Implication of GST on Renewable Energy

The Indian parliament has passed the GST bill but since the details are not yet out in public domain, MNRE has analyzed the impact of GST on renewable energy industry and suggested recommendations

Multiple Indirect taxes are currently levied on transactions in India. Some of the taxes are levied and collected by the Central Government, while other taxes are collected by the State Governments. Accordingly, the current Indirect tax regime is beset by myriad problems such as complexity, tax on tax and lack of credit fungibility.

Considering the issues plaguing the current Indirect tax regime, India is gearing up to introduce a comprehensive Indirect tax regime under GST. All existing Indirect taxes, barring a select few, would be subsumed into the new GST.

Taxes on consumption or sale of electricity have been proposed to be kept outside GST. In such case, the electricity generated by renewable sources would continue to be outside the GST regime.

Source of renewable Energy	% range of increase in Levelised Tariff/ cost of setting up and operations (as applicable)	Impact
Solar PV – GRID	12% - 16%	
Solar – off GRID	16%-20%	
Wind energy projects	11% - 15%	
Wind solar hybrid projects	11%-17%	
Bio Mass projects	11% - 14%	
Bio Mass gasifier projects	11%-14%	
Small Hydro projects	1% - 11%	

Table 1.

However, taxes on various capital goods, inputs and input services (both forming part of capital cost as well as operation & maintenance costs) used for generation of renewable energy should be subsumed in the GST regime. Taxes paid on procurements would continue to be non-creditable for the energy sector and hence, forming part of costs. Accordingly, any impact of taxes paid on procurements used in renewable energy sector would have a direct impact on cost of renewable energy Basis information available in the public domain on levy of GST, it appears that taxes on procurements for renewable energy sector would go up, which would lead to increase in cost of renewable energy (resulting in negative impact for the sector).

Further, it is imperative to note that the adverse impact of tax cost would vary from project to project (as well as from one source of renewable energy to another) based on the procurement pattern (import vs. domestic purchase) as well as extent of exemptions available currently.

Based on the exercise undertaken, the summary of impact on various types of renewable energy projects is provided in table 1.

For the bio-fuel sector also, there would be a substantial increase in prices of inputs as well as bio- fuels itself due to pruning of exemptions, removal of statutory forms

and increase in rate. Further, any GST charged on bio-fuels would become a cost to the OMCs (as petrol and diesel would be outside GST unless otherwise notified).

The key factors resulting in an adverse impact on cost of renewable energy are as in table 2.

In line with the Governments initiatives of boosting the renewable energy sector, the following key recommendations should be kept in mind:

- Exemptions provided to goods used in renewable energy sector should continue/ if GST levied, it should be NIL rated with the elibility for the vendor to avail credit of GST on their inputs and input services
- Wherever, exemption is not granted, a concessional rate of GST should be applicable on both goods and services used for setting up of and operating the renewable power project
- The renewable energy developer/ operator should be eligible to take refund of taxes paid (on goods and services used for setting up and operating renewable power project) considering that electricity would be outside GST
- Uniform SGST rate across States on captial goods, inputs and inputs services meant for renewable energy projects

Further, the following recommendations should be kept in mind for the bio-fuel sector:

- Exemptions provided to goods used in bio-fuel production as well as on bio-diesel itself should continue and be zero rated
- Wherever, exemption is not granted, a concessional rate of GST should be applicable on both goods and services used in bio-fuel sector as well as on bio-fuel itself
- OMC should be eligible to take refund of taxes paid on bio- fuelsconsiderin g that petrol/ diesel would be outside GST
- Uniform rate should be maintained across States
- Refund of unutilized credits should be available to bio-diesel manufacturers in case of inverted duty structure

Overview of current regime

Various Indirect Taxes are levied currently by the State Government as well as Central Government on different transactions. A brief overview of the current Indirect tax environment is provided in table 3 for ease of reference.

S.No.	Key factor	Comments
1	**Removal of exemptions**	Various exemptions are provided currently to capital goods and inputs used in renewable energy projects. The foundation of GST is based on pruning of exemptions as far as possible. Hence, if exemptions are pruned for goods used in renewable energy projects, there would be a significant increase in tax cost on procurements. Since all such taxes are (and would continue to be) non- creditable for renewable energy players, the same would be a cost and hence, increase cost of renewable energy.
2	**Increase in tax rates**	Currently, different tax rates are applicable depending on the nature of procurement. GST aims to provide a single rate for goods and services. The Select Committee has recommended that the standard GST rate should not exceed 20%. A GST rate of 20% would also be substantially higher than the rates currently applicable on procurement of goods and services in the renewable energy sector This would have an adverse impact as the taxes paid on procurements would increase the tax cost burden for the renewable energy sector.
3	**Removal of statutory forms**	In case of inter-State purchases, a concessional rate of CST of 2% is provided against issuance of statutory form (Form C) in case the goods are to be used in generation or distribution of electricity. GST is expected to be levied on all inter-State supplies, with availability of credit in destination States. It is likely that statutory forms (eg Form C) would be done away with under the GST regime. Hence, concessional rate of tax may not be available even if the goods are to be used in generation of distribution of electricity. IGST at 20% would be applicable on inter-State procurements along with an additional tax of 1%. This would lead to a substantial increase in tax costs as compared to the current regime having a direct impact the cost of renewable energy.

