

# GST - A CATALYST OF GROWTH FOR INDIAN MRO SECTOR

## Background

The Maintenance, Repair and Overhaul (MRO) industry plays a crucial role in ensuring the safety and efficiency of aircrafts and vessels. With the recently announced mega orders for aircrafts by Indigo and Air India, India is poised to become the third largest buyer of commercial planes after US and China. As per the Niti Aayog report, the airlines in India spend about 12 to 15% of their revenue towards maintenance, the second highest cost item for airlines after aviation fuel, and taxes, including GST, play a significant role in controlling operational costs.

## Prohibitive tax restricted growth of the sector

Whereas the tax on MRO services stood at NIL in Sri Lanka and 7% in Singapore & Malaysia, the tax rate in India for MRO services in relation to ships and vessels faced a high rate of 18% till June 2021. Services in relation to aircrafts, however, were put in a favourable 5% bracket. In addition to the non-competitive rate, prior to April 2020, even the levy of GST was based on the place of performance of such services, and as such, even overseas shipping and aviation companies were suffering tax on services received in India.

Since this was an Indian tax, no credit of the same was permitted to them in their home country and became a permanent cost to them, adding to their cost of operations and ultimately, increasing the revenue pricing to end-customers.

## Bringing in a competitive tax regime

Realising the policy impact on the growth of the sector, and taking note of the enormous opportunity for the country, not just in terms of employment, but also revenue generation, the GST reforms on the sector were brought in. The tax rate on MRO services for ships and vessels was brought at par with that of aircrafts at 5%, reducing the tax impact by 13%. The government also took cognizance of the place of supply provisions for such services, and appropriate changes were made to tax the MRO services based on location of the service recipient. This change was brought in March 2020 for services in respect of aircrafts, aircraft engines and other components and in June 2021 for services in respect of ships and other vessels, their engines, and other components.

## A level playing field

With these changes, the GST regime in India on the MRO sector stands at par with many other countries,

in fact, rather favourable as compared to some. While Singapore continues to be the South Asia hub for MRO activities, with the growth in the aviation sector in India, and the highly competitive tax regime now, the MRO sector is expected to see catapulting growth in India. With the change in the place of supply provisions, now MRO services to overseas corporations will be treated as zero-rated, reducing the cost of operations for them. Other government policies are also in line, including extending the duty free component imports to three years, amongst others.

### Challenges remain

With all the steps in the right direction, a few

roadblocks still need to be addressed. The age old problem of classification and application of appropriate tax rate continues to plague the system, especially in the area of raw materials used in MRO sector, viz. speciality steel, nickel based alloys and aerospace grade aluminium, to name a few. As these are taxed at a higher rate, it affects the competitiveness negatively. Similarly, at the time of importation, various components, which are used in aircrafts / vessels, also have non-MRO sector usages. And this leads to nomenclature based anomaly in taxation of imports. Duty exemptions on imports and inverted duty structure too, make the shift to domestic manufacturing difficult and costly.

### Conclusion

*To make India a true global hub of MRO operations, multi-pronged approach will need to be followed. A simpler and unambiguous classification structure for HSN codes, promoting domestic manufacturing through rationalization of inverted tax structures, attracting investment by means of Production Linked Incentive schemes and establishing a world class skill base with human capital development – all these will enable the objective, substantially add to our growing economy and boost infrastructure capabilities of India positioning us as the preferred country for MRO operations.*

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