

GST Impact on India's New In-Flight Wi-Fi Services

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In a transformative regulatory update, the Government of India amended the Flight and Maritime Connectivity (FMC) Rules, 2018, through Notification No. G.S.R. 682(E), dated October 28, 2024. This amendment authorizes the provision of in-flight internet services on all domestic flights operating within Indian airspace. The move is a significant milestone in India's aviation, telecommunications, and technology sectors. Airlines operating in Indian skies can now offer Wi-Fi connectivity to passengers during flights, placing India on par with international standards in in-flight connectivity.

The decision reflects the evolving needs of modern travelers, where connectivity has become a necessity rather than a luxury. Globally, in-flight Wi-Fi has revolutionized the passenger experience, allowing travelers to stay connected even at cruising altitudes. With India joining the league of countries offering this service, domestic airlines can enhance passenger satisfaction, appeal to premium travelers, and explore new revenue streams. However, this regulatory development also introduces a layer of complexity in terms of tax compliance, particularly under the Goods and Services Tax (GST) framework.

This article explores the GST implications of in-flight Wi-Fi services, focusing on critical aspects such as place of supply, classification of services under composite or mixed supply, and practical compliance challenges for airlines.

Regulatory Context: In-Flight Connectivity in India

The authorization of in-flight Wi-Fi marks a significant advancement for India's aviation industry. Historically, the absence of such connectivity had been a drawback for domestic air travel compared to international airlines that offered seamless connectivity. The recent amendment to the FMC Rules addresses this gap, enabling passengers on domestic flights to access the internet, browse social media, and remain productive during their journey.

The implications of this change extend beyond improved passenger experiences. By offering in-flight Wi-Fi, airlines can differentiate their services in a competitive market, enhance brand loyalty, and tap into the premium travel segment. Additionally, the telecom sector stands to gain by collaborating with airlines to deliver data packages tailored for in-flight use.

However, with the introduction of in-flight Wi-Fi, airlines must also navigate the complexities of GST

compliance. Under the Central Goods and Services Tax (CGST) Act, 2017, in-flight services are subject to GST, and the introduction of Wi-Fi adds a new dimension to taxation considerations.

Overview of GST Framework for In-Flight Services

India's GST framework categorizes services under air travel into distinct tax slabs. The applicable rates for airline services are as follows:

- **Economy Class Air Travel:** Subject to GST at 5%.
- **Business Class Air Travel:** Subject to GST at 12%.

Apart from ticket fares, in-flight services such as meals, beverages, and goods sold onboard are also taxed at rates specific to the nature of the goods or services provided. With the introduction of in-flight Wi-Fi, airlines are required to categorize and tax this service appropriately under the GST framework. The challenge lies in determining whether in-flight Wi-Fi should be treated as a composite supply, mixed supply, or individual supply, as these classifications significantly affect the applicable tax rates.

Composite Supply, Mixed Supply, and Individual Supply

1. **Composite Supply:** A composite supply involves two or more goods or services naturally bundled together, with one principal supply. The GST rate for the entire bundle is based on the rate applicable to the principal supply.
2. **Mixed Supply:** A mixed supply involves two or more goods or services bundled together but not naturally bundled. The highest GST rate among the bundled items applies to the entire package.
3. **Individual Supply:** An individual supply refers to a standalone service or product that is not bundled with any other service and is taxed independently at its specific GST rate.

The classification of in-flight Wi-Fi under one of these categories depends on how the service is offered by airlines—whether it is bundled with ticket fares, offered as part of a package, or sold independently.

Tax Rate

1. Wi-Fi Included in Ticket Price: Composite Supply

If airlines choose to include Wi-Fi in the ticket price, the service could qualify as a **composite supply**. In this scenario, the primary service is passenger transport, and the provision of Wi-Fi is an ancillary service.

- **Tax Rate:** The GST rate applicable to the principal service (passenger transport) would apply:
 - 5% for economy class.
 - 12% for business class.

2. Wi-Fi Bundled with Meals or Other Services: Mixed Supply

In cases where airlines offer bundled services such as Wi-Fi and meals, the package may qualify as a mixed supply. For example:

- **Tax Rates:**
 - Wi-Fi: 18% GST.
 - Meals: 5% GST.
- **Tax Treatment:** The highest GST rate in the bundle applies to the entire package.

This approach simplifies compliance but may increase costs for passengers.

3. Wi-Fi as a Standalone Service: Individual Supply

If in-flight Wi-Fi is offered as a standalone service, it would be taxed independently at its applicable rate. As per current GST rules, data services such as Wi-Fi attract 18% GST.

For example:

- Price of Wi-Fi Service: ₹500.
- GST at 18%: ₹90.
- Final Price: ₹590 (₹500 + ₹90 GST).

This classification allows airlines to market Wi-Fi separately and provide passengers with the flexibility to choose the service.

Place of Supply: Determining GST Applicability

Place of Supply for Passenger Transportation Services under GST:

The place of supply for passenger transportation services as per **Section 12(9)** of the **Integrated Goods and Services Tax Act, 2017** is determined based on the type of recipient:

1. **Registered Persons:** The place of supply is the location of the registered person receiving the service.
2. **Unregistered Persons:** The place of supply is where the passenger begins their journey.
3. **Future Right to Passage:** If the embarkation point is unknown at the time of issuing the right to passage, the place of supply is determined as per the general rules in sub-section (2).
4. **Return Journeys:** Treated as separate journeys, even if tickets for onward and return journeys are booked simultaneously.

