

05 September 2025

## GST rate rationalization impact on the Energy sector

Reforms to catalyze investment and adoption  
of renewable energy



**Saurabh Agarwal**

*Tax Partner, EY India*

The GST Council's 56th meeting will be remembered as a landmark in India's tax reform journey. The decision to simplify the GST structure is a bold, proactive step toward a "Good and Simple Tax," and it is a testament to the government's trust in the industry to drive economic growth.

The increase in GST rates on coal and specific goods and services used in oil and gas exploration, combined with the rationalization of GST rates on renewable energy devices and allied inputs such as cement, marble and wood products, indeed reflects a strategic shift towards promoting renewable energy and making clean energy technologies more affordable and attractive for investment.

This aligns with the government's vision to become energy independent by 2047 through the large-scale adoption of renewables, green hydrogen, nuclear energy, and domestic exploration of critical minerals—reducing reliance on imported coal, oil and gas.

Overall, the reforms provide a supportive framework for power and energy, enhancing viability and sectoral resilience.

## Impact analysis

### Industry impact:

- **Boost to the renewable energy sector**, enabling investments in the manufacturing sector, which is currently in the development stage.
- The GST on coal has risen from 5% to 18%, replacing the INR400/ton cess. The net impact of this on thermal power costs is not expected to be significant.
- The reduction in GST on cement from 28% to 18% may positively impact infrastructure project costs.
- **Capital cost reduction:** The reduction in GST from 12% to 5% on various renewable energy components reduces project capital costs, improving financial viability.
- **Oil and gas projects:** The specific increase in GST on goods used in petroleum production projects, as well as offshore works contracts and related services for oil and gas exploration, may potentially impact project costs.
- **Overall industrial development:** Energy is a key driver of industrialization, and the reduction in energy costs is expected to promote overall industrial development.

### Consumer impact:

- **Energy security and sustainability:** Consumers benefit indirectly from more sustainable energy policies that promote a cleaner environment and diversify energy sources.
- Lower renewable energy costs may accelerate data center growth in India, a sector critical for powering the country's digital economy, cloud services and AI-driven future.
- Access to cost-effective energy fuels urbanization by supporting infrastructure, industries and services.
- Affordable energy enables wider adoption of farm machinery, enhancing efficiency and supporting the rural economy.

### Way forward:

- **Revisit existing contracts and power purchase agreements (PPAs) to align terms with the new tax regime:** The engineering, procurement, and construction (EPC) contracts and PPAs need to be examined in terms of 'tax/change in law' clause so that the effect of new tax rates is factored into costing or tariffs (as the case may be).
- **Manage inventory and working capital:** Assess the impact of unsold inventory of renewable energy equipment and its raw material.
- **Review state incentives or subsidies** and initiate dialogue with state authorities if revisions or renegotiations are needed.
- **IT readiness** to adopt the updated rates effective from the implementation date, i.e., 22 September 2025.
- **Assess the impact of delayed utilization of accumulated Input Tax Credit (ITC)** on account of CAPEX due to the reduced output tax rate for the manufacturing sector.

## Highlights

Solar power generators, solar power-based devices, wind-operated electricity generators, waste-to-energy (WTE) devices, solar cells and modules

12%



5%

Before

Now

Effective GST on solar and wind projects (70:30 formula)

13.8%



8.9%

Before

Now

Coal: Rate revised to 18% from 5% + cess of INR400/ton

5%+

Cess



18%

Before

Now

Specific goods used in petroleum exploration and production contracts; composite supply of offshore works contracts and related services for oil and gas exploration

12%



18%

Before

Now

# Our Offices

## Ahmedabad

22nd Floor, B Wing,  
Privilon  
Ambli BRT Road, Behind  
Iskcon Temple  
Off SG Highway,  
Ahmedabad - 380 059  
Tel:+ 91 79 6608 3800

8th Floor, Building No. 14A  
Block 14, Zone 1  
Brigade International  
Financial Centre  
GIFT City SEZ  
Gandhinagar - 382 355,  
Gujarat  
Tel + 91 79 6608 3800

## Bengaluru

12th & 13th Floor  
"UB City", Canberra Block  
No.24 Vittal Malliya Road  
Bengaluru - 560 001  
Tel:+ 91 80 6727 5000

Ground & 1st Floor  
# 11, 'A' wing  
Divyasree Chambers  
Langford Town  
Bengaluru - 560 025  
Tel:+ 91 80 6727 5000

3rd & 4th Floor  
MARKSQUARE  
#61, St. Mark's Road  
Shantala Nagar  
Bengaluru - 560 001  
Tel:+ 91 80 6727 5000

1st & 8th Floor, Tower A  
Prestige Shantiniketan  
Mahadevapura Post  
Whitefield, Bengaluru -  
560 048  
Tel:+ 91 80 6727 5000

## Bhubaneswar

8th Floor, O-Hub, Tower A  
Chandaka SEZ,  
Bhubaneswar  
Odisha - 751024  
Tel: + 91 674 274 4490

## Chandigarh

Elante offices, Unit No. B-  
613 & 614  
6th Floor, Plot No- 178-  
178A  
Industrial & Business  
Park, Phase-I  
Chandigarh - 160 002  
Tel:+ 91 172 6717800

## Chennai

6th & 7th Floor, A Block,  
Tidel Park, No.4, Rajiv  
Gandhi Salai  
Taramani, Chennai - 600  
113  
Tel:+ 91 44 6654 8100

## Delhi NCR

Aikyam  
Ground Floor  
67, Institutional Area  
Sector 44, Gurugram -  
122 003  
Haryana  
Tel: + 91 124 443 4000

3rd & 6th Floor,  
Worldmark-1  
IGI Airport Hospitality  
District  
Aerocity, New Delhi - 110  
037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No  
2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel:+ 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH  
LOBBY"  
Survey No 83/1,  
Raidurgam  
Hyderabad - 500 032  
Tel:+ 91 40 6736 2000

## Jaipur

9th floor, Jewel of India  
Horizon Tower, JLN Marg  
Opp Jaipur Stock  
Exchange  
Jaipur, Rajasthan -  
302018

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel:+ 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel:+ 91 33 6615 3400

6th floor, Sector V,  
Building Omega, Bengal  
Intelligent Park, Salt Lake  
Electronics Complex,  
Bidhan Nagar  
Kolkata - 700 091  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W),  
Mumbai - 400 028  
Tel:+ 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express  
Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel:+ 91 22 6192 0000

3rd Floor, Unit No.301  
Building No.1, Mindspace-  
Gigaplex  
IT Park, MIDC, Plot No. IT-5  
Airoli Knowledge Park  
Airoli West,  
Navi Mumbai - 400 708  
Tel: + 91 22 6192 0003

18th Floor, Altimus  
Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: + 91 22 6192 0503

## Pune

C-401, 4th Floor  
Panchshil Tech Park,  
Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

10th Floor, Smartworks  
M-Agile, Pan Card Club Road  
Baner, Pune - 411 045  
Tel: + 91 20 4912 6800

Ernst & Young LLP

**EY | Building a better working world**

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

**All in to shape the future with confidence.**

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/en\\_in](https://www.ey.com/en_in).

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

© 2025 Ernst & Young LLP. Published in India.  
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

[ey.com/en\\_in](https://ey.com/en_in)

