

GST HEADLINES

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Power Ministry seeks Relief for Renewable Energy from GST Impact

(Source: Livemint)

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Power ministry tells GST Council implementing the tax in its current form could push up power generation cost, especially of renewable energy



Power minister Piyush Goyal. Photo: HT

New Delhi: The Union power ministry has told the influential goods and services tax (GST) Council chaired by finance minister Arun Jaitley that implementing GST in its current form could push up power generation cost, especially of renewable energy, which will further dent the ability of debt-ridden distribution companies to serve electricity unless specific relief measures are built in.

While solar panels and other equipment used for power production will come under GST, the final product—electricity—has been kept out. This means power producers will not be able to set off part of the indirect tax liability on their output using credit for the taxes already paid on raw materials and services availed.

In a presentation made to the GST Council on 16 January, the power ministry proposed giving either deemed export status or zero GST rate for renewable power. The measures are intended to spare power producers from the tax cost of keeping electricity out of GST, and to compensate for the end of existing tax exemptions.

According to a copy of the presentation, reviewed by *Mint*, the capital expenditure of renewable energy companies—wind and solar—could go up by 10-12% which will warrant a power tariff increase by 30-40 paise for wind power and 40-50 paise for solar power. That is mainly because central excise duty exemptions and concessional state value added tax (VAT) on equipment and solar panels (0-5% levied by states) will make way for an 18% GST on the raw materials and services availed of by renewable power producers.

According to M.S. Mani, senior director, indirect tax, Deloitte in India, about 350 goods are at present exempted from excise duty while VAT exemptions across states will add up to about 200 items. Under GST, there will be not more than 100 exemptions which means increased tax incidence on industries using items that lose benefit of exemption or concessional tax rate.

The ministry has accordingly urged the council to either consider renewable power as a deemed export or merely assign a zero GST rate on clean energy, which will allow power producers to get refund of all the taxes previously paid on the raw materials and services. There is no excise duty on solar panels, but states levy 0-5% concessional VAT on them and there is a 2% central sales tax in case of inter-state supply.

The ministry also proposed similar treatment for large hydropower projects, which will be reclassified as renewable energy projects.

The power ministry said that there are few takers for high cost power at present. "Any further tariff increase due to GST may have multiplier effect on economic development as there will be difficulty in passing through its impact to agriculture and domestic consumers," said the presentation. It also argued that higher power tariff will have an adverse impact on industrial production, GDP and the Make in India drive, in addition to impact on export competitiveness of products and services.

The solar power industry is witnessing intense competition which has driven tariffs down from Rs.12 a kilo watt hour in 2010 to a historic low of Rs 3 in 2016, which means any cost escalation is likely to hurt them.

"There are more than 200 active players in this industry and it is heading for consolidation in the face of competition," said Inderpreet S. Wadhwa, director and chief executive officer of Azure Power Global Ltd, an independent power producer.

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