

Impact of GST on Sports and Media Industries

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Abstract

In the international platform Sports and Media sector is estimated to be valued at around \$480 billion. However, in India, these sectors are also recognized as an economic sector. These sectors may consist of several different segments such as sports tourism, sporting goods manufacturing, Advertising, Music etc. all these segments are taxable under the Indirect tax regime (GST). After the implication of GST in India, and also the motto of 'One nation, One tax' has had much greater effect in Sports and Media industries, the government categories of the sports goods industry falls in the 12-28% slab rate under Goods and Service Tax (GST).

The main objective of the researchers is to discuss the impact of GST rates on the Sports and Media industries, Analyze the pre and post GST Impact on Sport Industry and whether or not Sports is becoming expensive under GST.

Introduction

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India is a country majorly comprising of sports enthusiasts. Whether it is games like cricket, football, athletics or any other sports, Indian people are always excited to spectate their favorite players perform on the field and encourage win laurels for the country. India has a great potential to grow in the sports sector and represent the country at National and International level.

Goods and Service Tax (GST) is one of the biggest taxation reforms in the Indian Taxation history. It is a comprehensive indirect tax across the country and has replaced all multiple indirect taxes imposed by the Central and State governments on goods and services across the country. GST is a “destination” or “consumption” based tax as it is borne by the final consumer at each stage of the supply chain.

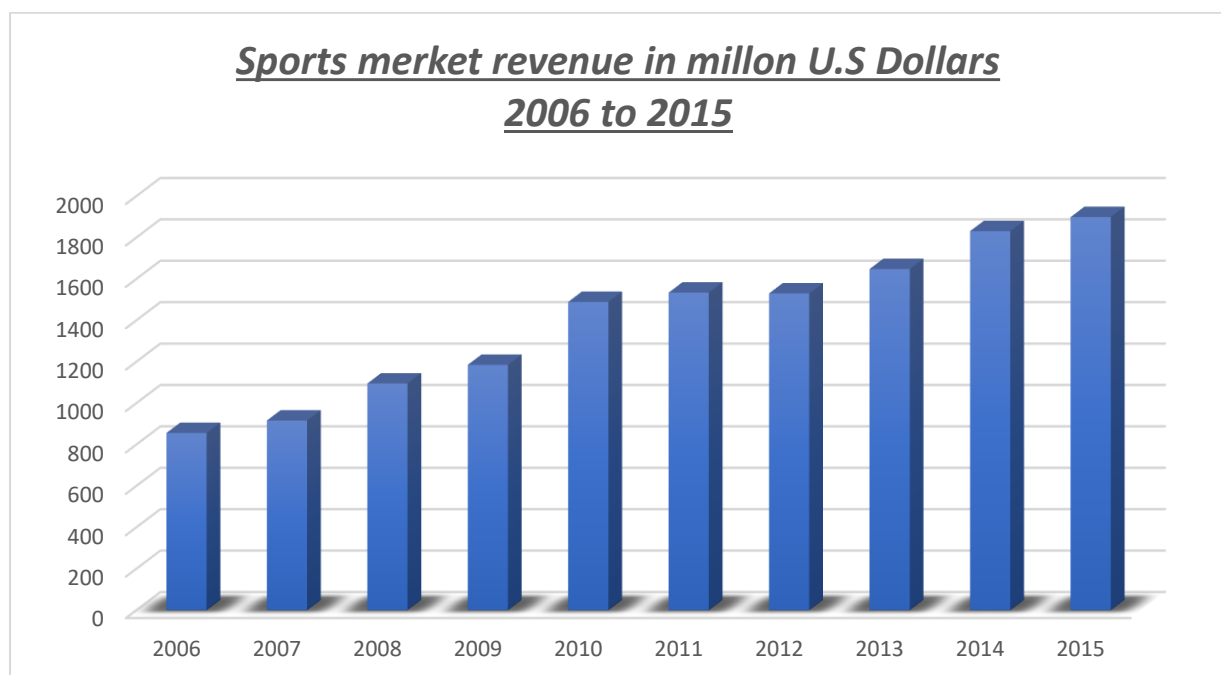
The Goods and Service Tax has directly impacted the Sports sector of India. The impact has been that the manufacturers who are involved in manufacturing sports equipment can claim credit for the tax paid by them at the time they purchase raw materials when calculating the GST liability on the sports equipment which will be later on collected directly from the consumers. At the time when the sports sector in India started growing and the boom took place, the implementation of GST changed everything. After the implementation of this new tax reform, the sports market which was originally out of the service tax liability came under the ambit of the Tax. The sports market now attracts a considerable rate of GST which has results in ruining the very foundations on which the Sports sector was once based and was expected to grow over the time.

