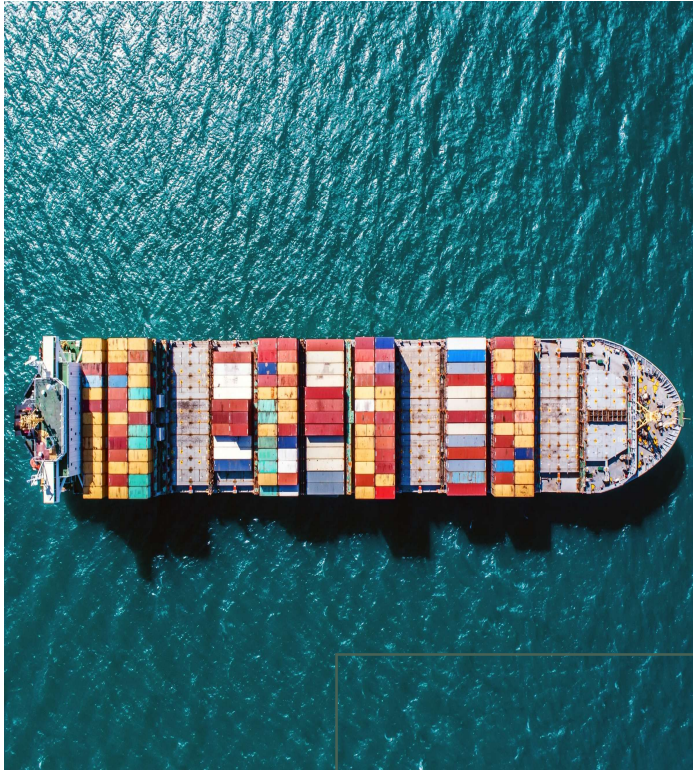


GST on Ocean Freight



Background

Ocean freight is the logistics of exporting and importing cargo by shipping lines. In ocean freight shipping, goods are packed in shipping containers and the freight forwarder books container or space with the shipping agent. Shipment moves to the port and passes through customs at the point of origin. The goods are delivered to the receiver either on CIF (Cost, Insurance, Freight) basis or FOB (Free on board) basis.

In CIF Basis, Seller must pay the costs and freight including insurance to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the ship. On the other hand in FOB basis, the seller is responsible for transportation of the goods to the port of shipment and the cost of loading. The buyer pays the costs of ocean freight, insurance, unloading, and transportation from the arrival port to the final destination. The seller passes the risk to the buyer when the goods are loaded at the originating port.

Ocean freight is divided into two types based on destination of goods/Cargo namely,

1. Ocean freight in respect to **Exports** of goods:
2. Ocean freight in respect to **Imports** of goods

Ocean freight on 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 till September 2020. Therefore, ocean freight on exports is exempted from GST till September 2020.

Ocean freight on Imports

Place of supply:

As per section 13(9) of IGST act, where the location of supplier or the location of recipient is outside India, the place of supply of services of transportation of goods, other than by way of mail or courier, shall be the place of destination of such goods. Thus, if the supplier of such service is located outside India and a person located in India receives such service, the recipient shall be liable to pay GST under reverse charge method on import of service. Hence, the importer is liable to pay GST on RCM.

FOB Basis

In case of FOB contracts, since importer pays consideration to vessel owner (person located in non-taxable territory) for transportation services in form of ocean freight, he would be the recipient of the service and all the conditions for liability under RCM will be satisfied and GST shall be paid at the rate of 5% on ocean freight.

