

# Impact of Gst on Logistics Industry in India

**Debayan Saha**

Assistant Professor, Department of Commerce, Brainware University, India

## **Abstract:**

Logistics sector plays a very significant role in developing any country's economy. Logistics sector in India is expected to grow steadily. In pre-gst era, logistics cost in India were very high as compared to other developed countries. Indian logistics sector had to face several troubles or challenges before the implementation of gst because of having complex tax structure and poor infrastructure. But logistics costs as well as transit time have been exclusively reduced in India after the implementation of GST. In this study we have analyzed the various impacts of GST on logistics industry in India. This study is entirely based on secondary data which are collected from various websites and annual reports provided by different public and private sector organizations.

**Keywords:** GST Impact, Logistics Industry, Transportation sector, Warehousing.

## **INTRODUCTION:**

Logistics is a part of supply chain management. Logistics is the well-defined process, a management or set of activities or functioning related to physical distribution of resources or goods from the point of production to the point of consumption for the purpose of meeting customers' needs and wants. According to American Council of Logistics Management, "Logistics is the process of planning, executing and controlling the efficient & effective flow and storage of goods, services as well as the related information from point of origin to point of consumption for the purpose of conforming to customers' requirements". The aim of logistics industry is to deliver the right product in right quantity at right condition for right price to the right consumer at right place on right time.

Logistics industry plays a very significant role in developing any country's economy. Logistics industry comprise various functions related with transportation, warehousing Freight forwarding and third-party logistics. Transportation holds more than 50% share in the logistics industry and remaining shares are contributed by other functioning like warehousing, third-party logistics and freight forwarding. Logistics sector in India is expected to grow steadily and it is generally fragmented in nature. The total market size of Indian logistics sector was estimated to be around 274 billion U.S. dollars and it contributes 14-18% in our country's GDP as far as year 2022 is concerned. This sector includes around 20 private players such as; Aegis Logistics Ltd., Transport Corporation of India Ltd. (TCI), Warehousing Express Logistics Pvt. Ltd. (WELPL), Blue Dart Express Ltd., Apollo LogiSolutions Ltd., Mahindra Logistics Ltd., Container Corporation of India, Ekart Logistics, Delhivery etc.

Logistics cost in India was very high as compared to other developed countries due to having complex tax structure, multiple tax rates and bare infrastructure. In other words, higher logistics cost was considered as one of the prime barrier of Indian logistics industry which stand at 14% of the country's Gross Domestic Product (GDP). In developed countries logistics cost were varied between 8% to 10% of country's Gross Domestic Product (GDP).

But when in the year 2017 the Goods and Services Tax Act was implemented and exercised by the Central government of India with the vision of creating a transparent and more significant taxation system, Indian logistics industry started to face immense favorable influences. GST is a destination based single tax system on the supply of goods and services. GST compresses a range of various central taxes such as service tax, exercise duty, Value Added Tax, cess; and multiple state indirect taxes like entry tax, state Value Added Tax, purchase tax and provide a single & unified tax rate in order to create an organized taxation system. GST also eliminated the cascading effects of tax which have traditionally plagued the logistics industry in India.

GST is considered as the biggest tax reform and it simplifies the indirect tax regime in India. It not only tries to reduce the logistics cost but also enhance the operational efficiency of the logistics players in India.

### **Review of literature:**

Several researchers have been providing useful insights on impacts of GST on logistics industry in India through their published studies.

GST will definitely provide a positive impact on the Indian logistics industry. Before the implementation of GST logistics players used to face different type of challenges. But in the regime of GST, transportation cost, transportation time both are reduced and the operational efficiency being enhanced (Dr. Anitha.M.N.,2016).

Logistics industry has been experiencing immense favorable impact with the implementation of GST in India as compared to any other industry. Previously various logistics sectors (such as transportation, warehousing etc.) used to face several challenges or barriers during their operation. But in the post-gst era, logistics cost gets reduced and functional efficiency has strongly improved (Dr. Seema Ladha et al, 2018). The central government has tried to simplify the entire indirect taxation system through the implementation of GST act in the year 2017. GST has a positive impact on transport sector which reduces the cost as well as transit time and facilitates e-commerce industry in India. This study comprises both positive and adverse effects of GST on logistics industry (Nandgopal P & Vijay K Rajan, IOSR-JBM).

