



## Discussion Paper

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# Impact of Goods and Services Tax (GST) on Air Express Industry

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By

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## Introduction

A taxation regime should be easy to comply and administer, encouraging people and companies to come under the tax radar. This will encourage the unorganized sector to come under the formal economy. It must be noted that the informal sector forms a critical part of the Indian air express supply chain. With this in mind, it is expected that the Goods and Services Tax (GST) regime, will make the taxation system in the country user and administer friendly. GST aims to remove issues like cascading impact of taxes, unifying the Indian market, simplifying administration and compliances, and rationalizing the taxation rates that the earlier regimes failed to address.

In India, the GST is sought to be levied has a dual structure whereby compliances would need to be undertaken for every state-level registration. It is relevant that we discuss how the air express industry which follows a *'hub and spoke model'* will adapt itself to the new tax apparatus.

- Sourcing is done from multiple locations and there exists a central consolidator known as the Hub.
- Spokes provide services through the distribution centres across the locations.

By the very nature of the industry, air express services could not be associated to any particular place or state. Therefore, it is of utmost importance to understand where would GST be payable, on what value and the compliance reporting requirements thereof. Moreover, the payment of tax and the actual utilisation of capital assets are not entirely aligned that would lead to credit blockages.

We understand it is essential that bespoke rules be formulated under GST regime to address unique sector-specific issues. With this viewpoint, industry stakeholders have proposed recommendations to the legal framework for taxing air express services under the proposed GST law. These recommendations touch upon:

- (a) Zero-rating of international transactions
- (b) Single PAN India registration
- (c) Clarification on the Location of supplier
- (d) Amendment in place of supply
- (e) Location of the recipient of service
- (f) Value Added Services
- (g) Taxability of self-supplies
- (h) E-Way Bills



## Zero-Rating of International Transactions

International trade is highly significant for the growth and development of a nation, especially for emerging economies like India, due to the spillover contribution of imports/exports to GDP, employment and overall demographic prosperity. Logistics hubs are centerpieces for such global trading. Hence, India has been striving to establish itself as a relevant logistics hub by, expanding integration with international trade and supply chains, better usage of national transport assets, lesser costs for imports and consequently increased job opportunities.

A taxation regime should ensure that there is no double taxation of any supplies and that no taxes are exported out of the country, burdening the exports of goods and services from such country with local taxes. However, the proposed GST regimes weigh down international air express transactions with both inbound and outbound tax. This results in additional burden for such transactions, which is detrimental for the growth of the industry.

### Zero rating for inbound and outbound shipments

Under most developed GST/VAT legislations, international freight transportation services (inclusive of courier services) are zero-rated for both import and export transactions. For instance, Malaysian GST regime identifies international freight transportation services as zero-rated. Zero-rating of inbound and outbound shipments resolves the following issues:

- Double taxation of courier services in case of inbound shipments
- Export of taxes and possible cascading of taxes on export shipments

### Zero rating for services ancillary to international freight transactions

Ancillary activities of international freight transportation such as loading, unloading, handling, warehousing fees, excess weight charges, refrigeration and packing fees, etc. are also provided with zero rating.

For example, in Australia<sup>1</sup>, services that facilitate the international transport are GST free.

### Currency of Consideration

The export status should not be obligatory upon receipt of consideration in foreign exchange. Otherwise, it would result in cascading of taxes even though the goods or services might be consumed outside India (as per the place of supply principles).

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<sup>1</sup> GST and international freight transport on Australian Taxation Office website



## Recommendations

Zero burden of any additional taxes on the international transactions would act as catalyst in establishing India as a global logistics hub.:

- International movement of goods into India and from India should be zero-rated.
- If the supplier is involved in provision of local transportation services only:
  - Service to be zero-rated if supplied to an overseas customer on goods for export
  - Service to be zero-rated if provided to an overseas customer in business capacity for the first leg of import
- Incidental services for goods to be delivered to their place of consignment - included supplies of loading, unloading, handling, insurance and other services
- Export status not to be incumbent upon receipt of consideration in foreign exchange



## Single Pan-India Registration for Input and Output Tax

Air express players make billions of domestic and international deliveries on a day-to-day basis. Actual performance of service and usage of goods or services might not be entirely aligned to place of supply of service, where the output tax accrues. Moreover, in the context of courier services, it is impossible to track state level performance of services. With the rise of e-commerce and SME sectors, the demand for air express services would also increase manifold.

