



*Goods and Services Tax  
in India - Taxation of  
Alcoholic Beverages*

Presentation to the Empowered  
Committee of State Finance Ministers  
November 28, 2011

# *Agenda*

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Overview of the Industry

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Proposed dual GST model

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Stakeholder views on taxation of sumptuary goods under GST

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GST implementation

treatment of alcohol under draft bill

Tax costs under current and proposed tax regime

Issues and challenges for the Industry

International best practices

Key benefits of inclusion under GST

Requests for consideration

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## *Executive Summary*

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The 115<sup>th</sup> Constitutional amendment bill excludes alcoholic beverages from the definition of GST

Exclusion of alcoholic beverages from GST will result in

Tax cascading    impact of prices/export competitiveness

Distortion of credit chains    impact on trade & supply chain partners

Multiple regulations    administrative complexity & litigation

States continue to retain the powers to levy and collect State Excise duties

States can adjust state excise duty rates to mitigate any revenue loss

CGST collections may be appropriated to States by the Union

International best practices support taxation of Alcoholic Beverages under GST

Alcoholic beverages to be brought within the purview of GST. The definition of GST in Constitutional Amendment to include Alcoholic beverages. Any exclusion of alcohol from GST, if essential at this stage, should be through an appropriate provision under the GST legislation

## *Overview of the Alcohol Industry*

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The Alcobev industry witnessed a 12% growth between 2004-2009\*

The industry contributes over Rs 48,000 crores to state exchequer towards excise annually (Second largest contributor after sales tax)

Alcohol is subject to multiple taxes under the current regime i.e.

state excise and other excise duties on manufacture and production and sales tax/entry tax/octroi on sale/movement of goods

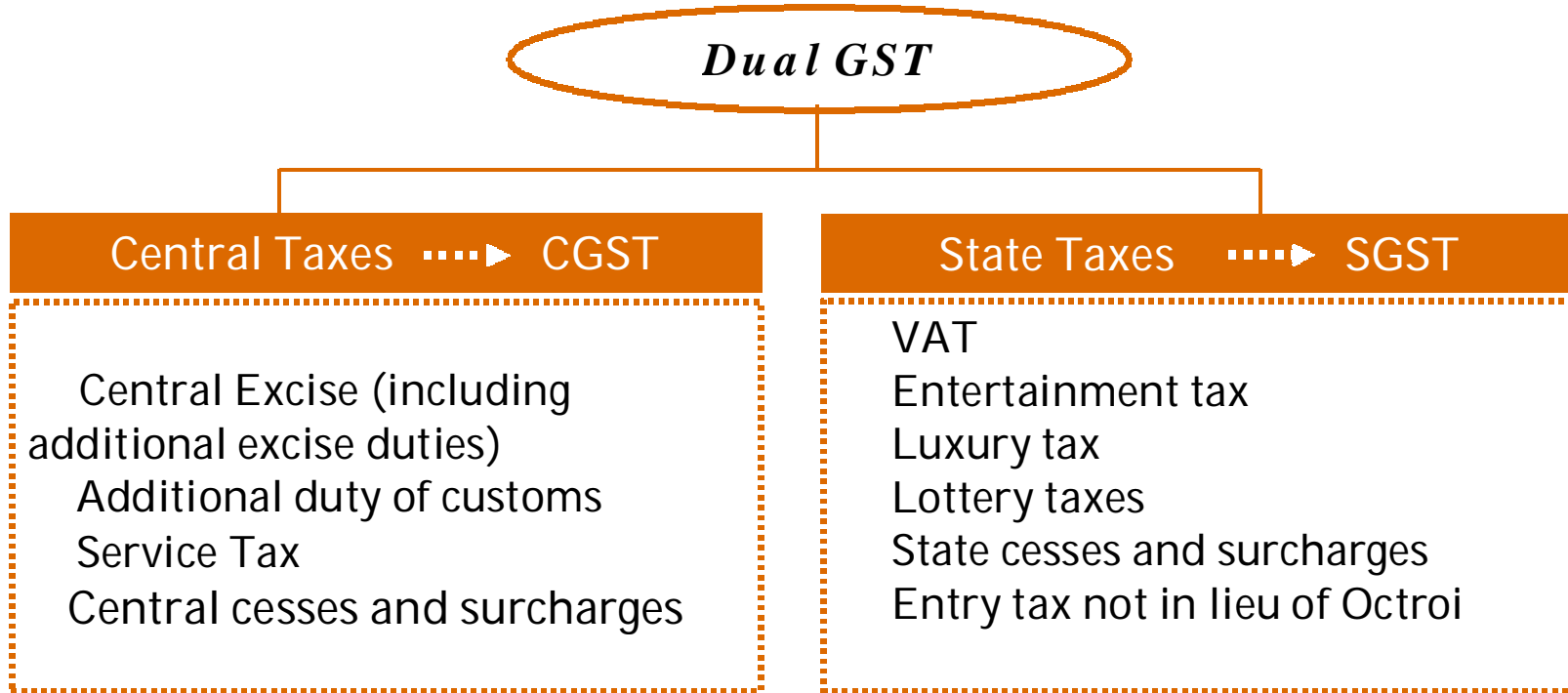
Alcoholic Beverages like any FMCG products are sold through established distribution chain.

