GST ON STORAGE & WAREHOUSING OF AGRICULTURAL PRODUCE

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Abstract

Storage and warehousing includes storage and warehousing services for goods including liquids and gases but does not include any service provided for storage of agricultural produce or any service provided by a cold storage. Goods and Service Tax (GST) rate tariff in India is designed in 6 categories of goods and services. Four main GST rate slabs framed with Essential goods and services, Standard goods and services and luxury goods and services with 5%, 12%, 18% and 28% respectively. Commonly used Goods and Services at 5%, Standard Goods and Services fall under 1st slab at 12%, Standard Goods and Services fall under 2nd Slab at 18% and Special category of Goods and Services including luxury - 28%. The most essential goods and services attract nil rate of GST under Exempted Categories.

Luxury goods and services and certain specific goods and services attract additional cess than 28% GST. The exempted categories under Warehouse service for goods is being published by GST authorities soon, where no GST is payable for such categories of service. You may read GST exemption list of services, once published.The above information is about GST rate for Storage and warehousing services. This post is being updated with latest changes in GST rate for Storage services for liquid goods, update on latest GST notification on Storage services for goods and amendments related to GST on Warehouse service for goods etc.

GST integrated the country into a common market by breaking down barriers across states and enabling smooth flow of goods from one state to the other. It subsumed various indirect taxes levied by the Centre and the states to bring in a uniform pan-India indirect taxation system. Indian warehousing industry is pegged at about 55,000 crores and implementation of GST in July 2017 has already started re-shaping the industry. The most prominent impact of GST on the warehousing sector will be to spawndifferent distribution model from the traditional clearing and forwarding (C&F) distributor-based models. Previously, the Centre and the States levied taxes and the tax rate for most goods worked out to be 26.5% (Cenvat of 14%, and VAT of 12.5%). Post GST implementation, the same has reduced to standard rate of 12% or 18% which is levied on most goods and all services.

Keywords: GST, Ware housing, taxslab, tariff, Storage services, Exempted Categories

Introduction

The move by the government to bring warehouses under the Goods and Services Tax (GST) net is likely to have a major impact on players in the organised sector who take warehouses on rent as part of their collateral management business. They see a huge burden especially when they deal in farm commodities.

Agri commodities collateral management business has flourished the past few years as companies in this space help farmers and processors get finance from banks and non-banking institutions. The new government decision means that they have to pay now 18 per cent GST on the rent they pay for the warehouses in which their collateral commodities are stored. In many cases, such companies themselves finance farmers or their group NBFCs finance them against collateral commodities. Hence these collateral management companies cannot get input credit of the GST they pay on rent because the commodities in which they deal are agri commodities, which do not attract GST. This is a big burden on them.

"If agri commodities are fully exempt from GST, all products and services linked to them should also have been exempted. The entire channel either needs to be taxed or exempted. We, therefore, consider the current structure of GST levy as an element of business risk. We provide a variety of services to our customers in a package which help us make even a small segment of our business viable," said Ramesh Doraiswami, Managing Director, National Bulk Handling Corporation (NBHC).

Smaller warehouses with annual rent income of below Rs 20 lakh are however exempted from GST. This is a major relief as, according to CARE research report, approximately 90 per cent of the warehousing space controlled by unorganised sector players and are less than 10,000 square feet.But this causes another problem when their services are used by collateral management services companies.

"Most of the private warehouse service providers like StarAgri create a network of warehouses for rendering storage services by leasing-in or renting warehouses from small service providers on an individual basis. This service arrangement was not liable to service tax, since, the small service providers were below the threshold limit during the service tax regime. Agriculture sector remains largely exempt from GST. Thus, any input taxes levied on input products or services used will contribute to increas in output prices," said Amith Agarwal, Executive Director, Star Agriwarehousing and Collateral Management Ltd.

Objective:

Present paper intends to examine the cost GST on storage & warehousing of agricultural produce, in relation to various agri and farm produce.

Know your Storage and warehousing GST

Storage and warehousing of agricultural produce has been exempted from GST, clearly with the intent to reduce the tax burden on the farming sector. This is a continuation of the earlier exemption of service tax for these services.However, while issuing the related notifications, several anomalies have crept in, making the creation of storage and cold chain infrastructure as well as the provision of warehousing services liable for tax. Therefore, while corporates in most sectors appear to be adapting to the new regime with a few glitches, the agriculture infrastructure sector is struggling to come to terms with the changed regime.

The additional GST burden has mainly arisen because while output services have remained outside the tax net, input services are liable to GST without any corresponding opportunity to claim input tax credits. Most agri warehousing companies rent warehouses from small owners of the property. Such owners are likely to remain unregistered suppliers. However, such renting of warehouses by agencies engaged in providing storage and warehousing services is liable to GST under a reverse charge at the rate of 18 per cent.