The burden laid by the GST tax reform on the sports sector is of 18% GST tax and this has distracted the schooling education system from thinking about providing sports education to the pupil. Under the GST tax system, schools are not liable to obtain input tax credits which leave them with no other option but to charge high school fees to include for provisions of providing sports facility and pay the taxes applicable under the GST. The states also have to put a capping for the regulation of the fee of private educational institutions and these institutions don't have other sources to recover the tax paid by them on sports education in their Institutions. The GST tax system has put a barrier on the transfer of ideas and thoughts between the schools and professional Sports training Centre's. The most upsetting part is that apart from imposition of tax liability on the sports industry, many other sectors are put out of the tax liability ambit. The neglecting attitude of the government towards the sports sector will result in the reduction in participation of the public in sports related activities by students and schools as the schools will no longer be capable of providing improved sports infrastructure.

Sports Market

In the present times, sports are not limited with countries to country's internal matches. This sector contributed to the most significant growth in Indian Economy. The sports event market comprises of gate fee, sponsorship and media rights. The Indian sports sector having a change with all- over development initiated by the government, the private sector as well as NGO. Many schemes like "Khelo India" introduced by the government to address issues regarding Infrastructure, talent search and training facilitation. Even private sector and NGO are also contributing to the sector by organizing leagues and tournament, because of this initiative taken by the public as well as sectors, the revenue generated from the Indian sports market from 2006 to 2015. In 2010, the Indian sports market had a value of about 1,489 million U.S. dollars. This number was predicted to increase to almost 1.9 billion U.S. dollars by 2015. The majority of sports audiences in India are aged 22 to 30 years, while cricket is the most popular sport to participate in, followed by badminton and cycling.

Moreover, this market is composed of the segments, gate revenues, media rights, sponsorships and merchandising. The following bar figures will illustrate the consentient growth in sports industry.



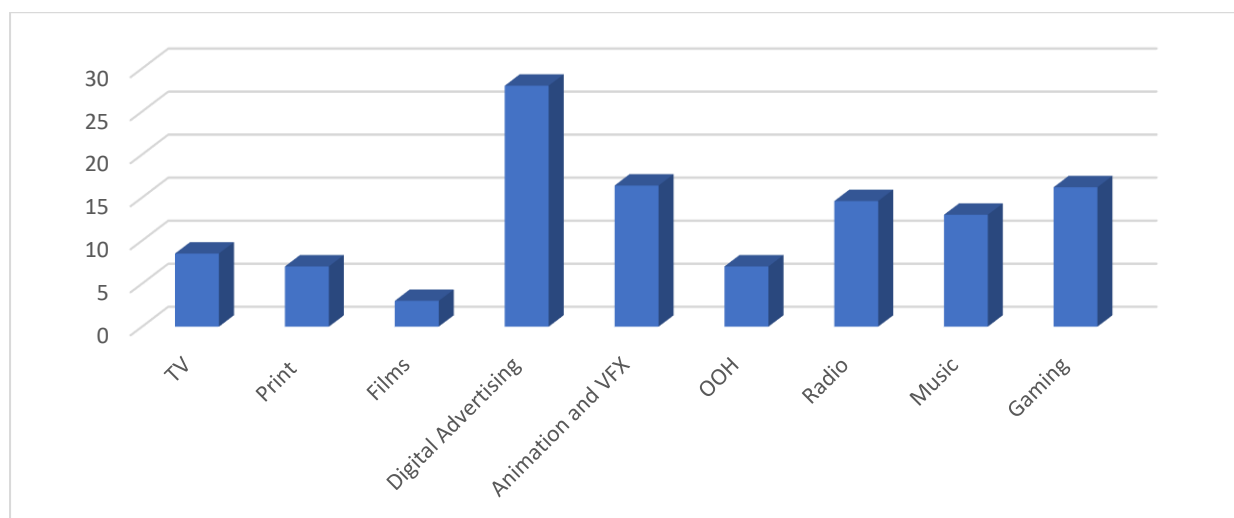
Media and Entertainment Market

In uncertain international Economic Scenario, India is the second largest country in television market with 168 million television households and 890 television channels approximately.

