



GST: How it will impact advertising budgets?

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Background

The levy of GST will have diverse impacts across sectors, and this could impact their ability to spend on advertising

The objective of this document is to list down the possible impacts across different sectors

It can be used to update sales teams, and prepare them with possible questions on the advertising budgets and it is only educative in nature

We hope you find it useful

Disclaimer:

Do note, that the law is yet to be finalized, and this document is based on the current reading of the law, and is subject to change. This has been prepared on a best effort basis. Please use discretion and take professional advice prior to taking decisions based on the points of view mentioned in this document.





Key sectors covered

- ▶ Manufacturers
- ▶ Service providers
- ▶ Traders
- ▶ FMCG
- ▶ Consumer durables
- ▶ Auto
- ▶ Ecommerce
- ▶ Banking and Financial services
- ▶ Real Estate
- ▶ Airlines flying domestic sectors
- ▶ Airlines flying international sectors
- ▶ Cigarettes
- ▶ Alcohol for human consumption
- ▶ Retail
- ▶ Hotels and hospitality
- ▶ Government
- ▶ Telecom
- ▶ Petroleum
- ▶ Power and utility
- ▶ Insurance
- ▶ Gold jewellery retailers
- ▶ Textile
- ▶ Education institution
- ▶ Tour Operators

Trade impact

Highly Positive




Positive

Neutral

Negative

Highly Negative

Every manufacturer, service provider and trader will be impacted positively in the GST regime provided his income is liable to GST. We have provided a generic impact on all such manufacturers, service providers and traders below and have provided specific industry impact later on:

Type of commerce		Minimum GST impact	Advertisement budget impact
	Manufacturers	Credit of Swachh Bharat Cess (SBC) at 0.5% and Krishi Kalyan Cess (KKC) at 0.5% was not available in the pre-GST regime. In GST, full credit of GST (either at 5%: on print advertisements or 18%: on nonprint advertisements) charged on the advertisement spent will be available.	Advertising budget will increase by 1%
	Service providers	Credit of Swachh Bharat Cess (SBC) at 0.5% was not available in the pre-GST regime. In GST, full credit of GST (either at 5%: on print advertisements or 18%: on non-print advertisements) charged on the advertisement spent will be available.	Advertising budget will increase by 0.5%
	Traders	Credit of Service Tax at 14%, Swachh Bharat Cess (SBC) at 0.5% and Krishi Kalyan Cess (KKC) at 0.5% was not available in the pre-GST regime. In GST, full credit of GST (either at 5%: on print advertisements or 18%: on non-print advertisements) charged on the advertisement spent will be available.	Advertising budget will increase by 15%

Industry-wise impact

Highly Positive




Positive

Neutral

Negative

Highly Negative

Every sector has different challenges in GST and we have attempted to capture generic impact on each sector in the table below. The impact could differ within a sector between companies and hence, this information should be used only after consultation.

Industry sub-sectors	GST Implications	Advertisement budget impact
 <p>FMCG</p> <p>Type of trade:</p> <ul style="list-style-type: none"> ▶ Manufacturers ▶ Traders 	<p>Most of the companies in FMCG sector have their factories set up in excise free zones. Hence, in the pre-GST regime FMCG sector was not eligible for full input tax credit. In GST regime, FMCG sector will be able to avail full input tax credit, as area based exemptions are likely to be withdrawn.</p>	<p>FMCG advertisers will be able to advertise more in the same budget as cost of advertising will reduce.</p> <p>Need to educate sales teams to prevent downward rate pressure due to optical increase in advertising budgets.</p>
 <p>Consumer durables</p> <p>Type of trade:</p> <ul style="list-style-type: none"> ▶ Manufacturers ▶ Traders 	<p>Consumer durable companies based out of excise free zones were not eligible for full input tax credit of service tax charged in pre-GST regime. In GST, full input tax credit would be allowed to consumer durable companies.</p> <p>Consumer durable companies engaged in import of manufactured durables, were not eligible for input tax credit of service tax charge in pre-GST regime as their output tax was only subjected to state VAT. In GST regime, such companies would benefit from availing full input tax credit.</p>	<p>Consumer durables advertisers will be able to advertise more in the same budget as cost of advertising will reduce.</p> <p>Need to educate sales teams to prevent downward rate pressure due to optical increase in advertising budgets.</p>
 <p>Auto</p> <p>Type of trade:</p> <ul style="list-style-type: none"> ▶ Manufacturers ▶ Traders 	<p>Some of the auto companies based out of excise free zones were not eligible to claim full input tax credit of service tax charged in pre-GST regime. Under GST, full input tax credit will be allowed to such auto companies.</p> <p>Auto companies engaged in import of completely built unit, were not eligible for input tax credit of service tax charge in pre-GST regime as their output tax was only subjected to state VAT. In GST regime, such companies would benefit from availing full input tax credit.</p>	<p>Automobile sector advertisers will be able to advertise more in the same budget as cost of advertising will reduce.</p> <p>Need to educate sales teams to prevent downward rate pressure due to optical increase in ad budgets.</p>

