

## Petro tax under GST: Devil is in the details

*Decision to tax petro products pushed 2-3 years, with a two-thirds majority of states within the proposed GST Council required to approve*

A decision on whether to impose a tax on petroleum under the proposed national Goods and Services Tax (GST) will be taken two to three years after the new system is implemented.

The decision would be of the proposed GST Council, if the latter is approved. The Council is proposed to comprise the Union finance minister and state finance ministers. And, a decision to tax would need approval from 75 per cent of the council vote. The states will have two-third vote in the council, while the remaining one-third will be with the union finance minister. As such, neither the union finance minister alone or all states put together alone would be able to push through any changes in the tax structure of petroleum. The Centre will have to bring over 60 per cent of states with it to approve the proposal.

### FINGERS CROSSED

- Assuming the govt would meet its deadline of introducing GST from 2016-17, petroleum could draw tax under GST regime only from 2019-20 or 2020-21
- States are wary of taxing petroleum under a GST because over half of their revenues come from taxes on petroleum
- If petroleum products are subsumed within GST, producing states cannot get Central Sales Tax on inter-state movement. An integrated GST, to be levied on inter-state movement of goods, will give revenue to the consuming state, while CST gives it to the originating state

For these two to three years, petroleum would be within the GST but the Centre and states would be allowed to impose excise duty and value added tax (VAT), respectively, said an official. Only alcohol has been kept out of the GST ambit. Tax experts and business representatives said this gave a certain level of certainty. However, clarity is needed on whether all petroleum products, including industrial lubricants and polymers, will also face the same differential treatment — within GST but taxed under the existing arrangement.

Assuming the government would meet its deadline of introducing a GST from 2016-17, petroleum could draw tax under a GST only from 2018-19 or 2019-20. The issue would still remain as to why states, presently so much against taxing of petroleum under a GST, agree after two to three years. After three years, compensation to states for revenue loss due to the new indirect tax system would also be reduced progressively for the next two years. The compensation would not continue at all after five years.

This would make states more resistant to taxing petroleum under a GST. In fact, one argument the Centre tried to convince states to bring petroleum under GST and tax it there was that it was anyway compensating them for revenue loss. States are wary of taxing petroleum under a GST because over half of their revenues come from taxes on petroleum.

If petroleum products are subsumed within a GST, producing states cannot get Central Sales Tax (CST) on inter-state movement. An integrated GST (IGST), to be levied on inter-state movement of goods, will give revenue to the consuming state, while CST gives it to the originating state. Assam gets about Rs 1,200 crore from petroleum products annually by way of CST, while Gujarat gets roughly Rs 4,000 crore. Officials said states were against subsuming petroleum products in a GST even if it is zero-rated. The Centre, on the other hand, did not want to exclude it at any cost. The pressure to bring petroleum within GST also came from industry, including the central government-owned oil marketing companies.

“The issue stems from upstream oil companies. They said if petroleum products are kept out, our research and development becomes costlier and our machinery comes under VAT and output outside VAT. So, a credit of Rs 20,000 crore gets locked up in these things,” explained an official.

Overall, business chambers heaved a sigh of relief with the Constitution amendment Bill, cleared by the Cabinet on Wednesday, bringing petroleum within GST.

“The contours of the GST Bill has given clarity on the treatment of petroleum products and will help businesses in making the key decisions. Earlier, the industry was grappling with the treatment meted to these fuels,” said Prashant Deshpande, senior director, Deloitte.

Implementation of GST can happen only after it is cleared by both chambers of Parliament, each with a two-thirds majority. And, ratified by at least half the states. After that, the separate GST Bills would have to be passed in Parliament and the respective state assemblies.

*(Business Standard)*