



Issue Note: GST on Education

Current Indirect tax

- Under the current regime of taxes, the supply of education service is exempted.
- On the input side the exemptions on procurements is limited to VAT/ CST exemptions on books & stationery and service tax exemption on four services namely security, housekeeping, catering, transportation.
- Educational institutes are required to pay taxes on procurement of all other goods and services including teacher training, content development, online resources, ICT infrastructure, furniture, library resources, laboratory equipment, facility management etc.
- Many institutes operate on leased premises and they have to bear a heavy burden of payment of service tax on rentals.
- Since the supply of education is exempt, any tax paid on procurements becomes a sunk cost for the Education Institute. The same pushes up the fee that is charged from the students..
- The overall scheme results in increases of cost of providing education approximately by 6% to 8%.

Under GST

In case the current scheme of 'exemption on output' continues in its current form, **the cost of education in hands of student would increase under GST** due to following factors:

- a. Increase in tax rate under GST – as the tax rate under GST for input goods and services (18%-20%) is likely to be higher than the current rate of Services tax (15%) and VAT (5%-14.5%);
- b. Under GST the tax base is likely to expand, i.e. most of the goods and services which are currently out of tax net would be brought under the ambit of GST resulting in increase in tax cost of procurements for Educational Institutes;
- c. It is anticipated that the exemptions would be kept to minimum and there may be further decrease in the exemptions available to educational institutes.

Due to above factors, the total tax cost to an Educational institution would increase from current 6% - 8% to 10% - 12% under GST (assuming a standard GST rate of input goods and services @18%-20%). This would increase the cost of Education by a significant percentage, which will have negative impact on education in India.

Preferred tax scenario under GST regime

It is well accepted that the Education is one of the socially important sector of our country and should be accorded preferred tax treatment to ensure that the cost of education service is minimum. It would also be relevant to note that any inability of the education institution to avail credit on inputs and input services procured will result in increase the cost for rendering education.

It is recommended that Education service shall be declared as zero-rated supply under the GST. Zero rating status is generally granted to 'exports' to reduce the overall burden of tax on the supply. Facilitating affordable education is equally important for a nation as is earning foreign exchange. Zero rating is the scenario where the output is taxed at zero rate and the credit of taxes paid on procurements is allowed as refund.



While Zero rating is the only solution to the issues which will crop up in the GST regime, in the event that this plea of the Education sector is not accepted, it is recommended that similar to the present scenario, supply of Education service by Educational institutes is declared as exempted service under the GST regime. However, this alternative has a limited benefit until comprehensive exemption is also granted for the procurements by the Educational Institutes.

Accordingly, in addition to the procurement of four services namely security, housekeeping, catering, transportation, and Books and Stationery which are exempted under current regime, following critical and high cost input/ input services should also be exempted under GST, when provided to an educational institute:

- Renting of premises
- Goods and services used in construction/ infrastructure development
- Technical knowhow provided by foreign universities