Industry-wise impact

Highly Positive

Positive

Neutral

Negative

Highly Negative

Industry sub-sectors

GST Implications

Advertisement budget impact



Ecommerce

Type of trade:

- ▶ Service providers

Under the pre-GST regime, e-commerce companies were eligible to claim input tax credit of service tax charged on advertisements. However, loss making e-commerce companies having accumulated credit balances on account of huge advertisement spends would be negatively impacted as accumulated credit would increase in GST on account of increase in rate of tax on print and non-print advertisements.

Depending on working capital requirement of ecommerce companies, advertisement budget may increase / decrease.

Loss making companies having accumulated credits could initiate budget curtailment due to cash blockages in credits.



Banking and Financial services

Type of trade:

- ▶ Service providers

Under the pre-GST regime, Banking sector was suffering partial reversal on their input tax credit. Under GST, Banks would continue to reverse partial input tax credit. Thus, the impact would be negative as the rate of tax has increased on print and non-print advertisements.

Banking and financial services sector companies will be able to advertise less in the same budget, as effective cost of advertising will increase under GST regime.



Real Estate

Type of trade:

- ▶ Service providers

Under the pre-GST regime, developers were eligible to claim input tax credit of advertisement services against the liability of under construction properties. In GST, developers shall continue to be eligible to claim input tax credit against liability of under construction properties. However, since sale of completed properties is kept outside the ambit of GST, developers may suffer reversal of input tax credit.

Depending on proportion of sale of under-construction properties vis-à-vis completed properties, real estate advertisers will be able to advertise more (in case of proportion of 'under-construction' properties is more) in the same budget as cost of advertising will increase or reduce accordingly.

Industry-wise impact

Highly Positive

Positive

Neutral

Negative

Highly Negative

Industry sub-sectors

GST Implications

Advertisement budget impact



Airlines flying domestic sectors

Type of trade:

- ▶ Service providers

Under the GST regime, domestic airlines would suffer an incremental increase in rate of taxes on output as well as input. However, there would be no major impact as full input tax credit of GST charged shall be available.

Airline (domestic sector) advertisers will be able to place similar number of advertisements in same budget, as no major change in effective cost of advertising.



Airlines flying international sectors

Type of trade:

- ▶ Service providers

In GST, the quantum of input tax credit reversal may increase or decrease vis-a-vis the pre-GST regime. The quantum is dependent on the share of revenue earned from transportation of passenger or cargo. Airlines with more cargo transportation revenue are likely to be better off as compared to airlines with passenger transportation revenue, as less input tax credit reversals would be required.

Increased cost for advertisers (depending on reversals applicable) could accordingly impact number of advertisements in a same advertisement budget.



Cigarettes

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Cigarettes companies have restriction on advertising their products in mass media. Promotional material installed at dealers premises were not fully eligible to claim input tax credit under the pre-GST regime. It is possible that under the GST regime, the tax charged on such material may be available as input tax credit.

Reduced cost of advertising for cigarettes companies.

Cigarettes companies will be able to advertise more in the same budget.



Alcohol for human consumption

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Alcohol for human consumption has been kept out of the ambit of GST. Hence, pre-GST tax regime continues to be applicable on the sector. Due to increase in rate of print and non-print advertisements, the overall cost of advertisements shall increase. Advertisement for surrogate products will be based on sectors in which those products fall.

GST charged to alcohol companies to be cost. Thus, effective sales budget could reduce to the extent of net increase in tax cost.

Alcohol companies will advertise less in the same budget, on account of increased cost of advertising.

Industry-wise impact

Highly Positive

Positive

Neutral

Negative

Highly Negative

Industry sub-sectors

GST Implications

Advertisement budget impact



Retail

Type of trade:

- ▶ Traders

Under the pre-GST regime, retailers were not eligible to claim input tax credit of service tax charged on advertisement spends. Under the GST regime, retailers shall be eligible to claim full input tax credit.

Retail advertisers will be able to advertise more in the same budget as cost of advertising will reduce.

Need to educate sales teams to prevent downward rate pressure due to optical increase in ad budgets.



