



**Western India Regional Council of
The Institute of Chartered Accountants of India**
(Set up by an Act of Parliament)



E PUBLICATION ON LOGISTICS INDUSTRY





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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Foreword

The Indian logistics industry has been on a continuous growth journey over the past few years, barring a few dips, due to the proliferation of e-commerce across Indian cities and towns. In the current situation, logistics has proven to be a lifeline and a key enabler of multiple industries across sectors. The Indian logistics sector is currently valued at \$160 billion and is expected to grow at a CAGR of 10% to \$215 billion by 2022.

The Government is also looking to take the sector forward through reforms such as the National Logistics Efficiency and Advancement Predictability and Safety Act (NLEAPS) and the National Waterways Act to unlock the 14,500 km length of rivers which are navigable throughout the year. The recent stimulus package of ₹1.5-lakh-crore announced by the government to strengthen logistics is a positive step in this direction.

These changes have prompted us at WIRC to focus closely on this sector of national importance. The industry also plays an important part in shaping the careers of Chartered Accountants as many members are actively and professionally involved - directly or indirectly - playing a significant or ancillary role in this sector. Transport, warehousing, freight forwarding, last mile delivery, Value added services, the list is long but more importantly, this is an excellent industry and an opportunity for members to look closely at providing their services to ensuring a strong and steady growth.

This publication provides the necessary information to support our members' quest to conquer new territories professionally and I look forward to them referring to this book and basing business decisions accordingly.

I am thankful to the endeavours of my colleagues CA Anand Jakhotiya, Treasurer, WIRC, RCM CA Umesh Sharma, RCM CA Drushti Desai and Publication Team Leader CA Vaibbhav Changade. This publication was possible due to the intense research and contribution by CA Rupesh Shah, CA Darshan Jain, CA Pawan Gattani, CA Karan Chandwani, CA Pritam Mahure, CA Dr. Paresh Bora, CA Milind Limaye and CA Rahul Charkha.

I also take this opportunity to acknowledge and appreciate the contributions made by the Nagpur and Bhavnagar Branch of WIRC as well as all other Branches whose research and sharing of the research material has helped us compile and release this important publication.

I am sure this publication will prove to be an excellent guide to the Members in serving the Logistics industry and will provide relevant knowledge pertaining to this industry.

CA. Lalit Bajaj
Chairman, WIRC



Preface

Respected Readers,

Season's Greetings !!!

It gives us immense pleasure to launch the first sector specific e-publication on Logistics as conceptualised by our Chairman CA Lalit Bajaj. This publication is possible only because of the hardworking team of contributors. It is rightly said "When Team works...Dreams work".

I am highly grateful for the untiring efforts of my colleagues RCM CA Umesh Sharma and Publication Team Leader CA Vaibbhav Changade, well supported by contributors CA Rupesh Shah, CA Darshan Jain, CA Pawan Gattani, CA Karan Chandwani, CA Pritam Mahure, CA Dr. Paresh Bora, CA Milind Limaye and CA Rahul Charkha. This Team has covered all crucial aspects impacting Logistics Sector and have given us a holistic view in a crisp manner.

Wishing everyone Happy Learning and a Healthy Life !!!

CA Anand R. Jakhotiya

Treasurer WIRC



Preface

Logistics has always been an integral part of our economy. These play a pivotal role in smooth movement and functionality of the economy. Whenever we look into any clients books of account, there will not be any client on whose books expenses of freight cannot be found, this shows the dependability of economy on this sector.

So it is very much important to understand the taxation of the whole chain of logistics.

There is always a special consideration given to this sector in the income tax and also in the Goods and Service Tax Act. Hence it is important to get a deep insight into the taxation of this sector. It holds much more importance since major transactions are charged under the reverse charge so the onus to pay the tax is on the assessee and not on the Goods Transport Agency.

During these times, economy is moving forward and slowing down getting towards the destination which is in resonance with what is the mantra of logistics i.e. *Keep moving forward*. This is the mantra which everyone should adopt to have a positive approach towards life.

This book from WIRC is an attempt to get deep insight into the many aspects and taxation matters of the logistics sector. Many congratulations to the team for this book and wishes from my side.

CA. Umesh Sharma
RCM



Preface

In the current era, there is a range of opportunities for finance professionals in various sectors of the industry. However, at times it is challenging for us to take advantage of these opportunities as we do not have a clear understanding or insights of these industries.

Logistics sector is a large sector of the Indian economy and it is one which would continue to grow in tandem with the economy. It follows that to support the development of an effective logistics industry requires the establishment of an effective management and accounting system.

India has key ingredients of a high-growth logistics industry, namely, the proliferation of digital and omni-channel retail; a very large and young mass segment with disposable income which consumes seamlessly through digital and traditional routes; the Indian government's push to introduce reforms to support and grow the sector; and an increasing share of organised market players.

While some of us may already be part of this growing sector, most of us have only a broad and basic idea about this industry. This publication is a very good primer to get CAs started in the field of logistics, providing grounded and practical knowledge and will go far in assisting Members and students of our fraternity understand and take informed steps on providing services for the logistics industry.

I sincerely thank WIRC Chairman CA Lalit Bajaj, my colleagues in the Regional Council and all the contributors for their efforts in producing this guide specifically for Chartered Accountants.

CA. Drushti Desai (Ms.)
RCM



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1. Introduction

- Logistics refers to the overall process of managing how resources are acquired, stored, and transported to their final destination. "Logistics" was initially a military-based term used in reference to how military personnel obtained, stored, and moved equipment and supplies. The term is now used widely in the business sector, particularly by companies in the manufacturing sectors, to refer to how resources are handled and moved along the supply chain.
- The goal of logistics management in business is to have the right amount of a resource or input at the right time, getting it to the appropriate location in proper condition, and delivering it to the correct internal or external customer. Poor logistics in a business can impact its bottom line. Poor logistics lead to untimely deliveries, failure to meet the needs of clientele, and ultimately causes the business to suffer.
- The concept of business logistics has been transformed since the 1960s. The increasing complexities in today's businesses along with the global expansion of supply chains, has led to a need for specialists known as supply chain logisticians. Logistics is now an interplay of technology, infrastructure, skilled manpower and new types of service providers which defines how the logistics sector will be able to aid its customers, minimize their costs and provide quality services.
- In modern times of technological advancement and complexity of business processes including logistic process, need for logistic software and specialised firm in the field of logistic management cannot be underestimated. Successful dominance of large online retailer like AMAZON¹ on a global scale is attributed to a great extent to the overall innovation and efficiency of their logistics along every link of the supply chain.

(Source: Source: Research paper of Bhavnagar Branch WIRC & Investopedia).

(Source: 1 Source: Research paper of Bhavnagar Branch WIRC & Investopedia).

2. Logistic Sector In India

- India's GDP is estimated at 4% of the global GDP. Manufacturing to contribute roughly 1/4th of its GDP growth. Logistics is the backbone of manufacturing. It aids the process of goods and services reaching the consumer.
- The logistics sector earned the 'infrastructure' status in 2017 when its market size was estimated at \$160 billion. This was done to facilitate cheaper and easier flow of capital.
- A study by the India Brand Equity Foundation (IBEF) pegs annual investments in the logistics sector to reach \$500 billion by 2025. Sectoral FDI inflow \$15.2 Billion between 2014-2018.²
- Between 2018 and 2022, the warehousing segment is poised to receive more than Rs 50,000 crore investments.
- In 2017, the logistics sector absorbed 22 million people. Employment services provider Teamlease estimates that the logistics sector will create employment for at least additional three million people by 2022, with the road freight industry alone contributing nearly 63 per cent, or 1.9 million new jobs. Waterways and air freight are expected to be the other big creators of new jobs.
- Port capacities enhancement is estimated at CAGR 5% till 2022.
- By the end of 2017-18, logistics expenses accounted for 14 per cent of the GDP. The share is expected to shrink to 10 per cent by 2022.
- Comparison of logistic cost with other countries.

Name of Country	Logistic cost as % of GDP
BRIC Countries	10.00% to 11.00%
USA	9.50%
Germany	08.00%
India	14.00%

- Currently, the Indian logistics industry is highly fragmented and unorganized. Owing to the presence of numerous unorganised players in the industry, it remains fragmented with the organized players accounting for approximately 10 per cent of the total market share. Low entry barriers and relatively lower deployment of capital compared with asset-based business has caused rise in the Indian Logistic market.

² Source: Research paper of Bhavnagar Branch WIRC & Investopedia.

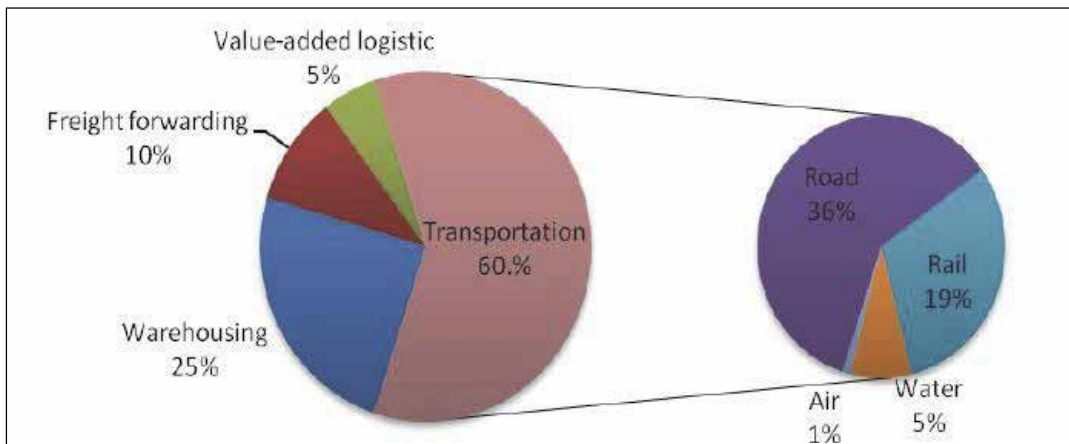
In India, plethora of regulations govern the Logistics Sector and the indicative list of such regulations are as under.

1. The Multimodal Transportation of Goods Act, 1993
2. The Motor Vehicle Act, 1988
3. The Carriage by Road Act, 2007
4. The Railways Act, 1989.
5. The Carriage by Air Act, 1972.
6. The (Indian) Bills of Lading Act, 1856
7. The Carriage of Goods by Sea Act, 1925
8. The Factories Act, 1948
9. The Petroleum Act, 1934
10. The Explosives Act, 1884
11. The Indian Wireless Telegraphy Act, 1933
12. The Essential Commodities Act, 1955
13. The Legal Metrology Act, 2009
14. The Environment (Protection) Rules, 1986
15. The Electricity Act, 2003
16. The Major Port Trusts Act, 1963
17. The Contract Labour (Regulation and Abolition) Act, 1970
18. The Income Tax Act, 1961
19. The Goods and Service Tax Act, 2017
20. The Environment Protection Act, 1986
21. The Air (Prevention & Control of Pollution) Act, 1981
22. The Water (Prevention & Control of Pollution) Act, 1974
23. The Customs Act, 1962, etc.

(*Source: <http://legislative.gov.in/actsofparliamentfromtheyear>*)

Segmentation of Logistic Companies:

- The Indian logistic sector is primarily categorized into four segments comprising transportation, Warehousing, freight forwarding and value-added logistics services. The transportation which contributes maximum to the whole pie of logistic sector comprises various means such as road, rail, air and water. India being an emerging country with prime dependency upon transportation through land, i.e. through road and rail together which contributes about 60% followed by Warehousing 25% comprising industrial and agricultural storage.



- These logistics activities involve material management, sorting facilities, storage and retrieval of information on goods, warehousing, distribution, cargo handling, inland waterways and processing strategies. The third-party service providers tend to satisfy their customers' needs for logistical services but somehow, due to poor infrastructure and old technology, they were unable to offer their best services.
- Indian logistics sector is evolving rapidly due to demand-side factors such as growing e-commerce, emerging business models involving specialised third-party operators (3PL, 4PL, and 5PL players), technological disruptions (e-marketplace), and policy interventions. The traditional approach towards logistics has changed entirely from it being treated as a support function to being strategic today, which not only enables the competitiveness of an industry but also of the country.

- Logistic service providers can be broadly classified as below based on services provided and type of customers:

Segment	Business Model	Types of services	Customer
B2B	Logistic service providers (LSP)	Freight forwarders, 3rd and 4th party logistics service providers	Manufacturers, wholesalers, and retailers.
B2B	Carriers	Trucking, rail freight, sea freight and air freight companies.	Logistic service providers (LSP).
B2B	Courier Express Parcel Companies (CEP)	Courier/ express/ parcel Companies.	Retailers, manufacturers, and other companies.
B2C	CEP	Courier/ express/ parcel Companies.	End Consumers.

- Table of services covered

Logistic Process	Activities
Transportation	<ul style="list-style-type: none"> Road, rail, air, sea, intermodality management Package express carrier. Consolidation- deconsolidation. Reverse logistics- pallet flow management, return ship management, nominal repairs.
Warehousing	<ul style="list-style-type: none"> Receiving. Cross Docking. Consolidation- deconsolidation. Palletising. Slotting, layout design. Labelling, repacking. Storage, retrieval, order & inventory management.
Freight-forwarding	<ul style="list-style-type: none"> Order fulfilment and processing Picking, sorting, dispatching. Post-production configuration. Customer end installations. Bill payments/audits.

Logistic Process	Activities
Value Added services	<ul style="list-style-type: none"> • Specialised transport. • Alternative transport solutions, door to door service or intermodal transport. • Urgent parcel service • LCIS services (Logistic Chain Integration Services) • Kitting & final assembly. • Product inspection & compliance. • Product localization. • Labelling. • Product rework & recycling.

Logistic Sector Market Leaders In India in Listed Space

Rank	Name	Turnover* FY 2019-20 (INR)	Type of Services
1	AllCargo Logistics Limited	7346 Crs	<ul style="list-style-type: none"> • Contract Logistics • Logistic Parks • Crane Rentals
2	Aegis Logistics Limited	7183 Crs	<ul style="list-style-type: none"> • Logistics & Supply Chain Management for Oil, Gas & Chemical Industry
3	Container Corporation of India Limited	6530 Crs	<ul style="list-style-type: none"> • 84 ICDs/CFSs in India (75 terminals and 9 strategic tie-ups). • Services include inland transport by rail for containers, management of Ports, air cargo complexes and establishing cold-chain.
4	Mahindra Logistics Limited	3471 Crs	<ul style="list-style-type: none"> • Supply Chain Management • Corporate People Transport Solutions • Largest 3 PL solution provider.

Rank	Name	Turnover* FY 2019-20 (INR)	Type of Services
5	Transport Corporation of India Limited	2718 Crs	<ul style="list-style-type: none"> • 1400+ Company owned offices • 12 Million Sq. Ft. warehousing space. • Multimodal transport solutions

*Source: screener.in

Unlisted space is dominated by the Indian Railways with revenue from logistics space to the tune of INR 1.22 Trillion for goods transportation. (actuals for FY 2018-19)**.

**Source: indiabudget.gov.in

Leaders in 3 PL Logistic Service Providers Worldwide

Rank	Name	@Revenue in INR for 2019	#Turnover
1	DHL Supply Chain and global forwarding	1,89,888 Crs	\$ 27302 Million
2	Kuehne + Nagel	1,79,963 Crs	\$ 25875 Million
3	Nippon Express	1,38,775 Crs	\$ 19953 Million
4	DB Schenker	1,34,574 Crs	\$ 19349 Million
5	C. H. Robinson Worldwide	1,01,753 Crs	\$ 14630 Million

Source: 3pllogistics.com

@Conversion: 1USD= 69.5509

Global Logistic Performance Index (LPI):

The logistics performance index (LPI) is an interactive benchmarking tool created by the World Bank to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI allows for comparisons across 160 countries.

The LPI is the weighted average of the country scores on the six key dimensions:

1. The efficiency of the clearance process (i.e; speed, simplicity and predictability of formalities) by border control agencies, including customs.
2. Quality of trade and transport-related infrastructure (e.g., ports, railroads, roads, information technology);

3. Ease of arranging competitively priced shipments;
4. Competence and quality of logistics services (e.g., transport operators, customs brokers);
5. Ability to track and trace consignments;
6. Timeliness of shipments in reaching the destination within the scheduled or expected delivery time.