Manufacturer → Distributor → Retailers → Hotels, Restaurants, Super markets etc

**Source:** [\\*www.financialexpress.com](http://www.financialexpress.com)

# Proposed dual GST

# Taxes to be Subsume

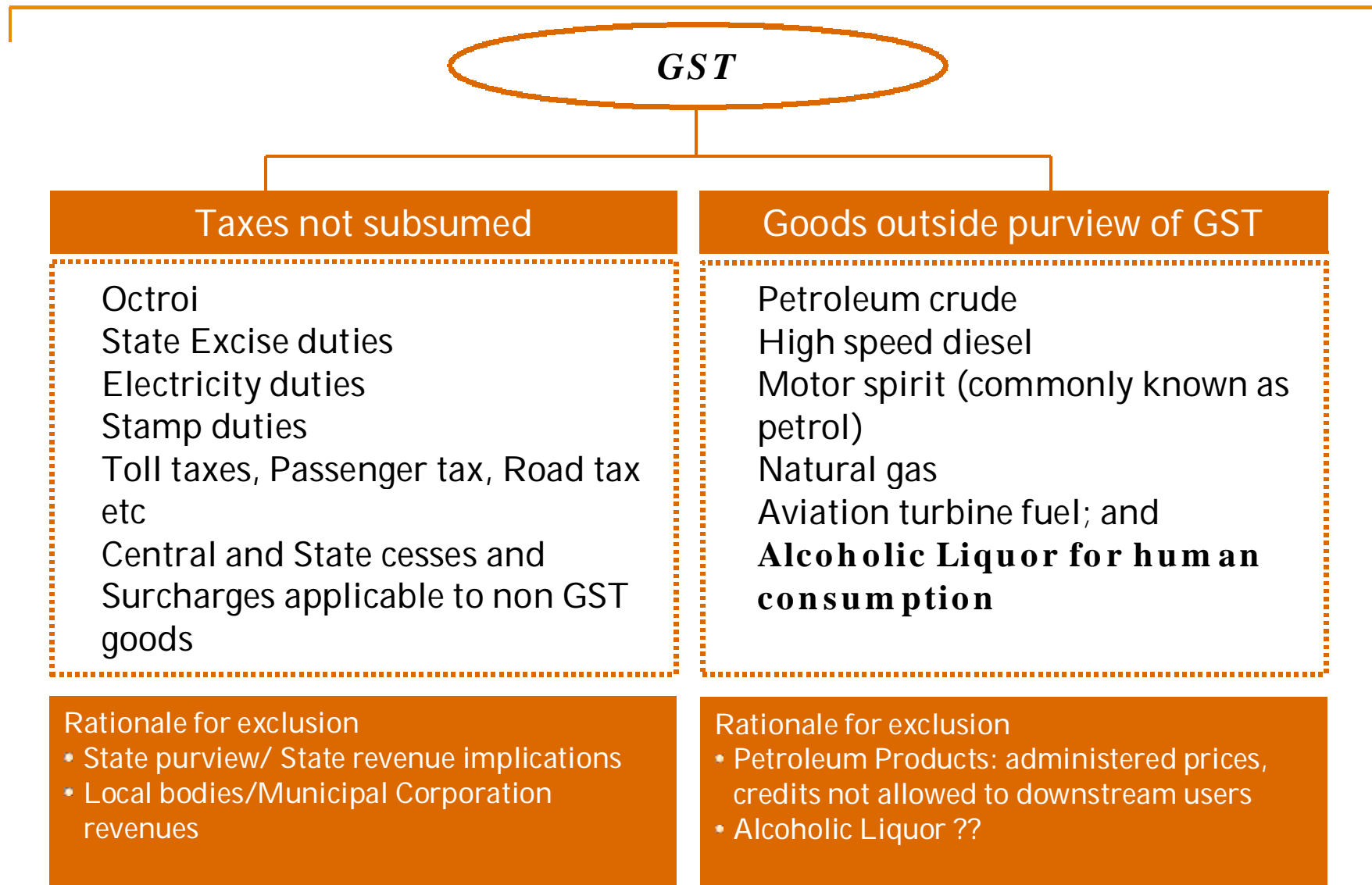


**CST will be phased out**

\* As per First Discussion Paper and Draft Constitutional Amendment Bill

# Proposed dual GST M

# Exclusions fr



## ***Stakeholder Recommendations on taxation of Sumptuary goods under GST***

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***The Joint Working Group on GST (JWG), November 2007:*** Alcoholic beverages and tobacco to be covered under the GST with ITC and excise duties (without ITC) over and above GST by both Centre & States

***First Discussion Paper (FDP) of the Empowered Committee of State Finance Ministers on GST, November 2009:*** Alcoholic beverages would be kept out of the purview of GST. Sales Tax/VAT can be continued to be levied on alcoholic beverages as per the existing practice. State Excise duties may not also be affected. Tobacco products would be subjected to GST with ITC

***Central Government and Department of Revenue, January 2010:*** Tobacco and alcohol to be taxed under GST with non vatable excise duties. Alcoholic beverages should be brought under the purview of GST in order to remove the cascading effect on GST paid on inputs such as raw material and packaging material. Sales tax / VAT and State excise duty can be charged over and above GST

***Thirteenth Finance Commission (FC), February 2010:*** Sumptuary goods of Tobacco and alcohol to be taxed under GST as well as an additional levy, with no input tax credit of the additional levy

**Alcoholic Beverages could be subject to similar treatment like Tobacco with States allowed to fix its rates of taxation under State Excise laws**

## ***GST Treatment of Alcohol under Draft Bill***

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Draft Constitutional Amendment Bill proposes exclusion of alcoholic liquor from the purview of GST.

Liquor for human consumption

The production, manufacture, possession, transport, purchase and sale of intoxicating liquors is **still under the exclusive domain of the States**

Taxation of alcoholic liquor continues to be governed by the old regime

- State excise duties on manufacture of alcoholic liquor in the State (including countervailing duties for goods manufactured elsewhere in India) [item 8 State List]
- Intra-State sales of alcoholic liquor subject to VAT [item 54 State List]
- Inter-State State sales of alcoholic liquor subject to Central Sales tax [item 92A Union List]

