

## Fuelling GST

*This is the right time to start discussions to move petroleum products under the GST net*

**T**he recent spike in global crude oil prices has turned the spotlight on the arbitrariness of petroleum products pricing in the country. Both the States and the Centre have been making the most of the freedom available in taxing these products, by increasing taxes during periods of low prices while failing to adjust the taxes lower when prices move higher. This unfair practice has resulted in taxes on petrol and diesel amounting to 60 per cent of their retail prices currently. Besides the flat excise duty charged by the Centre, the States levy a combination of ad valorem tax, cesses, extra VAT and surcharges on petrol and diesel. The large variation in the rates of taxation between States further results in uneven tax burden on consumers across the country. It's time to address the issues in the pricing of petrol and diesel, and the right way to do that would be to move them under the GST regime.

Tax on petroleum products accounted for almost 21 per cent of the Centre's gross tax revenues in FY20 and is expected to be higher in FY21 due to the excise duty hikes last year.

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States' revenues from taxes on petroleum products are also quite high; they were ₹2.2 lakh crore in FY20 and ₹1.45 lakh crore in the nine months of FY21. The States currently charging

higher rates of taxes will witness a drop in revenue if the products are moved to a uniform GST rate and the Centre is currently not in a position to compensate them for the decline in revenue. While the process may be long drawn, with States divided about the idea, the GST Council should begin discussions in this regard immediately so that the change can be implemented at least a year from now. Apart from fixing the rate itself, there will be other tricky issues to handle such as fixing the base year for calculation of loss of revenue for States if they raise the demand for compensation. But there is little doubt that the time has come for bringing petroleum products under GST. Not only will such a move stop *ad hoc* increase in levies by both the Centre and the States, it will also ensure that consumers across the country are taxed uniformly on their fuel consumption. While the gain for the consumer will be known only once the GST rates on these products are decided, rough estimates show that retail prices can move lower after this transition. Higher consumption due to lower prices and projected economic recovery is likely to compensate the loss of revenue to the government in the short-term.

Another benefit for businesses from shifting petroleum products to GST would be the ability to claim input tax credit on fuel consumed. With these products being outside the GST regime, businesses have not been able to reduce their expenditure by claiming this credit. The objective of GST was to simplify the indirect tax regime and to have a single tax for the entire nation. Shifting petroleum products under the GST will be yet another step towards that end.