Germany leads the World Bank's Logistic Performance Index (LPI) with a score of 4.2. India ranks 44th. Countries like Germany, Singapore, Hong Kong and USA, all of which possess more sophisticated logistics ecosystems have gone on to showcase how digital transformation has benefited their entire logistics value chain, including warehousing operations, freight transportation, and last-mile delivery. As a result, these countries have consistently ranked higher than India in the World Bank's Logistics Performance Index.

Comparison of India's LPI score v/s Germany are produced below:

Country	Germany	India	India
Year	2018	2018	2016
LPI Rank	01	44	35
LPI Score	4.2	3.18	3.42
Customs	4.09	2.96	3.17
Infra	4.37	2.91	3.34
International Shipments	3.86	3.21	3.36
Logistics competence	4.31	3.13	3.39
Tracking & Tracking	4.24	3.32	3.52
Timeliness	4.39	3.51	3.74

Logistics Performance Index is not an appropriate framework for appraising domestic logistics segment. It is more useful for assessing international trade.

3. Foreign Direct Investment

Foreign Direct Investments In Logistics Sector:

As per the consolidated FDI policy circular 2017 issued by DIPP, '**FDI**' means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations,2000.

One of the objectives of FDI is to foster integration of transport networks, Information technology and warehousing & infrastructure facility in the country.

One of the popular questions asked by the foreign companies who intend to import goods in the country, before commencing business is about warehousing in India because the importance of developing and managing distribution network and warehousing infrastructure is a very critical part of operating strategy for their success.

Manufacturing and logistic sector are complementary to each other & 100% FDI in storage and warehousing under automatic route is allowed for several years.

Finance ministry, in 2017, declared the infrastructure status to logistic industry and it will bring some of the benefits to it listed as under.

1. Access to lower cost funds
2. Longer tenure loans and less pressure on cash outflows
3. Enhanced loan limit
4. Access to External commercial Borrowing (ECB)
5. Access to long term funds from Insurance company, pension funds & sovereign funds.
6. Eligibility to borrow from IIFCL (India Infrastructure Finance Company Limited.)

FDI Guide Lines:

Sector/Activity	% Equity / FDI CAP	Entry Route
Petroleum product pipelines, natural gas/pipelines, LNG Regasification infrastructure, subject to the existing sectoral policy and regulatory framework in the oil marketing sector and the policy of the Government on private participation in exploration of oil and the discovered fields of national oil companies.	100%	Automatic

Sector/Activity	% Equity / FDI CAP	Entry Route
(a) Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline	100%	Automatic up to 49% (Automatic up to 100% for NRIs)
(b) Regional Air Transport Service		Government route beyond 49%
Non-Scheduled Air Transport Services	100%	Automatic
Helicopter services / seaplane services requiring DGCA approval	100%	Automatic
Industrial Parks -new and existing	100%	Automatic
E-commerce activities Subject to provisions of FDI Policy, e-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.	100%	Automatic
E-commerce marketplace may provide support services to sellers in respect of <i>warehousing, logistics, order fulfilment, call centre, payment collection and other services</i>		
Multi Brand Retail Trading	51%	Government
At least 50% of total FDI brought in the first tranche of US \$ 100 million, shall be invested in ' <i>back-end infrastructure</i> ' within three years, where 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, <i>logistics, storage, ware-house, agriculture market produce infrastructure</i> etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure. Subsequent investment in backend infrastructure would be made by the MBRT retailer as needed, depending upon its business requirements.		

Sector/Activity	% Equity / FDI CAP	Entry Route
Railway Infrastructure	100%	Automatic
Construction, operation and maintenance of the following:		
(i) Suburban corridor projects through PPP, (ii) High speed train projects, (iii) <i>Dedicated freight lines</i> , (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities, (v) Railway Electrification, (vi) Signalling systems, (vii) <i>Freight terminals</i> , (viii) Passenger terminals, (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and (x) Mass Rapid Transport Systems.		
Source : https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy		

Above measures will certainly help for development of ***Multi Model Logistic Park, cold chain and warehousing facility and related infrastructure*** in the country.

So far between January 2014 to January 2018, Indian warehousing and logistic sector received \$3.4 billion of institutional capital.

(Source: www.makeinindia.com)

Conclusion:

An efficient and reliable logistics network coupled with a transparent and consistent cross border trade facilitation process is a key driver of export competitiveness in the country. It acts as an enabler for expanding the foreign markets for indigenous goods. An efficient logistics ecosystem will also encourage investments in the country, especially FDI and will in turn positively impact international trade.

4. GST Impact, E-way bill & E- Invoicing

GST Provisions Pertaining to the Logistics Sector:

GST implementation has improved the fungibility between central and state levies & safeguarded against tax cascading. It has reduced the inefficiency and opaqueness of the Indirect Tax regime. In the longrun, GST is expected to bring operational efficiency in the logistic sector in India. In Pre GST regime, manufacturer / logistic firms had set up hubs and transit points in many states to avoid state VAT. However Post GST implementation, the manufacturers / logistic players have no need to have multiple hubs across the states which allows them to redesign the supply chains and centralize hub operations to take advantage of scale of economies. Ease of entry across states will reduce transportation delays with measures such as the e-way bill. There will be new investment opportunities for technology-enabled mini warehouses along the highways and the sector will witness a fresh wave of technology enabled start-ups.

How GST has been a game changer for logistic sector ? Let us look at actual changes accrued so far...

1. Ease in movement of goods at interstate locations.
2. No need to have warehouses in every state, making inventory management easy and superior, also reducing the transit time considerably.
3. Introduction of E way Bills has made documentation streamlined and easy for all transactions. Real time tracking of the movement of goods is now possible.
4. As there are no separate state taxes and introduction of technology for almost all processes across the border, corruption has been curbed heavily.

A. GST on Transportation charges:

- GST Laws envisages two situations for transportation of goods by Road viz.
 1. Transportation by Goods Transport Agency (GTA)
 2. Transportation by Goods Transport operator (GTO)

Normally, services of transportation of goods is exempt (N.No.12/2017 – CT(Rate) dt 28.06.2017) except the services of

- I. GTA
- II. Courier agency.

It is also pertinent to note here that services of transportation of goods by inland waterways is also exempt from GST.

- **The logical question is who is GTA ?**
 - ✓ As per clause (ze) of notification no.12/2017-Central Tax (Rate) dated 28.06.2017 "goods transport agency" means any person who provides service in relation to transport of goods by road and issues consignment note, by whatever name called; Thus, it can be seen that issuance of a consignment note is the sine-qua-non for a supplier of service to be considered as a Goods Transport Agency.
- **What Consignment note signify?**
 - ✓ It indicates that the *lien on the goods* has been transferred (to the transporter) and the transporter becomes *responsible for the goods till its safe delivery to the consignee*.
 - ✓ In other words, individual truck / tempo owner (GTO), who do not issue consignment note is not called as GTA hence they are exempt from GST.
- **Charge of GST on GTA:**
 - ✓ GST laws provide GTA service provider an option to either choose Reverse charge Mechanism or Forward charge mechanism for discharging GST liability.
 - ✓ When GTA is providing services to a specified category of service receiver, it can choose RCM and the GST liability will devolve on the recipient of services. The list of such service recipient is as under.
 1. Any factory registered under or governed by the Factories Act, 1948(63 of 1948); or
 2. Any society registered under the Societies Registration Act, 1860 (21 of 1860) or under any other law for the time being in force in any part of India; or
 3. Any co-operative society established by or under any law; or
 4. Any person registered under the Central Goods and Services Tax Act or the Integrated Goods and Services Tax Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act; or
 5. Any body corporate established, by or under any law; or
 6. Any partnership firm whether registered or not under any law including association of persons; or
 7. Any casual taxable person.

- ✓ When GTA supply service to above 7 categories and choose the RCM then service receiver will pay the GST @ 5% and ITC status will be as under.
 - GTA can not claim ITC .
 - However, service receipt can claim the ITC of GST paid under RCM.
- ✓ When GTA choose an option of forward charge , GST @ 12% will be charged in the tax invoice by GTA and will be paid on due date as per the GST laws. The status of ITC in this option is as under.
 - **GTA can claim ITC .**
 - Service receiver can also claim ITC .
- ✓ What happens when GTA provides services to recipients who do not fall in above 7 specified categories ?

As per the CBIC note on GTA , ***"In all other cases where the recipients do not fall in the categories mentioned above, the liability will be on the supplier of GTA services."***

- **Is there any product on which GTA services is exempt ?**

Services provided by a goods transport agency is, by way of transport in a goods carriage is exempt in following cases:

- (a) agricultural produce;
- (b) goods, where consideration charged for the transportation of goods on a consignment transported in a single carriage does not exceed one thousand five hundred rupees;
- (c) goods, where consideration charged for transportation of all such goods for a single consignee does not exceed rupees seven hundred and fifty;
- (d) milk, salt and food grain including flour, pulses and rice;
- (e) organic manure;
- (f) newspaper or magazines registered with the Registrar of Newspapers;
- (g) relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap; or
- (h) defence or military equipment.

(As per N.No 12/2017 – CT(Rate) Dt 28.06.2017.)

- **Are there any inward supplies of GTA exempt ?**

When GTA hires a means of transportation, no GST is payable on such transactions. (notification no.12/2017- Central Tax (Rate) dated 28.06.2017)

- **What is the scope of GTA Service?**

It is pertinent to understand the scope of term GTA services. It includes not only the actual transportation of goods, but any intermediate/ancillary service provided in relation to such transportation, like loading/unloading, packing/ unpacking, trans-shipment, temporary warehousing, etc. If these services are not provided as independent activities but are the means for successful provision of GTA Service, then they are also covered under GTA.

- **Conclusion:**

The law recognises that pure transportation of goods services is mostly provided by persons in the unorganised sector and hence has specifically excluded such operators from the tax net. In respect of those who provide agency services in transport, the liability is cast on the recipients in most of the cases or unless option to pay under forward charge has been exercised by the GTA.

One of the problem faced by GTA is that fuel cost is a major operating cost and diesel and petrol is outside the GST net and subject to VAT and Excise , GTA are not able to claim the ITC on same and consequently it adds to its cost of services which puts pressure on its working capital and cash flow.

B. GST on Rail Transport service:

- The GST rate for transport of goods by rail is 5% and ITC of input services is available but not of input goods.
- **Service of goods transport by vessel or rail within India for following goods is exempt:**

Services by way of transportation by rail or a vessel from one place in India to another of the following goods is exempt from GST –

- (a) relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap
- (b) defence or military equipment
- (c) newspaper or magazines registered with the Registrar of Newspapers
- (d) railway equipment or materials

- (e) agricultural produce
- (f) milk, salt and food grain including flours, pulses and rice; and
- (g) organic manure

- Notification No. 12/2017-CT (Rate) and No. 9/2017-IT (Rate) both dated 28-6-2017, effective from 1-7-2017.

There is parallel exemption to goods transport in vessel.

- The GST rate for transport of goods in containers by rail by any person other than Indian Railways is 12%.

C. GST on Water Transport Service of Goods:

- The service by way of transportation of goods by ***inland waterways*** is exempt from the GST. (**Notification No. 12/2017-Central Tax (Rate), Dated 28.06.2017**)
- Inland waterways means national waterways as defined in clause (h) of section 2 of the Inland Waterways Authority of India Act, 1985 (82 of 1985) or other waterway on any inland water, as defined in clause (b) of section 2 of the Inland Vessels Act, 1917 (1 of 1917).
- The GST rate for water transport service of goods is 5% & ITC of input service is available but not of input goods. However, ITC of GST paid on ships, vessels including bulk carriers is available.
- **Service of goods transport by vessel within India for following goods is exempt –**

Services by way of transportation by rail or a vessel from one place in India to another of the following goods is exempt from GST –

- (a) relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap
- (b) defence or military equipments
- (c) newspaper or magazines registered with the Registrar of Newspapers
- (d) railway equipments or materials
- (e) agricultural produce
- (f) milk, salt and food grain including flours, pulses and rice; and
- (g) organic manure

- Notification No. 12/2017-CT (Rate) and No. 9/2017-IT (Rate) both dated 28-6-2017, effective from 1-7-2017.

There is parallel exemption to goods transport by rail.

- **GST on ocean freight on Import - a controversy:**

Case 1: When goods are imported into India under FOB pricing terms:

1.1) In above case, GST is payable. But the question is by whom? If shipping line is located in India then such shipping line will pay GST@ 5% of freight amount under forward charge, but it cannot claim ITC on goods except for ships, vessel etc.

1.2) In above case if shipping line is located outside India then importer has to pay GST under RCM.

Case 2: When goods are imported into India under CIF pricing terms:

In above case, as per N. No 8 /2017 & 10/2017 – IT(Rate) dt 28/06/2017, importer is liable to pay GST under RCM @ 5% on the freight amount or on 10% of the CIF Value of goods when freight amount is not available with importer.

However, the Gujarat High Court in the case of Mohit Minerals Pvt Ltd v. UOI, struck down the levy of GST under RCM on Ocean Freight transaction and this decision forms the bedrock.

Decision:

The High Court held that since the importer is neither supplier nor the recipient of ocean transportation services provided by shipping lines outside India, they are not liable to pay IGST on such transactions. To summarize, the writ petitions of the assessee were allowed on the following independent propositions:

- Under Section 9(3) of the CGST Act, only a recipient of a service can be vested with the liability to discharge GST. The term 'recipient' has to be interpreted literally. In case of CIF Contracts, importers of goods into India cannot be said to be recipients of ocean freight services. The shipping services have been availed by the exporter (seller outside India) and so the importer does not have any role in the play.
- The transaction of ocean freight service by foreign shipping line is neither an inter- State nor intra-State supply as per IGST Act.
- Ocean freight has already suffered IGST as a part of the value of goods imported. Dual levy of IGST cannot be imposed treating it as a supply of service.

Double taxation, through delegated legislation, where statute does not provide, is not permissible.

Considering the stakes involved, it is certain that the Department would knock the doors of the Supreme Court. Hence, in case if there is any further retrospective amendment, one needs to follow the same.

Further, for the company who is registered in West Bengal, there exists a similar judgement from the Calcutta High Court. In case of M/s. Adani Wilmar Limited Vs Union of India & Ors [W. P. 13330 (W) of 2019] where a point of law stands decided by a Division Bench of the High Court of Gujarat has given recognition.

Hence taking the view of the Calcutta HC, a company can follow the decision upheld by the Gujarat HC and may not pay the RCM IGST on ocean freight.

However, one thing to be noted, in the current situation if no RCM is paid, the GST department may issue a show cause notice asking for non-payment of RCM and hence in that case one need to respond to that show cause notice with appropriate High Court Judgment wherein the authorities may agree or disagree depending upon the facts and circumstances of the case.

- **GST on ocean freight on Export:**

In case of CIF contracts entered into by Indian exporter, the outward ocean freight is paid by Indian exporter to Indian shipping company. In that case, the place of supply of service is the location of recipient of service (i.e. Indian exporter), as per section 12(8)(a) of IGST Act. In that case, the shipping company in India was liable to pay tax @ 5% *up to 25-1-2018*.

Now, Services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India are exempt from tax from 25-1-2018 to 30-9-2021. This exemption will cease on 30-9-2021.

D. GST on Air Transport service of Goods:

- The GST rate for air transport service of goods is 18%.

- **Air Freight on Import:**

Wide entry no. 19 in **Notification 12/2017 of Central Tax (Rate)** Services by way of transportation of goods by an aircraft from a place outside India up to the customs station of clearance in India is exempt.

- **Air Freight on Export:**

In case of CIF contracts entered into by Indian exporter, the outward air freight is paid by Indian exporter to Indian airline company. In that case,

the place of supply of service is the location of recipient of service (i.e. Indian exporter), as per section 12(8)(a) of IGST Act. In that case, the Indian airline company in India was liable to pay tax @ 18% up to 25-1-2018.

Now, Services by way of transportation of goods by an aircraft from customs station of clearance in India to a place outside India are exempt from tax from 25-1-2018 to 30-9-2021.

