

GST on Airline Sector

Nishant D'Souza

Senior Analyst, Samnidhy

As per GST, economy class will attract 5% tax (earlier service tax of 6%) while business class travelers will have to shell out more as the tax has been increased from 9% to 12%. Lowering of tax rate on economy class tickets is a welcome move and is in line with government promotion of making airlines available to common people of India. This will help in initiating new air routes among tier 2 and tier 3 as demand increases.

Air turbine fuel (ATF) is not covered under GST. Currently excise duty of 14% is levied and sales tax with rates varying for different states. ATF constitutes about 40% of the total cost for airlines. However ATF not coming under GST will not affect the cost of airlines in anyway.

Input tax credit can be claimed only on input services for economy class whereas business class can claim input tax credit on services, food and spare parts. So the 18% tax paid on catering and the 5% on lease rental services can be set off against 5% GST received from economy class tickets. In case of individuals, GST will be beneficial for the business executives and businessmen who can claim input credit on their travel, whereas the same input credit is not provided to economy class travelers. As mainly middle class families travel by economy class, input tax credit would anyways not be claimed by them and business executives who travel by economy class will still continue to do so irrespective of the fact whether they get input tax credit or not. Jet airways, Air India, Spice Jet and Vistara offer business class in India, so it is a positive news for them.

As per Clear Tax, economy class may benefit marginally from lowering of GST whereas the rates for business class will increase by a meagre 2.5-3% as seen in the below image.

Economy Class Fare Under Service Tax		Economy Class Fare Under GST Regime	
Fare/Charge	Amount	Fare/Charge	Amount
Base Fare	2000	Base Fare	2000
Airline Fuel Charge	700	Airline Fuel Charge	700
CUTE Charge	50	CUTE Charge	50
Tax and Other Charge		Tax and Other Charge	
Passenger Service Fee	239	Passenger Service Fee	239
User Development Fee	150	User Development Fee	150
Airline Service Tax @5.6%	154	Airline Service Tax @ 5%	137.5
Other Surcharge	12	Other Surcharge	12
Total Fare	3305	Total Fare	3288.5

Business Class Fare Under Service Tax		Business Class Fare Under GST Regime	
Fare/Charge	Amount	Fare/Charge	Amount
Base Fare	8000	Base Fare	8000
Airline Fuel Charge	2800	Airline Fuel Charge	2800
CUTE Charge	200	CUTE Charge	200
Tax and Other Charge		Tax and Other Charge	
Passenger Service Fee	700	Passenger Service Fee	700
User Development Fee	400	User Development Fee	400
Airline Service Tax @8.4%	1016.4	Airline Service Tax @ 12%	1320
Other Surcharge	100	Other Surcharge	100
Total Fare	13216.4	Total Fare	13520

There is ambiguity on long haul flights. As per GST, tax will be levied up to the 1st stopover outside the country. For eg: In a Mumbai-London-New York flight, GST will be applied only on the 1st leg i.e. Mumbai to London and 2nd leg from London to New York won't attract GST whereas a nonstop flight from Mumbai-New York will attract GST for the full journey. This will spike up prices for nonstop flights.

Under GST, leasing of goods will be treated as service and will attract GST of 5% accordingly. Indigo and Spice jet work on leasing model method wherein they buy flights from Airbus or Boeing and sell it out to a 3rd company incorporated outside India and then this 3rd company will lease out the flights to these airlines. Earlier cross border leases were not subject to VAT, service tax or custom duty. However now and leasing of flights will attract GST of 5% separately. It will adversely affect the cash flows for Indigo which plans to induct 39 new flights this year and the same for Spice jet. Already Indigo's 4th quarter results of FY 2017 were affected by high fuel cost and have posted below par results, with this leasing issue we can expect a further dent.

Major expenses apart from fuel cost of airlines during Q4FY17 (Rs In Crore)				
	Employee Benefits Expenses	Y-o-Y growth (%)	Lease Rentals	Y-o-Y growth (%)
Jet Airways	825	17.30%	628	7.4
SpiceJet	183.66	37.63	251.81	1.03
Interglobe Aviati	5339.15	8.46	824.19	21.41

Indigo and Spice jet are currently trading close to their 52 week high. The airline sector has requested for clarifications on the above GST issues with finance ministry by liaising through Aviation minister. If the finance ministry agrees to go back following the earlier method, then we can see upside in the share prices of Indigo and Spice jet as their 52 week high is acting as a major resistance and the reversal on GST for leases can act as an much needed adrenaline boost for rise in stock prices.

Last year, Russia and OPEC countries (of which Qatar too is a part of) have come to an agreement to limit production levels up to a certain limit and were successful in their pursuit to raise the global oil prices. However since the Qatar and GCC issue cropped up, we have a

considerable fall in oil prices. If the Qatar issue doesn't get resolved and if it turns rogue then we can expect a break in the OPEC agreement and the remaining OPEC countries too will start producing at an all-time high leading to further fall in oil prices.

There are a lot of If's for this sector however on the positive side we have seen a rise in the domestic consumption. Increase in May passenger load is an evidence to this fact. In April and May, airline carriers in India increased the prices of tickets to pass on the burden of high fuel cost and have been successful in doing so as their sales too didn't get affected.

References:

<https://cleartax.in/s/impact-of-gst-on-air-fares>

<http://www.zeebiz.com/india/news-gst-structure-for-airlines-whats-in-store-for-economy-business-class-and-lease-rentals-18184>