

Business Standard

Not including petroleum is against spirit of GST, say experts

Some states wanted it to be out of GST so they could continue with levying different tax rates on these products

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The central government on Monday evening reached a consensus with state governments on the goods and service tax (GST) for not including petroleum products and compensating them for loss in revenue due to the reformative tax.

The move according to tax experts and producers ceases the GST from functioning as a 'national' tax with the exclusion of petroleum and other related products.

The exclusion of petroleum goods from the GST net, though, would be for a limited period till states reach comfortable revenue levels.

The constitution amendment Bill on a national GST is likely to be tabled in the current session of Parliament. However, the government is not confident of passing the Bill in the current session.

“We are actually surprised that the centre was not able to convince the state governments on key issue of petroleum,” said an industry participant who wished not to be named.

GST is a Value Added Tax (VAT) that will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services.

The intent of GST was to have an efficient indirect tax regime that is free of distortions and to minimise the cascading effect created by multiple taxes in the existing system.

"Including petroleum and related products in the ambit of GST would have gone a long way in achieving that objective as this is one product that involves various goods and services from stages such as exploration, production, refining etc, the input tax credit from which could be utilized under the GST. This would have led to a substantial price advantage for petroleum products which is critical since it impacts everyday life." said Sriram Govind, Senior Member, International Tax Practice, Nishith Desai Associates.

States, which earn over 50 per cent of their revenue from taxes on petrol and other petro products, wanted it to be out of GST so they could continue with levying different tax rates on these products.

Currently, the state laws do not allow companies to avail input credit for petroleum products.

There are other sections of the market that are focusing on the positives stating that if the condition hasn't improved it hasn't deteriorated as well.

“Not including petroleum in GST has made accommodations for state government’s fear of loss of revenue. By this provision the condition has not improved for producers in the economy however from the point of view of people in business the condition has not deteriorated as well,” said Vivek Mishra, ED of Indirect Tax Practice, PricewaterhouseCoopers.

Parthasarathi Shome, Chairman, Tax Administration Reform Commission had earlier stated that if petroleum products are kept out of GST, no tax policy designer could call it GST.