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Entertainment Sector is expected to growth of 7.1 % in Fiscal Year 2017³. by 2020 Entertainment industry touch Rs. 2.26 trillion(US\$ 33.9 Billion).while Revenues from advertising is expected to grow at 15.9 per cent to Rs 99,400 crores (US\$ 14.91 billion). In 2015, the M&E sector grew at 12.8%, while overall advertising grew at 14.7% over 2014. Growth for television advertising is projected at a CAGR of 15% between 2015 and 2020, while print media is expected to grow at 8.6%⁴. Therefore Indian Economy continues to develop and the media reach increases, the advertising expenditure to GDP ratio is expected to increase over the next 5years.

The Indian M&E Industry-Sizegrowth in 2016 Over 2015(In %)



Pre-GST Scenario On Entertainment Tax

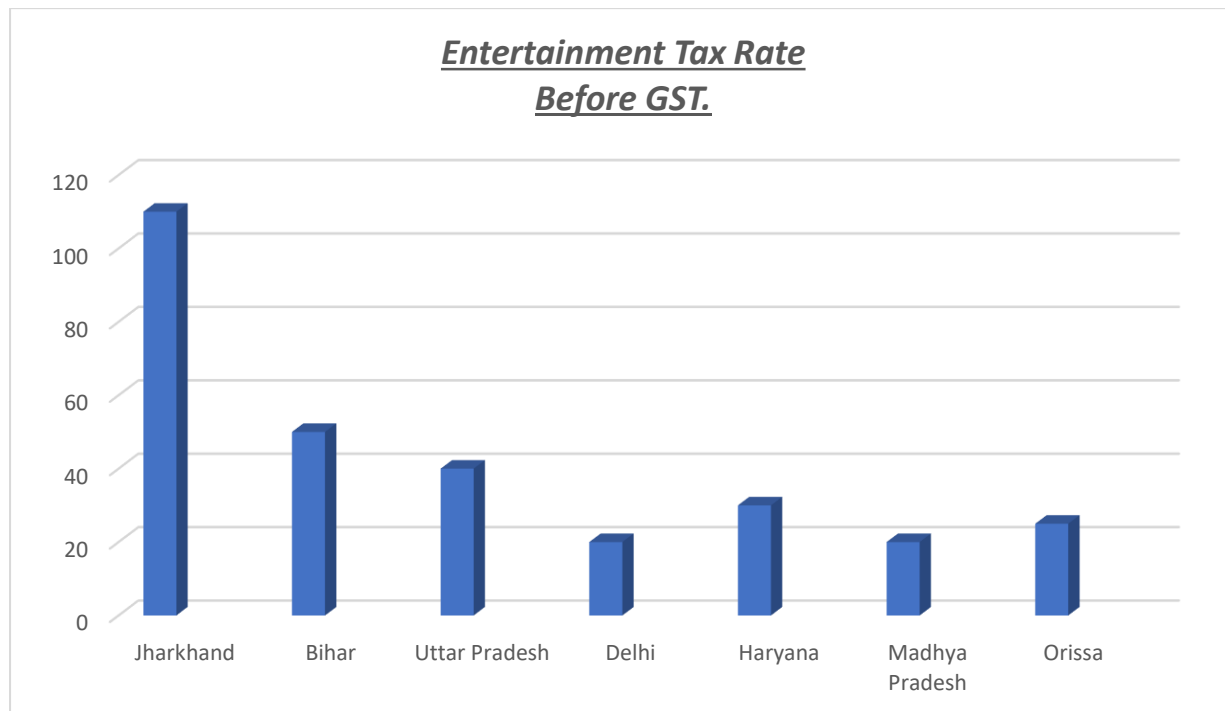
Before GST, Entertainment tax consists of broadcasting services, paid TV Services, DTH services and Cable services. This tax is differing from state to state. Accordingly, state has started to generate higher income after the Paid Television Services began in India. The tax rate varied from 0% to 110% depending on the types of services, location and other benefits. In Broadcast services, Consumer have to paying a service charge tax of around 14.5-15% for all broadcast services like Television that includes Cable and DTH also films and digital content. After this, an entertainment tax of around 8-12% is further levied increasing the average 27% approx. tax on ticket sale as well as levy on food and beverage revenue. Also, service tax plus value added tax charged on all types of entertainment related services. The VAT was charged at the rate of 14.5% and service tax at 15% rate. However, the industry

