

IMPACT OF GST ON WAREHOUSING INDUSTRY

CMA Deepak Mittal *

ABSTRACT

India has now implemented most important tax reform GST. More than 160 nations have already adopted a unified indirect tax structure in Asia which creating an effective tax system with a comparatively lower cost of administration and collection due to multiple tax rates at the state level makes the system inefficient now remove all state tax barriers and creating a efficient tax system. Storage and warehousing of agricultural produce has been exempted from GST, clearly with the intent to reduce the tax burden on the farming sector. This is a continuation of the earlier exemption of service tax for these services.

KEYWORDS: Goods and Service Tax, Logistic, Warehousing, Operations Management, Supply Chain.

Introduction

GST is a single tax on manufacture, sale, and consumption of goods and services throughout India. The purpose behind this move is to have one indirect tax for India which will make the country a unified common market. GST is collected at every stage of sale or purchase of goods or services, based on input tax credit method. This simplification of the taxation system would make the inter-state transportation of goods more efficient.

As higher than optimal time is consumed per transportation, logistics costs incurred in India 2 to 3 times compared to the global benchmarks, according to the World Bank. In simple terms, the logistics cost in India is about 13 per cent of GDP as compared to about eight per cent in western countries and about 18 per cent in China. But with the introduction of GST, India will become a seamless market without any difference between inter-state or intra-state sales.

Warehouses are scientific storage structures especially constructed for the protection of the quantity and quality of stored products. Warehousing may be defined as the assumption of responsibility for the storage of goods. The Goods and Service Tax (GST) is boost to the growth of the warehousing industry. The 1.2 billion sq. ft. domestic warehousing industry now consolidate with the roll-out of the goods and service tax. Implantation of GST is presenting companies the life time opportunity to restructure their logistics and warehousing in terms of locations, size, operations and services.

The old structure gave rise to the practice of companies manufacturing warehouse in each state in order to avoid central taxes. GST will facilitate centralization and consolidation without adding rather reducing the cost. One of the World Bank report "India Development Update" has estimated that GST will help in taking decisions on warehousing and distribution without making any tax considerations. This would ultimately result in consolidation of warehouses and further closure of smaller warehouses.

Need of the Study

Warehousing is an important logistic function, which involves holding and preserving goods from the time they are produced until they are needed for consumption. The storage of goods, therefore, from the time of production to the time of consumption, ensures a continuous flow of goods in the market. Storage protects the quality of perishable and semi-perishable products from deterioration. However, it is the storage and warehousing sectors that have mainly remained under-researched although the warehousing segment constitutes only 15%-35% of the total logistics costs, and its importance cannot be ignored with respect to the role it plays in the smooth functioning of a supply chain network. Indian

* Research Scholar, University of Rajasthan, Jaipur, Rajasthan, India.

businesses for long have ignored the significance of the warehousing sector that continues to remain one of the most under invested sectors in the country. Earlier tax system was multiple tax rates at the state level which increased to overall cost of transport and makes the system inefficient. New tax reform GST has remove tax barriers and ultimately its effect to cost savings.

Objectives of the Study

- To analyze the impact of GST on Logistics Industry especially on Warehouses.
- To present the advantages to Warehousing Industry in India after GST implementation.
- To analyze the effect of GST on Warehousing Income.
- To analyze the issues has come after implementation of GST.

Research Methodology

The present study is mainly based on secondary data. Secondary data is collected through journal, research paper and website the whole study is based on experts analysis and data presented by government and institutions for analyzing impact on warehousing industry after implementation of GST.

Impact of GST on Warehouses

- **Reduction in number of warehouses:** Earlier, companies feel the need to build at least one big warehouse in different states because of different taxes being imposed in the states. This increases the storage cost and affects the warehousing structure in India. With GST in place, there would be uniformity in imposed taxes and companies would not require to pay for taxes in different regions. Companies would have one big warehouse at a central location which might serve multiple states leading to decrease in the no. of warehouses. Alternatively, companies may opt for warehouses at specific locations on the basis of hub and spoke model. We can safely assume GST will have a direct impact on the total count of warehouses in a supply chain.
- **GST - The Technology Enabler:** As mentioned above, consolidated warehouses would be larger in size for accommodating more inventory at a central location, these warehouses would definitely benefit from technological sophistication by implementing state-of-the-art planning and warehousing systems which are not possible in smaller and scattered warehouses. There would be indirect impact of GST on warehousing in India, as IT costs of deploying ERP systems at smaller warehousing locations would be eradicated. Analysts also predict that it will ensure improved service levels at lower cost in overall supply chain.
- **Operations Management:** In the pre-GST era, low tax optimization and not higher operational efficiency was the end goal of warehouse organization. Manufacturers and third-party logistics companies cleverly sidestep tax laws by following a scattered and decentralized model of storage and distribution. They transfer stock to warehouses set up in various states of operations, avoiding central taxes on inter-state trade to a large extent. A lower tax bill comes at the cost of better operational efficiency that large structured warehouses in centralized geographic locations with better connectivity offer. Manufacturing companies have to revamp their warehouse organization and logistics network to leverage the opportunities presented by GST implementation.
- **Logistics Time:** On report of entry taxes and heavy paper work at state check posts, there is an extra 5-7 hours added to the transport time for inter-state transport of goods. Over the time there will be a move towards a 'hub and spoke' model in which less but bigger trucks will move between bigger warehouses. In addition, flow of goods is expected to get better with reduction in turnaround time as VAT related check posts will be removed. It may lead to 15-20 per cent decrease in the truck stoppage time. This will also lead to faster and increase in the number of deliveries. Abolishment of both the entry tax and easier tax compliance actions is likely result in easier movement of goods across the country.
- **Shift unorganized to organized format:** Traditionally most of the warehouse were being unorganized sector which were more of godowns being accepted as state wise need based option We see there is so much scope for organizing the current unorganized setup of warehouses in India. In the present scenario, research says that there are around 20-30 warehouses for each company, almost 1 in every state and now GST lead to better organized warehouses and ultimately, enhancing the overall efficiency.
- **Healthy Impact on Supply Chain:** With GST in one place, there would be uniformity in taxes and companies would not be required to pay taxes in different regions. After GST implementation the warehousing sector is better organize itself and also optimize. Its operation and information technology system.

