

GST'S IMPACT ON THE ENTERTAINMENT AND MEDIA INDUSTRY

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ABSTRACT

Pre-GST Scenario for the Industry

Prior to GST implementation, entertainment tax varied widely, with rates ranging from 15% to 110%, depending on factors like the service type, location, and benefits provided. Entertainment services were subject to multiple VATs and service taxes, with VAT and repair tax rates of 14.5% and 15%, respectively. GST's arrival brought a uniform tax rate across the nation, reducing disparities and preventing tax arbitrage.

Significant tax issues previously impacted the industry, such as effective rate variations, challenges in cross-border transactions, managing tax risks, and cash flow constraints due to high withholding rates. Many input taxes paid across transactions could not be refunded, as they were classified as tax costs.

1. INTRODUCTION

Impact of GST on the Industry

The GST framework has absorbed Entertainment Tax and allowed input tax credits (ITCs) on purchases, altering the tax environment in the film industry. Under earlier state laws, Entertainment Tax on movie tickets could not be offset against VAT or Service Tax, resulting in a compounding effect that ultimately burdened consumers. With Entertainment Tax now included under GST, ticket prices may decrease in areas where the original rate was higher than the GST rate.

Nevertheless, GST allows local authorities to impose additional entertainment taxes, which may increase consumer costs. Overall, GST's streamlined approach benefits the industry by reducing cascading taxes, which supports the financial value of film production, distribution, and exhibition. However, the industry faces challenges with increased compliance demands and potential revenue variability across the GST-affected value chain.

Current Challenges in the Industry

- **Increased Compliance Costs:** The GST regime has introduced higher compliance expenses, as some previously tax-exempt services are now taxed at the recipient's end.
- **Taxation on Creative Works:** Earlier, temporary transfers or usage rights for copyrighted works—such as literature, drama, art, music, and film, protected under sub-sections 13(1)(a) and (b) of the 1957 Indian Copyright Act—were tax-exempt.
- **Burden on Recipients:** Under GST, the recipient now bears the tax for these services. This reverse charge mechanism requires the recipient to raise self-invoices and complete additional reporting, adding to their administrative load.

Impact on Producers Supplying to the Industry

Producers, whether individuals or teams, are pivotal to the film industry, spearheading production and collaborating with platforms like radio stations. They provide sponsorship services and oversee the temporary or permanent transfer of broadcast rights to distributors. Before GST, temporary transfers of copyrighted works, as defined under sections 13(1)(a) and (b) of the Indian Copyright Act, were exempt from service tax for creative works like literature, drama, music, and film. This exemption has been removed, and a 12% GST now applies to all intellectual property rights.

In the past, permanent copyright transfers were treated as sales, subject to VAT but exempt from service tax. Under GST, both temporary and permanent transfers are taxed at a 12% rate. Producers face increased working capital demands due to higher tax liabilities under GST; however, the availability of input tax credits (ITCs) offsets some of this cost, as tax credits on goods can now cover service tax liabilities. Common services provided by producers—such as rental services, sponsorships, partnerships, and sales of used costumes—are now taxed at an 18% rate, up from the previous 15% service tax rate. This increase reflects a significant shift in service sector taxation under GST.

Impact on Film Distribution

Before GST, service tax applied to the temporary transfer of copyright for films screened in theaters, which added tax pressure on producers who also had to pay service tax for actors, technicians, and other services. Confusion over whether copyright transfers constituted a sale of goods or services sometimes led to double taxation, with both VAT and service tax imposed on television copyrights.

Under GST, transfers of copyright for both television and theater screenings are now classified as services, subject to a unified 12% rate.

Impact on Artists and Technicians

Before GST, artists and technicians, including composers, photographers, and cinematographers, were taxed at a 15% service rate under the forward charge mechanism. Post-GST, artist services are now taxed at 18% under the forward charge. Meanwhile, services provided by authors, composers, photographers, painters, and similar professionals are taxed at 18% on a reverse charge basis when they transfer or grant rights to a copyright.

2. CONCLUSION

With the introduction of GST, costs for DTH, cable services, and print media ads have decreased, making these services more affordable and beneficial for consumers. This cost reduction is expected to encourage the use of DTH and cable services. Conversely, GST has raised ticket prices for amusement parks and concerts, making city-based entertainment activities, like concerts and amusement parks, costlier. These venues play a significant role in urban culture, drawing youth from both cities and nearby rural areas.

3. REFERENCE

- [1] GST impact on entertainment industry by Rajesh Naidu, ET Bureau | updated on June 15, 2017
- [2] GST impact on media and entertainment industry by NayanRijhwani on September 2017. [3]. GST- impact on media and entertainment industry by Hemanth P Vastani on January 2017.