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Highlights

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FREIGHT FORWARDING — AN AERIAL VIEW

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In shipping industry, freight forwarding activity is having major role. Freight forwarding is buying freight rate from main line operator and selling to exporter with margin. As per Service Tax Rules, Service tax is to be charged on the gross bill amount. In general for sea freight there is no Service tax. While selling the freight rate to shipper with profit there is no Service tax. And they are dealing only in US Dollar and not in Indian Rupee as per their invoice. There is no separate provision in Finance Act, 1994 for this service.

Service providers who are doing business of forwarding activity registered under Clearing & Forwarding Agent are filing half yearly return without tax liability while some of the service providers are paying service tax for the margin on sea freight. This activity to also termed "Freight Broker" (Not referred in Finance Act, 1994).

The key source for the business is based on steamer agents. All freight forwarders (freight brokers) depend on steamer agent to get good freight/competitive rate and selling to shipper/exporter with good margin. The reason for growth in this business is credit period. In general all steamer agents are not giving credit business. In some cases credit period does not exceed a week. But these types of brokers involved in the business get competitive rates from steamer agents on cash business and they sell the rates with good margin for credit business. These types of freight forwarders are not having own BL & NVOCC operations. They just release BL from steamer agent and hand over the same BL to exporter with profit margin. In general these types of activities may be called as finance providers to shippers by the way of selling freight with higher rates with credit periods.

Secondly, Cenvat credit is available only on terminal handling charges and documentation charges which they paid to steamer agent on behalf of shipper. Billing/invoicing will be same amount which is reflected in steamer agent bill except sea freight portion.

The other view of freight forwarding business means buying and selling concept of slot (booking container in the vessel). This is classified under trading business and there is no service provider and service recipient. What they earn under this head of freight broking will reflect in the profit & loss account. For the net profit portion they have to pay Income tax. There is no technical term of "service provider" and "service recipient" and they are called buyer and seller. What shipper receives from freight forwarder will be treated as selling rate and what freight forwarder pays to steamer agent will be treated as purchase rate.

In the view of Custom House they are not legally bound by Customs Act. Freight forwarders neither come under Steamer Agent service nor Custom House Agent service. They have more accountability to Income Tax Department.