

# IMPACT OF GST ON INDIA'S ROAD TRANSPORTATION

The Goods and Service Tax (GST) is the most crucial economic reform since the Liberalisation, Privatisation and Globalisation (LPG) reforms in the year 1991. The logistics industry is being significantly benefitted by the implementation of GST and from removal of inter-state check posts. Elimination of state taxes has also lowered down bottlenecks for the transporters. **Gaurav Dubey** delves into the subject and presents a short report on the impact of GST on road transportation.



**W**hen the clock stuck 12 o'clock midnight and the calendar showed the date July 1 2017, India joined the bandwagon of 160 countries which have implemented GST/VAT in some or other form till now. After GST's implementation India has turned into a unified market and it is making India's manufacturing industry competitive by curtailing high logistics and warehousing costs. Implementation of GST has been rationalising and re-engineering transportation and logistics network which was previously embroiled in the bevy of state taxes. Unified system of taxation at the national level will result in more efficient cross-state transportation and streamlined paperwork for road transporters. This will ultimately bring down the logistics cost.

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Previously, each state of the country used to tax goods that moved across their borders at different rates. Hence, taxes were imposed multiple times on the freight that moved across the country. It resulted in long delays at inter-state checkpoints, as state authorities used to review and examine freight and apply the relevant taxes and other levies.

Trucks had been losing five-to-seven hours on a daily basis at inter-state checkpoints. On inclusion of other delays, we would find that a truck only moved for 60 per cent of the entire transit time. Implementation of GST is also crucial for the transportation sector because 65 per cent of India's freight move by road.

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**Post GST, freight operators have been experiencing lesser transport times.**

### Advantages of GST as expressed by the logistics professionals - Regional hubs will come on the scene

Under the previous tax structure, manufacturers in India were required to have warehouses in every state. The implementation of GST will facilitate emergence of key hubs in major states to allow streamlining of processes. It will also allow manufacturers with the flexibility to have warehouses only in selected states.

### Reduced turnaround time

For the purpose of compliance with state laws and taxes, the trucking industry spends a large amount of time at interstate checkpoints and tracking of interstate sales tax. It is estimated that the logistics industry spends 50-60 per cent of its time on all of the above functions. Thus, lower interstate compliances and reduced paperwork is expected to result into faster turnaround time for trucks.

### Uniform Taxation System

Prior to implementation of GST, all states had their own tax system and each of them used to tax goods that move across their borders differently, resulting in a freight that is taxed multiple times.

### Process would be streamlined

The highly fragmented nature of Indian transportation is also such because engagement with unorganised players is preferred for tax considerations. Implementation of GST is expected to create greater opportunities for and create incentives for companies to enter the organised sector.

### Reduced cost

All the above factors working together will automatically result in lower cost of transportation. According to a World Bank report, corporates can save up to 40 per cent of their logistics incurred at check posts. Presently, the taxation rate approximates at 26.5 per cent, but with the implementation of GST this rate is expected to move to between 18 per cent and 21 per cent, resulting in cost savings.



“At present, the logistics sector is highly fragmented and it has very few large and organised players. With GST, the unorganised sector will have to join hands with the organised players to set up economies of scale. This will lead to the reduction of transportation cycle times, enhance supply chain decisions and to the consolidation of warehouse.”

**Gemunu Rodrigo, CEO, Expo Freight Private Limited**



India's key manufacturing sectors by three to four per cent of net sales.

The planned GST system seeks to replace several state and federal taxes and tariffs for a single tax at the point of sale. The prevailing complicated tax structure in India meant that logistics decisions, including the choice of setting up inventory and distribution centres, are taken on the basis of tax regime such as Central Sales Tax and State Value-Added Tax (VAT) rates, rather than on operational efficiency. Tax optimisation and administration is often considered over the operational and logistics efficiency.

GST is all set to unleash a new era of developing logistics infrastructure and take investments to the next level. Given that the inefficient and longer supply chains with warehouses in almost every state is fiscally preferred in the existing regime, it will now overhaul and compress the entire logistics set-up.

GST will score over the previous regime in the transportation and logistics industry,

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where a tendency was seen to engage with the unorganised players for tax considerations. The GST regime will see the emergence of the organised service providers, since taxes will no longer be the added costs for the businesses. Given the highly fragmented nature of the Indian transportation and logistics industry (the leading 10 listed firms command less than five per cent of the overall market), implementation of GST is expected to unleash a plethora of opportunities for companies in the organised sector.

