Goods and Service Tax and its impact on petroleum price in India

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Abstract - Goods and Service tax is a very famous concept of Indirect Tax system started by France in 1953. India, took around 64 years to bring this fruitful tax system into effect. After 1991's economics reform, India adopted a number of measures to come out of financial crisis but failed to introduce GST completely in the country which France has shown to the world. However, the idea of GST was mooted by Vajpayee in 2000 in India and finally got introduce after a number of constitutional amendments in 2017. As a matter of fact Government can impose tax on anything due to power given to them through Constitution of India. But to implement Goods and Service Tax in India, government went through a number of Constitutional amendments from 2010 to 2015. In this paper, an analysis of certain constitutional amendments and their role on goods and service tax will be discussed, specifically the effect on petroleum price (petrol and diesel) if brought under GST preview.

Keywords —Article, Constitutional amendment, Central goods and Service tax, goods and service tax, Goods and service tax rate, Laffer's curve, State goods and service tax, Integrated goods and service tax.

I. INTRODUCTION

Goods and service tax (GST) is giant tax concept which cover all types of Supply of goods and services except alcohol for human consumption and petroleum in India. France was the first country to introduce GST in the year 1953 and India introduced the same in 2017 w.e.f 1st July, 2017

Goods and Service tax is levied on "Supply of goods or service or both" in India including Jammu & Kashmir. GST is a consumption based taxation i.e. tax will accrue to the taxing authority which has jurisdiction over the place of supply or consumption. The GST comes into force after 101th constitutional amendment in 2015.

Goods and service tax is considered as one of the most important tax reforms in India after the economic reform of 1991. Although Value added Tax (VAT) was introduced with an aim to eliminate the cascading effect of different taxes, but failed to eliminate the cascading effect of Central Excise Duty from the price of excisable manufactured goods in India. Therefore government came up with the ultimate solution to the problem with introduction of Goods and service tax. So as to eliminate the cascading effect of Excise duty from the price of goods manufactured, GST has been introduced.

II. 101ST CONSTITUTIONAL AMENDMENT

As a matter of fact, GST was first introduced in France in the year 1953 [1]. But India took around 65 years to introduce the same. This is one of the biggest questions at present. For a country like India, which has the biggest written constitution in the world, it was not an easy task. A number of constitutional reforms were required to gives power to government to levy GST tax. **As per Seventh Schedule** of Indian Constitution, government has the power to levy tax on different items. The Said schedule has divided the item or matter into three lists:

1. State list;(List I)
2. Union List; (List II) and
3. Con-current List

As per state list, only state government has the power to levy tax on item included in this list. Whereas, Union list covers items on which only central government can levy tax. But on the other side Concurrent list consist of Item on which both Central and State government can levy tax. Under Goods and Service tax both central and State government levy tax simultaneously, therefore all item from state and union were brought under concurrent list with constitutional amended.

In case of intra-state supply, government charges Central GST + State GST/UTGST. But in case of Inter-State supply, Integrated GST is levied by government. The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except –

- The exempted goods and services, goods which are outside the purview of GST; and

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- The transactions which are below the prescribed threshold limit i.e. aggregated turnover 2 million/1 million (In special category state as per Article 279A).

Further, both CGST/SGST would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of CENVAT. While the location of the supplier and the recipient within the country is immaterial for the purpose of CGST, but SGST would be chargeable only when the supplier and the recipient are both located within the same state.

Initially Goods and service tax was decided to be launched as a uniform tax system in India. Under such condition all the goods and services or both would have been charged under this tax at a uniform rate as it is in Singapore and New Zealand. But later on due to clash of interest between state and central government and preference on items of consumption, a dual model of tax system has been adopted in India. Now as GST is levied by both central and State Government jointly.

Petroleum product was not considered as goods under GST regime due to the fact that states were not ready to impart with their share of indirect tax from petroleum product and tobacco with the central government. Therefore government kept petroleum product out of the preview of GST. Finally in 2015, 101st constitutional amendment came where petroleum was bought into the preview of GST but decided to keep it as Zero rated item till the GST council decides further. Till then traditional indirect tax will be collected i.e. Excise and VAT as it was collected in different states.

To introduce GST in country like India which has the world's largest written constitution, a number of changes are required. Therefore government of India amended the constitution articles so as to pave the way for the biggest tax reform in India. This constitutional amendment has been discussed in this paper.