E. GST on transportation of petroleum products through pipeline

The GST rate for transport of natural gas, petroleum crude, motor spirit (commonly

known as petrol), high speed diesel or aviation turbine fuel through pipeline is 5% provided credit of input tax charged on goods and services used in supplying the service has not been taken. [N.No 11/2017- CT(R)]

OR

If input tax credit is availed, GST rate will be 12%. [N.No 11/2017- CT(R)]

Benefits from Implementation of GST:

There is a continuous endeavour by the government to ease implementation of the Goods and Services Tax (GST), by providing a uniform tax on the supply of goods and services. It is seen to have helped reduce transit times of freight vehicles, ease documentation complexities, and enable consolidation of warehouses to optimise inventory costs. The data from the Ministry of Road Transport and Highways (2017) indicate that trucks are covering 300- 325 km a day on an average against about 225 km a day before GST was introduced. While the government seems to have mostly addressed the teething troubles, it is seen to now working towards further rationalisation and simplification of the system to enhance ease of operations.

F. GST on Storage and Warehousing:

- When GST was implemented during 2017, highest buzz was created around the logistic sector in general and around storage and warehousing in particular.

It is very much pertinent to understand various scenario from the GST law perspective.

- There are various scenarios as under which calls for clear understanding for professionals.
 1. Storage and Warehousing activities

2. Leasing / Renting of storage premises.

Let us deep dive into these situations.

1. **Storage & Warehousing:** Many business organisations now a days prefer to have rented godown or storage premises to keep asset light business model. In this case what is to be construed as 'storage and warehousing activities'? and what is to be considered as a 'Renting of premises'?

This is very important from the angle of GST Law. Under GST law the term storage and warehousing is not defined but from various AAR ruling it can be interpreted as under.

Storage and Warehousing service' provider normally make arrangement for space to keep the goods, loading, unloading and stacking of goods in the storage area, keeps inventory of goods, makes security arrangements and provide insurance cover etc. (CBEC in F. No. B11/1/2002-TRU, dated 1-8-2002)

This will attract GST @ 18% (SAC Code 9967)

2. Leasing / Renting of storage premises.

Whereas when a person only rents the storage premises, he does not provide any service such as loading/unloading, stacking, security etc. Mere renting of space cannot be said to be in the nature of service provided for storage or warehousing of goods. This is mere renting of the space.

This will attract GST @ 18% (SAC code – 9972)

Observation:

Even though rate of GST is 18% in case of both the above type of services but meaning and scope of both the services is different and when storage and warehousing services are used for agricultural produce it enjoys exemption vide **Notification No.12/2017 — Central Tax (Rate) dated 28.06.2017.**

In other words, when a premises is taken on lease for storage of agriculture produce, GST is applicable @ 18% since it is only for leasing and renting of premises. However, if the service availed is in the nature of storing and warehousing for agricultural produce, it is exempt from GST.

3. What is the responsibility of transporters, owners or operators of godown or warehouse?

As per section 35(2) of the CGST Act, 2017, every owner or operator of warehouse or godown or any other place used for storage of goods and every transporter, irrespective of whether he is a registered person or not, shall maintain records of the consigner, consignee and other relevant details of the goods in such manner as prescribed in rule 58 of the CGST Rules, 2017.

4. Accounts, Records & related compliance.

- ✓ Rule 56(5) of the CGST Rules provides that every registered person shall keep the particulars of the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein.
- ✓ Rule 56(6) provides that if any taxable goods are found to be stored at any place(s) other than those declared under sub-rule (5) without the cover of any valid documents, the proper officer shall determine the amount of tax payable on such goods as if such goods have been supplied by the registered person.

Thus, the only thing required is declaration of place of storage and proper accounting of goods at the place of storage. If it is done, goods can be stored anywhere without any restriction.

5. E-way bill in case of storing of goods in godown of transporter – (Circular No. 61/35/2018-GST dt 04/09/2018).

As per rule 138 of the Central Goods and Services Tax Rules, 2017, e-way bill is a document which is required for the movement of goods from the supplier's place of business to the recipient taxpayer's place of business. Therefore, the goods in movement including when they are stored in the transporter's godown (even if the godown is located in the recipient taxpayer's city/town) prior to delivery shall always be accompanied by a valid e-way bill.

Further, section 2(85) of the CGST Act defines the "place of business" to include "a place from where the business is ordinarily carried out, and includes ***a warehouse, a godown or any other place where a taxable person stores his goods, supplies or receives goods or services or both***". An additional place of business is the place of business from where taxpayer carries out business related activities within the State, in addition to the principal place of business.

Thus, in case the consignee/ recipient taxpayer stores his goods in the godown of the transporter, then the transporter's godown has to be

declared as an additional place of business by the recipient taxpayer. *In such cases, mere declaration by the recipient taxpayer to this effect with the concurrence* of the transporter in the said declaration will suffice.

Where the transporter's godown has been declared as the additional place of business by the recipient taxpayer, the transportation under the e-way bill shall be deemed to be concluded once the goods have reached the transporter's godown (recipient taxpayer' additional place of business). Hence, e-way bill validity in such cases will not be required to be extended.

Further, whenever the goods are transported from the transporters' godown, which has been declared as the additional place of business of the recipient taxpayer, to any other premises of the recipient taxpayer then, the relevant provisions of the e-way bill rules shall apply. Hence, whenever the goods move from the transporter's godown (i.e., recipient taxpayer's additional place of business) to the recipient taxpayer's any other place of business, a valid e-way bill shall be required.

Further, the obligation of the transporter to maintain accounts and records as specified in section 35 of the CGST Act read with rule 58 of the CGST Rules shall continue as a warehouse keeper.

Furthermore, the recipient taxpayer shall also maintain accounts and records as required under rules 56 and 57 of the CGST Rules. Furthermore, as per rule 56 (7) of the CGST Rules, books of accounts in relation to goods stored at the transporter's godown (i.e., the recipient taxpayer's additional place of business) by the recipient taxpayer may be maintained by him at his principal place of business.

- **Impact of E-way bill on Logistic Sector:**

Section 68(1) of the CGST Act stipulates that the Government may require the person in charge of a conveyance carrying any consignment of goods of value exceeding such amount as may be specified to carry with him such documents and such devices as may be prescribed. And the same is prescribed in Rule 138. In other words, the provisions relating to implementation of e-way bill are contained in Section 68 of the CGST / SGST Act, 2017 read with **Rule 138** of the CGST Rules, 2017, for inter-State movement of goods and Rule 138 of the respective SGST / UTGST Rule 2017, for intra-State movement of goods. The Annexure to the above said rule and more specifically sub-rule (14) of Rule 138 sets out 8 items for which e-way bill is not compulsory.

- **Benefits of E- Way bill:**

1. **Cost reduction:** E-way bill reduces the logistics cost. E-way bill has reinforced proper invoicing and thereby reduce tax avoidance.
2. **Efficient transportation:** It has enabled efficient and speedy transportation. A truck in India covers an annual average distance of 85,000 kms as compared to 1,50,000 to 2,50,000 kms in developed countries which is a clear indication that our transportation systems needs some reforms. E-way bill would help to reform the transportation industry.
3. **Waiting Time:** No waiting time at check post and faster movement of goods resulting in the optimum use of vehicle/resources.

- **Meaning of Transportation under E- Way Bill:**

Movement or journey is part of transportation and it can be said that transportation has commenced as soon as the consignor hands over the goods with clear and irrevocable instructions to a carrier to put them on its journey to a specified destination and hand them over to a specified (or altered) consignee (or his order). Transportation will conclude only when the instructions of the consignor have been satisfactorily carried out by the carrier by handing over the goods to the consignee (or his order). E-way bill is required 'before' commencement of transportation regardless of the time of commencement of the journey.

- **Consignment Value:**

The consignment value of goods shall be the value, determined in accordance with the provisions of Section 15 of CGST Act, 2017, declared in a tax invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment *and also includes* the Central Tax, State or Union Territory Tax, Integrated Tax and Cess charged, if any, in the document and *shall exclude* the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

- **Can transporter to register for E-Way Bill?**

Yes, both register and un registered transporter can register for E-way Bill on E-Way Bill Portal – www.ewaybillgst.gov.in.

- **Who should generate e-way bill?**

EWB is to be generated by the consignor or consignee himself (if the transportation is being done in own/hired conveyance or by railways or by air or by vessel) or the transporter (if the goods are handed over to a transporter

for transportation by road). Where neither the consignor nor consignee generates the EWB and the value of goods is more than ₹ 50,000/- it shall be the responsibility of the transporter to generate it. In case the goods to be transported are supplied through an e-commerce operator, the information in Part A may be furnished by such e-commerce operator.

- **Whether an unregistered transporter should compulsorily enroll on the EWS?**

Yes, in terms of Rule 58 of the CGST Rules, 2017 read with section 35(2) of the CGST Act, 2017, a transporter and operator of godown or warehouse, if not already registered, shall have to enroll on the common portal by filing Form GST ENR-01. The transporter enrolled in any one State or UT shall be deemed to be enrolled in other States as well. The unregistered transporter gets a transporter Id when he enrolls on the system.

- **How many times can Part-B or Vehicle number be updated for an EWB?**

Part-B (Vehicle details) can be updated as many times as one wants for movement of goods to the destination. However, the updating should be done within the validity period and at any given point of time, the vehicle number updated should be that of the one which is actually carrying the goods. The validity of EWB is not recalculated for subsequent entries in Part-B.

- **What happens if multiple consignments are transported in one conveyance?**

Where multiple consignments are intended to be transported in one conveyance, the transporter may indicate the serial number of e-way bills generated in respect of each such consignment electronically on the common portal and a consolidated EWB in FORM GST EWB-02 may be generated by him on the common portal prior to the movement of goods.

- **Can a transport vehicle be intercepted?**

Yes, the Commissioner or an officer empowered by him in this behalf may authorise the proper officer to intercept any conveyance to verify Handbook on E-Way Bill under GST 44 the EWB or the e-way bill number in physical form for all inter-State and intra-State movement of goods. Physical verification of a specific conveyance can also be carried out by any officer, on receipt of specific information on evasion of tax, after obtaining necessary approval of the Commissioner or an officer authorised by him in this behalf.

- **What are the documents to be carried by the person in-charge of a conveyance while transporting goods?**

(a) the invoice or bill of supply or delivery challan, as the case may be; and

(b) a copy of the EWB or the e-way bill number, either physically or mapped to a Radio Frequency Identification Device (RFID) embedded on to the conveyance.

- **Why the transporter needs to enroll on the EWS?**

There may be some transporters, who are not registered under the Goods and Services Tax Act, but such transporters cause the movement of goods for their clients. They need to enroll on the e-way bill portal to get 15-digit Unique Transporter Id.

- **What is to be done (in an EWB) if the vehicle breaks down?**

If the vehicle breaks down, when the goods are being carried with an EWB, then the transporter can get the vehicle repaired and continue the journey with the same EWB. If he has to change the vehicle, then he has to enter the new vehicle details in that EWB, on the e-way bill portal, using 'Update vehicle number' option in Part B and continue the journey in new vehicle, within the original validity period of EWB.

- **As an unregistered transporter, how can I enter my branch details in the EWB portal?**

If the transporter is having additional places of business in addition to the registered place of business, he can use the "Update Additional Place" sub-option provided under "Update" option in the main menu of EWS to add/amend the additional places of business.

- **What are the consequences for non-issuance of EWB?**

It is mandatory to generate EWB in all cases where the value of consignment of goods being transported is more than 50,000/- and it is not otherwise exempted in terms of Rule 138(14) of CGST Rules, 2017.

If e-way bill, wherever required, are not issued in accordance with the provisions contained in Rule 138, the same will be considered as contravention of the rules. As per Section 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (EWB is one of the specified documents) he shall be liable to a penalty of ` 10,000/- or the amount of tax sought to be evaded (wherever applicable) whichever is greater. Moreover, as per Section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

E -Invoicing under GST.

- E Invoicing is mandatory for registered tax payer whose aggregate turnover in FY 2019-20 is Rs 500 crores or more. (both for goods and services)
- However, GTA is exempted from E-invoicing compliance.
- However, it is pertinent to note that if GTA is also providing storage or warehousing services along with transportation of goods and if its aggregate turnover is Rs 500 crores or more then it is subject to E-Invoicing compliance.

5. Direct Tax Provisions

The Income Tax Act, 1961 and rules made thereunder do carry certain special provisions which are very specific to the logistic industry. The knowledge of these provisions can benefit the assessee and could not only lead to tax savings but also effective compliance. In order to keep the discussion simple and reader-friendly an attempt is made to provide the information in form of Q&A.

SECTION 32: DEPRECIATION

Whether there are any special rates of depreciation affecting the logistics industry?

- The provisions for claiming depreciation are contained in Section 32 of the Income Tax Act, 1961 read with Rule 5. The rates of depreciation are provided in the New Appendix-I appended to the Income Tax Rules. The rates of depreciation affecting Logistics Industry are tabulated hereunder:

TABLE OF RATES AT WHICH DEPRECIATION IS ADMISSIBLE AS PER NEW APPENDIX I

Entry	Block of assets	Depreciation allowance as % of written down value
	III. Machinery and Plant	
3(i)	Aeroplanes – Aeroengines	40
3(ii)(a)	Motor buses, motor lorries and motor taxis used in a business of running them on hire other than those covered under entry (b)	30
3(ii)(b)	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired on or after the 23rd day of August, 2019 but before the 1st day of April, 2020 and is put to use before the 1st day of April, 2020.	45
1	Other vehicles such as Road-Rollers, Cranes, Excavators, Tractors etc.	15
	IV. Ships	
1	Ocean-going ships including dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes and fishing vessels with wooden hull	20

Entry	Block of assets	Depreciation allowance as % of written down value
2	Vessels ordinarily operating on inland waters, not covered by sub-item (3) below	20
3	Vessels ordinarily operating on inland waters being speed boats [See Note 10 below this Table]	20

Whether it is mandatory to claim depreciation at the aforesaid rates?

- Yes, the Explanation 5 to Section 32 makes it mandatory for deduction to be made available to the assessee, irrespective of the fact whether it has been claimed while computing his total income. Thus, depreciation has to be allowed to the assessee at the rates prescribed, provided that the other conditions to claim depreciation are satisfied viz. -
- o The assets should be actually used by the assessee for purposes of his business or profession during the previous year and
 - o The assessee owns the asset wholly or partly.

Whether additional depreciation is available on the purchase of ships, aircraft or road transport vehicles?

- No, additional depreciation under section 32(iia) of the Income Tax Act, is not available in respect of ships, aircraft and road transport vehicles.

The assets used in logistics Industry may be obtained under the hire-purchase or the instalment system. Whether, the assessee is entitled to claim depreciation on such assets?

- In respect of assets obtained under hire-purchase system or installment system, the availability of allowance of depreciation is explained by Circular No. 9 OF [R. DIS. NO. 27(4)-IT/43] dated 23-3-1943, accordingly the allowance for depreciation shall depend on facts of each case:
- o Ownership transferred at once:
 - If because of the agreement between the parties, the ownership of the asset is at once transferred to the lessee the transaction should be regarded as one of **purchase by instalments**.
 - In such a case the lessor would only have the right to recover the arrears of installments, but no right to take back the asset for default of the lessee.

- The lessee is in substance the owner of the asset and therefore he would be eligible for an allowance of depreciation on the hire-purchase price and consequently no deduction in respect of the hire amount should be made.
- **Ownership transferred eventually:**
 - If the terms of an agreement provide that the asset shall eventually become the property of the hirer or he has the option to purchase it, the transaction should be regarded as one of hire purchase.
 - In such a case the payments made by the hirer shall be segregated into two:
 1. Towards the purchase price of the hired asset; based on the amount for which it would have been sold for cash at the date of the agreement, and
 2. The hire charges, which shall be the difference between the aggregate amount of the periodical payments under the agreement and the initial value as stated above.
 - The amount of hire charges shall be spread over the duration of the agreement evenly.

What if the agreement for hire purchase is terminated by the hirer?

- ➔ The hirer can terminate an agreement either by way of an outright purchase of the asset or by its return to the seller. In both such cases, the deduction should cease as from the date of termination of such agreement.

In case of a hire-purchase transaction what are the documents required to be obtained from the seller?

- ➔ The depreciation on an asset acquired on hire-purchase, shall be allowed based on the certificate issued by the seller or any other suitable documentary evidence corroborating the initial value or the cash price of the asset.

If the hirer can't obtain such a certificate or other evidence, the initial value of the assets would be arrived at by computing the present value of the amount payable under the agreement using an appropriate discounting factor.

Whether depreciation is allowable even in the case where payment of acquisition of an asset is made by way of cash?