- **Central Warehouse:** The location of warehouse is generally chosen to minimize the cost of delivery for both the company and the customer other factors considered access arterial highways, access to highways, ports, etc. for shipment and labor availability. The local state tax are also factor a considered by companies before locating a warehouse with the implementation of GST, logistic companies can have restructure their warehouse location and can have one central warehouse.
- **Inventory Control and Demand Forecasting:** Number of warehouses leads to complicated warehousing decisions like setting up of huge inventory and at times running out of inventory when demand rises suddenly. GST would have a huge impact on inventory efficiency as there would be lesser stocking points and case of stock outs would also be fewer. This will all be due to businesses taking benefit of economies of scale and making better prediction for the upcoming demand, thereby guaranteeing that supply chain process is up and running. Surely, this will lead to a positive influence of GST on warehousing in India
- **Cost Benefits:** Reduction in number of warehouses and setting up larger centralized warehouses at prime locations will certainly make the sector more organized. Companies that were earlier more concerned about saving on taxes would focus more on operational efficiencies. With this, the logistics costs will come down. After the implementation of GST there is full credit available interstate transaction therefore it is benefited to cost reduction.

Conclusion

The Goods and Service Tax is transforming India into a single integrated market. In the pre-GST era, the structure and organization of India's warehousing industry reflected a preoccupation with the multiplicity of tax laws in our country. Companies can now make decisions on warehouse location size technology adoption inventory and operations management based on logical factors like proximity to consumption centers, manufacturing locations, optimization of goods movement and inventory control strategy etc. the cost savings that flow there from will mean lower supply chain costs for manufactures and reduced products prices for consumers. Market integration in the post-GST era, will bring in a uniform tax regime cuts across regional boundaries and make taxation an irrelevant parameter for the warehousing and distribution. The warehousing sector would be both an enabler and beneficiary of India's biggest tax reform since independence. Any positive changes in the warehousing and logistics has boost the global competitiveness of our manufactures.

References

- ✖ Anitha, M. (2016).- Impact of Goods and Service Tax (GST) On Logistics Sector in India. SSRG International Journal of Economics and Management Studies, 3(5), pp. 79-82.
- ✖ Bandyopadhyay, S. (2011) - A Primer on Goods and Services Tax in India, New Delhi -Centre for Budget and Governance Accountability.
- ✖ Girish Garg (2014) - basic concepts and features of GST in India- international journal of scientific research and management- vol.2 issue 2 pp 542-549
- ✖ Gurveen Kaur, (2017) – GST in India - A significant Tax Amendment. International Journal of Management, 8 (3), pp. 53–62.
- ✖ J. P. Saxena (2013) - Warehouse Management and Inventory Control - Vikas Publishing House Pvt. Ltd. New Delhi, India.
- ✖ Patrick M (2015) Goods and Service Tax: Push for Growth. Centre for Public Policy Research (CPPR).
- ✖ Prasanna Kumar Mishra, Devi Prasad Mishra (2005) - Role of Warehouses in Indian Economy, Kalpaz Publications.
- ✖ <http://holisollogistics.com/impact-of-gst-on-warehousing-in-india>.
- ✖ <https://www.legalraasta.com/gst/impact-gst-warehousing-sector>.
- ✖ https://www.iaeme.com/MasterAdmin/uploadfolder/IJM_08.../IJM_08_05_012.pdf.
- ✖ www.thehindubusinessline.com/economy/.../gst...warehousing.../article9679108.ece.
- ✖ www.cbec.gov.in/htdocs-cbec/gst/eflier-accts-records21062017.pdf