³KPMG and Lobby Group,*FICCI Federation of Indian Chambers of commerce and industry Report*,AIBMDA (Apr.12, 2018, 12:12AM),<http://aibmda.in/FICCI-KPMG-M&E-Report-2017.pdf>.

⁴Karan Sahi,*Complete Guide on Impact of GST on Media & Entertainment*, CAclubINDIA (Apr., 24, 2018, 12:12AM), <https://www.caclubindia.com/articles/complete-guide-on-impact-of-gst-on-media-entertainment-30818.asp>.

used to get a subsidy of 60% on service tax and had to pay only 6% (40% of 15%) service tax. So, the total tax amounted to 20.5% (6% service tax + 14.5% VAT) in addition to the entertainment tax mentioned above.

The following bar representation show the highest tax rate imposed by the states on entertainment tax;



Indirect Tax Issues in the Sports and Media Industries

After the implication of GST, the manufacturing of sports goods is concentrated in a few pockets in India and was traditionally a labor intensive industry serving India as well as other countries. The Government had granted exemption from excise to sports goods, which was withdrawn in 2011 to bring them in line with those by state Governments to pave way for the Goods and Services Tax (GST). Duty was increased from 1 % to 2% in the following year and the industry wanted it to be rolled back.

In international tournaments such as the Cricket World Cup, sports bodies are often found struggling to get exceptions for the sport, medical, broadcast and other office equipment. The Government often allows duty-free imports for mega events on some conditions. But frequent delays often keep organizers on tenterhooks. A simple system may help the Government and organizers to address such issues.

GST Rate On Media & Sports Industries

Internal sporting events like the Indian Premier League (IPL) and Pro Kabaddi League (PKL) just got more expensive after the GST comes into power, with the tickets taxed at the

highest rate of 28%. Sporting events by recognized sport governing bodies like the Board of Control for Cricket in India (BCCI), Badminton Association of India, Hockey India and the National Sports Federations (NSF) will have their tickets taxed at a lower rate of 18%.⁵ There is some respite with the tickets below Rs.250 being exempted from GST, however only a very limited number of tickets are sold in this price range.

Sports equipment will fall under the ambit of 12%-28% tax slab, which is a steep increase from the previous 5% bracket. There has also been about very different perspectives on how to classify some of these goods. Essential sports, health and fitness equipment, fitness spares, shoes, and ankle weights, have all been classified as luxury goods, attracting a 28% tax.

The Goods and services tax is the standard tax rate system that is applicable to all taxable supplies in whole country. So, all the existing taxes on entertainment services have been terminated by a GST now.

The GST rate varies between 18% and 28% depending on the type of entertainment service and/or products. Take a look following below.

Under 18% GST

Circus, TV and DTH services, theatre and classic dance performances (including drama and folk dance) fall into this category of tax.

Under 28% GST

Movie tickets, casinos, racing, movie festivals and events, amusement parks, and any sporting event will be charged at this rate.

The Present Scenario of Tax Purpose on Consumers

We have always heard that ‘Business drives tax, but we never think in an alternative way. However, in the Indian context, indirect taxes have driven businesses to re-structure and model their supply chain, systems etc. owing to multiplicity of taxes and costs involve⁶ Entertainment taxes vary wildly across the country so the impact differs depending on which states a chain has a larger concentration of screens in.

Under the GST, tickets below Rs 100 will attract an 18 percent tax while those above Rs 100 are at 28 %.NitinSood, CFO, PVR Cinemas says, “Chains like PVR and Inox which are present in the top 50 cities of this country and deliver a bulk of the box office for India sell less than 10 per cent of their total tickets below Rs 100. This represents 5-6 % of total box

⁵AkshayaGautham, *Effect of GST on the Sports Industry in India*,GAMEDAY (Apr.17, 2018, 12:12AM),<http://blog.gameday.asia/effect-of-gst-on-sports-industry-india/>.