The GST paid thus is not eligible for input tax credit (ITC), as the corresponding outward supply of warehousing service is exempted from GST.Since the majority of warehouses managed by private companies are leased ones, the above situation implies an 18 per cent increase in the cost of warehousing, and defeats the very purpose of GST exemption for storage of agricultural produce. The tax burden will inevitably be passed on to farmers in the form of higher price for storing goods in the absence of any viable alternative for warehouse agencies. This will directly feed into the cost of agricultural produce.

The second issue is the rise in cost of warehousing or cold storage construction with GST. Earlier, most services pertaining to the construction of agri-storage infrastructure and foodgrain handling systems were exempt from service tax. With GST, the exemption list has been minimised.

The construction of warehouses as well as cold storages for agricultural produce are now liable to 18 per cent GST.No ITC can be taken on this, with outward supply of warehousing service being out of the GST ambit.

Major impact of GST implementation on warehousing in India can be summarized as:

1. Reduction or elimination in number of small-time, inefficient, high cost warehousing

2. Logistics: With companies opting for one or two major warehouses, the logistics will move towards hub-&-spoke model, wherein bigger but fewer trucks will move cargoes between manufacturing units & warehouses. This will increase shipment values. Flow of goods is expected to get quicker with reduction in turnaround time.

3. T e c h n o l o g y : Consolidated warehouses would be bigger in size with huge inventory at a central location. Warehouse Management Systems (WMS) and modern robotics would get adopted for large warehousing hubs.

4. Costing: With lesser number of tolls and check posts, businesses will have overall cost benefits. Reduction in total number of warehouses and automation of large ones will help companies streamline distribution, improve efficiency and save costs. The major beneficiaries will be E-commerce, consumer electronics, automotive, pharmaceuticals and FMCG players who can now own or lease larger warehouses at major locations such as Mumbai, Delhi, Indore, Chennai, etc. Fewer stocking points will free up inventory.

For safety of high value storage, warehouses will need to be RCC framed structures, with good quality fire retardant electricals and adequate fire extinguishing appliances. While investing in insurance for the stocks, care will have to be taken to cover the large value shipments adequately as much as the large buildup of stored stocks too. Logistics companies & 3PL providers have taken the lead and till 2020, we should be looking at a new era of warehousing & complete turnaround of supply chain management.

Modern infrastructure

Another roadblock lies ahead for companies engaged in the creation of modern agriculture storage infrastructure like silos and cold storages. Earlier, imports of project equipment used to create facilities to store agriculture commodities — like mechanised handling systems and pallet racking systems — attracted only a basic customs duty of 5 per cent and were specifically exempted from countervailing duty and special additional duty. The same exemption has not been extended under GST. These imports now attract 18 per cent IGST coupled with the existing 5 per cent basic custom duty. The companies in question will yet again not be able to avail of any ITC, as the corresponding outward supply of warehousing service is exempt from GST.This will result in a spike in the cost of imported machinery, deterring the creation of modern agri infrastructure. This again defeats the purpose of extending exemption to storage of agricultural produce.

Unless correctives are immediately applied farmers will see a rise in storage costs, and investment in this sector will eventually increase the burden on the supply chain, contrary to the government's objectives. There is a need to extend GST exemption under reverse charge when the services are used to store agricultural produce. Secondly, the renting of immovable property for storage and warehousing of agricultural produce needs to be exempted from GST.

Finally, exemption under the earlier service tax regime for construction of warehouses including cold stores, and exemption provided for import of project equipment used for agri-storage infrastructure, need to be carried forward in the GST regime.

These amendments are of utmost importance to ensure the viability of private agencies engaged in providing storage and warehousing services for agricultural produce, a service which is the backbone of India's agriculture sector.

GST applicable on warehousing of agricultural produce

1. As per GST notification No. 11/2017-Central Tax (Rate), S.No. 24 and notification No. 12/2017-Central Tax (Rate), S.No. 54, dated 28thJune 2017, the GST rate on loading, unloading packing, storage or warehousing of agricultural produce is Nil.

2. Agricultural produce in the notification has been defined to mean "any produce out of cultivation of plants and rearing of all life forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products, on which either no further processing is done or such processing is done as is usually done by a cultivator or producer which does not alter its essential characteristics but makes it marketable for primary market"

3. Tea used for making the beverage, such as black tea, green tea, white tea is a processed product made in tea factories after carrying out several processes, such as drying, rolling, shaping, refining, oxidation, packing etc. on green leaf and is the processed output of the same.

4. Thus, green tea leaves and not tea is the "agricultural produce" eligible for exemption available for loading, unloading, packing, storage or warehousing of agricultural produce. Same is the case with coffee obtained after processing of coffee beans.

5. Similarly, processing of sugarcane into jaggery changes its essential characteristics. Thus, jaggery is also not an agricultural produce.

