What Marriott's Second Data Breach Means for the Hospitality Industry?

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As a welcome boost to the domestic maintenance, repair and overhaul (MRO) industry, the Goods and Services Tax (GST) council has slashed the tax rate on aircraft MRO services from 18 % to 5 % with full Input Tax Credit and change of place of supply for B2B MRO services to the location of recipient, which will come to effect from April 1, 2020. This move is a step towards making India a global MRO hub, and will have a huge impact on the industry as it not only reverses the business trend of carrying out 95 percent MRO operations overseas, but also will at least double the business of domestic operators going forward. The previously prevailing 18% GST was a blow to the domestic MRO sector which had just turned competitive after exemption from customs duty on import of spares and abolition of value-added tax by Maharashtra, which houses 80% of the MRO units in India. This move by the GST council is supposed to help Indian MRO service providers invest more in infrastructure and capabilities due to the level playing field with foreign companies.

Pre-GST, the MRO industry paid zero VAT on spares in Maharashtra and service tax on labor. Post-GST, it is 18% on combination of spares and labor, while imports are not taxed at all. Overseas MRO units have gained since the implementation of the GST regime because there is no customs duty on getting a plane and its spares abroad and bringing it into India. If customs duty on imports of MRO was 18%, the government would collect roughly $180 million annually. The high GST rate served as a major impediment for Original Equipment Manufacturers (OEMs) looking to provide their MRO business to domestic operators, and so with this reduction, OEMs would be more willing to partner with such domestic operators whose costliness now reduces dramatically.

ELP Comments

The inflationary rate of 18% under GST law had scrapped the previously flourishing business of the MRO industry in India, having an adverse effect on its motto of 'Make in India'. Instead of increasing the number of MRO service providers and providing employment, the GST law had a reverse effect on the industry, causing closure of such business operations. If the services of domestic MRO operators under the previous regime were availed it would have not only increased the cost to civil aviation operators, but also have an adverse effect on consumers using air services with the cost being recovered from the ultimate consumer. This would result in leading Indian civil operators leasing out aircrafts and thus availing the services of MRO from outside India, which in turn has an adverse effect on the revenue of Indian treasury. The civil aviation industry has been requesting the GST council to lower the rate on such services so as to bring them at par with other players outside India, and the council has finally accepted this request for the benefit of the domestic MRO industry.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com