

Budget 2024 impact: Will liquor prices fall as Extra Neutral Alcohol to be out of GST's purview?

The Budget 2024 made changes to the central GST law, specifically section 9. The changes remove Extra Neutral Alcohol (ENA) from the scope of the central GST law. This type of alcohol is used in making alcoholic beverages. The Finance Minister also suggested similar changes to the IGST Act and UTGST Act. Extra-neutral alcohol (ENA) is important in the production of alcohol for human consumption.

There was a problem which existed before this amendment in the Budget 2024. Though GST was being levied on ENA by some suppliers' liquor, which was the finished product, was not attracting GST. "This was leading to increased cost of production as the raw material cost (ENA) was being higher as GST was charged on it. Now, as the Central Government has decided to do away with the tax on ENA, it is up to the states to tax this raw material now which states may not levy at the same rate," says Advocate Apoorv Phillips, Senior Associate, Sirmacs Consultancy Services (Law Firm).

Price of liquor increases or decreases due to this?

"With this amendment, it is expected that the cost of production of liquor will come down which may mean a decrease in the cost of liquor. However, this may vary from state to state," says Advocate Arun Jain.

If both manufacturer and supplier levy GST on their product there is a scope for manufacturer to use the credit for GST paid on purchase and hence bring down the effective cost of the supplies.

According to Gunjan Prabhakaran, Partner & Leader, Indirect Tax, BDO India, "It is clear now that ENA would not attract GST. Earlier some of the ENA suppliers were charging GST, which was not creditable for alcohol companies, it led to higher procurement cost for alcohol companies. With VAT now being levied on ENA which would be creditable, it would reduce the procurement cost for alcohol companies whose vendors were charging GST on ENA, and they may consider passing on such savings to the customers by reducing prices of alcohol (liquor)."

According to Ankit Joshi, Associate Partner, Indirect Tax, N.A. Shah Associates, "Earlier GST on such un-denatured ENA was cost to the alcohol manufacturers. However now with the said amendment the cost of manufacturing alcohol for human consumption will reduce consequently impacting the prices of the alcohol on downward side. As the cost of manufacturing alcohol for human consumption will reduce the same can be passed on to the final consumer in form of price reduction."

However, experts' opinions are divided about the impact of this amendment on the price of liquor.

"I do pessimistically believe that there would be a tendency for prices to rise, as the cascading effect of state levy on Undenatured ENA where it is produced and sold, would add on to the cost," says Philips.

"Earlier there was a dispute with respect to the applicability of GST or State Taxes on the same. At this point if we look at the price of liquor now, particularly Indian Made Foreign Liquor (IMFL), the variation of prices between different states would probably be more as each state might have a different tax rate for Undenatured ENA. So, the price of the final product would vary based on the State in which the IMFL is produced. However, this is not the only aspect which needs to be looked at, as still, the majority of the price would be governed by the state where it is sold. Which can be seen from a recent example of 2020, where the Rajasthan State Excise Dept. increased the Excise on IMFL to 35%," says Phillips.