Table 2.

Overview of GST

The current Indirect tax regime in India provides for a complex tax environment due to multiplicity of taxes, elaborate compliance obligations and tax cascading. To address such problems, a comprehensive 'consumption tax' levied on the supply of all goods and services has been proposed which is known as GST. GST would subsume majority of Indirect taxes, thus, eliminating need for different Indirect tax legislations. Further GST aims at providing a seamless credit chain by providing for cross utilization of credits (inter se goods and services) and minimal credit restrictions. GST is being touted as the single biggest Indirect Tax reform in India and aims at bringing a fundamental shift in the way business transactions are taxed in India

The motto of the GST regime seems to be 'One Tax One Market' which aims at providing a cohesive tax approach across India.

Besides simplifying the current system and lowering the costs of doing business, GST will call for a fundamental re-design of supply chains.

It will affect how companies operate their businesses, making GST not just a tax reform but an overall business reform.

Given that India is a federal administrative structure with the Central Government existing alongside respective State Governments, GST in India must be commensurate with this governance structure. Accordingly, the dual GST model has been proposed. Under this model, the following

Particulars	Taxing authority	Applicable on	General effective rate
Customs Duty : • BCD – 7.5% or 10% • ACD – 12.5% • Cess – 3% • SAD- 4%	Central Government	Import of goods from outside India	Peak rate 29.44%%. Capital goods generally attract duty at peak rate of 26.69%. Exact rates depend on nature of goods and end use
Excise duty	Central Government	Manufacture of goods in India	Peak rate is 12.5%. Exact rate depends upon nature of goods and end use
VAT	State Government	Sale of goods within the state	Varies from State to State; generally ranges between 5% -15%
CST	Central Government	Inter-state sale of goods	Rate is equal to VAT rate of displacing State – else 2% against Form C (which is also available for goods procured for generation of electricity)
Service tax	Central Government	Provision of services	Generic rate is 14.5%
Entry tax/Octroi	State Governments	Entry of goods into a local area for consumption/sale	Varies from State to State ranging between 1% - 14%
Research & Development Cess	Central Government	Import of technology into India under foreign collaboration	5%

taxes are chargeable on supply of goods and services:

- On within the state transactions–CGST (To be collected by the Central Government) and SGST (To be collected by the State Government)
- On interstate transaction
  - Sale of goods transactions: IGST– To be collected by the Central Government and additional 1%: To be collected by the origin state (applicable for a period of 2 years
  - Supply including provision of services (other than sale of goods transaction)–IGST
- On import of goods–BCD and IGST
- On import of services–IGST

Key Recommendations of the Report

The Government has always strived to boost the renewable energy sector. This is also evident from the current Government policies and initiatives.

Current tax concessions play an important role to make renewable energy competitive.

Under GST, increase in tax cost for renewable energy sector could not only have a possible negative impact on cost of setting-up renewable energy plants but also increase the working capital requirements for the renewable energy sector leading to higher financial as well as operating costs. Further, the renewable energy sector benefits every strata of the society (including various rural areas) and hence, any increase in tax costs would also have an adverse social impact.

In line with the endeavour of the Government to promote the renewable energy sector and to ensure that there is not a substantial increase in the delivered cost of renewable energy, the following recommendations may be taken into account:

For renewable energy sector

- Current tax exemptions provided to the renewable energy sector should be continued under the GST regime as well. In addition even the services rendered to a project owner for setting up and operation of renewable energy plant/ project should be exempt from levy of GST. This would ensure that there is no adverse impact on the procurements made for generation of renewable energy due to increase in tax costs
- Exemptions should be provided for all categories of goods supplied to a renewable energy project (whether meant used in setting up or are parts/ components of the plant or are used for O&M). If exemption is provided HSN classification wise, detailed HSN classification should be provided, to eliminate ambiguity.
- Sale of goods and services to renewable energy projects should be zero-rated, ie the vendors providing such goods and services at nil GST rate should be eligible to avail credit of the GST paid on inputs, capital goods and services used.
- Wherever, exemptions are not available, concessional rate of GST (both at Central and State level) should be applicable on goods and services used by renewable energy sector
- Currently, the VAT rate in respect of renewable energy sector vary from state to state. It is recommended that the SGST rate on such goods should be uniform across states under GST regime
- Currently, a lot of ancillary products (such as battery, transformers) meant for renewable energy projects are liable to taxes at normal rates. Under GST, it is recommended that all the goods used for setting up or operating a renewable energy project should be eligible for relevant exemptions.
- The project developer should be eligible to claim refund of GST paid (both at Central and State level) on goods and services used for setting up and operating renewable energy project.

For bio-fuel sector

- Exemptions provided to goods used in bio-fuel production as well as on bio-diesel itself should continue and be zero rated
- Wherever, exemption is not granted, a concessional rate of GST should be applicable on both goods and services used in bio-fuel sector as well as on bio-diesel itself
- OMC should be eligible to take refund of taxes paid on bio-fuel considering that petrol/ diesel would be outside GST
- Refund of unutilized credits should be available to bio-fuel manufacturers in case of inverted duty structure ◂◂