### Issues for Discussion:

#### Cascading of Taxes:

Since the procurement and usage of goods and services would not necessarily be geographically aligned with the provision of services, credit of goods or services would get blocked, resulting in cascading of taxes.

#### Ambiguity around Payment of Taxes:

For meeting the state-level compliances, the air express players need to determine:

- Location Performance of service
- Location of service recipient, which might not be same as the location of consignor and consignee
- Location of the service provider

All these would result in ambiguity with respect to place/State for GST payment and type of GST payment required.

#### Increase in compliances

In the absence of a pan India registration across States, air express players would have to undergo multiple registrations, which would result in multiple assessments, investigations and audits, etc., leading to dramatic increase of tax compliances. This would be cumbersome for the concerned industry players.

#### Diminishing benefits of GST regime:

State-wise registration for each levy (CGST, SGST and IGST) could diminish the benefits that are envisaged under the GST regime. For example, consolidation of warehouses, advantages of efficient resource utilisation and economies of scale, etc. as the industry would have to take into account tax considerations like minimum leakages of credits, etc.





## Mechanism of Pan India Registration

In order to tackle the aforementioned problems, air express industry should be allowed to obtain a centralised pan India registration for input and output tax. The proposed structure of a centralised pan India registration is as follows:

- Express companies would charge IGST for express/ courier services provided across States (except in the State where express company is centrally registered).
- Moreover, irrespective of place of supply, all vendors of express companies should invoice the express companies at the location where such express company has obtained centralised registration.
- In case of exempted supply, express company would be liable to pay an amount on such exempted supply in the State in which such exempted supply has been made. Such amount may be computed as a specific percentage of value of exempted supply or on proportionate turnover basis.
- Similarly, with respect to certain goods or services on which credit is not available, express company would be liable to pay an amount in the State from where such goods or services have been supplied in the manner as may be prescribed.

In the absence of a centralized pan India registration, the following clarifications would be required:

- The location of the supplier which would be considered as the *establishment most directly concerned* with the supply of service
- The place of supply with respect to international movement of goods
- The place of supply for a co-loader activity which is different from a courier activity
- Rules pertaining to determination of value for self-supplies

## Clarification on Location of the Supplier

The core business of the Express Delivery Service (EDS) industry is the provision of value-added, door-to-door transport and deliveries of next day or time-definite shipments<sup>2</sup>, including documents, parcels and merchandise goods.

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<sup>2</sup> Time-definite shipments normally incur a transit time of between 2 and 3 days



*A single pan India registration under the GST for air express industry would require the centrally registered office be considered as the location of the service provider.*

As per [Section 2\(18\) of Draft IGST Act](#), the 'location of the supplier' has been defined as follows:

- Where a supply is made from a place of business for which registration has been obtained, the location of such place of business;
- Where a supply is made from a place other than the place of business for which registration has been obtained, that is to say, a fixed establishment elsewhere, the location of such fixed establishment;
- Where a supply is made from more than one establishment, whether the place of business or fixed establishment, the location of the establishment most directly concerned with the provision of the supply;
- In absence of such places, the location of the usual place of residence of the supplier.

As per the above-mentioned definition, the location of the supplier of service is the "establishment most directly concerned with the supply". However, this phrase has not been defined under the current GST law, which would lead to heightened ambiguity.

EICI provides two alternatives which may be considered the 'location of the supplier':

#### [Alternative A: Head office of the air express company](#)

- An express company might have multiple establishments involved with the door-to-door courier service, however; it is the head office, which is concerned with the main designing, network mapping and assignment of routes for a particular courier transaction.
- Consignment handling mostly involves the head office of the company. It also manages and instructs for delivery/ pick-up, prioritizes the delivery based on deadlines, optimizes the route to enhance operational efficiency and leads the service stations/ hubs.
- In addition, for delivery/ pick-up, the head office prioritizes the delivery based on deadlines, optimizes the route to enhance operational efficiency and leads the service stations/ hubs.

Hence, it is suggested that the location of the supplier i.e. "establishment most directly concerned with the supply" must be the location of the head office which houses the primary network (and design) of a typical door-to-door courier transaction.



## Alternative B: The place of actual pick-up/ delivery of goods

Another alternative to define *“establishment most directly concerned with the supply”* could be to treat the location of ‘actual performance of the service’ for the purpose.

