Taxability of Ocean freight under GST

- CA Manikanta PSLS

What is Ocean freight?

Ocean Freight is a method of transporting large quantities of goods through the sea. Products are packed into large containers which are loaded onto vessels sailed to the destination country.

The largest ocean shipping carrier in the world is the Maersk Line. Other major ocean shipping lines are -

- Mediterranean Shipping Company
- CMA CGM
- Hapag Lloyd
- Evergreen Marine
- China Shipping, COSCO

Ocean shipping has brought numerous worldwide economic benefits. About 90 percent of everything we buy comes through ocean transport.

In this article, we try to cover the taxability of ocean freight in different scenarios

For our discussion Ocean freight is divided into two types based on destination of goods/Cargo namely

- Ocean freight in respect to Imports of goods
- Ocean freight in respect to Exports of goods

Taxability for different scenarios when both Service receiver and liner/agent are within India, outside India, one in India and another in outside India.

S.No	Type	Service Receiver	Liner/Agent	Taxability
1	Ocean freight –Export of goods	In India	In India	Service specific exemption up to Sep 2020
2	Ocean freight –Export of goods	In India	Outside India	Service specific exemption up to Sep 2020
3	Ocean freight –Export of goods	Outside India	In India	Export of service / if all the conditions not satisfied, then service specific exemption
4	Ocean freight –Export of goods	Outside India	Outside India	Not in the scope of GST

5	Ocean freight –Import of goods	In India	In India	GST liability charged @ 5% under forward charge
6	Ocean freight –Import of goods	In India	Outside India	RCM liability to be discharged on freight paid by the service receiver
7	Ocean freight –Import	Outside India	In India	GST liability charged @ 5% under forward charge
8	Ocean freight –Import	Outside India	Outside India	GST liability to be discharged by the importer under RCM – by considering 10% of CIF value as ocean freight

Legal provisions

1.Service specific exemption relating to Ocean freight relating to Exports

As per entry number **19B** of **Notification No 21/2019** of CGST Act, 2017, “Services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India” exempt from GST.

Nothing contained in this serial number shall apply after the 30th day of September, 2020.

Scenario 1, 2, covered under above entry hence the services are exempt under GST regime.

2.Conditions to be satisfied service become Export of Service

As per subsection (6) of section 2 of IGST Act,2017 “export of services” means the supply of any service when,

(i) the supplier of service is located in India;

(ii) the recipient of service is located outside India;

(iii) the place of supply of service is outside India;

(iv) the payment for such service has been received by the supplier of service in convertible foreign exchange; and

(v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8;

If all the above conditions satisfied **Scenario 3** will become Export of service and we can avail all the benefits available for Exports like SEIS scripts otherwise it is service specific exemption.

3.RCM liability to be discharged on Ocean freight relating to Imports (Deemed ocean freight)

In accordance with Serial Number 10 of Notification no. 10/2017 – IGST Act, 2017, "With respect to services supplied by a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India", the liability to discharge GST under reverse charge would be on the importer, located in the taxable territory.

The rate of GST needs to be discharged on the freight amount is 5% in accordance with notification 8/2017 – IGST (Rate).

The value of ocean freight would be deemed as 10% of the CIF Value, when the freight amount not known.

In scenario 6, we know the value of ocean freight to be paid hence RCM liability discharged by the service receiver on amount paid as ocean freight.

In scenario 8, we don't know the value of ocean freight hence service receiver need to discharge RCM liability on deemed ocean freight (i.e 10% of CIF value).

4.Liability to be discharged under forward charge

In normal cases GST liability to be discharged on forward basis and as per Notification No 8/2017 IGST (Rate) the rate of GST is 5%.

Scenario 5, 7 covered under this entry hence GST liability discharged on forward charge basis.

-Special thanks to CA Rajesh Maddi for penning this article-

(For any feedback/queries mail to sairam@hiregange.com)