III. LITERATURE REVIEW

From the inception since 2006, when the then finance minister P. Chidambaram first clarified his intension to introduce GST by 2010, GST remained an important matter of study for every researcher as well as for every citizen too. GST has been adopted in India from France and Other country, therefore to study its various impact we need to analysis the effects of GST in other pioneer countries first. Some of the important conclusion have been made by various scholar around the world regarding various matter included in GST.

Halakhandi, (2007)

GST was supposed to be introduced in India way back in 2010 after its first proposal in 2006 by the then Finance minister. But, it has been getting postponed due to various reasons major one being getting to a consensus between the various states and the centre for compensation. The author in his paper has discussed the existing laws in India for indirect taxes i.e. the VAT laws in various states with their advantages and disadvantages, the impact of the proposed GST, the compliances under the proposed GST etc. The author has also used various numerical examples to demonstrate how GST is cost effective.

Girish Garg (2014)

The paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. He stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need that has arose for the change in tax structure from old indirect model to GST model. In this his made an analysis on GST as general, considering its features, objectives and impacts on different sector of market.

Thereafter, the paper discussed the possible challenges and threats along with opportunities that GST brings before us to strengthen our market economy. But this paper does not cover the reason for not including petroleum product under goods and service tax net although it has been defined as goods under article 279A. The paper does not cover the clarifications regarding constitutional amendments and their need which have been covered in this paper.

IV. OBJECTIVE OF STUDY

The present research is confined to Goods and Service tax on petroleum product. Today, everyone wants to know why petroleum is not taxed under GST in India. To provide answers to such query an analysis has been made to find the reason for the same query. In this paper a detailed discussion is made regarding the following:-

1. The basic reasons behind not covering petroleum products under the GST regime; and
2. Analysis of petroleum price in Delhi and NCR region.
3. Petroleum price under current tax scenario and under GST regime.

Although both central and state is collecting tax revenue in the traditional indirect tax model as constitutional power given to them under different articles. Now petroleum has not been charged with GST though it has been covered under GST purview after 122nd constitutional amendment. GST will be levied on petroleum from the date and at the rate decided by GST council. Till such notification government will continue with traditional indirect tax system. Traditional system of indirect tax keep the price of petroleum high as government collects around 57% indirect tax (different in different states) on petroleum product. As VAT is a non-refundable or non- adjustable in nature, the price for petroleum remains high.

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V. RESEARCH METHODOLOGY

This research is purely based on secondary data of last few years (2010-2017) relating to introduction and implications phase of goods and service tax. These data has been collected from different areas like:-

I. Online website

II. Economists explanation regarding GSTs implication

III. Existing Cost Statement of petroleum product from different source under current situation.

IV. Workshop conducted by Central board of indirect tax and customs in collaboration with ICAI, view point from various tax experts from Institute of chartered Accountants of India[2]; and

V. Study material issued by Institute of Cost and Management Accountants of India regarding changes in articles.

After going through various other discussion and review lectures like:-

1. Videos from parliamentary session, the reason behind constitutional amendment.
2. Explanation given by Finance Minister on December 16, 2015 regarding economic impact of petroleum subsidy [3] [4].
3. A deep discussion with the members of GST implication committee members from ICAI and other professionals helped to finally arrive at a conclusion.
4. A number of assumptions has been made regarding rate of GST on petrol like:-
   - GST Council will not introduce pure GST system of tax with 28% GST on petroleum product rather a new supplementary rate will be introduced to compensate the loss of revenue of States due to introduction of GST.
   - The supplementary rate of tax may be either 14% on petrol or 5% on diesel in addition to existing 28% or only an revenue neutral rate to cover loss in revenue due to introduction of GST. For instance 13% VAT on petrol and 2.75% on diesel in Delhi that will be lost due to abolishment of Value added Tax.

While making conclusion regarding revenue neutral rate help of Laffer's curve has been taken which deals with elasticity of tax revenue. This paper has been prepared to clarify the basic reasons behind constitutional amendment and to show how goods and service tax on petrol can be beneficial to society. This analysis is based upon petrol prices in Delhi (NCR) region in June, 2018.

In this research paper, a new cost analysis has been made consideration the following pattern of cost structure with replacement of existing tax structure with GST taxable in the hands of consumer. For this, the current cost structure of petroleum price in Delhi and NCR region has been considered as input data of cost analysis.

