

Quick Guide to Understanding Freight Charges on GST Invoices

With the new implementation of The Goods and Services Tax (GST), changes have been made in the logistics industry with freight and shipping invoices. The GST is a welcomed reform on how goods are taxed in the logistics industry.

About Goods and Services Tax (GST)

Goods and Services Tax (GST) is a tax levied on freight when sending goods from one destination to another. GST rates are charged depending on which tax bracket certain products will fall under.

The costs of transporting goods are freight rates. Additional factors in determining freight rates would include the methods of transportation, such as truck, air or ship. The weight and size of the cargo is also a factor. The pickup and delivery distance points, and the type of goods being shipped. When freight rate charges are included in the bill they are levied at the same tax rate of the supply of goods.

FOB shipping point means the seller ships the goods to the shipping destination. The buyer would handle the expense of transporting the goods from the shipping point to their destination. The buyer will now pay for the goods and manage all future expenses, including the GST tax listed on the freight bill.

Let's discover the most important things to know about freight billing and GST.

Understanding Indirect GST Tax

With managing freight charges on GST invoices, Goods and Services Tax (GST) is charged to purchaser of the goods. Taxes are then payable to the government from the business that is selling the goods.

It's important to understand what "indirect tax" is. GST is a complete indirect tax levy on sales and manufacturing of the consumption of goods and services. The place where goods are consumed is where tax is collected. Over 150 countries pay a GST destination tax.

Indirect tax is collected by one entity in the supply chain, the retailer or the producer of the goods sold. The indirect tax is passed to the consumer as part of the purchase price of the goods. Taxes paid to the government are direct taxes.

The Importance of GST Compliance for Freight Billing

GST Tax is a tax levied on freight when sending goods from one destination to another.

Freight billing invoices must comply with GST law. When your freight billing invoices follow GST provisions insure a higher compliance rating.

The taxpayers rating is important when potential customers are comparing suppliers against each other. Paying taxes and filing on time helps lift your rating. The key advantage is that you will receive priority for refund claims, receive less scrutiny, and the unlikelihood of an audit will occur.

When outsourcing your freight billing services, audits are performed on each bill. The data is used to improve performance with your freight billing procedures to prevent costly mistakes.

Freight invoices are not representative on any bound agreement between the shipper and the receiver, and not served as documented evidence should a legal issue occur with the logistics operational procedures. GST Tax is placed on freight invoices so it is important to have them audited.

The Bill of Lading is a service level agreement between the freight carrier and their client. It provides information including the title of goods, the quantity of goods, the shipper's details, destination details, port of loading and port of discharge.

Understanding GST Freight Invoices and How They Should be Charged

You may ask. "Should GST be charged on a freight bill?" The answer is, yes.

If shipping is listed separately on the freight invoice, it is not taxable. Handling charges are taxable. If you combine shipping and handling on an invoice, shipping is allowed to be taxed. In the United States, each state has its own rules for what is tax collectable. The United States does not have a national sales tax system and therefore there is no standard tax rate.

In other countries such as India, the combining taxes at the central and state levels help mitigate double taxation and complex classification issues.

Understanding Freight GST Tax Involving Third Parties

Who is the liable party to pay GST tax on freight billing invoices when a third-party is involved? Third party billing occurs when the shipper and the consignee are not responsible for freight charges. The GST is paid by the third party upon receiving the goods.

When shipping logistics involves a third-party, two Bills of Lading (BO) are produced. The first BOL will be from the original supplier of the goods. The second BOL shows the origin of the goods, and who supplied them. The third party will appear as the consignee.

The GST tax will be paid by whoever is responsible for moving the goods to from one delivery destination in the direction to a third party, which then becomes the principle place of business. The goods supplier is generally responsible for the tax. However, when importing goods, the tax can fall under a “reverse tax. In some cases the persons who act as a third party can pay the tax. If the vendor is not registered under GST, the registered vendor will pay the tax.

Managing the Budget

Using a freight transportation service that is an expert in freight billing procedures simplifies freight processing tasks. This greatly reduces operating inefficiencies, and decreases costs.

There will be a noticeable improvement with the accuracy in billing entry processes, further enhancing faster turn-around times for the carrier. Streamlining the freight billing process lets you focus more on customer service.

Freight process services are specialists in the shipping process. They understand the complexities of transport and cargo, and will help arrange proper routes for the movement of transported goods.

It’s time to take the next step to simplify your freight billing and Freight Process Outsourcing (FPO). The DDC Group has strong relationships and deep connections with key influencers in strategic regions and sectors.

Learn more about freight billing services and technology-enabled, knowledge-based solutions with DDC so you can spend more time on servicing your customers.