- ➔ The second proviso to Section 43(1) provides that where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than

by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds Rs. 10,000, such expenditure shall not form part of the actual cost of such asset.

Thus, the expenditure in excess of Rs. 10,000, if made in cash, shall not form part of the actual cost of the asset, and consequently, depreciation shall not be available on such part of the expenditure incurred in cash.

SECTION 35AD: DEDUCTION FOR SPECIFIED BUSINESS

Do we have any other incentive for the logistics sector under the Income Tax Act?

- Yes, there is a shift in the nature of incentive from the erstwhile profit-linked incentives to the new-regime of investment-linked incentives under Section 35AD of the Act. The incentive provided in Section 35AD covers a wide range of specified businesses including certain activities of the logistics industry.

Which logistic activities qualify to be classified as specified business under Section 35AD of the Income Tax Act?

- Certain activities pertaining to the logistics industry are covered by the definition of "Specified Business", as provided in clause (c) of sub-section (8) of Section 35AD.

Sr. No.	Item of Clause (c) of Section 35AD(8)	Nature of Activity
1	i	Setting up and operating a cold chain facility.
2	ii	Setting up and operating a warehousing facility for storage of agricultural produce.
3	iii	Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network.
4	ix	Setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962.
5	xi	Setting up and operating a warehousing facility for storage of sugar.
6	xii	laying and operating a slurry pipeline for the transportation of iron ore.

Whether a cold chain facility would cover merely storage of goods?

- No, a cold chain facility has been defined under clause (b) of sub-section 8 of section 35AD, as a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture and processed food items under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce. Thus, it would cover both the activities of storage as well as transportation either individually or in conjunction with each other.

What is the nature of incentive available under Section 35AD, if the assessee commences any of the activities specified in the above question?

- The assessee may claim a **100% deduction** in respect of any **expenditure of capital nature**, provided such capital expenditure is incurred, wholly and exclusively, for specified business carried on by him during the previous year in which such expenditure is incurred by him.

Whether the assessee can claim deduction under Section 35AD for pre-existing eligible businesses?

- The businesses which commence their operations, on or after the dates provided in Sub-section (5) of Section 35AD, alone, would be eligible for deduction. Accordingly, the dates of commencement of business, as applicable to the logistic activities, are provided hereunder:

Sr. No.	Clause of 35AD(5)	Nature of Activity	Date of Commencement of Operations
1	35AD(5)(a)	Laying and operating a cross-country natural gas pipeline network for distribution, including storage facilities being an integral part of such network.	On or after 01.04.2007
2	35AD(5)(af)	Setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962.	On or after 01.04.2012
3	35AD(5)(ah)	Setting up and operating a warehousing facility for storage of sugar.	On or after 01.04.2012

Sr. No.	Clause of 35AD(5)	Nature of Activity	Date of Commencement of Operations
4	35AD(5)(ai)	Laying and operating a slurry pipeline for the transportation of iron ore.	On or after 01.04.2014
5	35AD(5)(b)	All other activities covered by the definition of specified business as provided under Section 35AD(8)(c).	01.04.2009

Can there be a claim for deduction of expenditure incurred prior to the commencement of operations?

- Yes, provision is made to allow the deduction in respect of expenditure incurred for the eligible business, prior to the commencement of operation. As per the proviso to Section 35AD(1) such pre-commencement expenditure shall be allowed as deduction only in the previous year in which the assessee commences operations of his specified business. Further, in order to claim the deduction of such expenditure, it is necessary that it is **capitalised in the books of account** of the assessee as on the date of commencement of its operations.

Are there any items of capital expenditure for which no deduction is allowed under the provisions of Section 35AD, even if such expenditure is wholly and exclusively related to the specified business?

- Yes, the act has provided for a negative-list of capital items in clause (f) of sub-section (8) of Section 35AD. The items for which no deduction is allowed under Section 35AD includes:
1. Any expenditure incurred on the acquisition of any **land or goodwill or financial instrument** for specified business **or**
 2. Expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds **ten thousand rupees**.

Can the assessee set up a new specified business by way of reconstruction of an already existing business and claim deduction under Section 35AD?

- No, the specified business should not be set up by splitting up, or the reconstruction, of a business already in existence. The intent of Section 35AD is to provide an **investment-linked incentive for fresh investment** in the specified

business. The issue is specifically clarified under the clause(i) of sub-section (2) of Section 35AD.

Can the assessee setup a specified business by purchasing second-hand plant and machinery?

- No, as stated earlier Section 35AD provides for an investment linked-deduction. The clause(ii) of sub-section (2) of Section 35AD expressly states that such business should not be set up by the transfer to the specified business of machinery or plant previously used for any purpose.

However, there is some concession provided to the assessee by clause (e) of sub-section (8), insofar as, it is permitted that the assessee may use such second-hand plant or machinery if its value does not exceed 20% of the value of the total plant or machinery used in such specified business.

Whether an assessee can setup a specified business by importing second-hand plant and machinery?

- Yes, by virtue of clause (d) of sub-section (8) of Section 35AD, the machinery or plant would **not** be regarded as previously used if it had been used outside India by any person other than the assessee provided the following conditions are satisfied:
- i. such plant or machinery was not, at any time prior to the date of its installation by the assessee, used in India;
 - ii. the plant or machinery was imported into India from a foreign country; and
 - iii. no deduction on account of depreciation under the Income Tax Act in respect of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee.

The assessee has setup a specified business in an SEZ as of 31st March, 2020. Can he claim both the profit-linked incentive provided in Section 10AA as well as an investment-linked incentive under Section 35AD?

- No, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading "C Deductions in respect of certain incomes" or section 10AA for the same or any other year and vice versa. It should be noted that a corresponding amendment is also made in Section 80A of the Act.

Whether an assessee can claim depreciation on assets relating to the specified business the expenditure of which is claimed as deduction under Section 35AD?

- ➔ Explanation 13 to section 43(1) provides that the actual cost of any capital asset, on which deduction has been allowed or is allowable to the assessee under section 35AD, shall be nil. Thus, as the actual cost is NIL, no depreciation would be available on assets for which deduction is already claimed under Section 35AD.

The sub-section (4) of Section 35AD also states that once the deduction is claimed under section 35AD, the assessee cannot claim a deduction in respect of such expenditure under any other provision of the Income-tax Act, 1961 in the current year or under section 35AD for any other year.

Whether loss arising from the operation of a specified business could be set-off against the profits of any other business?

- ➔ No, the loss of an assessee claiming deduction under section 35AD in respect of a specified business can be set-off only against the profit of another specified business under section 73A, irrespective of whether the latter is eligible for deduction under section 35AD.

What is the role of Chartered Accountant, in the claim of deduction under Section 35AD?

- ➔ The deduction under Section 35AD shall be allowed to the assessee only if the accounts of the assessee for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with his return of income. The audit report, as provided in 80-IA(7) has been made applicable to Section 35AD. The said report has to be filed online in Form 10CCB.

Whether an asset used for a specified business could be used for any other purposes?

- ➔ No, Section 35AD(7A) provides that any asset in respect of which a deduction is claimed and allowed under section 35AD shall be used only for the specified business for a period of eight years beginning with the previous year in which such asset is acquired or constructed.

What are the consequences if the assessee transfers or uses an asset of a specified business for a non-specified business?

- ➔ If an asset is used for any purpose other than the specified business during 8 years beginning with the previous year in which such asset is acquired,
 - o the total amount of deduction so claimed and allowed in any previous year(s) in respect of such asset, as reduced by the amount of depreciation

allowable in accordance with the provisions of section 32 as if no deduction had been allowed under section 35AD, shall be **deemed** to be the income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which the asset is so used.

- o in such a case, as per the proviso to Explanation 13 to Section 43(1), the actual cost of such asset for the assessee shall be the actual cost as reduced by the amount of depreciation would have been allowable had the asset been used for the purpose of business since the date of its acquisition.

What if the asset on which a deduction is claimed under Section 35AD is demolished, destroyed, discarded, or transferred to another person?

- ➔ If an asset on which a deduction under section 35AD has been claimed and allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under clause (vii) of section 28.

Could the goods and services relating to the specified business be transferred to other business of the assessee and vice-versa?

- ➔ Yes, any goods or services held for the purposes of the specified business could be transferred to any other business carried on by the assessee, or vice versa, if the consideration for such transfer corresponds with the market value of the goods or services so transferred.

What are the consequences, if the goods and services mentioned in above question are not transferred at their market values?

- ➔ If the consideration for such transfer does not correspond with the market value of the goods or services, then the profits and gains of the specified business shall be computed as if the transfer was made at market value. Market value means the price such goods or services would ordinarily fetch in the open market, subject to statutory or regulatory restrictions, if any.

Whether an Assessing Officer has any power to verify transactions between the assessee and his associates?

- ➔ Yes, where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profit of the specified business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits of such specified business on a reasonable basis for allowing the deduction.

Whether the deduction is also available under the alternative tax regime under Section 115BAC, 115BAA, 115BAB or 115BAD?

- No, the deduction under section 35AD is not available if the assessee opts for the alternative tax regime provided by any of the sections mentioned in the question.

SECTION 44AA: MAINTENANCE OF ACCOUNTS BY CERTAIN PERSONS CARRYING ON PROFESSION OR BUSINESS.

Whether any specific books of accounts are required to be maintained by the assessee in the logistics business?

- The maintenance of books of accounts and other records is governed by Section 44AA of the Income Tax Act. Accordingly, an assessee is required to keep and maintain such books of accounts and other documents as may enable the assessing officer to compute his total income in accordance with the provisions of the Act.

Are there any concessions in respect of maintaining books of accounts?

- Yes, small assessee's are not required to maintain books of accounts, provided their income and turnover are below the limits provided in the table below:

Sr No.	Type of Assessee	Income from business or profession	Turnover or Gross Receipts
1	Individual and HUF (Existing Business)	Does not exceed Rs. 250,000 in any one of the 3 years immediately preceding the previous year	Does not exceed Rs. 25 Lakhs in any one of the 3 years immediately preceding the previous year
2	Individual and HUF (New Business)	Not likely to exceed Rs. 250,000 during the previous year in which such business is setup.	Not likely to exceed Rs. 25 Lakhs during the previous year in which such business is setup.
3	Other Assessee (Existing Business)	Does not exceed Rs. 120,000 in any one of the 3 years immediately preceding the previous year	Does not exceed Rs. 10 Lakhs in any one of the 3 years immediately preceding the previous year
4	Other Assessee (New Business)	Not likely to exceed Rs. 120,000 during the previous year in which such business is setup.	Not likely to exceed Rs. 10 Lakhs during the previous year in which such business is setup.

SECTION 44AE: PRESUMPTIVE TAXATION FOR TRANSPORTER

Whether there is any special provision for computing profits and gains of an assessee engaged in the business of plying, hiring or leasing goods carriages?

- Yes, in case of any assessee who owns **not more than** 10 goods carriages, at any time during the previous year, the profits and gains from all such goods carriage shall be computed as per the provisions of Section 44AE.

Whether the provisions of Section 44AE are applicable only to Individuals, HUF, and Firms?

- No, the deeming fiction provided by Section 44AE is applicable to every person and is not just limited to only Individual, HUF or Firm.

Whether a goods carriage bought under the hire-purchase system or on installments shall also be included for calculating the limit of 10 goods carriage?

- Yes, as per Explanation(b) to Section 44AE, an assessee who has taken a goods carriage on hire purchase or instalment system shall be deemed to be the owner for the purposes of computing the number of goods carriages under section 44AE.

What is a goods carriage?

- A definition of goods carriage as per section 2(14) of the Motor Vehicles Act, 1988 (for short the "MV Act") is adapted for the purposes of Section 44AE. Accordingly, it means **any motor vehicle** constructed or adapted for use solely for the carriage of goods, or any motor vehicle not so constructed or adapted when used for the carriage of goods.

What is a heavy goods vehicle? Whether it includes a tractor or a road-roller the unladen weight of which exceeds 12000 kgs?

- The term heavy goods vehicle is defined in Explanation (aa) of Section 44AE to mean any goods carriage, the gross vehicle weight of which exceeds 12000 kilograms. The definition adopted in the Income Tax Act is restrictive, as it does not specifically cover a tractor or a road-roller unlike the one in the MV Act, 1988.

Thus, unless a tractor or a road-roller is used for the carriage of goods, they would not be covered by the definition of goods vehicle for the purposes of Section 44AE of the Act.

How is the aggregate profit and gains from all goods carriage computed under section 44AE?

- The income of an assessee from all goods carriage owned by him is computed at the rates prescribed under sub-section (2) of section 44AE. The rates are dependent on the type of goods carriage and its capacity to carry the load. Computation of income is done for each of the goods vehicles as per the rates provided hereunder:

Sr. No.	Type of Goods Carriage	Rate of Presumptive Income
1	Heavy Goods Vehicle – (More than 12000 kgs of gross vehicle weight)	₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month during which such vehicle is owned by the assessee for the previous year.
2	Other than heavy goods vehicle	₹ 7,500 for every month or part of a month during which such vehicle is owned by the assessee for the previous year.

What is the meaning of gross vehicle weight?

- The meaning of gross vehicle weight (for short “GVW”) have been borrowed from the MV Act for the purposes of Section 44AE -

Section 2(15) of the MV Act defines “gross vehicle weight” to mean the total weight of the vehicle and load certified and registered by the registering authority as permissible for that vehicle. So, it is the vehicular weight plus the certified load to be carried in such vehicle. GVW is duly available in the registration certificate of the vehicle.

Why is the term unladen weight used in the rates provided for heavy goods vehicles under section 44AE(2)(i)?

- In order to remove the confusion revolving the use of the term “Unladen Weight”, the board clarified vide F.No.225/233/2019/ITA-II dated 14th August,2019 that in respect of a tractor or a road-roller, the basis of GVW is not applicable, and if the unladen weight of such vehicles exceeds 12,000 Kilograms the profits and gains from each such goods carriage for the purposes of section 44AE of the Act shall be at the rate of Rs. 1000 per ton of unladen weight for every month or part of the month.

Thus, the clarification extends the benefit of the presumptive taxation under Section 44AE to a tractor and a road-roller by applying rates to the unladen weight of such vehicles. However, in respect of other vehicles, the GVW shall

remain to be the basis for the purposes of computing income under section 44AE.

Whether the presumptive income of the entire month shall be considered even if the goods carriage is purchased on the last day of the month?

- Yes, the rates prescribed in the table above are to be applied, even in case if the assessee owns the goods carriage for a part of the month.

Whether a goods carriage owned by the assessee but not put to use during the year would be included for calculation of the limit of 10 goods vehicle?

- Yes, the calculation of both the number of vehicles as well as the amount of presumptive income is done on the basis of the goods vehicles owned by the assessee. There is no condition for the actual use of the vehicle while computing income.

Whether the assessee can declare a higher income over and above the income computed on a presumptive basis?

- Yes, if the assessee has, from the business covered by Section 44AE, claimed to have earned higher income, then he is bound to declare the same in his return of income. In such a case, the presumptive income would be ignored in computing the total income of the assessee.

Whether the assessee can claim any other deduction from the amount of presumptive income computed as per the rates provided hereinabove?

- No, all deductions allowable under the provisions of section 30 to 38 including depreciation on such goods vehicles, are deemed to have been allowed, if the assessee opts for the scheme provided in Section 44AE.

But if the assessee is a firm, can it not claim a deduction in respect of partners remuneration and interest?

- Yes, if the assessee is a partnership firm, the salary and interest paid by the firm to its partner is allowable as a deduction from the presumptive income, to the extent, it is within the limits laid under clause(b) of Section 40.

How is the written down value of assets used in a 44AE business computed?

- The WDV of the assets used in 44AE business is calculated as if the assessee had claimed and have been allowed the deduction of depreciation on such assets, in respect of each of the years during which the assessee has declared income as per Section 44AE(1). The said treatment is a natural corollary of the fiction created under sub-section (3) of Section 44AE in respect of deemed allowance of all expenses covered by section 30 to 38.

Whether section 44AE is applicable even if the turnover exceeds Rs. 1 Crore?

- Yes, the applicability of the scheme under section 44AE is dependent on the number of goods carriages owned by the assessee. If the assessee at any time during the previous year does not own more than 10 trucks, the scheme would apply irrespective of the amount of the turnover from such business.