Warehousing is one of the significant functions within the logistics industry. Before the implementation of GST logistics players used to face or suffer ample number of challenges regarding warehousing but in the post-gst era they can create and maintain centralized and strategical warehouse in order to enhance their operational efficiency (CMA Deepak Mittal, 2018).

Indian's GST structure is difficult in contrast to other nations' value-added taxation systems due to India's higher tax rates and larger variety of tax rates. It was difficult for maximum companies, especially exporters, to recover or reintegrate their losses. The request for a refund of the IGST that have been paid on exports cannot be processed if the dates on the shipping invoice and the tax invoice do not match. The significant majority of respondents to the poll think that additional information should be made available by the government in order to safeguard against any unwarranted harassment resulting from the anti-profiteering legislation. Several commenters suggested that the government should publish illustrative guidelines or comprehensive framework and a list of frequently asked questions to clear up any misunderstandings (Rishabh Nigam, IJFMR-2023).

The logistics sector plays a vital role in India's development, with the industry expected to grow steadily. However, logistics costs in India remain high compared to developed nations due to a complex tax structure and poor infrastructure, leading to multiple taxation on freight movement. This paper examines the impact of the Goods and Services Tax (GST) on the logistics sector, particularly in transportation,

warehousing, and logistics service provision (Sivashankari K et al, 2018).

The global economic slowdown and financial volatility challenge most nations, but India stands out for its resilience and potential to capitalize on domestic and international opportunities. Reforms, particularly the Goods and Services Tax (GST), are pivotal in strengthening India's policy credibility and business environment to achieve high economic growth. GST, an indirect consumption tax levied on goods and services, streamlines taxation by creating a unified dual VAT system, improving compliance and administration. This study examines the impact of GST on shipping companies in the Chennai sector (Dr. J. Rengamani, 2018).

The logistics sector is crucial to India's development, with the industry projected to grow steadily. However, high logistics costs, driven by a complex tax structure and poor infrastructure, remain a challenge, as freight is taxed multiple times across the country. This paper analyzes the impact of the Goods and Services Tax (GST) on the logistics sector, focusing on transportation, warehousing, and logistics service providers (CMA Dr. Naushad, 2018).

The "Make in India" initiative aligns with the implementation of GST, which consolidates multiple central and state taxes into a unified system. GST ensures uniform taxation on goods and services across the country, regardless of their state of manufacture or sale. This paper examines the impact of GST on India's logistics sector, focusing on transportation, warehousing, and logistics service providers (V.Jothi Francina et al, 2017).

The implementation of GST marked a significant reform in India's indirect tax system, introducing a transparent and efficient tax platform. The logistics industry, a key beneficiary, has seen reduced operational costs by 30%-40%, enhancing its competitive power globally. GST has also encouraged a tech-friendly tax structure, supporting value-added services and growth in the logistics sector. However, the system is not foolproof, as loopholes continue to be exploited, prompting this paper to examine the benefits, limitations, and necessary reforms by comparing India's logistics sector with that of developed nations (Rahul Suresh et al, 2020).

The Goods and Services Tax (GST) aims to unify India into a single integrated market by addressing the challenges posed by the previous multiplicity of tax laws. A uniform tax regime has improved efficiency and reduced costs in warehousing and distribution, breaking regional boundaries. This research explores the impact of GST on transportation and warehousing through primary studies of companies across various industries and examines the challenges faced during its implementation (Dr. Seema Laddha et al, 2018).

### **Objective of the study:**

After sensible observation and analyse or reviewing the above literatures we have found that no literature has significantly focused on the overall as well as marginal impacts of GST on Indian logistics sector. The objective of this study is

- to understand the enormous benefits of GST on different functions of logistics in India
- to observe and analyze the various impacts of GST on logistics industry in India.

### **Methodology:**

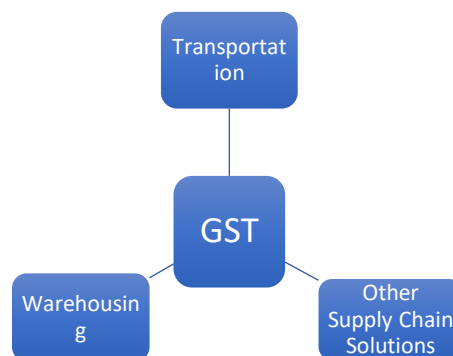
The study is descriptive, explanatory and analytical in nature and is entirely based on secondary data which are exclusively collected from various government websites and annual reports published by different public and private sector organizations in India.

