GST rate rationalization impact on the Energy sector

Reforms to catalyze investment and adoption of renewable energy



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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.

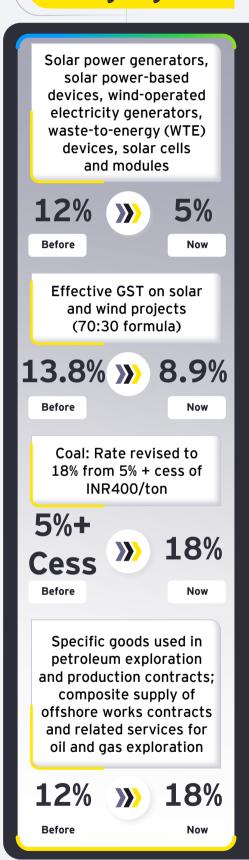
Consumer impact:

- 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 Al-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



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