CIF Basis

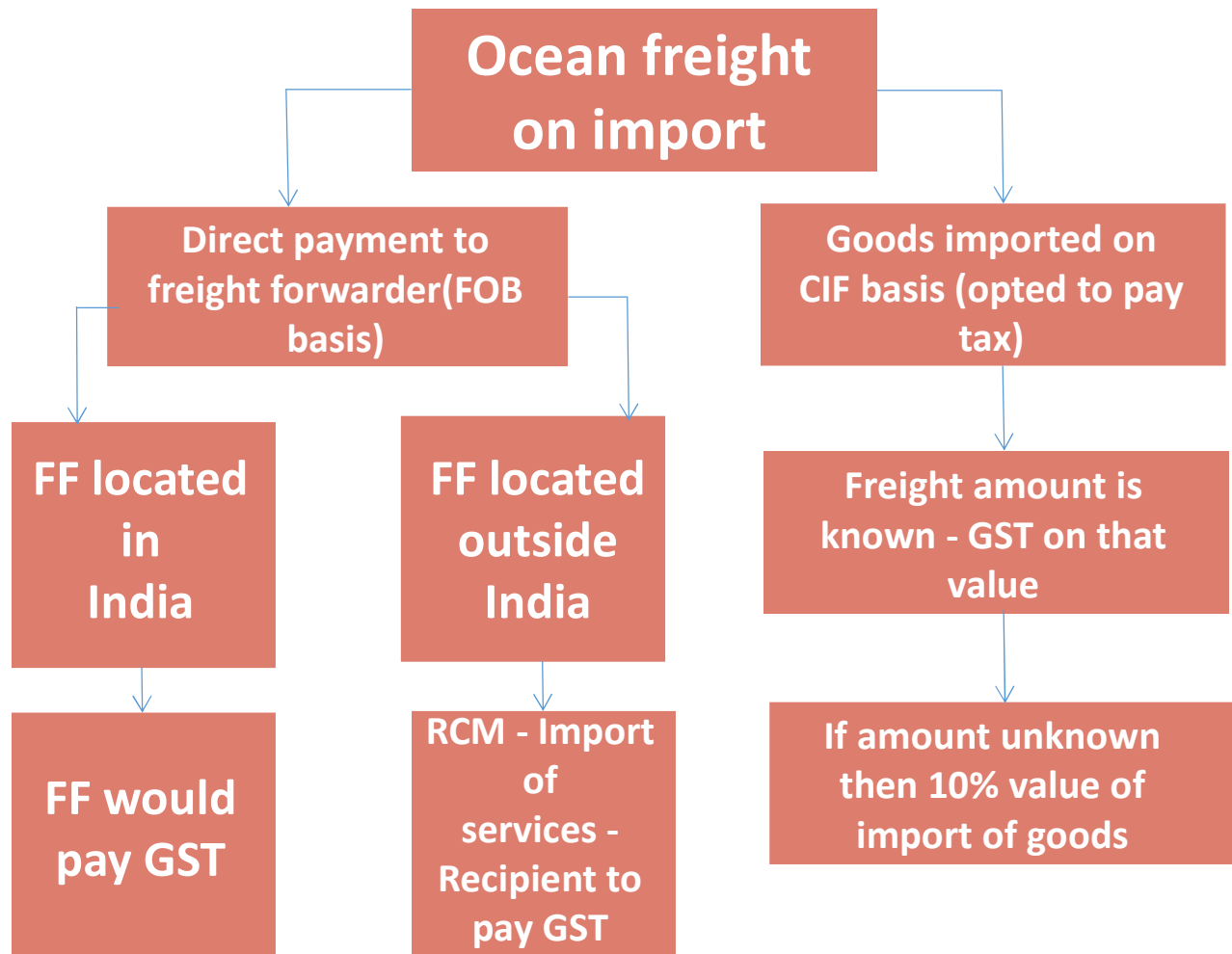
In the case of CIF (Cost, Insurance, and Freight), the contract will be between the vessel owner and the foreign supplier wherein the scope of transportation is up to customs station in India but the foreign supplier pays the consideration thereby making him the recipient of service. Thereby, it can be said that in case of the CIF contracts, the actual importer would not be liable to GST under RCM and it is not the recipient of the services. The value charged by exporter in his invoice would automatically include the charges on export services.

When both the supplier of service and the recipient of service is located outside India and the service is provided by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India; the importer, located in the taxable territory shall be responsible for payment of GST as provided in serial No. 10 of Notification 10/2017 Integrated Tax (Rate) Dt. 28.06.2017.

However, explanation 4 of notification No 8/2017 Integrated Tax (Rate) dated 28.06.2017 provides that “Where the value of taxable service provided by a person located in non-taxable territory to 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 is not available with the person liable for paying integrated tax, the

same shall be deemed to be 10% of the CIF value (sum of cost, insurance and freight) of imported goods. As per the aforementioned notifications where the contract between the vessel owner and the foreigner for transportation of goods up to customs station in India, GST shall be paid by the importer at the rate of 5%. When the value of taxable service is not available, 10% of CIF Value shall be taken as the value of taxable service on which GST of 5% is charged under RCM.

Taxability of ocean freight on import



Therefore it can be concluded that,

In case of Exports, GST is exempted till September 2020.

In case of Imports, the value on which GST needs to be paid would be

i. **FOB contracts** - On amount paid to the shipping lines (i.e. Ocean freight)

ii. **CIF contracts** (if opted to pay tax):

a. On actual ocean freight charges (if available), otherwise

b. 10 % of the CIF value of imported goods.