### Overview of logistics industry in India:

The logistics industry in India is one of the largest in the world and provides or offers a huge addressable opportunity. This sector plays a significant role in developing the country's economy. It associates various elements of our economy and comprises functions like transportation, warehousing and other supply chain solutions.

- **Transportation:** Transportation simply means physical movement of goods from one place to another with the help of several modes of communication such as road, rail, air etc. Road transport accounts for approximately 60% to 65% of the total freight movement in our country as far as recent data is concerned. Transportation sector plays a remarkable role in Indian logistics industry. This sector holds more than 50% share in the logistics industry in India. Rivigo, BlackBuck, Delhivery, Ecom Express, LogisticsNow are the name of few emerging private players who are doing exceptionally well in this industry.
- **Warehousing:** Warehousing refers to the systematic process of storing and preservation of goods or finished products in any safe and secured location. It is the second major function in logistics sector and plays a crucial role in the supply chain management in India. Warehousing sector holds approximately 15% to 20% share in logistics industry in India. NDR Warehousing, ColdEX, SNCF Logistics, Ecom Express, TCI Supply Chain Solutions are the emerging private players who provides better warehousing services in the recent times in India.
- **Other Supply Chain Solutions:** In addition to transportation and warehousing, Indian logistics industry provides the following services like; inventory management, freight forwarding, order fulfilment, logistics planning etc.

**Figure: 1**



**Source: ITLN<sup>1</sup>**

### Impact of GST on transportation:

Transportation means physical movement of goods from one destination to another with the help of various logistical assets. It is the most important aspect or sector within the logistics industry which holds more than 50% of market share in that industry. Previously before the implementation of GST in India, trucks which are used in transportation of goods, used to or comply to spent approximately 20% of their run time in the interstate check posts for the purpose of paying different state level entry taxes and other local taxes and obviously for the purpose of regular inspections and all. But after the implementation of

<sup>1</sup> Indian Transport & Logistics News

GST when complex taxation system was closed down rather all the state level entry taxes and other local taxes got withdrawn by the central government; and uniform tax rate or taxation system within the country was exercised and issued, trucks do not have to spent unnecessary or irrelevant time in the interstate check posts during their run time. Therefore, the transportation cost as well as transit time got immensely reduced and that is exclusively regarded as a positive impact of GST on the logistics industry of our country.

#### **Impact of GST on warehousing:**

Warehousing is the second most significant aspect and/or functioning within the realm of logistics industry. Warehousing refers to the process in which goods or finished products are to be kept safe and secure in a place called warehouse, for the purpose of future distribution or supply of goods. Before the implementation of GST when complex taxation system was applicable, multiple taxes were charged or levied on transport goods in case of any interstate supply of goods. There were several central level taxes such as exercise, central services taxes or CST, customs duty, etc. and various state level taxes in form of octroi, value added taxes or VAT, different state cesses, etc. included in the taxation system of India. And in other words, central taxes also used to levy on various state level taxes in case of the interstate flow of goods which is considered as the prime challenge or limitation of logistics industry in India. Therefore, in order to avoid the multi-tax effect (i.e., tax on tax, called cascading effect), manufacturer or logistics players used to establish and maintain distinct or separated warehouse in each requisite's states. But after the embodiment of the uniform taxation system in form of GST, industry do not need to create and/or maintain isolated warehouse in each momentous state in India to conduct optimum interstate supply of goods. Now they can establish and expand a large, centralize and strategical warehouse in the most suitable and favorable place within the land and could enhance their operational efficiency or customers satisfaction; that would also be considered as a favorable impact of GST on Indian logistics industry.

#### **Reduction in paperwork:**

In the pre-gst era trucks needed to carry several documents like invoice, bill of supply, delivery challan etc. during the transportation of goods. But in the post-gst era when complex tax structure has been stopped and uniform tax rate has been issued, they need to carry only a single document i.e., e-way bill. Therefore, the burden of carrying too many documents being waived through the implementation of GST.

#### **Reduction in corruption:**

Before the implementation of GST transportation vehicles had to spent good amount of time at the interstate check posts during their transit time for the purpose of tax payment and inspection; and there was some possibility of occurring any corruption. But after implementation of uniform tax structure and complete digitization the probability of occurring corruption and other malpractices got reduced.

