

Action steps to make India MRO Hub

India's current MRO market size is estimated to be around USD 700 million. With the fleet size of Indian scheduled and non-scheduled operators likely to double by 2020, the need for a strong domestic MRO industry is critical and not just desirable. As per Boeing, the market is expected to grow at 7 % CAGR for the next 8 years to reach USD 1.2 billion by 2020.

The Indian MRO industry is facing significant challenges. Factors such as un-friendly taxation structure, cumbersome procedures for import of components and movement of foreign experts, and adequate infrastructure are some of the issues confronting the industry.

It's a matter of national shame that Indian carriers find it more cost effective to fly empty aircrafts and crew to overseas MRO hubs for maintenance of their fleet. According to industry sources, merely 5-10 percent of the MRO work for domestic scheduled carriers is carried out in India and most of the maintenance activity work is outsourced to third-party service providers outside the country.

It is critical that both the taxation and policy related bottlenecks are thoroughly examined and addressed to put the Indian MRO industry on a high growth trajectory. Some possible action steps required are –

Rationalize VAT (Value Added Tax) and Service tax on MRO

i. Apply zero rate of VAT on MROs

VAT at the rate of 12.5 -15% is levied on aircraft parts imported by MRO service providers, whereas no such tax is levied on the airlines importing their own spares for self-consumption. Further, VAT is levied on selling price and not on cost price, which effectively makes the total tax component to be around 20-22%, when added with Service tax. Today, there is miniscule VAT collection on aircraft spares since most of the high value spares are purchased by Indian carriers abroad.

Zero rating of VAT would enable development of MRO infrastructure in India. The government would earn significantly larger revenues from the multiplier effect of MROs, generation of local employment and growth of ancillaries.

ii. Alternatively, if zero rate of VAT on MRO is not possible, aircraft parts and consumables can be brought under declared goods category

This would ensure uniformity of a low VAT rate across the country. If the size of the MRO pie is made ten times larger, a smaller percentage of VAT would yield much higher revenue for the State than by imposing a higher tax rate on a miniscule pie.

iii. Provide zero rated Service Tax structure to the Indian MRO sector

In case an MRO activity is undertaken in India, Service Tax is levied at the rate of 12.36 %. However, in case such repairs are undertaken outside India, Service tax is not charged which makes Indian MRO industry uncompetitive with respect to other neighboring countries. The Government may not lose out on the service tax since whatever is foregone at the MRO will be recovered at the airline level.

Service Tax should be exempted by way of zero-rating mechanism, whereby no service tax should be charged on services rendered by MRO's and taxes paid by MRO's on their procurement should be fully refunded.

iv. If zero rating of service tax is not possible, the abatement should be increased to 95%

Currently, MRO services qualify as 'Works Contract Service', which attracts Service tax @12.36% on 70% of the service portion of the work. The present rate of abatement should be increased from 30% to 95% to reduce the Service tax incidence.

MRO is critical to the growth of the aviation sector in India. It produces employment, revenue and government taxes. A close collaboration between the government, airlines, airports and the MRO industry would be crucial.