Place of Supply for Onboard Services:

Under Section 12(10) of the IGST Act, 2017, the place of supply for services provided onboard a conveyance (e.g., vessel, aircraft, train, or motor vehicle) is the first scheduled point of departure of the conveyance for the journey. This rule ensures tax clarity for onboard services, such as meals or entertainment, regardless of where they are consumed during the journey.

Place of Supply for Telecommunication Services under GST

Place of Supply (POS) for telecommunication services under the GST regime in India, as outlined in Section 12(11) of the Integrated GST (IGST) Act. The key provisions are:

1. Fixed Services:

- For services like fixed telecommunication lines, leased circuits, internet leased circuits, cable, or dish antenna, the **POS is the location where the equipment is installed** for receiving the service.

2. Postpaid Services:

- For mobile telecommunication and internet services provided on a postpaid basis, the **POS is the billing address** of the recipient as per the supplier's records.

3. Prepaid Services:

- **Through Selling Agents/Resellers:**
The POS is the **address of the selling agent, reseller, or distributor** as per the supplier's records at the time of supply.
- **Direct to Subscribers:**
The POS is the **location where the prepayment is made or vouchers are sold**.
- **Online Payments:**
If recharge or service is availed through electronic modes (e.g., internet banking), the POS is the location of the recipient as per the supplier's records.

4. Other Cases:

- If the recipient's address is available in the supplier's records, that becomes the POS. Otherwise,

the **supplier's location** is considered the POS.

Confusion: - How is the place of supply determined for in-flight Wi-Fi services?

Determining Place of Supply for In-Flight Wi-Fi Services

The determination of the place of supply (POS) for in-flight Wi-Fi services under GST depends on the nature of the supply—whether it is treated as a composite, mixed, or individual supply. Here's a concise breakdown:

1. Composite Supply:

- If Wi-Fi services are treated as a **composite supply** with passenger transportation, the Place of Supply (POS) is determined as per **Section 12(9)** of the IGST Act:
- For a Registered Person: POS is the location of the registered person.
- For an Unregistered Person: POS is the place of embarkation for the continuous journey.

2. Mixed Supply:

For mixed supplies, where Wi-Fi services are combined with meal, the POS will still fall under Section 12(10). The location of the first scheduled point of departure of the aircraft determines the POS.

3. Individual Supply:

When Wi-Fi is supplied as a standalone service on board, the POS remains governed by Section 12(10). The location of the first scheduled point of departure of the aircraft determines the POS.

Why are Wi-Fi services provided on a flight not classified as telecommunication supply?

Section 12(11) of the IGST Act does not apply to in-flight Wi-Fi services because it is tailored for traditional telecommunication services, such as fixed-line connections, mobile services, or pre-paid vouchers, which are tied to specific locations or subscriber records. In contrast, in-flight Wi-Fi services are transient and provided exclusively on board a conveyance during a scheduled journey. Section 12(10) specifically governs services delivered on conveyances, fixing the place of supply to the first scheduled point of departure, which simplifies compliance and aligns with the nature of such services. Applying Section 12(11) would create unnecessary complexities, such as tracking passenger billing addresses or point-of-sale details, which are impractical for services consumed in transit. Hence, Section 12(10) shall be the appropriate provision.

Wi-Fi services provided on flights are considered a supply of telecommunication services consumed during the journey. According to Section 12(10) of the GST law, the place of supply for such services is linked to the journey's first scheduled point of departure, simplifying tax administration. This approach avoids complexities in determining the precise location of consumption. This rule ensures uniformity and eliminates disputes about the location of consumption. Unlike services like leased circuits, which may require apportionment under Section 12(11), in-flight services like Wi-Fi follow this straightforward principle.

Important points for every airline company to implement these changes from gst perspective would be :

Accurate Record-Keeping - Airlines must maintain detailed records of passenger embarkation points to ensure GST compliance. This involves upgrading invoicing systems to accurately capture and classify transactions.

Managing Bundled Services - Offering bundled services such as Wi-Fi and meals complicates compliance due to the mixed supply rules. Airlines must carefully design packages to balance passenger appeal and tax implications.

Conclusion

The amendment to the FMC Rules has important implications for both the aviation and

telecommunications industries. By enabling in-flight Wi-Fi, airlines can enhance passenger satisfaction and potentially increase revenue through value-added services. Telecom providers, in collaboration with airlines, can explore bundled data packages or subscription models for passengers, creating additional revenue streams.

This regulatory update aligns India's aviation standards with those of countries that already offer in-flight connectivity, improving the appeal of domestic flights for both domestic and international passengers. However, the GST implications discussed require clear guidelines and careful compliance to prevent ambiguities in tax application.

The amendment to the **Flight and Maritime Connectivity Rules, 2024**, authorizing in-flight Wi-Fi on domestic flights, is a significant step forward for India's aviation and telecom sectors. This regulatory change introduces additional GST compliance requirements, primarily around place of supply and the distinction between composite and mixed supply classifications.

Airlines will need to navigate these complexities to determine the appropriate tax treatment for in-flight Wi-Fi services, ensuring GST compliance and clear communication with passengers regarding any additional charges.