What are the benefits which the assessee gets by opting for the scheme of presumptive taxation?

- The eligible assessee declaring income as per the provisions of section 44AE is entitled to the following benefits -
- o He is not required to maintain books of accounts under section 44AA.
 - o As a natural consequence, he is also not required to get the accounts audited under section 44AB in respect of such income.

If the assessee opts for the scheme under section 44AE, is he liable to make payment of Advance Tax?

- Yes, the assessee is liable to pay advance tax as per the provisions of Section 208; even if the assessee has adopted the presumptive taxation scheme of section 44AE. The concession provided to the assessee's covered by section 44AD and 44ADA of paying only the last instalment of advance tax under section 211(1)(b); is not extended to section 44AE. Thus, an assessee covered by section 44AE would be required to pay all the instalments of advance tax.

Is it possible for an assessee to declare income of some goods vehicle under section 44AE and under the regular scheme of taxation for the rest?

- No, it is not possible for the assessee to pick and choose. The scheme of section 44AE, either would apply to all the goods vehicles owned by him or he would have to opt-out of the scheme.

What if the assessee, even after being eligible for the scheme, opts out of it?

- The assessee who claims a profit lower than the profit computed as per Section 44AE, would be compulsorily required to -
- o Keep and maintain books of accounts and other documents as specified under section 44AA and
 - o Get such books of accounts audited under section 44AB of the Act.

Can an eligible assessee who opts out of the scheme of Section 44AE in one year, opt for it again in another year?

- Yes, there is no restriction in respect of opting-in and opting-out of the scheme. Unlike section 44AD, an eligible assessee who is covered by Section 44AE, can declare income as per the regular scheme of taxation in one year and opt to compute income under section 44AE in another year.

Can a customer pay, without disallowance under section 40A(3), to a transporter a sum exceeding Rs. 10,000 in cash?

- Yes, the customer can pay up to Rs. 35,000 in cash, provided that such payment is made for plying, hiring, or leasing of goods carriage. The limit of Rs. 10,000 in Section 40A(3) and 40A(3A) is substituted by Rs. 35,000 in the second proviso to section 40A(3A) of the Act. It may be noted that the enhanced limit of Rs. 35,000 is applicable only when payment is made to a transporter and not when payment is made by a transporter.

SECTION 44B: NON-RESIDENTS SHIPPING BUSINESS

In case of a non-resident engaged in the shipping business, what are the sources from such business which are taxable in India?

- A non-resident engaged in shipping business could derive the following sources of income taxable in India viz –
- o The amount received or receivable on account of the carriage of passenger, livestock, mail or goods shipped to a **port in India** and
 - o The amount received or deemed to be received in India by such non-resident or his agent on account of carriage of passengers, livestock, mail or goods shipped at any **port outside India**.

In terms of Section 44B(1), a sum equal to 7.5% of the above amounts shall be deemed to be the profit and gains of such shipping business.

Whether the demurrage charges, handling charges, etc. recovered by the non-resident shall also be included before applying the rate of 7.5%?

- Yes, the explanation to Section 44B clarifies that such amount shall be included while computing profits and gains of the shipping business of the non-resident.

Whether any other deduction shall be allowed to the non-resident from income computed under section 43B?

- No, the sub-section (1) of section 43B specifically overrides the provisions of section 28 to 43A and as such no other deduction available to a non-resident under those sections.

But isn't a non-resident's shipping business already taxed as per Section 172?

- Yes, it is also covered by provisions of Section 172, which provides for the mode of the levy and recovery of tax in the case of any ship, belonging to or chartered by a non-resident. Nonetheless, an assessee can opt for being governed by the provisions of section 44B and any tax that has been paid under section 172 shall be adjusted against the tax liability computed under section 44B.

SECTION 44BBA: NON-RESIDENTS AIRLINE BUSINESS**How is the business income of a non-resident engaged in the business of operation of an aircraft computed?**

- A sum equal to 5% of the aggregate of the following amount shall be deemed to be the profit and gains of such aircraft business of a non-resident viz-
- o The amount received or receivable on account of the carriage of passenger, livestock, mail or goods shipped to any **place in India** and
 - o The amount received or deemed to be received in India by such non-resident or his agent on account of carriage of passengers, livestock, mail or goods shipped at any **place outside India**.

Whether the scheme under section 44BBA is also applicable to a non-resident engaged in leasing of aircraft in India?

- No, only the business activity of operation of aircraft is governed by section 44BBA. Thus, leasing of any kind cannot be brought to tax under this section.

SECTION 80P: DEDUCTION IN RESPECT OF INCOME OF CO-OPERATIVE SOCIETIES**Whether there are any deductions available to a co-operative society, engaged in activities related to logistics business?**

- Yes, co-operative societies are eligible to claim deduction under Section 80P of the Income Tax Act, 1961. Such deduction is available to societies if their gross total income includes income from certain logistic activities as is provided under sub-section (2) of section 80P-

Sr. No.	Relevant Provision	Nature of Activity or Source of Income
1	80P(2)(a)(iii)	The marketing of agricultural produce grown by its members.
2	80P(2)(a)(iv)	The purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members

Sr. No.	Relevant Provision	Nature of Activity or Source of Income
3	80P(2)(a)(vi)	The collective disposal of the labour of its members
4	80P(2)(a)(vii)	Fishing or allied activities, that is to say, the catching, curing, processing, preserving, storing or marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to its members
5	80P(2)(b)	A primary society engaged in supplying milk, oilseeds, fruits or vegetables raised or grown by its members to <ul style="list-style-type: none"> — the Government or a local authority or — a federal co-operative society or a government company engaged in the business of supplying milk, oilseeds, fruits, or vegetables
6	80P(2)(e)	Letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities

What is the quantum of deduction available to such societies in respect of activities mentioned in Section 80P?

- ➔ The societies engaged in the above-listed activities or deriving income from the sources specified in the above table; shall be eligible for a deduction of an amount equal to the entire income from such activities is deductible in the hands of the society.

Whether a society opting to pay tax as per Section 115BAD, could claim deduction under section 80P?

- ➔ No, a society paying tax on income in accordance with 115BAD is not eligible for any deduction under Chapter VI-A other than the provisions of section 80JJAA.

Whether a society engaged in marketing of agricultural produce grown by non-members and the public at large, claim deduction under section 80P?

- ➔ No, for the co-operative society to claim deduction under section 80P(2)(a)(iii), the amount of profit should be attributable only to the marketing of agricultural produce grown by the members of the society. Thus, no deduction is available in respect of income arising from transactions with non-members.

Whether marketing would also include storage, transportation, and other allied activities involved in the marketing of such agricultural produce?

- Yes, the benevolent purpose of the exemption scheme under section 80P is to encourage vital national activity in the interest of the rural economy. The term 'marketing' has to be construed in a manner that would achieve this benevolent purpose of exemption rather than defeat the said purpose. In the case of Addl. CIT v. Ryots Agrl. Produce Co-operative Marketing Society Ltd. [1978] 115 ITR 709, it was held that the expression 'marketing' is of wide import and generally means 'the performance of all business activities in the flow of goods and services from the point of initial agricultural production until they are in the hands of the ultimate consumer.

Whether a society engaged in selling of LPG cylinders to its members be entitled to deduction under section 80P(2)(a)(iv)? (Logistics for non-agriculture produce)

- No, only the activity of purchase of agricultural implements, seeds, livestock, or other articles intended for agriculture for the purpose of supplying them to its members is entitled for a deduction. The supply of LPG cylinders cannot be an item intended for agriculture. The deduction is restricted to only specific items covered by 80P(2)(a)(iv).

Whether a society of transporters would be eligible for deduction in respect of income earned through the utilization of actual labour of its members?

- Yes, any income earned by the society from collective disposal of labour of its transporter members, would eligible for a deduction under section 80P(2)(a)(vi). However, the deduction is subject to the condition that the rules and bye-laws of the society restrict the voting rights to the following class of members –
- o Individual, who contribute their labour (in the instant case the transporter)
 - o Other co-operative society which provides financial assistance to the society
 - o The state government.

What if a society is engaged in the disposal of labour of both members, non-members and the public at large?

- The income of the society out of collective disposal of labour of public at large is not deductible under section 80P(2)(a)(vi).

Whether all income of a warehouse is deductible in case of a co-operative society?

- No, the income from letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities, alone, is deductible. In CIT v.

Ahmedabad Maskati Cloth Dealers Co-operative Warehouses Society Ltd. [1986] 162 ITR 142 (Guj.) it was held that income from sales of goods stored in a warehouse would not be deductible under section 80P(2)(e).

Whether the deduction is available for income arising from letting out of shops for wholesale business, by a co-operative society?

- No, the letting out of a shop is not comparable with letting out of a godown or warehouse and hence deduction is not available in respect of such income.

Does a co-operative society need to file a return of income, in order to claim deduction under section 80P?

- Yes, the provisions of section 80AC specifically provides that, no deduction under Heading-C of Chapter VI-A, shall be allowed unless the assessee furnishes a return of his income, on or before the due date specified under sub-section (1) of section 139. Section 80P falls within the ambit of heading – C of Chapter VI-A, hence, it is mandatory for a co-operative society to file its return before the due date if it has to claim any such deduction.

SECTION 194C: PAYMENTS TO CONTRACTORS

What is the rate at which any person would deduct tax before making any payment to the transport contractor?

- Any person responsible for paying any sum to any resident contractor for carrying out any transportation of goods or other logistic works in pursuance of a contract shall deduct an amount equal to—

Rate of TDS	Type of Transport Contractor or Logistic Service Provider
1% of the sum paid or payable	Individual or Hindu Undivided Family
2% of the sum paid or payable	Other than Individual or Hindu Undivided Family

Is there a change of rates because of the COVID-19 pandemic?

- Yes, during the period from 14th May, 2020 to 31st March, 2021 the rate of deduction shall be 75% of the normal rates. The reduced rates, therefore, shall be as under:

Rate of TDS between 14.05.2020 to 31.03.2021	Type of Transport Contractor or Logistic Service Provider
0.75 % of the sum paid or payable	Individual or Hindu Undivided Family
1.50 % of the sum paid or payable	Other than Individual or Hindu Undivided Family

Whether any monetary limit has been prescribed to keep small value transaction out of the TDS net?

- Yes, monetary limits are prescribed under section 194C(5). Accordingly, no deduction shall be made from the amount of any sum credited or paid or likely to be credited or paid to the contractor, if such sum, does not exceed -
- o Rs. 30,000 per instance in case of single credit or payment or
 - o Rs. 100,000 in the aggregate during the financial year

Whether TDS is required to be made even in the case of a small transport contractor?

- Concession is provided under section 194C(6) to a transport contractor who owns 10 or less goods carriages at any time during the previous year. One may note that this is in line with the provisions of Section 44AE, which extends concession in computing income from the business of plying, hiring, and leasing of goods carriages.

Thus, any person paying or crediting any sum for plying, hiring, or leasing of goods carriages shall not make any deduction if such small transporter furnishes a declaration confirming the fact of owning 10 or less trucks along with his Permanent Account Number.

How is the declaration required to be provided by a transport contractor covered by Section 194C(6)?

- In order to ensure uniformity, the board vide Circular No. 19/2015 dated 27.11.2015 has prescribed the following format of the declaration to be furnished by the eligible transporter under section 194C(6) of the Income-tax Act for receiving the payment without deduction of tax:

DECLARATION UNDER SECTION 194C(6) OF THE INCOME-TAX ACT, 1961	
No..... (To be provided by payee)	Date
From : (Name & address of the payee)	
To : (Name & address of the payer)	
The freight/transport charges amounting to Rs for transportation of goods by goods carriages having Registration Number may be paid or credited to my account without deduction of tax under section 194C of the Income-tax Act, 1961. I/We, in the capacity of hereby declare that I/We do not own more than ten goods carriage and also did not own more than ten goods carriage at any time during the period from 1st April to My Permanent Account Number (PAN) is I hereby enclose a self-attested photocopy of my PAN Card.	
Place:	Signature of the person making declaration"

What are the consequences of the non-furnishing of PAN or Aadhaar to the payer?

- The tax would be deducted at the rate of 20% under section 206AA, instead of the normal rates of TDS as prescribed in the table above. Thus, a contractor shall ensure that he should, invariably, mention his correct PAN in at least some of his communication with the payer, preferably on the invoice, consignment note or any other document issued by the contractor.

In addition to the tax rates as prescribed above, whether a payer can also deduct surcharge or health and education cess?

- No, the payer cannot deduct surcharge or health and an education cess in addition to the rates prescribed under section 194C.

Whether TDS is required to be made under section 194C even when payment is made to a clearing or forwarding agent?

- Yes, any payment to a C&F agent for the carriage of goods is subject to deduction under section 194C, if such agents act as independent contractors. The position is clarified in Circular No. 715, dated 08.08.1995. Whether tax is deductible under Section 194C in respect of warehousing charges or whether it is considered as Rent under section 194I?
- Warehousing charges essentially arise on account of contract for the storage of goods and it is not an arrangement for leasing of the warehouse. Tax is, therefore, required to be deducted under section 194C and not under section 194-I.

Can a logistics operator make a request for non-deduction of tax or lower deduction of tax to the deductor?

- No such request can be made to the deductor, however, the application can be made under section 197, in Form no. 13, to the assessing officer on the TRACES portal i.e. at <https://tdscpc.gov.in/> under the taxpayer's profile. The entire process is for making such an application is online and the certificate is also issued in electronic mode.

Whether it is obligatory for the deductor to furnish a certificate of tax deduction?

- Yes, it is obligatory for every deductor to furnish a TDS certificate in Form 16A to the deductee within 15 days from the due date of furnishing of quarterly TDS returns. Failure in the timely issue of such certificate, the provisions of section 272A(2)(g) shall be attracted, under which, a penalty of Rs. 100/day during which the failure continues is leviable.

Whether TDS in respect of the payments to non-residents for logistic services would also be governed by provisions of Section 194C?

- No, the payments to a non-resident or foreign company is usually governed by provisions of Section 195. However, in the case of non-resident engaged in shipping, as section 172 overrides all other provisions of the Act, both the provision of Section 192C and 195 are not applicable. Ref. Cir. No. 723 dt. 19th Sep, 1995.

6. Critical Accounting Issues

1. The **Income Computation and Disclosure Standards (ICDS)** have been notified and are applicable from Assessment Year 2017-18 onwards. The adoption of ICDS is expected to significantly alter the way companies compute their taxable income, as many of the concepts from existing Indian GAAP have been modified. This may also require changes to existing process and systems. Special care needs to be taken for implementation of ICDS in the following areas:
 - Borrowing costs.
 - Revenue Recognition.
 - Government grants.
 - Financial instruments.
 - Foreign exchange capitalization.
2. The Companies Act, 2013 (2013 Act) has introduced Section 134(5)(e) of the 2013 Act which requires the directors' responsibility statement to state that the directors, in the case of listed company, have laid down the **Internal Financial Controls (IFC)** to be followed by the company and that such internal controls are adequate and were operating effectively.
3. **Related Party Transactions** are regulated by certain conditions as provided in Section 188 of the Act, by the means of which they can be disclosed to the Board and shareholders for them to ratify. A prior approval from the Audit Committee is to be obtained. If the transactions fall within the meaning of Section 188, then these need to be disclosed in the Board Report for prior approval. A justification is required to be given in support of the transactions. If the transactions are beyond the threshold limits given below, then they need to be disclosed in the General Meeting for approval by special resolution. If the transactions are conducted and carried out in a fair, justiciable manner without any trace of influence of the parties' relation upon itself it is known as a transaction at arm's length. It means transactions which are not biased by the relation of the parties and conducted as if with an unrelated party. Such transactions have been exempted from compliance with Section 188 of the Act.

