subsuming of different taxes levied currently.

So effect of GST on Auto and auto components industry is Positive.

### III) Effect of GST on Lifestyle and Readymade Garments

GST will lead to surge in prices of many items in the country; the biggest slab of 28% is slapped on the luxury products.

Under GST, both the service tax and VAT are included into GST and thus regardless of goods and services, credit of input will be available for adjustment against the output liability. This can help optimise the working capital of these restaurants and consumers can expect better quality of products.

**So Overall Effect of GST on Life style and Readymade Garments is Positive.**

### IV) Effect of GST on Telecom sector including base towers and mobile telephones

Imported Phones will be charged with a 10% GST. This is done to give a boost for manufacturing in India.

Local Mobile brands are likely to get incentives from the IT Ministry. The government is giving incentives to these companies so as to prevent a hike of 4-5%. The good news about it is that the GST burden is not likely to be passed on to the Smartphone market. It will indirectly make smart phones more affordable.

Due to the new GST rules applicable as of July, the tax rates applicably are going to be uniform for whole of the industry. This move is going to be a bane for companies like Micromax, Lava and others. To neutralise the impact, the industry is going to offer incentives to these companies. Soon after GST being implemented, Apple was the first one to make the price change announcement in India.

The government has taken the move because the weighted tax average of smart phones amounts to be 12% on the VAT system and same is being continued for GST. But previously a tax burden of about 13.5% was levied on the smart phones. This move by finance ministry will reduce the GST rate by 1.5 % directly cutting down the cost of mobile phones.

So effect of GST on telecom sector including base towers and mobile telephones is positive.

### V) Effect of GST on High Tech, Engineering Sector

High technology is the one that is at the cutting edge, the most advanced technology available. Effect of GST on High tech, engineering sector is considered by considering effect of GST on IT. GST on IT sector will attract 18% on software services provided by software companies.

Good examples of high technology are telecom and networking, computing and automation, modern pharmaceuticals, commercial jet aircraft and advanced instrumentation like MRI machines. Emerging high tech areas include genetic engineering and nanotechnology.

Effect of GST on High tech, engineering sector is determined by considering the following:

### Effect of GST on the Automation Industry

Implementation of GST will help in reducing cost of production. It will assist in smooth flow of goods within the automation industry. Three prospects of GST, an additional 1% tax on supply of commodities, the supply of goods and services to oneself and input tax credit on inter-state sale may drive the necessity for supply chain restricting. So, effect of GST on Automation Industry is positive.

### Effect of GST on Commercial Jet Aircraft

Aircraft leasing costs will increase with introduction of 5% levy under the Goods and Service Tax. The government has fixed GST rate of 5 percent for economy class travel and 12 percent for business class travel. "We expect high growth rate in domestic traffic to continue in the near term with further upside once the GST impact on the economy is visible in 1-2 years," said Kapil Kaul, South Asia CEO of aviation consultancy, CAPA.

So, Effect of GST on commercial jet aircraft is negative.

### Effect of GST on Telecom Sector is Neutral

So Effect of GST on High tech, engineering sector =  
Effect of GST on the Automation Industry + Effect of GST on commercial jet aircraft + Effect of GST on commercial jet aircraft

= (positive + negative + neutral) = neutral

Thus, GST doesn't play a big role in development of High tech, & engineering sector.

Since Business of Logistics sector depends upon its customers, Regression model can be applied here.

Let,

Y= Effect of GST on Logistics Sector

X<sub>1</sub>= Effect of GST on Healthcare and pharmaceutical industry

X<sub>2</sub>= Auto and auto components industry

X<sub>3</sub>= Lifestyle and readymade garments

X<sub>4</sub> = High tech, engineering Sector

X<sub>5</sub> = Telecom including base towers and mobile telephones

Y = a + b<sub>1</sub>(X<sub>1</sub>) + b<sub>2</sub>(X<sub>2</sub>) + b<sub>3</sub>(X<sub>3</sub>) + b<sub>4</sub>(X<sub>4</sub>) + b<sub>5</sub>(X<sub>5</sub>).....VI

### From I, II, III, IV, V we get the following:

Y = a + b<sub>1</sub> (positive) + b<sub>2</sub> (positive) + b<sub>3</sub> (positive) + b<sub>4</sub> (positive) + b<sub>5</sub> (neutral).

So overall effect of GST on Logistics Sector using regression model applied would be positive.

### Recent Trends in GST

**As per 22<sup>nd</sup> GST Council Meeting of 6<sup>th</sup> October 2017, there are some changes in GST as follows-**

#### 1) Lesser Burden of Compliance for Small Businesses-

- Return filing compliance of small businesses with turnover of within Rs 1.5 crore is changed from once a month to once a quarter. Taxes will be paid quarterly.

#### 2) Relief for Service Providers-

- Exemption from Registration for a service provider if the aggregate turnover is less than Rs. 20 Lakhs (10 Lakhs in special category state except for J&K) even if they are making inter-state supplies of services.
- Services provided by a GTA to an Unregistered person shall be exempted from GST.

- TDS/TCS provisions shall be postponed till 31.03.2018.
- Small businesses will also have to file monthly returns for three months – July, August, and September – and the switchover to quarterly filing will happen from the cycle starting October 1.
  1. **Relief for Exporters**
    - Every exporter will now get an e-wallet. Merchant exporters will pay a nominal 0.1% GST applicable on exports to enable their suppliers to claim ITC.
  2. **Composition Scheme Changes**
    - Due date of Form GSTR-4 for the quarter July-September, 2017 is extended to 15<sup>th</sup> November 2017.

#### Significant Rate Changes

- GST on unbranded Ayurvedic medicines has been reduced from 12% to 5%. This will have positive effect on pharmaceutical and healthcare sector.
- Tax rate for man-made yarn has been reduced to 12% from 18%. The decision will have an effect on textiles.
- GST rate on many job work items reduced from 12% to 5%.
- GST on khakra and unbranded namkeen has been reduced from 12% to 5%.
- Tax on zari work has been reduced from 12% to 5%. Printing Job work rate revised from 12% to 5%.

#### Others

- Relief for jewellers as no need to furnish PAN card on jewellery purchase of more than Rs 50,000. The amount of jewellery purchase for which KYC will be required and determined later.
- 35% abatement on old leasing contract of vehicle.
- Due date of GSTR-6 (filed by an input service distributor) for the months of July, August and September 2017 has been extended to 15.11.2017

#### Under Consideration

- Finance Minister Arun Jaitley announced that a group of ministers will relook tax on AC restaurants. GST for AC restaurants may become cheaper from 18% to 12%. A group of ministers has been formed to devise the mechanism. The GoM will submit its report in 14 days.
- GoM will also make the composition scheme more attractive.

#### CONCLUSION

##### Effect of GST on Logistic Sector and many Sectors are Positive

GST will undergo a lot of changes in future. Many efforts are done to bring different sectors under GST purview. After a certain period of time, GST will become more positive. Many significant changes have been taken recently.

Meetings of Concerned Ministers about GST are conducted to explain about GST implementation properly. This meeting will have positive effect on Logistics Sector. It is expected that GST rates may decrease in future.

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