#### **Data Analysis and Interpretation:**

In order to show the statistical impacts of GST on Indian logistics sector, the following matrixes are being exclusively used:

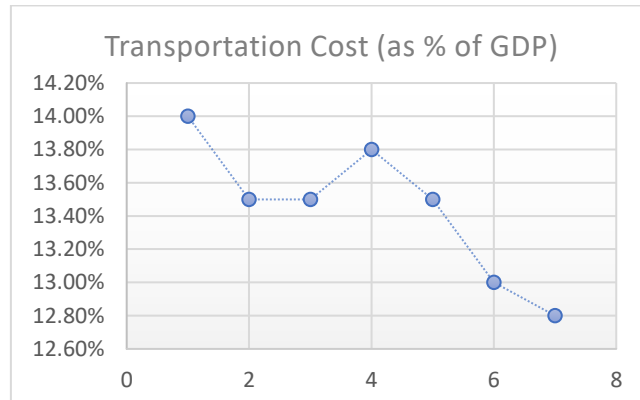
**Figure-2: Logistics cost percentage of GDP**



**Source: Statista & Motor India**

The chart titled "Logistics Cost (% of GDP)" illustrates the trend of logistics costs as a percentage of GDP from the year 2018 to the year 2024 (with the year 2024 marked as a projected value). The data shows a steady decline over this period. In the year 2018, logistics costs were around 13.5% of GDP, but this figure has consistently dropped over the years. By the year 2024, logistics costs are expected to be around 11.5% of GDP. This decrease suggests improvements in logistics efficiency, potentially due to advancements in technology, supply chain optimization, or infrastructure enhancements, resulting in a reduced burden on GDP.

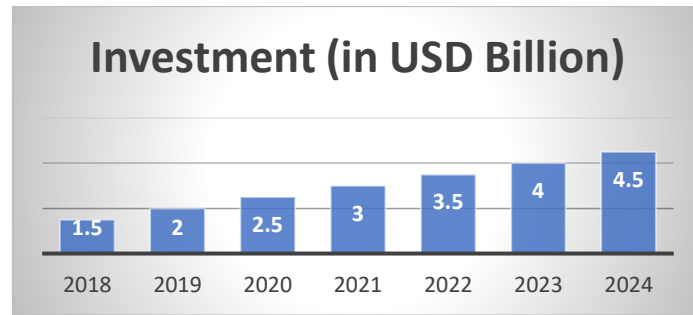
**Figure-3: Transportation cost percentage of GDP**



**Source: MoRTH<sup>2</sup> Report**

The chart displays the transportation cost as a percentage of GDP from the year 2018 to the year 2024. The data points show a fluctuating trend over time. Starting at around 14% in the initial period i.e. year 2018, the transportation cost decreases to approximately 13.5% and then increases again to around 13.8%. It then experiences a significant drop to about 13% before stabilizing at a slightly higher level of around 12.8%. The overall trend suggests a decrease in transportation cost as a percentage of GDP, with some fluctuations along the way.

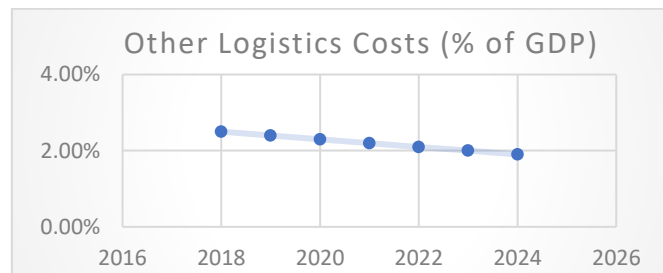
<sup>2</sup> Ministry of Road Transport and Highways