Threshold limits for such related party transactions that require approval by special resolution, under Section 188 of the Act are:

 - a) sale, purchase or supply of any goods or materials; the amount involved exceeds 10% of the turnover of the company or INR 100 crore, whichever is lower;

- b) selling or otherwise disposing of, or buying, property of any kind; where the amount involved exceeds 10% of the net worth of the company or INR 100 crore, whichever is lower;
 - c) leasing of property of any kind; the amount involved exceeds ten percent of net worth of the company or ten per cent. of turnover of the company or Rupees One Hundred crore;
 - d) availing or rendering of any services involving an amount exceeding 10% of the turnover of the company or INR 50 Crore, whichever is lower;
 - e) appointment of any agent for purchase or sale of goods, materials, services or property; its subsidiary or associate company at a monthly remuneration exceeding INR 2.5 lacs;
 - f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
 - g) underwriting the subscription of any securities or derivatives thereof, of the company more than 1% of net worth of the company.
4. **Depreciation** is one of the most difficult accounting estimates in the logistics industry to determine the useful economic life of vessels, vehicles, other assets, etc. This, with the residual value, determines the effective depreciation rates and is also an important factor in assessing whether a asset's carrying value is impaired. If the estimated useful economic life is inappropriate, or circumstances change such that it has to be revised, material misstatements could occur. The exercise of judgement is further complicated by the uncertainty of the market conditions, deployment and operating cycles, repair and maintenance policy, technological upgradations, market trends, government policies, etc. The key for the auditor is to ensure that the entity has selected the appropriate method of depreciation which reflects the pattern in which the benefits associated with the assets are consumed. The method selected should be applied consistently from period to period and should be changed only if there is material change in the expected pattern of consumption of those future economic benefits.
5. **Impairment:** The accounting standard requires companies to review for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The logistic sector is capital intensive and historically the earnings have been volatile and the sector is also vulnerable to economic recession, external demand and price shocks. Recoverability of an asset is assessed by comparing its carrying amount to value in use and fair value less costs to sell. Value in use is generally, the future

discounted cash flows that the asset or cash generating unit (CGU) is expected to generate over its remaining useful life. In order to assess impairment, estimates and assumptions are made regarding expected cash flows which require considerable judgement – not least whether the CGU is an individual vessel, or the fleet as a whole. Other critical assumptions include spot market rates for the assets, the operating costs of assets and the estimated economic useful life. In making these assumptions reference is made to existing contracts and forecasts of macro and micro-economic conditions.

6. **Leases:** Most of the logistics companies, especially courier & warehousing companies operate through the 'hub and spoke' model using a number of service centres across the country. They lease warehouses for the purpose of storing the goods / parcel through the delivery chain. These service centres and warehouses are generally leased for a period of four to seven years with a lock-in period of two to three years. Some of the leasing agreements may also have an escalation clause. In such arrangements, where the lease is renewable at the option of the lessee and where it is determined to extend (reasonable certainty at inception that the renewal/extension option will be exercised) and where there is an escalation clause, the lease rent may need to be recognised on a straight-line basis. However, Ind AS has provided a carve-out from IFRS, i.e. if the escalation clause is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost, the increases in rentals shall not be straight-lined. This could have a significant impact on the statement of profit and loss. Additionally, companies may pay security deposits to the lessor under the leasing agreement. The security deposit could meet the definition of a financial asset and at inception should be recorded at fair value. The difference between fair value and the amount paid shall be recognised as a prepaid rent, to be amortised over the period of the lease. The unwinding of the security deposit as per the effective interest rate method shall be recognised as a finance income over the period of the lease.
7. **Operating Leases:** Logistic companies hire delivery vehicles and make payments on a daily rate basis or fixed on a monthly basis. Such agreements are normally enlisted for a period of three to four years, cancellable by either party at a month's notice. Typically, the agreement could contain details of specific vehicles hired (inter-changeable in case of an accident or breakdown) and may also be branded with the logistic company's logo, etc. Since there is the right to use an asset in return for payment, it is in essence a lease or contains a lease and has to be accounted for under Ind AS 17, Leases. In substance, such an arrangement could have two parts: a) Leasing of vehicles b) Services provided by the service provider. Since the company has, under the arrangement, an exclusive right to use all the vehicles of the service provider and payments are fixed with a cancellable clause, this could be in the nature of an operating lease

and necessary disclosures should be made in the financial statements, splitting the rentals paid between lease expenses and service charges.

- 8. Service Concession Arrangements:** Several logistics companies enter into service concession arrangement whereby a private sector entity (the operator) builds or upgrades public service infrastructure. The operator typically receives cash, either from the public sector body that awards the concession (the grantor) or from users, only once the infrastructure is available for use. Depending upon the nature of service concession arrangement, the operator need not recognise the property, plant and equipment constructed as part of the service concession arrangement in its balance sheet. As per the contractual service agreement, the operator is considered to have a right to use. The operator recognises and measures revenue and costs related to the construction or upgrade of infrastructure in accordance with the provisions of Ind AS, during the construction or upgrade period. The consideration may be rights to a financial asset or an intangible asset. If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received for both the components will be accounted for as per Ind AS. Ind AS is likely to affect the operator's revenue recognition and profit pattern during the period of the arrangement. The change in the profit profile could also impact the timing or ability to pay dividends in certain years during the term of the project. Additionally, the operator's balance sheet composition is also likely to change, as assets previously classified as fixed assets will be separately classified as financial assets or intangible assets
- 9. Componentisation:** In order to apply the 'component approach' for fixed assets, it is necessary to identify various significant parts of property, plant and equipment which have a different useful lives from the remaining parts. Determination of significant components requires a careful assessment of the facts and circumstances. This assessment includes, at a minimum: a) Comparison of the cost allocated to the item to the total cost of the aggregated property, plant and equipment b) Consideration of the potential impact of componentisation on the depreciation expense. Assets in logistic sector (**sea vessels, aircrafts, trucks, warehouses, special storage vehicles, etc**) generally comprises number of components that may be replaced independently as part of a modification before the asset reaches the end of its useful life. However, it is vital to note that identification of significant parts and their useful lives is a matter of judgement and should be decided on a case-to-case basis. It is not merely an accounting exercise. It would help if technical experts are involved to determine significant parts of an asset.

- 10. Hedging:** Several logistic companies are exposed to significant volatility due to currency and commodity fluctuations. Such companies may or may not have robust risk management policies that include the use of derivative financial instruments to hedge the exposures emanating from volatility in the currency or commodity. Under Ind AS 109, Financial Instruments an entity may hedge the price risk using the hedge accounting requirements in the standard. If hedge accounting is followed, then effective portion of changes in fair value of the hedging instrument is recognised in Other Comprehensive Income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss. On actual receipt of the commodity, any accumulated amount in the Other Comprehensive Income is removed and included in the initial cost of the commodity. Hedging relationships are required to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The term "highly effective" has been interpreted in practice to mean that the change in fair value/cash flows of the designated component of the hedging instrument is within 80 to 125% of the change in fair value/cash flows of the designated proportion of the hedged item attributable to the risk being hedged.

Thus for e.g. If an airline hedges its exposure to fuel price change, then assuming fuel price at Rs.100 per unit, the variation in the range of Rs.80 to Rs.125 shall be treated as effective portion of the hedge. Any change beyond this range shall be ineffective portion of the hedge.

- 11. Revenue Recognition:** Revenue from services should be recognised by reference to the stage of completion at the balance sheet date if:

- The amount of revenue can be measured reliably
- It is probable that the economic benefits of the transaction will flow to the entity
- The stage of completion can be measured reliably, and
- The costs incurred for the transaction and the costs to complete the services can be measured reliably.

Ind AS does not allow the completed contracts method; the percentage of completion method should be followed to recognise revenue from services. A transaction's stage of completion may be determined by different methods if they reliably measure the services performed. These methods include, for example, the proportion of total cost incurred to date. Each entity will need to plan the way in which they will be able to ascertain the percentage of completion of the service and accrue revenue. Some companies use very

sophisticated means by which to establish how much revenue to recognise, whilst others may choose a broader basis of estimating.

Freight forwarding / NVOCC (Non-Vessel Owning Container Carriers) activity differs due to the nature of contracts entered into with customers, especially with reference to the timing of acceptance / delivery of the cargo, import or export shipments, charging of various duties taxes, additional service rendered like custom clearing, etc. Below are the key accounting areas which are relevant for this sub-sector.

Revenue recognition

a. Gross versus net accounting

Freight income is one of the significant items in an invoice billed to a final customer. As such, there can be challenges in respect of accounting of freight cost (cost to be paid to shipping agency), i.e. whether to be recognized at net (billed less cost paid to shipping agency) or gross (gross shown in income and cost of services).

The following features should be considered to determine if a NVOCC carrier is acting as principal or an agent:

- Indicators that an entity is acting as a principal include that it:
 - Bears the customer's credit risk for the amount receivable from the customer
 - Has discretion in establishing prices (directly or indirectly)
 - Has primary responsibility for providing the services to the customer or for fulfilling the order.
- An indicator that an entity is acting as an agent, performing services for compensation or fee basis, which is fixed either in terms of an amount of currency or a percentage of the value of the underlying services provided by the principal.

In this sector, an entity (NVOCC operator) bears the gross credit risk for non-payment and is obliged to make payments to the shipping line/shipping agency contractually. Further, the NVOCC operator at its own discretion determines the margin and sets the pricing for a particular sector as well as the primary responsibility to ship the goods safely to the destination, irrespective of the fact that many NVOCC operators may have back-to-back arrangements with the shipping line. As such, considering the risk of carriage is with the NVOCC carrier, one may need to book the same at a gross amount.

b. Timing of revenue recognition

In every industry, the timing of revenue recognition is a critical and important judgement exercised by management. In the freight forwarding/NVOCC business, the relevant parameters of risk and rewards need to be analysed based on the type of shipment, i.e. import or export.

Export shipment: Revenue from freight export shipment (ocean/air freight, terminal handling charges, documentation charges, etc.) is normally recognised on the date of sailing/ departure of the vessel, irrespective of the date of raising of the invoice. Issuance of a Bill of Lading (BOL) is normally indicative of completion of services by the freight operator as most of the export-related services are rendered prior to sailing of the vessel and therefore, a BOL is key to recognizing revenue for export-related services rendered.

However, there could be certain instances when the freight operator is required to perform services which are to be rendered by him or his agent at the port of destination and beyond. In such cases, the entity needs to evaluate each leg of the service, the level of services to be rendered, and the appropriate revenue to be recognised for each respective leg of service.

Import shipment: In the case of import shipments, most of the service obligations (other than the freight element) are rendered by the freight operator once the cargo reaches the shores of India and till the time the cargo is handed over to the customer. Revenue from import shipment (ocean/ air freight, terminal handling charges, documentation charges, etc.) is, therefore, generally recognised upon rendering of related services (i.e. issue of a delivery order) based on which, the importer/consignee can clear the goods from the customs bonded warehouse.

Further, one has to review the nature of cargo shipped whether it is a nomination shipment (where the business is generated by the entity) or a freehand shipment (where the business is generated through an agent), in which case, the relevant revenue/commission may be required to be accrued in the books.

Entities typically need to have a robust IT system to capture the various details and stages of completion of each contract/ consignment such as the sailing date/ arrival date, to estimate revenue and cost. Also, for those export shipments which have sailing dates beyond the year end date (cut off), one may be dependent on IT to generate revenue for deferment for the related projects/ shipments.

c. Accounting for pass-through costs

As per the contractual arrangement with the customer, an entity normally incurs certain expenditure on behalf of its customers (which is in the nature of tolls, custom duty, octroi, other incidental taxes, etc.) which are primarily the expenses of the customer and the same are then recovered from the customer at cost by the entity (via a customer invoice).

Merely invoicing of such reimbursable expenses does not make them eligible to be recorded as revenue and expenses. These are expenses which are incurred by the entity in its role as an agent of the customer and, therefore, it is inappropriate to recognise the gross receipts as income and gross payment as expenses; instead they should be recorded at net in the financial statements.

d. Accounting for rebates/volume discounts

Contract revenue generally comprises the initial amount of revenue agreed in the contract, and variations in contracts on account of volume rebates and incentive. Volume rebates, discounts and other incentives are generally accounted for to the extent that it is probable that they may result in revenue, and when they are capable of being reliably measured.

In case of a contractual arrangement with customers where the price is variable and is dependent on the future volumes of business, the entity needs to estimate the volumes based on past experience/ history of such arrangements.

Impact of Ind AS on freight forwarding/NVOCC

Revenue recognition – multiple elements

Ind AS 18, Revenue states that it is necessary to apply the revenue recognition criteria to each separately identifiable component of a single transaction in order to reflect the transaction's substance. A freight forwarding/NVOCC transaction may contain separately identifiable components that may have to be accounted for separately. For example, a typical service includes revenue from export/import ocean freight income, vessel income, export Terminal Handling Charges (THC) income, Multi-modal Transport Operator (MTO) income, export voyage income, documentation charges, etc.

The identification of components within a single arrangement is consistent with the general principles in Ind AS 18 i.e. the requirement that it may be necessary to apply the revenue recognition criteria to the separately identifiable components of a single transaction to reflect the substance of the transaction.

An entity should consider following guidance to separate individual components in a single transactions:

- The component has stand-alone value to the customer; and
- The fair value of the component can be measured reliably.

Ind AS does not define, nor does it provide guidance about application of, the term 'stand-alone value'. One view is that a delivered element has stand-alone value if a vendor sells the item on a stand-alone basis or the customer could resell it. Another view is that an item has stand-alone value if the customer derives value from that item that is not dependent on receiving other deliverables under the same arrangement.

In practise, both of these interpretations of stand-alone value are acceptable. An entity should choose an accounting policy, to be applied consistently, in determining the definition of standalone value. Regardless of the policy applied, the determination of whether a component within an arrangement has stand-alone value to the customer depends on facts and circumstances and requires judgement.

When considering the separation of components in a contract, if the entity sells the different components separately (or has done so in the past), this could be an indicator that separation is necessary for the purposes of revenue recognition, however, it is not a requirement. For example, even if the entity in question does not sell them separately, it may be that the transaction's components are sold separately by other vendors in the market. In such a situation, the separation of the components may still be appropriate.

In case of the freight forwarding/NVOCC business, if the entity provides a host of landside and offshore services and charges a lump sum fee to the customer, the existence of other vendors in the market who provide similar services on a standalone basis might require the entity to split each element of the transaction at its relative fair value.

7. Analysis of audit observations

Analysis of Audit Observation in Logistic Industry

1. Most of the reports for year ended Mar-20 have the below observation/**emphasis of matter** regarding impact of Covid-19 on the going concern of the enterprises:

“The outbreak of corona virus (COVID-19) pandemic globally and in India is causing significant disturbances and slowdown economic activity. The Company as on the date of approval of these financials has made assessment of possible impact that may result from the COVID -19 pandemic on the carrying value of current and non-current assets considering the internal and external information available on the said date and to the extent possible. The Company, based on the above analysis and assumptions made, believes that carrying value of these assets are recoverable and sufficient liquidity is available. The impact of COVID-19 may be different from these estimates and the Company will continue to monitor any material changes to the future economic conditions”.

2. In case of a leading logistics company, the auditors have raised a red flag regarding the operational advances given to a related party which is long overdue and the full recoverability of the same is doubtful. The demand of the management from the Managing Director to furnish personal guarantee has not been fulfilled yet. Though the auditors have stated that the management is making necessary efforts to ensure collection, no impairment allowance for the uncertainty of recovery has been provided in the books. The auditors have qualified their opinion about inability to assess the managements judgement and assumptions used in assessing recoverability. The auditors qualified opinion pertains to true and fair view about the estimated recoverable value and potential adjustment for impairment.

In the same report, however, the auditors have also laid emphasis on advance of similar nature and amount given to a wholly owned subsidiary in due course and no provision is made for possible losses that may arise. The said wholly owned subsidiary is yet to commence operations. Here, the auditors have not qualified their report.

(Source:<https://economictimes.indiatimes.com/prime/money-and-markets/gati-faces-auditors-red-flags-unrecovered-loans-impairment-risks-excess-remuneration/primearticleshow/78372638.cms>)

3. In certain cases, where the entity or its subsidiaries or step-down subsidiaries have shown huge losses, the auditors have laid emphasis on the managements actions like restructuring of balance sheets to ensure solvency through

sustainable cashflows, business re-organizations, operational improvements through revenue improvements, etc to comment that their opinion is not modified regarding the **going concern assumption** for the entity.

