Fiscal Anarchy by Centre & States choke Fossil Fuels

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IT is time to revisit tax maths with both Reserve Bank of India (RBI) and former Finance Minister P Chidambaram, voicing deep concern over indirect taxes' role in runaway rise in prices of petrol and diesel. Our quick calculations of all central and state taxes on non-GST petro-products presents an alarming picture. Before elaborating this, consider what RBI and Mr. Chidambaram have stated.

RBI's Monetary Policy Report (MPR) has called for cut in indirect taxes on petrol and diesel. Released on 8th October 2021, MPR cautions: ***"As demand recovery gathers steam, there is a rising risk of higher input price pass-through to output prices. Measures to ameliorate supply-side cost pressures would be critical at this juncture, especially in terms of a calibrated reduction of the indirect taxes on petrol and diesel. This would help anchor inflation expectations, prevent build-up of a wage-price nexus and provide space for monetary policy to sustain support for the still incomplete growth recovery".***

RBI has articulated concern on this through its Monetary Policy Statement as well as through RBI Governor's statement at Monetary Policy Committee.

Mr. Chidambaram has branded Modi Government as the ***"greediest Government".***
He did this while referring to about 33% being the central taxes component in retail price of petrol and diesel. He said 33 percent taxation on any commodity is extortion.

He is, of course, training his guns at BJP Government at the Centre. We wish he had done a statesman-like exercise by looking at state taxes too. Had he done that, he would have proved beyond doubt that it is extortion at its worst.

Consider first total excise duty (TED) on petrol and diesel levied by the Centre. Modi Government hiked TED on petrol by 258.47% from Rs 9.20/litre on 11th November 2014 to Rs 32.98/litre on 6th May 2020 through 13 hikes. TED was reduced by paisa 8 to Rs 32.90/litre on 2 Feb 2021. This is existing level of TED. During the same period, TED on diesel was hiked by 819.94% from Rs 3.46/litre to Rs 31.83/litre through 13 hikes. It was decreased by paisa 3 to Rs 31.80/litre on 2 Feb 2021, which is present tariff too. The duty on both these fuels was reduced by small margins twice in 2017-18 and in 2018-19 obviously due to electoral compulsions. TED comprises basic excise, Special Additional Excise Duty, Additional Excise Duty (Road and infrastructure Cess) and Agriculture infrastructure and development cess.

We are leaving out levies on imported crude, petrol and diesel from this editorial to keep the analysis simple.

Turn now to State value added tax (VAT)/sales tax, surcharge and cess of varied nomenclature levied on both petrol and diesel. The States have been hiking imposts as well as levying new ones by drawing inspiration from the TED hikes effected by the Centre.

It would be too complicated to trace the course of taxation of these products by each and every State. A looking at the prevailing taxation burden of few States should suffice the purpose of acknowledging the horrors of fiscal anarchy. A few instances of cess are: Rajasthan's road development cess, Nagaland's road maintenance cess and covid cess, Delhi's air ambience charge, Goa's green cess, Jammu & Kashmir's employment cess (new union territory), Punjab's urban transport fund and Gujarat's ***"4% cess on Town rate and VAT".***

As on 1st July 2021, the total state taxes (TST) on petrol range from Rs 15.28/litre in Arunachal Pradesh to Rs 30.75/litre in Madhya Pradesh. The TST on diesel varied from Rs 9.57/litre in Arunachal Pradesh to Rs 21.67/litre in Rajasthan.

The combined Centre-State taxation's share in retail price of petrol at Mumbai, for instance, was 58.96% as on 1 July 2021. The highest share of combined centre-state taxes was 63.01% in petrol price at Jaipur in Rajasthan as on 1st July 2021. Similarly, highest share of combined centre-state taxes on diesel was 54.40% at Jaipur in Rajasthan as on 1st July 2021.

Speaking broadly, an average consumer ends up paying more than 50% of retail price of petrol or diesel as taxes. This is unfair taxation of essential commodities that are used for economic activities. This is as good as taxing economic growth & aiding inflation.

This brings us to the need for bringing petrol, diesel, aviation turbine fuel, crude oil and natural gas under goods and services tax (GST). The Centre must take a lead at the Goods and Services Tax Council (GSTC) agenda, which is chaired by Union Finance Minister.

Instead of blaming the States, the Centre should put agenda note at GSTC and strive for consensus on fair GST rates for these five products. If there is no consensus, let GSTC vote on the agenda's recommendations.

GSTC should also consider imposts on coal. The total share of five levies on coal in the total price of coal varies from 35% to 78%, depending on the grade of coal. This again is extortion and a drag on economic growth and jobs creation.

The five charges levied on coal are: 5% GST, Rs 400/tonne as GST compensation cess, 14% royalty on basic price of coal, district mineral fund (DMF) charge levied as 30% of royalty and National Mineral Exploration Trust (NMET) fee levied as 2% of royalty.

The energy taxation domain includes other refinery products, natural gas and its fractions, bio-fuels and other renewable energy sources.

The Government ought to issue a white paper on energy taxation and explain its pros and cons on economic growth, vote-bank-driven populist welfare schemes, employment generation and the country's economic competitiveness.

Let light fall on the complex web of energy taxation as the first step towards credible fiscal transparency and accountability.