6. Pulses commonly known as dal are obtained after dehusking or splitting or both. The process of de-husking or splitting is usually not carried out by farmers or at farm level but by the pulse millers. Therefore pulses (dehusked or split) are also not agricultural produce. However whole pulse grains such as whole gram, rajma etc. are covered in the definition of agricultural produce.

7. In view of the above, it is hereby clarified that processed products such as tea (i.e. black tea, white tea etc.), processed coffee beans or powder, pulses (de-husked or split), jaggery, processed spices, processed dry fruits, processed cashew nuts etc. fall outside the definition of agricultural produce given in notification No. 11/2017-CT(Rate) and 12/2017-CT(Rate) and corresponding notifications issued under IGST and UGST Acts and therefore the exemption from GST is not available to their loading, packing, warehousing etc. and that any clarification issued in the past to the contrary in the context of Service Tax or VAT/ Sales Tax is no more relevant.

Impact on the farm sector

Smaller warehouses with annual rent income of below Rs 20 lakh are however exempted from GST. This is a major relief as, according to CARE research report, approximately 90 per cent of the warehousing space controlled by unorganised sector players and are less than 10,000 square feet.But this causes another problem when their services are used by collateral management services companies.

"Most of the private warehouse service providers like StarAgri create a network of warehouses for rendering storage services by leasing-in or renting warehouses from small service providers on an individual basis. This service arrangement was not liable to service tax, since, the small service providers were below the threshold limit during the service tax regime. Agriculture sector remains largely exempt from GST. Thus, any input taxes levied on input products or services used will contribute to increas in output prices," said Amith Agarwal, Executive Director, Star Agriwarehousing and Collateral Management Ltd.Another relief is that reverse charge mechanism has been suspended. Under RCM, if service provider is not registered in GST, the service user has to pay the tax on their behalf. "Reverse charge implementation is suspended till further orders. This has given a major relief to all warehouses with income less than Rs 20 lakhs. For the income more than Rs 20 lakhs, 18 per cent GST is applicable which we have to incur and for which we have no input tax credit available as agriculture produce is exempt from GST," said Sanjay Kaul, Managing Director, National Collateral Management Services Ltd (NCML).

To address this issue, many players in warehousing sector, meanwhile, have also started focusing on innovative technology to monitor entire logistic issues to avoid demurrage and also the delay in loading and unloading to cut down their cost of warehousing and transportation.

"In a bid to bring about automation into the entire supply chain model enabling everyone to have direct access to the dashboards that can be customized as per the business needs. The whole objective is to transform how transportation currently done by corporate and shippers in the country. Transport Hub provides end to end solutions from picking the goods by the shipper to delivering the goods, tyre management, fuel management amongst others. This customized technology saves the cost of transportation immensely," said Rohit Chaturvedi, managing director, Transport Hub.

Meanwhile, large units have started rendering other allied services including trade finance, fumigation, maintenance and advisory services along with the core business of warehousing to set off their loss in reverse charge (paid by organized sector players on the services availed from unorganized sector players).

For commodity exchange registered warehouses, however, tax recovery from other services has become a herculean task. The government has levied 5 per cent of GST on trading as against 18 per cent on rented warehouses above the threshold and exemption on unprocessed agri commodities. Thus, the warehousing sector faces tax anomalies in every channel.

Conclusion

On account of various indirect taxes under erstwhile regime, companies had to set up warehouses in almost every state. Since the uniform GST does not require this, smaller warehouses are getting downsized, while capacity is being increased to as much as 40% in the larger ones.Under the new tax regime, the strategy of large companies is that of consolidation followed by expansion. Hence, while it may look like there is a reduction in warehousing requirements, it is more a case of restructuring for an efficient operating environment. Storage and warehousing service for all kinds of goods are provided by public warehouses, private warehouses, by agencies such as the Central Ware Housing Corporation, Air Port Authorities, Railways, Inland Container Depots, Container Freight Stations, storage godown and tankers operated by private individuals etc. The 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.

It has been stated that in some case a storage owner only rents the storage premises. He does not provide any service such as loading/unloading, stacking, security etc. A point has been raised as to whether service tax would be leviable in such cases. It is clarified that mere renting of space cannot be said to be in the nature of service provided for storage or warehousing of goods. Essential test is whether the storage keeper provides for security of goods, stacking, loading/unloading of goods in the storage area.

GST has promoted efficient and larger warehouses which are expected to have economies of scale and larger floor space utilization for storage efficiency. Consolidated warehouses would benefit from technological applications by implementing state-of-the-art planning and warehousing systems which are not possible in smaller and scattered warehouses. Demand and supply is shifting from inefficient, low quality redundant warehouses to large, good quality warehousing. All pharmaceutical, FMCG companies, consumer durables and consumer electronics are looking at consolidation in warehousing.Warehousing and logistics have emerged as one of the biggest growth areas post GST. India's logistics and warehousing sector is rapidly transforming.

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