Hotels and hospitality

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Hotels and banquets were liable to service tax, state VAT and luxury tax in the pre-GST regime. Hence, hotels were not eligible to claim full input tax credit of service tax charged on advertising spends. In GST, hotels and banquets will be eligible to claim higher input tax credit as compared to pre-GST regime.

Hotel and hospitality advertisers will be able to advertise more in the same budget as cost of advertising will reduce. (depending on quantum of increase in credits)



Government

Type of trade:

- ▶ Manufacturers
- ▶ Traders
- ▶ Service providers

Government is not eligible to claim input tax credit either under service tax regime or GST regime. Due to increase in rate on print and non-print advertisement, the overall cost of advertisements shall increase.

Increase in tax rates for advertisements to be an increased cost to governments; would result in reduction of advertisements in same budget.

Ad campaigns with governments to be finalised post agreeing state wise bifurcation of ad campaign spends.



Telecom

Type of trade:

- ▶ Service providers

Under the pre-GST regime, Telecom companies are eligible to avail input tax credit of taxes charged on advertisement spends. Telecom companies shall continue to avail full input tax credit of GST charged.

Telecom advertisers will be able to place similar number of advertisements in same budget, as no major change in effective cost of advertising.

Industry-wise impact

Highly Positive

Positive

Neutral

Negative

Highly Negative

Industry sub-sectors

GST Implications

Advertisement budget impact



Petroleum

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Petroleum sector has been kept out of the ambit of GST. Hence, current tax regime continues to be applicable on the sector. In the current regime, petroleum companies were eligible to claim input tax credit of service tax charged on advertisement services against excise duty liability. However, in GST, input tax credit charged will be partially available and hence, it will be an additional cost on the advertisement spends.

Entire tax charged under GST to petroleum companies to be an increased cost. Thus, effective sales budget could reduce to the extent of tax cost.

Petroleum companies will advertise considerably less in the same budget, on account of increased cost of advertising.



Power and utility

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Power companies are subject to electricity duty and have been kept out of ambit of GST. Any indirect tax charged to such companies was not eligible as input tax credit under pre-GST regime.

Under GST regime also, power companies would continue to be ineligible to avail input tax credit of the GST charged. Due to increase in rate of print and non-print advertisements, the overall cost of advertisements shall increase.

GST charged to power companies to be cost. Thus, effective sales budget could reduce to the extent of net increase in tax cost.

Power companies will advertise less in the same budget, on account of increased cost of advertising.



Insurance

Type of trade:

- ▶ Service providers

Under the pre-GST regime, insurance companies are eligible to claim full input tax credit of service tax charged on advertisement. Insurance companies would continue to avail full input tax credit of GST charged.

Insurance sector advertisers will be able to place similar number of advertisements in same budget, as no major change in effective cost of advertising.



Gold jewellery retailers

Type of trade:

- ▶ Traders

Under the pre-GST regime, gold jewellery retailers were not eligible to claim input tax credit of taxes charged on advertisement spends. Under GST regime, gold retailers would get input tax credit of taxes on advertisement spends, thereby increasing the effective budget for advertisement spends.

Gold jewellery retailers' advertisers will be able to advertise more in the same budget as cost of advertising will reduce. (depending on quantum of increase in credits)

Industry-wise impact

Highly Positive

Positive

Neutral

Negative

Highly Negative

Industry sub-sectors

GST Implications

Advertisement budget impact



Textile

Type of trade:

- ▶ Manufacturers
- ▶ Traders

Under the pre-GST regime, certain textile products were exempted from tax, resulting into reversal of input tax credit. In GST, with curtailment in the number of products being exempted, reversals on account of exempted revenue would reduce and input tax credit of taxes charged on procurement shall be available. Thus, the impact on textile sector is slightly positive.

Textile sector advertisers will be able to advertise more in the same budget as cost of advertising will reduce. (depending on quantum of increase in credits)



Education institution

Type of trade:

- ▶ Service providers

Under the pre-GST regime, services provided by educational institution are exempted. The exemption has been continued under GST regime. Due to increase in rate of print and non-print advertisements, the overall cost of advertisements shall increase.

Education institutions advertisers will be able to advertise less in the same budget, as effective cost of advertising will increase under GST regime.



Tour Operators

Type of trade:

- ▶ Service providers

In the GST regime, services provided by Tour Operators have continued to be taxed with no input tax credit. Due to increase in rate of print and non-print advertisements, the overall cost of advertisements shall increase.

Tour Operator advertisers will be able to advertise less in the same budget, as effective cost of advertising will increase under GST regime.

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