**Existing powers of the State Governments to tax Alcohol kept intact**



# Alcohol Industry Tax costs under Current & Proposed GST regime

Items/Expense Heads		AS IS			TO BE	Difference	Impact
		Central Excise/Service tax	CST or State VAT (on value + duty)	Total incidence	Tax under GST Regime		
DRY GOODS	Bottles	10.3%	2.2%	12.5%	20%	7.5%	↑
	Recycled bottles	0%	4%	4%	20%	16%	↑↑
	Other packing inputs	10.3%	2.2-4.4%	14.7%	20%	5.3%	↑
WET GOODS	Molasses	21.5%	2.4%	24%	20%	(4%)	↓
	Rectified spirit/extra Neutral alcohol	0%	2-12.5%	2-12.5%	20%	7.5-18%	↑↑
	Malt spirit	10.3%	2.2%	12.5%	20%	7.5%	↑
	Grape/Rum spirit	0%	2%	2%	20%	18%	↑↑
OTHERS	Contract Manufacturing arrangements	10.3%	0%	10.3%	16%	5.7%	↑
	Intellectual Property Service/Royalty	10.3%	4%	14.3%	16%	1.7%	↑
	Expenses ( Freight, travel, Advertising, C&F, Commissions etc)	10.3%	0%	10.3%	16%	5.7%	↑

The stranded tax costs of the Sector will go up if kept outside the GST regime

↑ Unfavourable

↑↑ Severely Unfavourable

↓ favourable

## *Exclusion from GST Concerns & Impact*

Continuation of multiple levies on the Sector → complicated tax structure →

Exclusion will result in increasing

Tax cascading → adverse impact on volumes, prices & growth of the Sector and consequent reduction in tax revenue

Tax cost on inputs/input services on account of:

stranded tax costs: Credit/Refund of GST on Inputs/Input Services?

tax rate on inter-state procurements: GST 10% vs. CST 2%

tax rate on input services: GST 16% vs. Service tax 10%

Exclusion will impact the Alcobev Industry, Trade/Supply chain Partners and Government in terms of

Industry and Trade partners: Increase Compliance costs, issues in credit apportionment, separate Accounting and Reporting →

Government: Dual Administration, dispute resolution and monitoring →

**Increase in costs will impact MRPs and consequently Government revenue.  
Other challenges will discourage compliance**

## *Current Regime Representative tax cost sheet*

<b>Comparison</b>			
<b>Product XYZ</b>			
<b>INR / Cs.</b>	<b>Maharashtra</b>	<b>Andhra Pradesh</b>	
<b>Cost of Goods Sold</b>	<b>1,175</b>	<b>1,146</b>	
Excise Duty*	2,016	615	Cost to Industry. Revenue to States
Vend Fee / Label Charges	18	5	
VAT	<b>802</b>	-	
<b>Net Landed to Wholesaler</b>	<b>4,011</b>	<b>1,766</b>	
Whole Sale Margin	281	934	
Additional VAT on Wholesaler*	70	1,894	No Credits
<b>Net Landed to Retailer</b>	<b>4,362</b>	<b>4,594</b>	
Retailer Margin	545	919	
Additional VAT on Retailer*	136	-	No Credits
<b>Price to Consumer</b>	<b>5,044</b>	<b>5,513</b>	
MRP per bottle	<b>420</b>	<b>459</b>	
<b>Round Off - MRP</b>	<b>420</b>	<b>460</b>	

\* State governments have exclusive control over state excise duties and VAT

If alcohol is kept out of GST, impact of CGST & SGST on inputs & services for which no credit is given will impact margins and lead to increase in MRPs



