Positives & Negatives of GST for Freight Forwarders

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1. Freight Dispute: The Most Important Relief is regarding the clarity of Taxability of Freight, which was resolved one way or other under GST. There is no looming risk of litigation. The Taxability is explained below -

- <u>Export Freight</u>: Air & Ocean: Taxable if Contract made with Indian Customer. If Contract with Foreign Agent/Customer – Not Taxable.

- <u>Import Freight</u>: Air Freight is not taxable. Ocean Import Freight is taxable

2. No Leakage of Credit: Earlier VAT, CST, Excise, CVD, Entry Tax on purchases where a cost to the company. Under GST, Taxes paid on all goods & services purchases for furtherance of business available as credit.

3. Positive for Organised GTA: For the first time, Goods Transport Agents have been provided an option to avail Input Tax Credit and pay Output Tax at 12% instead of RCM to be paid by their Customers. This is welcome change especially for Organised Transporters due to -

a. The GST paid on Inputs will no longer a cost. This is important for Transporters having huge Infrastructure Cost

b. Credit of GST paid on Transport Vehicles will be available as credit unlike the previous regime.

c. Due to the Reduced Cost due to Input Tax Credit, the Organised GTA can more competitive in an very unorganised industry.

4. Lower Interaction with Department: With right fro Returns to Refund Application being made automated and online, the need to interact with the department has drastically reduced.

5. Impact on Industry & Business:

a. Compliance brings in Transparency and Organisation in the Industry

b. Tax does not play a role in Competition any longer as all the players have to charge tax

c. Unregistered & Unorganised Players in the market would be forced to become complaint else go out of business

d. Payment to Vendors & Receipt from Customer would be relatively prompt as the GST Matching Mechanism/Reconciliation proves as a Confirmation Tool to Business

e. Bogus Billing or Issuing Bills in Advance will drastically come down due to the new serially number & date requirement under GST.

1. Illogical Rate Structure: Ocean Freight taxed at 5% and Air Freight Taxed at 18% is the biggest impact on Freight Forwarders. Export Air Freight being taxed at 18% is illogical. Multiple Representations have been made in this regard to the GST Council and the anomaly is expected to be corrected.

2. Working Capital/Cash Flow Blockage: The Working Capital/Cash Flow of Freight Forwarders has been severely impacted due to the following reasons –

a. Rate Increase from 15% to 18%

b. Customer not paying full Invoice Amount as he is wary of whether the credit appear in this Online GSTIN Portal

c. For Exports Shipments [Master Prepaid – House Collect], where Customer is outside India, the amount paid to Airlines/Shipping Lines will have to be claimed as refund from Government. Refund Process is Temporarily Manual

3. Reimbursements: Due to the one to one Matching of Vendor/Customer Invoices, most of the Customers are asking the Freight Forwarder to provide FF's GSTIN to the Third Party Vendors (Reimbursement), take credit and recover the same at actuals with GST in their Invoice. This leads to further compliance for the FF.

4. Benefit to Merchant Exporter not extended to services procured: The benefit of purchase of goods at 0.1% to Merchant Exporters is not applicable for procurement of goods, thereby impacting the Working Capital of such Merchant Exporters.

5. Cumbersome Compliance Process: The Compliance Process is extremely cumbersome with multiple returns to be filed on monthly basis, the details desired and the one to one matching of Vendor/Customer Invoices. An In-effective GSTN portal is making process even more tedious and time consuming process.

6. Other Misc. Points:

a. If Vendors do not make GST Payment or File Returns, the FF will not be able to get credit and will have to pay such amount from own pocket and then reconcile with Vendor.. Also, if the Vendors delay in providing invoices, especially Airlines/Shipping Lines, the credit will be delayed to that extent but the Sales Billing would have happened. Thus, to that extent differential tax will have to be paid.

b. RCM on Inward Supplies from Unregistered Person is required to paid by FF. There are many incidental and other cash expenses incurred by the FF, the same will taxable in hands of the FF with added compliance. However, one relief is that the from 13.10.2017 to 31.03.2017, RCM on URD is not applicable.

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D Arvind was consultant of ACCAI for 5 years and thus know the Industry thread bear

A Strong Team of 70 Professional spread across West & South

The Firm advises and handle litigations of 19 Freight forwarders in the country

The Firm has won many cases for FF Community at Commissioner (Appeals) levels on Reimbursements limitation , Cenvat credit etc.

The Firm won a major battle for Freight Forwarders before Tribunal where –

- Freight difference is not taxable
- Incentive is nothing but freight difference and hence not taxable
- Service tax is payable only from 10-9-2004 on the commission and not from 1-7-2003

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