**Figure-4: Investment in warehousing sector**

**Source: Reports by Ministry of Finance (Department of Economic Affairs) & NITI Aayog<sup>3</sup>**

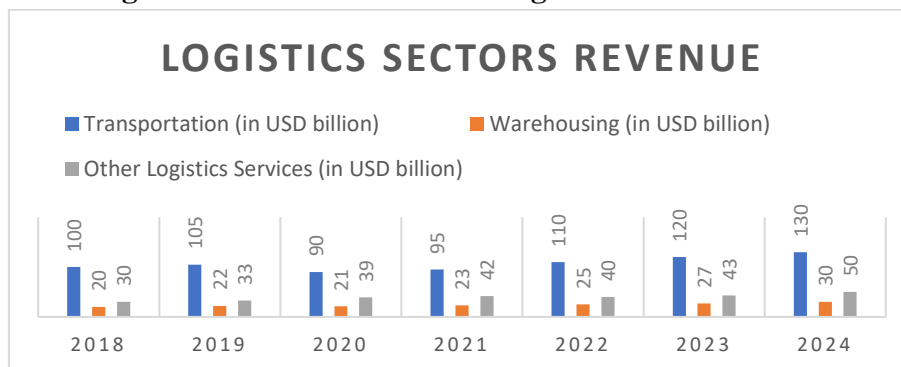
The chart illustrates the investment in the warehousing sector from the year 2018 to the year 2024, measured in USD billions. It reveals a consistent upward trend, indicating increasing investment in the warehousing sector over this period. Starting at 1.5 billion USD in the year 2018, the investment gradually increases each year, reaching 4.5 billion USD in the year 2024. This suggests a growing recognition of the importance of warehousing infrastructure and its role in facilitating efficient supply chains and economic growth.



**Figure-5: Other logistics cost Source: Reports by MoCI<sup>4</sup> & IBEF<sup>5</sup>**

The chart displays the trend of "Other Logistics Costs" as a percentage of GDP from the year 2018 to the year 2024. It shows a general downward trajectory, starting at around 2.5% in the year 2018 and gradually decreasing to approximately 1.8% in the year 2024. This suggests a reduction in the relative cost of other logistics activities compared to the overall economic output over this period.

**Figure-6: Revenue in Various logistics sectors in India**



**Source: Reports by MoSPI<sup>6</sup>, NITI Aayog, Ministry of Finance (Economic Survey of India) &**

<sup>3</sup> National Institution for Transforming India

<sup>4</sup> Ministry of Commerce & Industry

<sup>5</sup> India Brand Equity Foundation

<sup>6</sup> Ministry of Statistics and Programme Implementation

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The chart presents the revenue of different logistics sectors from the year 2018 to the year 2024, measured in USD billions. It reveals a mixed trend across the sectors.

**Transportation** shows a steady increase, starting at 100 billion USD in the year 2018 and reaching 130 billion USD in the year 2024. This indicates a growing reliance on transportation services within the logistics industry.

**Warehousing** also demonstrates a general upward trend, although with some fluctuations. It begins at 20 billion USD in the year 2018, experiences a slight dip in the year 2020, but then steadily increases to 30 billion USD in the year 2024. This suggests a growing demand for warehousing facilities to support the movement of goods.

**Other Logistics Services** show a more volatile trend. It starts at 30 billion USD in the year 2018, increases to 33 billion USD in the year 2019, and then experiences a significant drop to 21 billion USD in the year 2020. It recovers slightly in the year 2021 and 2022, but then declines again in the year 2023 and 2024. This suggests that the demand for other logistics services is more susceptible to market fluctuations. Overall, the chart indicates a growing revenue in the logistics sector, driven primarily by the transportation and warehousing segments. However, the demand for other logistics services appears to be more volatile and subject to market fluctuations.

## Conclusion:

From the above statistics and analysis, it is transparent that GST have positive impacts on various sectors of logistics in India. In the pre-GST era logistics cost was too high as compared to developed countries. But in the post-GST era the logistics costs have decreased to a reasonable extent. In this study so far, we have seen that the logistics cost percentage to GDP has reduced consistently; transportation cost percentage as compared to GDP and average transportation cost per Km. have also decreased respectively; investment in warehousing sector immensely enhanced; and other logistics cost percentage moving towards 1% on country's GDP during the studied period. In this paper we have also seen the revenue increment in various logistics sectors during the studied period. All those effects are considered as effective impact of GST on logistics industry in India. Apart from that in the post-GST era the operating efficiency in logistics sector has also enhanced.

Logistics is a decisive contributor in developing India's economy. The Indian logistics industry is expected to grow at a compound annual growth rate (CAGR) of 12.44% from the year 2024 to the year 2032 and would be reach at USD 62,021.2 million by the year 2032. The implementation of GST may be seen as a significant motivating factor for companies to restructure their supply chain network.

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<sup>7</sup> Credit Rating Information Services of India Limited



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