4. Several listed entities have subsidiaries, associate firms & joint ventures operating across different geographies. In case of such entities being audited by another independent auditor, the main auditors have remarked about the amounts of share of profits and comprehensive incomes of such associates and joint ventures included in the Statement of Consolidated financials with remarks that such subsidiaries, associate firms & joint ventures have been reviewed by their respective independent auditors & that they have placed **reliance on the reports of such independent auditors** and procedures performed thereon.
5. Where such subsidiaries, associate firms & joint ventures have not been audited, the auditors have laid clear the reliance placed on information and **explanations given by the management**. The auditors have also commented on the materiality of the financial numbers of such subsidiaries, associate firms & joint ventures in context of the Group's financial results.
6. In **Key Audit Matters** such as Accuracy of recognition, measurement, presentation and disclosures of revenues and other related balances in accordance with Ind **AS 115 "Revenue from Contracts with Customers"**, the Accounting Standard relating to Revenue Recognition involves key judgments relating to identification of the contracts and performance obligations, determination of transaction prices and costs related thereto and also involves enhanced qualitative and quantitative disclosures. Auditors have tested the design and operating effectiveness of the internal controls and substantive testing by reviewing the contracts, identifying the distinct rights and performance obligations arising out of these contracts and comparing them with those identified and recorded by the Company. Auditors have also considered the terms of the contracts to determine the transaction price including any variable consideration, if any and the costs related thereto. Historical trend of collections and disputes have also been studied. Auditors have validated management judgements around estimated lead time, checked subsequent receipts to validate reported revenue and also test-checked matching principle of costs & revenue.
7. With regards to **recoverability of Indirect tax receivables** shown in the financials for Indirect Tax Credit Recoverable or Refundable in matters pending adjudication, auditors have obtained details of the amounts outstanding and verified the same with the claims made with the authorities. They have also verified the current status of the outstanding amounts as at the year end. Auditors have obtained the details of legal status of disputes, wherever

applicable, from the management and analysed the submissions to authorities to review the nature of the amounts recoverable, the sustainability and the likelihood of recoverability upon final resolution.

8. Audit work to assess the **Adoption of Ind AS 116 – Leases** is complex and critical if the Company has a large number of leases with different contractual terms. Under Ind AS 116, the lessees is required to recognise a right-of-use (ROU) asset and a lease liability arising from a lease on the Balance Sheet. The lease liabilities are initially measured by discounting future lease payments during the lease term as per the contract/ arrangement. Adoption of the standard requires significant judgements and estimates including, determination of the discount rates and the lease term. The Standard also mandates detailed disclosures in respect of the transition. The audit procedures on the adoption of Ind AS 116 include assessment of the Company's evaluation of identification of leases based on contractual agreements and auditor's knowledge of the business. The reasonableness of the discount rates applied in determining the lease liabilities, the method of transition and related adjustments, completeness of the lease data, the key terms and conditions of each lease with the underlying lease contracts needs to be carefully assessed. The auditors need to ensure adequate presentation and disclosures.
9. With regards to **Information Other than the Financial Statements and the Audit Report**, the auditors have made it clear that the Company's Board of Directors is responsible for the other information. The other information comprises the information included in the Director's Report but does not include the financial statements and the auditors' report thereon. The Auditors opinion on the financial statements does not cover the other information and they do not express any form of assurance conclusion thereon.
10. In cases where the auditors could not participate in physical verification of inventory or fixed assets, they have stated the fact & reasons. Consequent performance of alternate procedures as per the guidance provided in SA 501 **"Audit Evidence – Specific Consideration for Selected Items"** to obtain sufficient appropriate audit evidence is reported in the audit report. The auditors have clarified whether their opinion is modified on account of such alternate audit procedures.

Challenges of Logistic Companies:

Problems faced by the logistic sector includes differential rules and regulations at different stages enforced by national, regional and local authorities, lack of integration in transport networks, poor warehousing and distribution facilities and information technology, unavailability of skilled manpower, absence of good training institutions, poor management and storage facilities, poor infrastructure, etc.

1. **Infrastructure:** Inadequate and low-quality modal and terminal transport infrastructure, suboptimal modal mix, inefficient and ill-designed storage facilities for cargo and containers and inefficient operational and maintenance protocols, and poor adoption/adaptation of technology affect the logistics in India. This leads to high and inconsistent cargo transit time, inefficient use of resources and poor fleet management.
2. **Skill Development** – India’s demographic advantage is partially offset by non-availability of appropriately skilled manpower, especially in the logistics sector as it is seen more as a support industry than a mainline one. Lack of skilled manpower is the result of inadequate training and proper leadership and support. The sector needs to specifically build a pool of personnel comprising truck drivers, seafarers, warehousing managers, quality inspection supervisors, among others. There are limited institutes for soft skills, and operational and technical training. Also, due to the unorganized nature of the sector, which is characterized by poor working conditions and low pay scale, it is not a preferred choice among skilled personnel.
3. **Information Technology** – While India has never been on fore-front of technological innovations, even the adoption of available technologies has been slow & incremental. Awareness about the economic benefits of using digital technology is low and collaboration among stakeholders far from satisfactory. As a result, the logistics ecosystem is fraught with operational inefficiencies and poor asset utilization. Lack of technology systems and insufficient technical knowledge add to the pain. Technological infrastructure has remained inadequate, marked by slow network speeds, subpar performance, and unreliable hardware and software — all leading to high costs and underperformance.
4. **Regulatory Hurdles** - Multiple regulatory agencies, if not coordinated and brought under a single umbrella, could slow down the creation and operation of logistics infrastructure. Obstacles in land acquisition and consolidation, and change in land use still continue to be major impediments. Lack of transparency in compliances further adds to the woes of the sector.
5. **Performance Standards** – Given the sectors vast gamut, diverse factors affecting the smooth working & the growing consumer aspiration, it is difficult to have benchmarked standards of performance. A central data base & reliable interpretation and publication of data (on lines of ARPU data released by TRAI every month) will improve performances & set the stage for efficient management of logistics in India.
6. **Resource Imbalance** – While most load of logistics is borne by the congested road network, the Indian coastline and river network has historically remained under-used, even though it is energy-efficient, eco-friendly and reduces logistics

costs. Cost for coastal shipping is INR 0.15-0.2 per tonne km compared to INR 1.5 for railways and INR 2.5 for road. Addressing these anomalies alone provides a huge potential to lower logistics cost in the economy by INR 21,000-27,000 Cr by 2025.

7. Fragmented Sector - There is a wide spectrum of players in the sector ranging from the very small exporters and importers, to medium-sized and large traders to MNCs. It is debateable if the integrated end-to-end logistics being envisaged is compatible with the offerings of the small trader. How a trader with small ticket size consignments could be integrated into the supply chain needs attention. It is important to recognize target segments for whom logistics solutions are being designed.

8. Impact of BS VI on Logistics Sector

Bharat stage (BS) emission standards are laid down by the government to regulate the output of air pollutants from internal combustion engine and spark-ignition engine equipment, including motor vehicles. The central government has mandated that vehicle makers must manufacture, sell and register only BS-VI (BS6) vehicles from April 1, 2020. The below changes due to BS VI are likely to affect the logistics sector (mainly road transport) adversely:

- The use of ULSF (Ultra Low Sulphur Fuel) i.e. fuel with sulphur levels below 10 ppm would be needed for the aftertreatment system to function effectively. This shall call for upgrades at all refineries in the country. As per estimates, the BS VI fuel when launched could cost see a cost increase of Rs 1.40 per litre of petrol and Rs 0.68 per litre of diesel. Also, for commercial vehicles fitted with the SCR system, petrol pumps will have to start dispensing 'Ad-Blue' (Aqueous Ammonia Solution) which will need periodic re-filling for the SCR system to work. This will increase operating costs for logistics sector.
- A recent guidance by the government allowing transporters to raise freight load in trucks will demand huge engineering changes. This will increase the cost of vehicles & be a capital burden on the logistics sector.

8. Sector Challenges & Technology Enablers

- 1. RFID: Radio-frequency identification (RFID)** uses electromagnetic fields to automatically identify and track tags attached to objects. An RFID tag consists of a tiny radio transponder; a radio receiver and transmitter. When triggered by an electromagnetic interrogation pulse from a nearby RFID reader device, the tag transmits digital data, usually an identifying inventory number, back to the reader. This number can be used to inventory goods. RFID tags are used in many industries. For example, an RFID tag attached to an automobile during production can be used to track its progress through the assembly line; RFID-tagged pharmaceuticals can be tracked through warehouses; and implanting RFID microchips in livestock and pets enables positive identification of animals. Tags can also be used in shops to expedite checkout, and to prevent theft by customers and employees. RFID tags are affixed on containers coming out of ports to track real time positions & align process cycle times. The receiver gets real time data about arrival of his goods & hence can align the supply chain and production activities according. RFID has considerably reduced follow-ups & increased real time availability of data. FASTag is an electronic toll collection system, operated by the NHAI. Based on radio frequency identification (RFID) technology, FASTag is affixed on the windscreen of vehicles. In other words, FASTags are prepaid rechargeable tags for toll collection. FASTag is linked to a prepaid account from which the applicable toll amount is deducted. The tag employs Radio-frequency Identification (RFID) technology and is affixed on the vehicle's windscreen after the tag account is active.
- 2. Artificial Intelligence:** Over the past several years, the logistics industry has started to integrate artificial intelligence solutions including intelligent transportation, route planning, and demand planning in their operations. From last-mile delivery robots and sustainability solutions, to warehouse automated picking systems and predictive optimization software, AI is already making a huge difference in logistics. Augmented intelligence is another tool that combines inputs from human planners (experience, responsibility, customer service, flexibility, common sense, etc.) together with AI technology which is left doing the repetitive and tedious work.
- 3. Predictive diagnosis and monitoring performance:** In several countries, advanced sensors are being used to monitor and detect risks pertaining to breakdowns, helping avoid process delays and fatal accidents. For instance, Union Pacific, the largest railroad in the United States operating around 8,500 locomotives that haul freight over 32,100 route miles of track in 23 states, uses Internet of Things (IoT) to predict equipment and component failures. Acoustic and visual sensors are embedded in the tracks to monitor the condition of train wheels. The full benefits of predictive diagnostics are reduction of costs

for unexpected breakdown, optimization of periodic inspection, reduction of operation costs. It can further enable the automobile manufacturer to enhance customer satisfaction.

- 4. Block chain:** Block chain technology is useful for tracing origin of the products in case of customer complaints, elimination of middlemen resulting in considerable cost savings, immutable record keeping that cannot be tampered resulting in higher trust and reliance on data, etc. Interoperability of data reduces duplication, delays and conflicts and promotes transparency. The block chain data is scalable with large databases & hence can be available from multiple locations. Blockchain is an open ledger of transactions distributed among computers in a given network. Since everyone on the shared blockchain has access to the same ledger of transactions, there is complete transparency, which makes it impossible for users to hack or trick the system, and thus eliminates the need for third-party involvement. In the logistics industry, this could make it much easier for different carriers or shippers to share sensitive data; and companies could create trade finance and supply chain solutions. Blockchain uses the public Ethereum Network to securely validate document transactions. Belgium's Port of Antwerp has initiated the process of using the blockchain technology to streamline its terminal's container operations. The aim is to pace up interactions between port customers, including carriers, terminals, freight forwarders, hauliers, drivers, shippers, among others, by cutting down on multiple interactions between these parties and also preventing data manipulation. Not just that, the rise of robotics and artificial intelligence is also redefining the logistics industry globally as it minimizes human intervention, enhances quality and reduces cost.
- 5. Digital twins:** Digital twins are virtual replicas of physical devices that data scientists and IT pros can use to run simulations before actual devices are built and deployed. A digital twin is a computer program that takes real-world data about a physical object or system as inputs and produces as outputs predications or simulations of how that physical object or system will be affected by those inputs. The physical and digital worlds can be melded into one, thus allowing us for the first time to engage with the digital model of a physical object or part just like we would with their physical counterparts. In the shipment sector, digital twins can be used to collect product and packaging data and use that information to identify potential weaknesses and recurring trends to improve future operations. Warehouses and facilities can also use the technology to create accurate 3D models of their centers and experiment with layout changes or the introduction of new equipment to see their impact, risk-free. Furthermore, logistics hubs are able to create digital twins and use those to test out different scenarios and increase efficiency. In addition to that, delivery networks could use the technology to provide real-time information that

will improve delivery times and further aid autonomous vehicles in their routes. Objects such as aircraft engines, trains, offshore platforms and turbines can be designed and tested digitally before being physically produced. These digital twins could also be used to help with maintenance operations. For example, technicians could use a digital twin to test that a proposed fix for a piece of equipment works before applying the fix the physical twin.

6. **Data Standardization:** Several projects are being taken up in the shipping and logistic industry to create and store data in standard forms & create common information technology standards for digitalization and interoperability in an effort to make the shipping sector more efficient for both customers and shipping lines. Data in silos will no longer be an option for companies who want to keep up with the changing times. New data standards are finally being created in container shipping. It will take some time for data standards to evolve in other segments of Logistic industry.
7. **Autonomous vehicles:** UPS Ventures has made a minority investment in autonomous driving company TuSimple. Together, both companies are testing self-driving trucks on a route in Arizona to determine whether the vehicles can improve service and efficiency in the UPS network. This means that UPS and TuSimple join the ranks of other companies, including Daimler, Tesla, Starsky Robotics, Einride, and Embark, that have the aim to remove the drivers from freight haulers altogether. Companies are starting to see the potential of autonomous vehicles even in unexpected areas, such as fleet maintenance. Austrian Airlines is using drones that are deployed in hangars to perform standard maintenance tasks and document any potential damage outside of the aircraft. Doing this could not only cut down maintenance costs but also free up the workload of technicians.

The afore-mentioned technologies and their possible impact are summarized below:

Sr. No.	Technology	Impact
1	Physical Internet	Improved supply chain transparency, safety and efficiency
		Improved environmental sustainability (more efficient resource planning)
2	Data Standards	Enabling collaboration horizontally
		More efficiency and transparency

Sr. No.	Technology	Impact
3	Data Analytics/ Predictive diagnosis/ Digital Twins	Improvements in customer experience and operational efficiency in operations Greater inventory visibility and management Improved 'predictive maintenance'
4	Blockchain	Enhanced supply chain security (reduction of fraud) Reduction in bottlenecks (certification by 3rd parties) Reduction of errors (no more paper-based documentation) Increased efficiency
5	Robotics/ Automation	Reduction in human workforce and increased efficiency in delivery and warehousing (including sorting and distribution centres) Lower costs
6	Autonomous vehicles	Reduction in human workforce Increased efficiency in delivery processes

Facilitating the logistics ecosystem technologically by Government of India:

- National Logistics e-marketplace is under implementation by the Logistics Division of the Ministry of Commerce & Industry, which aims at bringing together all the logistics stakeholders for promoting ease of logistics. The online marketplace intends to facilitate not just better price discovery, but also helps in streamlining the regulatory processes.
- New portal called "LADIS" by the Inland Waterways Authority of India – Least Available Depth Information System to ensure optimum use of national waterways.
- Smart rolling stock, satellite-based real-time train information system (RTIS), and GPS-enabled tracker system to identify location of its fleet of trackmen for enhanced safety by Indian Railways.
- Use of common platforms or freight marketplaces, which connect key players of the logistics ecosystem, including truck drivers, fleet owners, consignors and consignees.
- Use of machine learning, automatic rider scheduling and location geo-fencing to improve on end-to-end freight movement visibility.

- Addressing the key problem of a highly fragmented industry, by managing the entire goods transportation cycle on one platform resulting in - improved transparency for the consignor and improved tracking mechanism for the transporter. Here, predictive analytics are helping to estimate delay in freight movement.
- Developing load sharing applications and platforms matching available loads to trucks already on the road to address the “empty miles” problem. These applications place load requirements received onto the platform, and make them visible to all trucks near the pick-up point. Similar technologies have been implemented by start-ups like 4TiGO, Locus, Shadowfax, FarEye, and Vaahika, which have improved asset utilisation for the trucker while also increasing earnings of fleet owners

Customised and advanced storage solutions leveraging IoT

A significant hurdle faced by supply chain infrastructure of India’s agriculture is that of a lack of serviceable storage mechanisms - particularly for fruits and vegetables. The total post-harvest losses of fruits and vegetables (on an annual basis) during transportation, farm operations, and storage are in the range of 5 – 16 percent (CIPHET, 2015). Inadequacy is more acute in terms of storage units being in close proximity to farms. Multiple challenges such as road access to farms, power availability and initial capex have historically made it unattractive for farmers to afford such an investment. Now, sophisticated technology has enabled the use of portable and distributed cold storage units by individual farmers/ group of small farmers to provide storage solutions for perishable agricultural commodities such as fruits and vegetables.