As per [Section 9 of the Draft IGST Act](#), the place of supply of services is defined as follows:

The place of supply of services by way of transportation of goods, including by mail or courier to,

- Registered person: the place of supply is the location of registered person
- Person other than a registered person: place of supply is the location of pick up

## Recommendations:

Given the above background, EICI have mapped the various transactions that could be undertaken as a part of courier activity and the GST impact or clarifications required in this regard.

### Domestic Door-To-Door Courier Activity

If there is no establishment of the courier company in the state of pick up, then *“the location of the establishment most directly connected with the **pick-up of the product**”* becomes the location of supplier.

The location of the establishment most directly connected with the pick-up of the product may be defined as:

- The head office of the express company where designing, network mapping, assignment of routes, etc. is done
- The place of actual pick-up of goods

### Import cash-collect transaction

If there is no establishment of the courier company in the state of pick up, then *“the location of the establishment most directly connected with the **delivery of the product**”* becomes the location of supplier.

### Clarifications required for registered recipient in India include:

- Recipient for the purpose of place of supply will be the Indian consignee in India who pays for the courier service
- The location of the establishment most directly connected with the delivery of the product may be defined as:
  - The head office of the express company where designing, network mapping, assignment of routes, etc. is done
  - The place of actual pick-up of goods



### **Clarifications required for unregistered recipient in India include:**

- Recipient for the purpose of place of supply will be the Indian consignee in India who pays for the courier service
- The location of the establishment most directly connected with the delivery of the product may be defined as:
  - The head office of the express company where designing, network mapping, assignment of routes, etc. is done
  - The place of actual pick-up of goods
- Since the pick-up location is outside India, the place and the transaction would qualify as an exempt service for unregistered recipients in case of import cash collect transactions.

### **Export Pre-Paid Transactions**

In case there is no establishment of the courier company in the state of pick up, *“the location of the establishment most directly connected with the **pick-up of the product**”* becomes location of supplier.

### **Clarifications required for registered and unregistered persons in India include:**

- Recipient for the purpose of place of supply will be the Indian consignor in India who pays for the courier service
- The location of the establishment most directly connected with the delivery of the product may be defined as:
  - The head office of the express company where designing, network mapping, assignment of routes, etc. is done
  - The place of actual pick-up of goods

### **Co-Loader activity (only registered recipient)**

In case of non-availability of any establishment of the express company in the state of pick-up, a contractual arrangement another courier company in India is made. *“The location of the establishment most directly connected with the pick-up of the product”* becomes the location of supplier.

### **Clarifications required for such arrangements in India include:**

- The nature of a co-loader activity is different from a courier activity and hence; should be classified as a transportation activity
- The location of the establishment most directly connected with the delivery of the product may be defined as:
  - The head office of the express company where designing, network mapping, assignment of routes, etc. is done
  - The place of actual pick-up of goods

In case of unregistered recipients, place of supply and location of supplier are not applicable.



## Amendment in the place of supply

The present draft of IGST law states that there exists a clear segregation between the express delivery services from freight transportation services in terms of place of supply whenever the services are deemed to be outside India.

- **Freight Transactions:** In case of international transactions, the place of supply for freight transportation services (except mail or courier) is destination of the goods.

For instance, if the goods are transported outside of India by a freight forwarder, then the place of supply for the service would be outside of India and the transaction zero rated.

- **Express delivery services:** The place of supply is based on the performance of the express delivery service, i.e. even if only a fraction of the courier service is performed in India, it is subjected to service tax.

Since partial courier service would always be performed in India (whether the goods are being exported or imported) it would always be liable to a service tax.

Such a differential treatment as compared to other modes of transportation puts courier at a significant disadvantage. It is imperative that courier is put at par with all other transportation of goods and services and all related export and import transactions are zero-rated.

### Courier activity for an Import Prepaid consignment

In case of import prepaid, the place of supply as per [Section 10\(3\) of IGST Act](#) would be the location where the destination services are performed, i.e. India. It is extremely ambiguous and difficult to define the location where the services are actually performed as sometimes two or more states may be involved.

#### Recommendation

Express delivery services should be considered at par with freight transportation services. Such change would not change the taxability of the transaction as import transaction would still be liable to tax.

### Courier activity for an Export Cash Collect consignment

For the Export Cash Collect transactions, the place of supply would be location where origin services are performed, i.e. India. While international freight and destination services are



performed outside India and the payment is also received outside India, this service would become taxable in India, as per the [Section 10\(3\) of IGST Act](#).

#### Recommendation

Express delivery services should be considered at par with freight transportation services. The destination would be outside India and the express delivery services would implicitly get classified as export, this would not lead to export of taxes.

