
Impact Of Goods And Service Tax (GST) On Global Supply Chain Management And Logistics

Executive Summary:

Launched at midnight of June 30th, 2017, the Indian Government has proposed to substitute the present tax system Value Added Tax (VAT) and Excise with Goods and Service Tax (GST). Under this new system, there would be common tax for all goods or services availed respectively. With the change in the tax structure in India companies will have to change their supply chain strategy in order to minimize their tax or fiscal cost.

With the introduction GST, all taxes might become creditable, whereas in present tax structure the Central Sales Tax (CST) gets cascaded in the pricing and adds up in the cost of intermediaries. Secondly, the goods are not taxable under interstate transfer within companies warehouse but with GST, it will be taxable as per interstate goods and service tax at applicable rates. Thus with changes in taxation policy many industries may go centralized from their present decentralized mode of operation and reduce their warehouses to eliminate the interstate GST leading to massive supply chain restructuring in order to sustain in the industry.

Current Indian Tax Structure:

From production of goods to consumption of goods or services the Indian Government levies different types of taxes for different activities (like VAT, Excise duty, service tax, sales tax etc).

Presently, there are four main types of taxes in India:

1. Customs Duty - It is imposed on goods imported from other countries.
2. Excise Duty - It is imposed on goods manufactured in India.
3. Service Tax - It is imposed on the services availed by the consumer.
4. Sales Tax - It is imposed on the services availed by the consumer.

Sales tax are of two types:

1. VAT (Value Added Tax) - It is imposed on addition in value by the manufacturer at each stage as decided by the state government.
2. CST (Central Sales Tax) - It is imposed on transfer of goods from one state to another as decided by the central Government.

GST tax Structure:

GST is a single comprehensive tax levied on Goods and Services at every stage of the supply chain from manufacture or provision of services to consumption. At every transaction point the seller or service provider will claim the input credit of tax which he has paid while purchasing the goods or service. This will eliminate the incidence of cascading or 'Tax on tax'.

GST has three components:

1. CGST (Central GST): It will be administered by Central Government.
2. SGST (State GST): It will be administered by State Governments.
3. IGST (Inter-state GST): It is to be levied on Inter State trade and administered and collected by the centre.

Present Tax Implication on Supply Chain Management:

Currently, the Indian companies takes all its logistics and supply chain decisions for sourcing, distribution and warehousing based on the state level tax avoidance mechanism. Some of the options in relation with designing supply chain includes:

1. Contract manufacturing
2. Manufacturing and warehousing locations
3. Intrastate or interstate procurement of goods and services
4. Imports vs Indigenous supplies

Indian manufacturers have to bear the burden of a plethora of taxes:

1. Imported raw and packaging materials have to go through a complex regime of customs duty, CVD and other levies. The multiplier for landed cost is still high for finished goods even though the base customs duty is very less. Many of the levies cannot be avoided and downstream taxation is applicable on the duties as well.
2. Excise duty would levied on manufacture. CST may be applicable if interstate sales are being done and VAT would be applicable on sales within a state. Entry tax may also be levied on some states and Service tax would be applicable on transport.

The advantage of India of having a low cost manufacturing base gets nullified due to the taxation system. The introduction of GST will simplify the whole regime to a great extent.

Impact of GST on Procurement of goods

Most of the companies try to reduce the procurement cost as procurement of raw materials constitute the major part of the product cost. Manufacturers have to compromise on quality due to interstate tax issues and procure from local vendors. GST can play a vital role in reduction of procurement cost by solving many conspiracies.

Post GST procurement Strategies:

1. Quality of raw materials will become the main focus of procurement strategy instead of taxation focus.
2. In process design, consolidation of suppliers and increased options to be considered while importing materials.
3. Supplier count will go down moving to consolidation of suppliers; leading to contract negotiation with suppliers for long term benefits.
4. Delivery on time and quality will become most important parameters for consideration of suppliers.

Impact of GST on freight and Transportation:

All movement of raw material, packaging and finished goods across the country is by road which in turn has its own issues. Badly maintained vehicles, poor physical infrastructure, checkpoints and entry barriers at all state borders makes transit very difficult. It takes weeks for goods to be transported from north India to South India whereas the same distance would be covered in a few days in a developed market. The slow growth in establishment of professional trucking fleets is a major cause of concern. Most companies being cost conscious tend to overlook the future efficiencies for current cost which reduces the usage of professionally managed fleets.

With the advent of GST there is likely to be some improvement on freight and transportation:

1. Hopefully, there will be a greater role for professional third party logistics who can bring about much needed consolidation and expertise into this sector.
2. GST can minimize the wastage time at interstate borders which in turn can reduce the transit time significantly.
3. Under the new tax structure since interstate transactions are tax free, replenishments can be quickly made from other states. Thus average inventory days will be reduced.

Impact of GST on Warehousing and Inventory management

GST can help companies take decisions regarding warehousing and inventory management polices.

1. Selection of warehouse locations with respect to plants and markets.
2. Choice of inventory capacity.
3. Logistics parks can be developed to modernize logistic infrastructure which will help to combine with other players in stocking the products. Thus the holding cost will decrease.
4. It will lead to improved assortment of goods.

Impact on Manufacturing sector

In manufacturing sector, GST can prove to be beneficial in many ways:

1. As location will no longer a constraint, the companies will have more flexibility in vendor selection.
2. As tax incentives will be provided equally in all states, new plants can be opened in any state leading to increase in employment.
3. All area based excise exemptions and SEZ (Special Economic zones) related exemptions will be discontinued.

Impact of GST on Retail sector:

Introduction of GST can also prove to be a boon for the retail sector:

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1. Total warehouse space will decrease as the companies will be able to use their warehouses more efficiently and effectively.
 2. Bigger warehouses would make investments into automation and ERP systems more practical and economical. Transportation will also become more cost effective with the use of larger vehicles for stock replenishment.
 3. In E- commerce, fulfilment centres can be set up at major cities throughout India to reduce the time of delivery.

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