VI. NO GST ON PETROLEUM

Before GST was introduced i.e. till 2016, petroleum was covered under state list and thus is the main source of revenue for the state/ union territory government. If, it had been covered under GST regime then the state or union territories had to part their revenue with the central government. As per data available from Brent Oil index, Bloomberg the current market price petrol in the international market is around $ 78.30 per barrel or Rs 32.99 per litre. But due to 23% excise duty and VAT of 29-40% (highest by Maharashtra), the retail price of petrol in India to rise up to Rs. 78-81 in different state.

Before introduction of GST, Indians use to pay an indirect Tax of around 40-57 % in the form of VAT and Excise duty on petroleum products. But now, if petroleum comes under GST even then a maximum of 28% GST will be paid on petroleum products. This means a benefited by an amount equal to around 30% will be transferred, although it will be a non- refundable tax for consumer. The impact of introduction of goods and service tax on petroleum product can be shown from the following:

Table 1: Data of price of petrol and diesel in different cities of India.

State	Petrol price / litre^	Diesel price/litre^
New Delhi	**Rs 78.11**	**Rs 69.11**
Mumbai	**Rs 85.92**	**Rs 73.58**
Chennai	**Rs 81.09**	**Rs 72.97**
Kolkata	**Rs 80.75**	**Rs 71.66**
Noida	**Rs 78.62**	**Rs 69.31**
Gandhinagar	**Rs 77.40**	**Rs 74.28**
Bangalore	**Rs 79.39**	**Rs 70.3**
Goa	**Rs 71.98**	**Rs 70.34**

Source:- ^ Petrol price as on 3rd June, 2018 (mycarhelpline, 2018)

In 2011, a meeting conducted by the then finance ministry of Government of India & representative of every State have exempted 5 Petroleum products out of GST law such as Crude oil, Motor spirit, High Speed diesel, aviation turbine fluids & natural gas. This means transportation charges doesn't have any significant changes due to introduction of goods and service tax apart from tax on goods transport agency service.

There was a proposal of implementing GST on petroleum product in 2018 itself. Previously as petroleum was not under goods and service tax regime, Oil companies have right to implement the charges as per the production costs. When GST will be implemented on petroleum products,

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there will a steep decline in prices of petroleum products by 25 % - 35%. This might be a boon to consumers on a large scale. An exact analyse the impact of GST on petroleum products cannot be analysis now, as the rate of GST on petroleum product has not yet been finalized.

Under GST, there are different of tax on different categories of goods and services like 5%, 9%, 12%, 18% and 28%. If petroleum products are kept under low GST tax rate to reduce the burden of consumer, but simultaneously it will harm the state government most as every state government gets their main source tax income from indirect tax levied on petroleum products. Therefore the most likely is that petroleum product will be kept under 28% GST tax category. If goes like this, then the consumer will be benefited by around 30%.

Table 2:- Simplified Calculation Chart for Petrol & Diesel Prices in New Delhi - (3rd June 2018) (mycarhelpline, 2018)

Particulars	Petrol price	Diesel price
International price of crude oil with ocean freight (as on 3rd June, 2018)	$78.3 or Rs. 5245 per barrel	$78.3 or Rs 5245 Per barrel
1 barrel of crude oil	159 litre	159 litre
Crude oil- cost per litre	Rs 32.98	Rs 32.98
Basic OMC cost calculation		
Entry tax, refinery processing, landing cost and other along with margin	Rs 2.10	Rs 5.23
OMC margin, Transportation and freight cost	Rs 3.31	Rs 2.87
Basic cost of fuel after refining cost	Rs 38.98	Rs 41.08
Add: Excise duty + road cess by central government	Rs 19.48	Rs 15.33
Pricing charged to dealer before VAT	Rs 57.87	Rs 56.41
Calculation of dealer retail price-Base Location Delhi*		
Commission to petrol pump Dealer	Rs 3.63	Rs 2.53
Fuel price before VAT (rounded off to approximate)	Rs 61.50	Rs 58.94
Add: VAT @ 27% (Delhi) on petrol and 16.75 % + 25 p as pollution cess with surcharge on diesel	Rs 16.61	Rs 10.17
Final retail price as on 3rd June 2018	Rs 78.11	Rs 69.11

- **Source:-** (mycarhelpline, 2018)

Below are Taxes Paid for Obtaining Fuel in Delhi (Scenario is not much different in other cities too - almost similar or even higher taxes charged.)