⁶R.Tulson, *GST Impact on India's Entertainment industry and Media Sector*,RTULSIAN(Apr.17, 2018, 01:12AM),<http://rtulsian.com/upload/article/GST%20Media%20and%20Entertainment.pdf>.

office collections.”⁷Entertainment industry are facing a very high rate accordingly, it is even more concerned that the GST Council will allow individual states to levy an additional local body tax (LBT). This would make movies the only products and services with dual taxation. Levying an LBT would be at the discretion of individual states, and LBT tax rates could vary across the country. According to several media industry executives and tax experts, some states, including Maharashtra, Madhya Pradesh, Gujarat, and Rajasthan will be levied at LBT on cinemas, cable, and DTH services. Other states, including Kerala, have decided against the idea, putting in people and a framework for GST compliance in each state will add an estimated Rs 4-5 lakh per person, per annum to fixed costs at every location. Multiple registrations also make complication by internal transfer of services within offices of the same company. Much of this holds true for newspapers and radio firms which operate locally and regionally. For TV networks which are national, it may not present the same challenges. So the GST could mean complications in the short run irrespective of which segment you operate in. However it brings in undeclared revenues and streamlines taxation across the value chain, the benefits should be worth the pain.⁸

Sports Education

The GST implementation charged almost everything. After GST, the sports sector which was out of service tax came into the ambit of tax roof. This sector now 18% GST and it has tumble-down on the very foundation where the sector just rooted to train.

This 18% GST tax has distracted the schools and coaching centers providing sports education. Under GST, they are not able to get Input tax credits.

Event Organizers

The E Commerce operators are required to collect TCS from the sellers on their platforms, any Event Organizer that sells tickets online will have to obtain a registration under GST – irrespective of their turnover. TCS will be collected on the base value of the supply which is equal to the cost of the ticket minus the GST applicable. This shall be paid to the government by the 10th of the succeeding month. GST is applicable at the rate of 2%. Event Organizers can claim credit of TCS against the output GST liability.

⁷Vanita Kohli Khandekar, *How will GST impact on Media and Entertainment industry*, REDIFF (Apr.17, 2018, 12:12AM), <http://www.rediff.com/business/report/gst-how-will-gst-impact-indias-media-and-entertainment-industry/20170628.htm>.

⁸*Ibid.*

Responsibility of an event organizer selling tickets online:

1. An Event Organizer needs to register and provide the GSTIN to the online platform where you are selling tickets.
2. Before listing an event on any platform, the Event Organizer must provide a billing address for the event and location of the event in order to enable the E-Commerce operator to collect appropriate TCS and comply with GST Provisions.

Conclusion

India is one of the fastest growing major economies in the world where Sports market plays a major role to boost the economy. This market also generated an employment of (INR 64 billion) in 2016. GST, by its design has both positive and negative impacts on Sports Industry. Sports industry in India is highly labor intensive and is inherently export oriented. The industry's exports accounts for nearly 0.5% in overall exports. In fact, the industry's exports (except sport garments) have recorded a solid growth of 8.8% in FY17, when India's overall export was expanding by just 5.3%. Sport garments, that share 38% in the overall sport export has however contracted by 3% during the said period. This negative growth is owing to higher cotton prices in India as a result of which the industry's competitiveness suffered. As of today, this industry is largely dominated by unorganized players and is therefore difficult to access the domestic market size. This may change post implementation of the GST, as the unorganized firms will be compelled to become organized in order to remain in business. As per the value creation map under the new tax regime, any deviation will impact the ITC chain which in turn will be detrimental to the sector's low capital businesses. Therefore, if successfully implemented and complied, SMERA believes that the new tax structure will significantly help the sport industry in being recognized as an independent industrial sector. However, raising GST rate on some sport goods and sports viewing (luxury tickets) will have a negative impact at least in the short term. Being the fastest growing major economy, India is moving towards an all engulfing sports culture. People are showing cricket like interest in other sports as well and this has spawned several categories; demand for kits, specialized apparel as well as related equipment and media is expected to expand strongly as a result.