Key features of such units addressing the conventional problems are:

- Smaller unit size enabling movement in different road conditions allowing greater access in farms
- Smaller unit size enabling appropriate utilisation despite typical farm-level loads
 - Mobility enabling shared use and ownership across farmers or farmer groups
 - Dual power options (grid power and solar power) minimising dependency on grid supply and also reducing operating cost
- Use of IoT to enhance its user-friendliness and to share regular updates with operators (typically farmers) • Simpler user interface enabling daily operation by farmers Several private initiatives such as Ecozen, Promethean, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and TREC – STEP have experimented with such innovations, using user-friendly business models to bring in efficiencies while ensuring reduced costs for farmers/users. These have resulted in operating costs that are ~50 percent lower than other grid-powered units and ~80 percent lower than equivalent diesel-powered units.

9. Policy Thrust: Logistics Division of Ministry of Commerce & Industry

There was no single ministry to regulate the logistics sector, which was in dire need of being accorded the status of an industry. Lack of coordination between central and state government posed yet another challenge for the logistics sector to work holistically. Red tape-ism made both decision-making and procedures slow and lengthy.

The Logistics division in the Department of Commerce was created in July 2017 and allocated the task of "Integrated development of Logistics sector". The division is headed by a Special Secretary to Govt of India.

The division has been given the mandate to

- develop an Action Plan
- for the integrated development of the logistics sector in the country
- by way of policy changes
- improvement in existing procedures
- identification of bottlenecks and gaps and
- introduction of technology in this sector.

Logistics division has also planned to create an IT backbone and develop a National Logistics Information Portal which will be also an online Logistics marketplace that will serve to bring together the various stakeholders viz logistics service providers, buyers as well as Central & State Government agencies such as Customs, DGFT, Railways, Ports, airports, inland waterways, coastal shipping etc., on a single platform.

The planned activities of the Logistics division shall have an impact not only on the domestic movement of goods by bringing down the overall cost and increasing the speed and ease of movement of goods and shall also contribute towards making Indian goods more competitive in the global market. With the improvement in India's ranking in the Logistics Performance Index (LPI), Indian exports shall automatically see an enhanced growth.

The draft National Logistics Policy released by the Logistics Division of the Ministry of Commerce & Industry states the following as its vision and objectives:

1. To drive economic growth and trade competitiveness of the country through a truly integrated, seamless, efficient, reliable and cost effective

logistics network, leveraging best in class technology, processes and skilled manpower.

2. Optimizing the current modal mix (road-60%,rail-31%,water-9%) in line with international benchmarks(25-30% share of road, 50-55% share of railways, 20-25% share of waterways) and promote development of multi modal infrastructure.
3. Improving first mile and last mile connectivity to expand market access of farmers, MSMEs and small businesses.
4. Enhancing efficiency across the logistics value chain through increased digitization and technology adoption.
5. Ensuring standardization in logistics (warehousing, packaging, 3PL players, freight forwarders).
6. Creating a National Logistics e-marketplace as a one stop marketplace. It will involve simplification of documentation for exports/imports and drive transparency through digitization of processes involving Customs, PGAs etc in regulatory, certification and compliance services.
7. Creating a data and analytics center to drive transparency and continuous monitoring of key logistics metrics.
8. Encouraging industry, academia and government to come together to create a logistics Center of Excellence, and drive innovation in the logistic sector.
9. Creating and managing on an ongoing basis, an Integrated National Logistics Action Plan which will serve as a master plan for all logistics related development.
10. Doubling employment in the logistics sector by generating additional 10-15 million³ jobs and focus on enhancing skills in the sector and encouraging gender diversity.
11. Improve India's ranking in the Logistics Performance Index to between 25 to 30.
12. Strengthening the warehousing sector in India by improving the quality of storage. infrastructure including specialized warehouses across the country.
13. Reducing losses due to agri-wastage to less than 5%⁴ through effective agri-logistics involving access to cold chain, packaging and other post-

harvest management techniques and thereby enhance agriculture price realization and farmer income.

14. Providing impetus to MSME sector in the country through a cost-effective logistics network.
15. Promoting cross regional trade on e-commerce platforms by enabling a seamless flow of goods.
16. Encouraging adoption of green logistics in the country.

The key objectives for logistics in India, to be achieved in the next five years are

1. Creating a single point of reference for all logistics and trade facilitation matters in the country which will also function as a knowledge and information sharing platform
2. Driving logistics cost as a % of GDP down from estimated current levels of 13-14% to 10% in line with best-in-class global standards and incentivize the sector to become more efficient by promoting integrated development of logistics

Grass root action visibility

- Making considerable progress, Inland Waterways Authority of India operated its maiden container vessel movement since Independence and forayed into PPP for the first time handing over the operation and management of its terminals in Kolkata (Press Information Bureau, 2018).
- Dedicated Freight Corridor Corporation of India Limited (DFCCIL) has carried out trial run of its freight trains on its completed sections like double stack container freight train on sections of 190 km and 306 km on Western DFC and a trial run on 194 km section on Eastern DFC (Rail Analysis India, 2018).
- While Bharatmala set a construction target of 12,000 km of roads for FY19 (including port connectivity projects of 2,000 km), it has achieved over 9,000 km of roads until Dec 18 (National Highways Authority of India, 2018).
- The government has also announced the Sagarmala Program which focuses on development along four thematic areas — port modernization & new port development, port connectivity, port led industrialization and coastal community development. Sagarmala has enabled 21 port connectivity projects (Ministry of Shipping, 2018).
- Government is promoting Multi Model Logistics Park Policy (MMLPP). The Government of India is in the process of preparing an Integrated Transport and Logistics Policy that aims to transform India's logistics from a 'point-to-point'

to a 'hub- and-spoke' model, thus evolving centralized strategic networks for shipment distribution rather than relying on direct route operations that may not be efficient.

- As part of this initiative, the government plans to set up 50 economic corridors, 35 multimodal logistics parks (MMLP) at 15 locations, ten intermodal stations, among other things. While a policy is already being considered for integrated logistics to be successfully implemented, several elements need to be integrated with the horizontal flow across the chain - services, infrastructure and information.
- The Eastern Dedicated Rail Freight Corridor (1,856 km) and Western Corridor (1,504 km) projects are under implementation. Once operational, they will strengthen India's present rail infrastructure to carry freight many times over, possibly leading to a reduction in cost of transportation.
- The aforesaid policy road map & steps taken suggest that large lumpy investment in logistics infrastructure with high gestation periods should remain a state responsibility given that the private sector has not shown any appetite for it. The baton should shift through the penumbral area between the public and the private towards greater private investment through a range of appropriately structured models including PPP. In fact, more private sector participation will likely follow as the investment requirement increasingly shifts towards smaller and service focused infrastructure. The logistics industry in comparison has a modest financing need; it mainly requires working capital funding. Therefore, it can get by without any, or minimal, state support.

10. Logistics Ease Across Different States (LEADS) Index

Government of India has released parameters to measure the LEADS index scores of different states. This is with a view to create of Logistics Centre of Excellence. The composite indicator would reflect relative performance “across” these states and UTs rather than performance “of” these units themselves. Benchmarking of scores will provide clear actionables to the concerned Central & State Authorities. Continued progress on these actionables will then be monitored to achieve sustainable improvement in logistic facilities across India.

Parameters covered in LEADS are as below

Sr. No.	Parameter
1	Availability of logistics Infrastructure
2	Quality of logistics Infrastructure
3	Quality of logistic services provided by service providers
4	Ease of arranging logistics at competitive rates
5	Timelines of cargo delivery
6	Ease of track and trace
7	Safety/ Security of cargo movement
8	State facilitation and co-ordination
9	Efficiency of regulatory processes

- LEADS does not provide for direct comparison of logistics performance with the World Bank’s LPI, as the construct of these two studies are not fully equivalent. LPI is primarily around world trade & exports, whereas LEADS is more focused on movement within states.
- Local operating contexts, varying levels of expectations or needs of different stakeholders, or geographical/economic conditions can all influence perceptions, which informs the LEADS Index.
- LEADS does not assign higher or lower weightage to states with more or less evolved logistics ecosystem. It does not identify / establish “frontiers of logistics performance” for states / UTs, nor does it attempt to diagnose their pain points. It provides a basis for states / UTs to look at other states / UTs operating in similar operating contexts / other relevant conditions to study / compare performance and identify focus areas for planning and improving logistics performance.

- Methodology for the LEADS Index will continue to evolve and get refined with the availability of reliable and comprehensive data in future.

Results of LEADS finding will be used for future improvements of the states. The below ecological elements will contribute to this process:

- Central Government: Enabling policy and plans at national level.
- State Government: Focused on logistics need for states.
- Private Participants: Equipped to introduce industry practises and technologies.

The respective State Governments should focus on

- creation of infrastructure for skill development including driver training institutes, vocational institutes, institutes imparting warehouse related courses, and cargo handling, through private sector participation.
- identification of courses to be imparted and providing degrees/certification programmes on such courses
- promote research by funding research institutes and universities that specialise in logistics
- subsidise or provide preferential treatment to LSPs/ terminal operator possessing certification of quality service provision, e.g. CT-PAT
- provide of tax breaks/incentives to LSPs providing technology-enabled integrated service offerings.
- provide financial assistance as a proportion of the eligible fixed capital investment (subject to a ceiling amount) for technology-enabled warehouse, cold storage, container depots, and other logistic facilities.

11. Way forward for Logistics industry

The logistics space globally is witnessing major disruptions on account of:

1. **Customer expectations** about faster, flexible, cheaper delivery of goods and services are increasing rapidly. B2B customers expect more around efficiencies and cost reductions. B2C customers expect reliable, cheap and fast delivery.
2. Several **new players** are entering the logistics space by exploring benefits of technologies like analytics, automations, platform and crowd sharing. Several new entrants are “asset light” parts of the value chain, for example, virtual freight forwarders. These asset-less or **asset-light businesses** exploit digital technology to offer interactive benchmarking of freight rates, or match shippers with available capacity. Digitally integrated value chain, machine learning and artificial intelligence tools, data analytics, etc are costly pre-requisites for success. The fragmented market space is challenging, and the last mile delivery is costly. New technologies will change the industry’s cost model and call existing business models into question
3. The players in the logistics space are **fiercely competing** for price and market share while struggling to keep their operations profitable and costs under control. Logistics companies also need to bring costs down and free up resources for the key areas of focus – such as digitisation, asset productivity, and innovation – and invest more to support the company’s key capabilities and value propositions
4. **Acquisition** of smaller players by the bigger players, **consolidation** of existing players is a regular event. Acquisition of Big Bazaar & Online pharmacy Netmed by Reliance Industries is a recent event. Companies need to identify their distinctive capabilities to compete. If not, can they develop these capabilities, use collaboration to succeed, or should they withdraw from certain elements of their business.
5. Intervention by **governments, policy road-maps**, protectionism also affect the entry and sustenance of key players. Companies need to anticipate how their capabilities will need to evolve. The best will develop services and solutions that will create demand instead of just following it. To do this, T&L companies need to establish strong relationships with key customers, have an ear on the markets they target, and actively shape the future.

Real Life Landmark Cases w.r.t. Harnessing Technology in the Sector

1. **Advantage RFID:** The share of Kempegowda International Airport in the international and domestic air freight volumes has increased by approximately ten percent during the previous year. In addition, the airport contributes 30 percent to the overall air freight traffic movement from the southern region (Airports Authority of India, 2018). The major factors contributing to the growing traffic handled at the airport reported by stakeholders includes airport having efficient cargo handling facilities with a separate centre to cater to perishables. Further, the Bengaluru airport emerged as the first airport in India to adopt RFID technology for track and trace of cargo (AISATS, 2018).
2. **Forward- Backward Integration:** Alibaba is trying to improve delivery services for its sellers by setting up Cainiao, a JV with several logistics companies, a department store, an investment firm and a company with port logistics operations. The main advantage for network members constitutes the access to a logistics data platform, which helps them to achieve efficiencies in order fulfilment by leveraging their capacity and capabilities at a large scale. And the company is trying out new ideas too, like an app that allows consumers to request a pick-up of a return or package from delivery personnel in the area.
3. **Scaling up for market dominance & Sharing the Pie:** 100 Year SCM Company Limited started operations in transport management services. It expanded its warehousing space to about 20000 sq. meters and sub-contracted the same. The company has created a niche in cross border customs clearances and domestic freight forwarding. It now runs an online sales platform where its customers can sell their products to their end consumers. In one of its warehouses, the record in peak season is nearly 3,000 parcels handled in a day. The company engages domestic courier services to reach its end customers. The scale of its operations & wide range of services has made 100 Year SCM Company a preferred destination for venture capitalists and private equity firms. (Source <http://www.100yscm.com/>)
4. **Supply Chain Solution Re-Modelling:** Agility is a publicly traded company organized into Global Integrated Logistics (GIL) with revenues of \$4.5 billion and more than 23,000 employees. GIL has core competencies in freight forwarding, contract logistics/warehousing, project logistics, fairs & events, and supply chain management 3PL services. Defence & Government Services (DGS) generates \$2.2 billion in revenues for Agility and has a workforce of over 10,000.

There is greater variability in equipment types, road infrastructure, and pickup and delivery facilities in certain areas of operations for Agility. Using a certain

Transportation Modeler software, Agility analysed historical shipment data in light of these service and network constraints. From the analysis, it identified network redesign and daily transportation optimization opportunities. The basic modeling process was as follows:

Analysis Inputs:

- Inbound/outbound shipments to/from the central warehouse.
- Business hours of warehouses, distributors, ports, suppliers.
- Vehicle/container types & their load capacities.
- Loading & unloading times at each location.
- Driving distances and transit times between locations.

Analysis Outputs:

- Optimized assignment of shipments to routes:
 - Multi-stop, roundtrip.
 - Optimized departure times.
 - Selected appropriate vehicle types.
- Improved equipment utilization.

From the analysis, Agility was able to identify over \$1.6 million in annual transportation spend savings through daily transportation management and using a network-based transportation management approach versus the lane-by-lane approach. This represented a savings of over 20%. In addition, the overall carbon footprint of the customer reduced dramatically.

(Source: <https://www.3plogistics.com/3pl-case-studies/agility/agility-continues-its-global-expansion/>)

5. **Cross Docking/ Part loading/ Consolidation:** Nippon Express is one of the world's largest logistics companies. It does nearly \$17 billion in revenue. 80% of its revenue is generated domestically in Japan. It conducts rail, trucking, ocean, package, airfreight and warehousing operations. Its airfreight express operations include its work as an agent for FedEx.

All tractors operating out of Nippon's Tokyo Harbour (OHI) are enabled with global positioning satellite systems. Nippon has a coordinating software system in place to provide a paperless operation and keep trucks moving. Export

tonnage is about three times import tonnage. Nippon runs large contract warehousing operations for Canon and Epson. In addition, it has fresh fruit and vegetable operations at another facility. In Japan, most shippers still tender many partial shipments which need cross docking. Nippon operates about 65,000 square feet of warehousing/cross dock facilities to handle consolidation and staging. Nippon's warehousing system is linked to its next truck management system. Freight for consolidation is barcode scanned in and out of facilities. In addition, Nippon uses "MaxLoad" to optimize the use of its export containers.

(Source: <http://www.nipponexpress.com/>)

6. **World Wide Web: Advantage IT:** Global freight forwarders have decentralized operations with dozens or hundreds of offices. A major requirement for global supply chain management is that all of those locations have to be hooked together on a single worldwide computer network. Kuehne + Nagel has an integrator-like capability for larger shipments of value moving globally. Its 830 offices share a globally standardized, robust IT solution that has been carefully developed over the last 15 years. Kuehne + Nagel's IT solutions give it the network necessary to be No. 1 in ocean container transportation (more than 2.5 million TEUs a year), No. 4 in airfreight (725,000 tonnes) and No. 3 in contract logistics (400 locations in 55 countries). The information system runs on AS400 hardware based in data centers in Hamburg, Germany, Hong Kong and Naugatuck, Conn. The software, CIEL 4000, a single global operational platform, is used to create documentation, plan transportation and manage events. The internet overlay for users is a suite of information value products, underscored by the KN Login web-enabled visibility suite. Interfaced to it are the transportation management system (TMS), warehouse management system (WMS), electronic data interchange (EDI) and other capabilities.

(Source: <http://www.kuehne-nagel.com/>)