#### Co-Loader Activity for an Import Prepaid Consignment

According to the [Section 10\(2\) of IGST Act](#), the place of supply would be the location where the services are actually performed. Under such a scenario, the destination services are performed in India.

Since the nature of a co-loader activity is distinct from that of a courier activity, it must be classified as a transportation activity.

*If courier services were applied to a co-loader activity then it would become impossible for the courier company to comply with the GST provisions. Moreover, no transaction by a courier company in the capacity of a co-loader would qualify as an export transaction.*

#### Recommendation

The place of supply for a co-loader activity must be aligned to the place of supply for transportation of goods i.e. destination of goods as per [Section 10\(9\) of IGST Act](#).

Following clarifications are sought regarding the destination of goods include:

- The Indian gateway where the contract with the network entity terminates
- The destination where the delivery terminates to the final recipient

#### Co-loader activity for an Export Cash Collect Consignment

As per the [Section 10\(2\) of IGST Act](#), the place of supply for a co-loader activity for an export cash collect transaction would be the area where origin services are performed, i.e. India. The nature of a co-loader activity is distinct from that of a courier activity. Hence, it must be classified as a transportation activity. No transaction by a courier company in the capacity of a co-loader would qualify as an export transaction.

#### Recommendation

The place of supply for a co-loader activity should be aligned to the place of supply for transportation of goods, i.e., destination of goods as per [Section 10\(9\) of IGST Act](#).



## Location of the recipient of service

The place of supply of services, where the location of supplier of services and the location of the recipient of service is in India would be determined as per [Section 9\(9\) of IGST Act](#). While the location of the supplier of service of a courier company would be in India, the determination of the actual recipient of service is extremely important in order to identify which of the aforementioned sections of place of supply would apply. Hence, the location of recipient of services is imperative as it helps in determining the taxability of express delivery transactions, which would influence the applicability of the relevant place of supply.

*In case of both Export Prepaid and Import Cash Collect transactions, the Indian consignor in India has paid for the courier services. In addition, the express delivery service provider in India performs the main courier service and only a part of the service is sub-contracted to the foreign network entity as a co-loader activity. Hence, for these transactions the location of the recipient of service should be considered as the person who pays for the courier services being the Indian consignee/India consignor in India irrespective of the contractual recipient. This arrangement would not affect the taxability of the transactions. Moreover, it is necessary to enable air express companies to comply with the GST provisions.*



## Value Added Services (VAS)

- Activities of an EDS provider also include provision of Value Added Services (VAS) such as duty handling, packaging, demurrage charges, cash on delivery, insurance, warehousing, etc. Since these services are an intrinsic part of EDS, it is topical to analyse the treatment of these services in context of GST.
  - These services come as a part of the product EDS offers to its customers. This intuitively, these are not independent.
- As per the [Section 2\(27\) of IGST Act](#), where goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply and supply of goods is the principal supply.
- Under the GST regime, it is important to understand whether the said services have to be treated independently or as a composite part of the main services i.e. the courier service itself.

Clarifications are sought on the following:

### Ancillary Services

Place of supply as applicable to courier services must apply to VAS because the VAS is provided under a single contract/ price.

### Warehouse Services

- Warehouse as standalone service: If the warehouse service is provided independent of the courier activity, then it shall not be considered to be a composite supply
- Warehouse as part of main door-to-door: If warehousing service is provided as a part of the main door-to-door courier service, then it will qualify as a composite supply for which the place of supply will be the same as courier service
- Warehouse is a separate service: The place of supply of warehousing service will be as defined under the general rule i.e. [Section 9\(2\) or Section 10\(2\) of IGST Act](#) of the place of supply

### Custom Clearing Services

- Customs clearance services cannot be considered to be a composite supply with the main courier activity as customs clearance is an independent activity, supply of which is not necessarily dependent on the provision of the courier service
- When custom clearance services are provided to the network entity, the activity should be classified as export, as the services are provided to the network entity outside India.





## Non-Taxability of Self-Supplies

- In the logistics industry, each delivery life cycle comprises of multiple movements which are inter-dependant on each other. If every such movement is considered to be a separate supply to self, then it is practically impossible for the courier company to comply and record such movements.
- Clarification is sought on whether the services provided by one unit of a service provider to another unit would amount to multiple transaction legs or a consolidated transaction.



