GST Reforms and Petroleum Sector
Presentation before
the Empowered Committee of State Finance Ministers

Petroleum Federation of India

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Petroleum Sector - Contribution to Exchequer

- Rs 1,30,891 Cr to GOI(= 23.1% of tax and non-tax revenues of Govt. of India)
- Rs 97,767 Cr to States (= 22% of States' own tax revenues)
- Rs 2,40,052 Cr of value addition (= 3% of GDP)
- Crude, Natural gas, MS, HSD & ATF (proposed to be excluded from GST) account for 83% of value addition by petroleum sector and 77 % of tax revenues from the sector.

GST Expectations

- GST is expected to introduce seamless value added taxation across all the goods and services.
- GST aims at elimination of existing distortions and cascading (tax on tax).
- It is, therefore, desirable that all the goods and services are brought under GST.
- If crude, petrol, diesel, ATF and Natural gas are excluded from GST, it will lead to cascading of taxes on the economy.

Draft Constitution (115th Amendment) Bill

- GOI has proposed a new clause (12A) in article 366, by which petroleum crude, high speed diesel, petrol, aviation turbine fuel and natural gas are specifically excluded from the coverage of “goods and services tax”.
- Exclusion of petroleum products in such manner is not desirable keeping in view the following aspects:
  - In our Constitution, enabling provisions are normally made to empower the Union and the States for the levy of specific taxes . Exemptions or exclusion of any specific good or service from levy of taxes is generally determined by relevant taxation laws.
  - Exclusion of specific goods by way of Constitutional Amendment would dilute the flexibility for levy of GST on these products in the future, even if the Centre and the States were to reach a consensus later. ***It will also remove flexibility to cover these goods in stages. This is because their subsequent inclusion would require another Constitutional amendment,*** *which* will be a long drawn out process.

Concerns of State Governments

- Contribution of taxes on Petroleum products generate substantial revenues to the State Governments.
- Apprehensions of State Governments may be:
  - Flexibility to increase state revenues from Petroleum products will be lost.
  - Collection is currently easy because of a limited numbers of assessees (only Oil companies).
  - State GST say @ 10% on MS, HSD, ATF and Natural Gas is lower than the VAT rates across many States.
- Promise of compensation from Centre is at best for a limited period and cannot solve a structural problem.

Concerns of Petroleum industry

(1) Input (goods and services) consumed in exploration and production of crude oil and natural gas will be under the GST regime while crude oil and natural gas will be outside GST.

(2) Crude oil, which is input for refinery will be outside the purview of GST whereas other inputs for refineries will be under GST.

(3) Crude Oil, Natural gas, MS, HSD, and ATF will be outside GST and will remain under existing taxation system. Other Petroleum products, such as Naphtha, Light Diesel Oil, Kerosene, furnace oil, etc. will be under the GST regime.

The above will lead to:

- avoidable multiple tax regimes for petroleum sector
- Extra burden on the consumer and add to the tax burden on the Petroleum sector / Economy.
- will result in more compliance work for Governments and the Petroleum Industry

Suggested solution to address Concerns of States

(1) A "<u>State Controlled </u>Specific levy" can be levied by State Governments over and above standard SGST on MS, HSD, ATF and Natural Gas. The Specific levy will address revenue concerns of the States. The levy will be a single point levy perhaps at the point of sale from an oil company to a Dealer or Consumer on which no input credit will be available at subsequent stages.

(2) Required additional specific levy for ensuring revenue neutrality for each State can be computed.

Constitutional Amendment: Suggestion by PetroFed

The amendment to the Constitution could be confined to empowering the Centre and the States for levy of GST on all goods and services.

By virtue of this power, the Parliament and the State Legislatures can decide through Taxation Laws as to which goods should be included or excluded from GST.

Conclusion

- The proposed amendment to the Constitution should be confined to empowering Centre and the States for levy of GST on all goods and services.
- Exclusion of petroleum products through the proposed Constitution Amendment Bill is not desirable since it will require another Constitutional amendment to levy GST on these products, even if the Centre and the States were to reach a consensus on full or partial or stage-wise implementation of GST for the sector, in future.
- States' concerns on revenue buoyancy and autonomy on taxation of petroleum products can be met by a "State controlled" specific additional levy on MS, HSD, ATF & Natural Gas.

THANK YOU