Table 3:- Tax collected by Govt. of Delhi on Petroleum products

Particulars	Tax Paid for Obtaining Fuel by Consumers'	Total Cost of Fuel
Petrol in Delhi	Rs 36.09 per Litre (46%)	Rs 78.11 per Litre
Diesel in Delhi	Rs 25.51 per Litre (36%)	Rs 69.11 per Litre

Source:- (mycarhelpline, 2018)

The total collection of taxes on crude oil to central government is around 1890000 million [5]. Now if Petroleum products come under GST (pure) then the probable new petroleum prices for petrol and diesel will be affected by around 31.46% (petrol) and around 19.37% on diesel. Making an assumption that the new price will under pure GST rate of 28% an illustrated has been framed which goes like: (assuming 28% GST):-

Table 4:- Calculation of price of Petroleum products under GST

Particulars	Petrol price per Litre	Diesel price per litre
Basic cost of fuel after refining (without entry tax)	38.20	41
Add: Commission to petrol dealers	3.63	2.53
Price before GST	41.83	43.53
Add: CGST @ 14%	5.855	6.095
Add: SGST / UTSGT @ 14%	5.855	6.095
Final Price after GST	53.54	55.72
Change in retail sale price		
Current Price	78.1 1	69.11
New Price (Estimated)	53.54	55.72
Net Change	24.57	13.39
% change in price	31.46	19.37

Source: -Observation

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The tax rate on petroleum under goods and service tax

Diesel is the most important petroleum product for any economy. It is the most widely used variant of petroleum, mainly for transportation. Therefore taxing it at 28% will increase transportation cost and cost of other essential product(s) as transportation forms the main costing part. So it will be recommendable that diesel should be brought under GST at lower tax rate so that government can maintain both:-

a. State government revenue; and
b. Cost of essentials like Food, Cloth and others.

As per a recent news in Times of India (June 2018), [6] an important statement has been given by officials relating to GST council that GST will be brought on petroleum product but the same will not be a pure GST i.e. only GST will not be there, an additional tax will be imposed. This is because in the upcoming structure for indirect tax on petroleum products, the government is thinking to imposing GST @ 28% on petroleum and an additional tax with what-ever name it could be. This will be done to ensure that the loss of revenue for State government may be compensated to some extent. Now the most important question will that, how much additional tax apart from 28% GST will be imposed [7]

As already discussed that, government should not impose same rate of GST on all petroleum product especially on diesel (High Speed diesel) as this will increase its cost in the national market and indirectly cost of many essential product. Therefore, these decisions will clearly depend on the negotiation between state and central government regarding rate of additional tax that will be collected by state government.

As explained by Arther B. Laffer in his famous work, "A general equilibrium Model of Tax Policy Evaluation" in the 1985 that "Tax rate and government revenue are inversely proportional to one another" [8]. This concept was explained with the help of Laffer curve which have two slopes. The upward rising positive slope is called "normal range" and the downward slope is known as "prohibitive range". The government always avoids being in the later range in long run, as this would reduce their own revenue from tax. Considering this, high tax rate will attract low revenue. Again, the particular research also explains that, the very location of Laffer curve of rate-revenue space depends upon the elasticity of supply of factor being taxed. Government will definitely remain on the normal range of the Laffer's curve.

As a matter of fact, petroleum product is less elastic or relatively inelastic in supply. Therefore they do not respond much due to change in price. Now in the state where petroleum products are inelastic in nature, government can go for higher additional tax apart from 28% GST. But in the states where petroleum is elastic, government have to keep the entire tax rate low so as to maintain their revenue collection.

In the scenario where petroleum products come under goods and service tax purview, the government will lose around 200 million rupee out of its tax revenue. Let us consider different tax rate for petroleum products and their impact on government revenue collection.

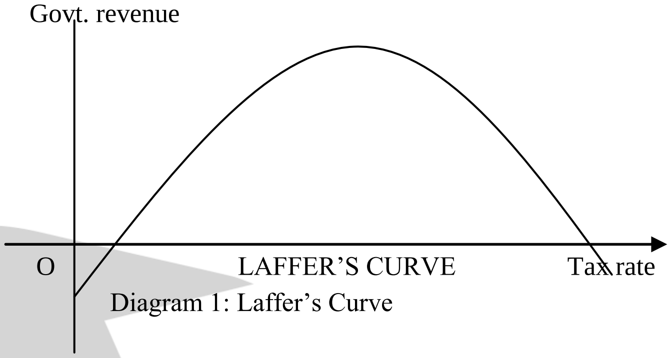

Diagram 1: Laffer's Curve

This curve illustrates that no tax revenue will be raised at two extreme rates of 0% to 100%. Therefore the tax rate remains between 0-100%. The curve starts from origin, rises up, reaches maximum and then again falls. However, the shape of the curve is uncertain and disputed among economists.