## Note on e-Way Bill

Electronic Way (e-Way) bill aims to capture certain information prior to the movement of goods of consignment value exceeding fifty thousand rupees. This is expected to cause disruptions in the existing supply chain of the Air Express industry, and inject operational inefficiencies to the extent of adversely impacting business commitments and fulfilling customer expectations.

In this context, Pahle India Foundation would want to table three operational concerns and propose possible solutions for the same:

- a. Consignment Tracking Using Vehicle Number – Process
- b. First Mile and Last Mile Vehicle Number Requirement
- c. Value of Consignment is less than INR 50,000

### Consignment Tracking Using Vehicle Number - Process

- At the time of collection of shipment where the declared value is greater than INR 50,000, the Express Delivery Service (EDS) operator (example: DHL, FedEx) is provided with an invoice of the declared amount along with the details of the transporter in Part A of GST INS - 06. The EDS operator provides a copy of the receipt to the sender. This receipt, also known as the **Airway Bill** has a unique ID, and cannot be reused by the EDS operator.
- Multiple such individual consignments are collected by the EDS operator (delivery boys on foot, e rickshaw, bicycle), and unique Airway Bills are generated for each of them.  
**It must be noted, that till this point, it is not necessary that every consignment is being collected using a registered vehicle.**
- These consignments are collected at the consolidation centre\*, assigned for the particular area (hub) and vehicles are allotted to them for onward journey.
- As per the draft e-Way Bill, the EDS operator is required to allot a vehicle number to each consignment separately on the GSTN portal. This **will** lead to **errors** and **additional turnaround time**.

### Recommendation

**It is proposed that a consolidated manifest be uploaded by the EDS operator, where each consignment is mapped to its respective vehicle. This will allow the GSTN portal to have access to both, the vehicle number and Airway Bill number, which can be used for tracking of consignments.**

- Moreover, the vehicle number will be updated (in case of multiple vehicles) during the course of movement of the shipment during the onward journey, till the shipment reaches the last consolidation centre.



- It is imperative for us to appreciate the distinct way, EDS model operates. Considering the services are extremely sensitive to time and accuracy, any lag in the delivery process on account of compliance would be insensitive to the industry as a whole.
- It is noteworthy to reiterate that the role of Air Express industry towards facilitating India's trade competitiveness cannot be gainsaid.

*\*Consolidation centre: Registered establishment of the Express Delivery Service Operator*

#### First Mile and Last Mile Vehicle Number Requirement

- On multiple occasions, the first and last leg of delivery may be fulfilled through a delivery boy on foot or a bicycle/e-rickshaw. In this case, it would not always be possible to provide a vehicle number applicable for the first/last mile of delivery.
- The Express Delivery Service (EDS) industry operates on a multi-modal hub and spoke model.
  - Individual shipments are picked from respective locations.
  - Each area has a common service centre where individual shipments are sorted depending on their destination, time of delivery etc.
  - These shipments are collectively sorted at a common service centre. This is the first node, where a vehicle number can be allocated to a particular consignment.



## Recommendation

- **We strongly believe that if the consignment needs to be tracked based on the vehicle number, it should be done only from the first point of collection node, up to the last collection node. Not only is the vehicle number not applicable in multiple instances of first/last mile delivery of individual shipments, it will also impact business spontaneity, discourage exception handling (medicines etc.) and reduce resource optimisation.**
- **In case it is absolutely necessary to track the first/last mile delivery of the shipment, transport number may be used.**

## Value of Consignment is less than INR 50,000

All consignments of value less than INR 50,000 are exempted from requirement of an invoice at the time of shipment. It is recommended that these be excluded from consolidated e-way bill in FORM GST INS-07 on the common portal prior to the movement of goods.

**This will ensure the transporter, who has limited valuation capabilities, is not held liable for accuracy of value of the consignment.**



## Other key considerations

- Reimbursement of duties levied should not be included in the value of service
- Mechanism for import duties paid at a consolidated level for all customers
- Clarification required for Debit Note/Credit Note/Cancellation/Replacement of invoice 7 issued after introduction of GST for services provided before GST
- Clarification that shipment originating and delivered both outside India should be out of India GST
- Removal of sub-clause (d) of Rule 5 of the Draft Invoice Rules, which required. the name, address, GSTIN of the supplier etc. in case of Input Service Distributor
- Removal of taxability on import of free of cost services supplied by related parties
- Amendment in law to state that if payment of any input were made after 3 months, any credit reversed at the expiry of 3 months would be available to the assessee in the month of payment



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