## *Exclusion from GST Issues for Industry & Trade Partners*

<b>Issue</b>	<b>Position post GST implementation</b>	<b>Concerns</b>
Taxation of intermediate products presently charged to Central Excise duty & VAT	If sold: levy of CGST+SGST or to be taxed as per existing regime?  If captively consumed: taxation and taxable event as there will be no supply?	Accounting? Credit tracking? Compliances? Assessments? Dispute resolution?
Tax on sale of scrap	Scrap could include Raw materials, Finished Goods, Packing materials, Office Equipment etc: Levy of GST ? Valuation methodology ?	Dual compliances and records
Taxation of Partners in supply chain	Transporters, Distributors & Stockists engaged in transporting stocking both Alcohol & other FMCG goods: Taxation and records?  Hotels and Restaurants: to Charge VAT on sale or GST?	Dual accounting records, compliances
Taxation of other Industries using Alcohol as input	Industries like pharmaceuticals and perfume manufacturers use Alcohol as raw material/ consumables: Accounting of VAT paid on purchase of Alcohol?	Compliances? Accounting? Credits?

**Exclusion of Alcohol from GST will have far reaching impact on trade partners and other Industries**



## *Exclusion from GST Issues for Government*

Issue	Implications under GST	Concerns
Taxation of Inter-State trade of Alcohol	CST Law: to exist only for non GST supplies? CST: Destination based or Origin Based? Sales against C forms: Permissible or not? Stock Transfers Concept: Exemption from CST or not? Entry/Exit taxes and permits: Exist for non GST supplies or not ?	Phasing out of CST ?  Multiple regulation, Dual Administrative Infrastructure for taxation and compliances
IT Infrastructure	Compliances for Non GST goods: Manual or IT enabled? State and Central IT Infrastructure: GST as well as VAT/Excise compliant	Non tracking through GST data system, Dual Infrastructure cost
Administration of non GST goods	Administration of compliances, assessments, audits, investigations, disputes for Alcohol Industry by GST administration set up or separate set up for the Industry as a whole?	GST and Non GST goods: tracking eligible/non eligible credits, Parallel administration costs and complex reporting requirements

Exclusion of Alcohol from GST will make the tax administration of the industry too complex and costly for the Government



## *International Best Practices on Taxation of Alcohol*

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Internationally alcoholic beverages are taxable at two levels

VAT / GST (as the case may be)

Excise duty (non recoverable)

VAT / GST in OECD countries is levied on movable goods and services (with few exceptions)

Excise duty is levied only on specific goods. The three principal products which are liable to excise duties in all OECD countries are alcoholic beverages, mineral oils and tobacco products

VAT / GST paid on inputs can be off-set in the hands of registered manufacturers

A synopsis of the taxability of alcoholic beverages in some identified Countries



**International Scenario supports inclusion of Alcoholic beverages under GST**

## *Alcohol merits inclusion under GST*

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Eliminate cascading impact of taxes: Alcohol is a free enterprise FMCG product

Facilitate free flow of credits across the value chain: GST credits on inputs and input services

Better competitiveness in domestic and international markets: No sticking costs

State Excise continues to be outside purview of GST: Absolute revenue to the States

The impact, if any, on State revenues can be mitigated:

- a shortfall on account of SGST collections at reduced rate can be counter-balanced by adjustment to State excise duty rates

- The CGST levied could be apportioned to the State Governments

Ease in tax compliances and reduction in litigation

Reduction in monopolistic regulations restricting inter-State trade

**Inclusion of Alcohol in GST will not impact State Government Revenues or Control**

## *Alcohol Industry Requests for Consideration*

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To include alcoholic beverages under the GST regime based on

recommendations of the JWG, the FC and the DoR;

International precedents

Adverse Impact of exclusion

State excise may continue on the products at current rates less GST

CGST collections on supplies of Alcohol may be apportioned to States

State excise rates to be adjusted based on estimates of SGST collections and the CGST allocations to States to maintain revenue neutrality for States

Solicit consensus of States based on revenue neutrality, equity and growth considerations

Exclusion of alcoholic beverages from GST, if necessary, should not be through exclusion from the draft bill but through an appropriate exclusion in the GST legislation just as in the case of services [*Clause (12A) of Article 366 to be amended*]