Table 5: calculation of petroleum price under probable GST regime (Delhi)

Particulars	Price of petrol (14% VAT)	Price of petrol (13% VAT)*	Price of diesel (5% VAT)	Price of diesel (2.75 % VAT)*
Basic cost of fuel after refining (without entry tax)	38.20	38.20	41	41
Add: Commission to petrol dealers	3.63	3.63	2.53	2.53
Price before GST	41.83	41.83	43.53	43.53
Add: CGST @ 14%	5.86	5.86	6.09	6.09
Add: SGST/UTGST @ 14%	5.86	5.86	6.09	6.09
Add: VAT (as additional tax)	5.86	5.44	2.18	1.20
Final Price	59.41	58.99	57.89	56.91

Source: Observation * Best expected situation

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This is clear for the above table that petroleum under GST although not pure GST, will benefit the general public. On the other hand, the above mention tax rate will keep the state government indifference. When Institute of Chartered Accountants of India belief that petroleum product should be bought under GST regime, for this the indirect committee has made a 121 point recommendation to Finance ministry recently [9]. As a rational interpretation it can be concluded that government should go for:

1. 28% GST + 13 % VAT on petrol
2. 28% GST + 2.75% VAT on diesel

VII. Findings of Study

After all this analysis a conclusion can be made that goods and service tax on petroleum should such that its implementation on petroleum products will be beneficial for the general public in many ways. If GST on petroleum is introduced with credit input facility, this will have a number of advantages to the economy . Such as-

1. It will eliminate the cascading effect totally from Indian Indirect tax system as still petroleum product keep cascading effect alive.
2. The price of essential goods will come down if petroleum is bought under GST tax regime.
3. The tax web for indirect will get stronger as then all goods and services will be covered and credit can be ensured.
4. Tax evasion can be prevented as majority of goods and services will be covered under GST regime.
5. It will indirectly effect fiscal deficit as government has not provide subsidy in substantial cases.

Analysis of the above recommendation reveals that covering petroleum under goods and service tax regime will bring down their prices in the retail market but will decrease the government's revenue also [10]. Effect of covering petroleum product under goods and service tax on revenue can be shown as under:

Table 6: Showing reduction in Price / Benefit transferred due to change in Tax system

Particulars	Price of Petrol	Price of Diesel
Price under current situation	78.11	69.11
Price estimated under Goods and Service Tax regime	58.99	56.91
Loss due to change in tax system to state government	19.12	12.20

Source: Observation

Table 7: Loss to state government due to change in tax system (Delhi)

Particulars	Petrol per litre	Diesel per litre
State collected tax under present situation	36.09 per Litre (46%)	25.51 per Litre (36%)
State tax collection under GST model	17.16 (13% VAT)	13.38 (2.75% VAT)

Source: Observation

Table 8: Indirect tax collection on petroleum product by Delhi:

Year	Indirect Tax collected (Rs in million)
2015-16	29580
2016-17	31580

VIII. Conclusion

In this paper impact of GST has been analysis on the basis of clear assumption regarding rate of GST on petrol and diesel. This rate can be different from the actual rate which government will decide. In such situation, the impact may be some how different. But the net price will definitely decrease.

A continuous interaction is going on in this matter between GST council and different experts, so that governments can transfer benefit to general public as well as they can maintain their own revenue. All this finalization depends upon the consent of state government due to recent constitutional amendment. As due to constitutional amendment, central government cannot make any change in goods and service tax law without the consent of state government [11]. Therefore best new expected price under Goods and service tax regime will be

- Petrol – Rs 58.99 (28% GST + 13% VAT)
- Diesel – Rs 56.91 (28% GST + 2.75 VAT)

This supplementary rate of tax will affect the central government most, as it will compensate maximum loss of revenue for state government but loss of central government for excise duty which was previously levied at 23% will not be compensated by utmost 65% only. This will increase pressure on national treasury in long run period. Again, large fall in price of petroleum may lead to increase in consumption for petroleum by private vehicle owners.

Now the limitation of the study is estimation of situation. The real GST rate and scenario may be different, as it would vary from state to state depending upon their present rate of VAT [12]. Again, even this could not restore the basic concept of GST tax "ONE NATION, ONE TAX". Central Government has to provide a huge sum of money as subsidy to keep petroleum price at low impact rate. This in-deed

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increases the fiscal deficit which is again compensated by imposing tax on common public.

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