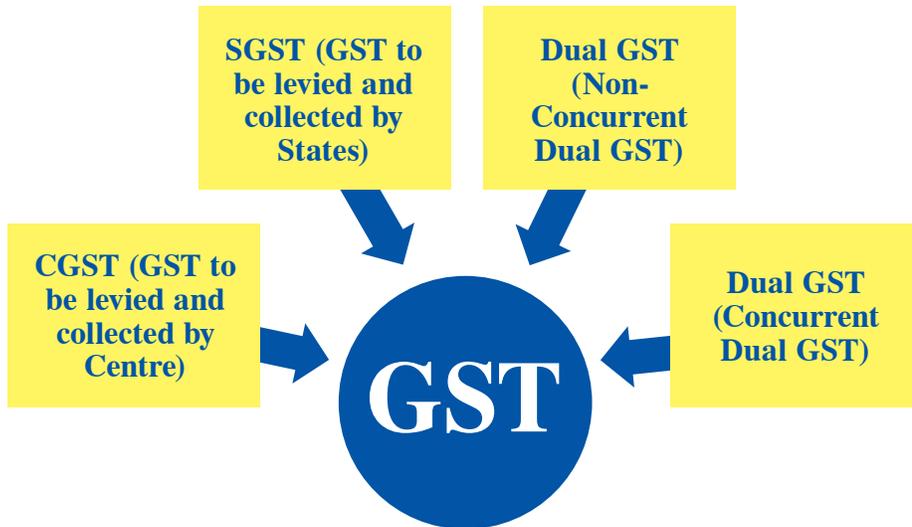
Thousands of trucks enter each state of the country every day and the sight of long queues at the checkpoints of states is a daily affair. Similarly, over 20,000 trucks enter Delhi everyday through 122 checkpoints of the states. At the checkpoints drivers have to pay an entry tax called the octroi, a municipal level tax.

Abdul, a truck driver says, “Usually, I have to wait for three to four hours at Badarpur border in long serpentine queue which runs for two to three kms whenever I bring goods



Trucking industry is evolving in multi-dimensions. The long haul trucks would become bigger and check posts and interstate borders will be removed with the implementation of GST. Once it is removed, the trucking industry will get a great relief as it will reduce the time lag and ensure better and faster delivery of goods.”

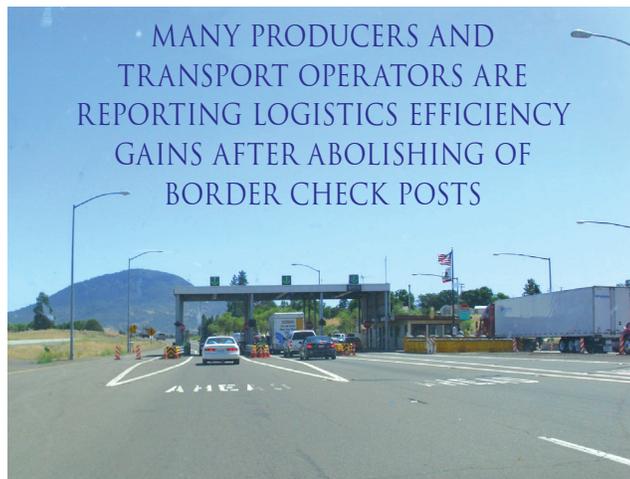
**PC Sharma, CEO and Whole Time Director, TCI EXPRESS**



to Delhi.” Abdul is elated on rolling off of the GST and says, “I am not much aware about GST but one thing I know is that it will eradicate octroi and various other kind of taxes and would decrease the travel time.”

more competitive than ever before.

Gemunu Rodrigo, CEO, Expo Freight Private Limited says, “Proper implementation of GST will have positive impact on the logistics industry through the



Logistics industry players are very much excited after the rolling off of this new tax reform as it will drastically bring down the logistics cost in the country. This would also make manufacturing industry of the country

reduced costs and increased efficiency. It would have immense impact within the country and on exports as well. It will lead to the emergency of organised service providers since taxes will now not be an added cost for businesses. At present, the logistics sector is highly fragmented and it has very few large and organised players. With GST, the unorganised sector will have to join hands with the organised players to set up economies of scale. This will lead to the reduction of transportation cycle times, enhance supply chain decisions and to the consolidation of warehouse. All of this will help the industry grow, which will

ultimately accelerate the economic growth.”

PC Sharma, CEO and Whole Time Director, TCI EXPRESS opines, “Trucking industry is evolving in multi-dimensions. The long haul trucks would become bigger and check posts and interstate borders will be removed with the implementation of GST. Once it is removed, the trucking industry will get a big relief as it will reduce the time lag and ensure better and faster delivery of goods. We can increase the number of trips and ultimately it will add to the productivity of the whole industry.”

The transportation industry which is presently largely fragmented and unorganised due to operational barriers, will undergo a sea of changes. The industry has a long supply chain, increasing costs as well as inefficiency. Trucking has for years been structured to incorporate the state tax systems, reducing the ease of doing business for transport companies. Truck drivers in India clock an average of 250-280 kms per day as compared to the world average of 400 kms per day.

The logistics industry will certainly undergo a metamorphic change with the implementation of GST. The transportation industry will be substantially benefited by this big bang tax reform. Lesser interstate compliance and reduced paper work will result in faster turnaround time for trucks. That directly adds to the bottom-line of the transporter. The GST will also lead to the transport industry getting more specialised. A proper system will come in place – there will be the principal transporters who will connect the manufacturers with the hubs. Then there will be another category known as subsidiary transporters, who will move from the hubs to the distribution centres. Finally, there will be the last-mile transporters who will ensure customer delivery. This structure will lead to higher competitiveness, more efficient sourcing and organised trucking. 