

## **GST IN INDIA: CHALLENGES IN ENFORCING GST ON PETROLEUM PRODUCTS**

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### **ABSTRACT**

*This paper is outlined to analyze the challenges faced by the Central Government in introducing GST on Petroleum Products in India. GST is the greatest tax transformation that has replaced several other Indirect taxes in India, including VAT, Excise duty and Service Tax. The study is going to examine how all the items have been included in the ambit of GST except Petroleum Products. GST aims on the ideology of "ONE NATION, ONE TAX" which simplified the taxation process and created a unified tax system for the entire country. GST is a kind of Value Added Tax which is imposed on almost all goods and services except Petroleum Products, in that case the study will discuss the objections on introducing GST on such products. The study will also examine the revenue dependency of both Central and State governments on these products. Presently, petroleum products are subject to Central Excise Duty, Value Added Tax and Central Sales Tax. Bringing these fuels under GST would require consensus among all states. The study will also analyze the positive and negative consequences of bringing such products under GST.*

**KEYWORDS:** GST, Supply Chain, Exempted Supply, Zero Rated Supply, Unified Tax System.

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### **Introduction**

GST refers to Goods and Service Tax. It is an Indirect tax that has subsumed several other indirect taxes in India, including VAT, Excise duty and Service tax. GST is a destination-based consumption tax which is based on the principle of Value Added Tax model. It is a comprehensive model which is applicable on both goods and services.

GST offers continuous chain of tax credit from manufacturer/ service provider's stage up to the retailer's stage, thus taxing merely the value addition at each stage of supply chain. So that, only the final consumer bears the burden of GST. It allows set off benefits at all the preceding stages in the supply chain. As only the value added at each stage is taxed under GST, there is no cascading of taxes.

This new tax system was launched on 1<sup>st</sup> July 2017 which aims on the ideology of "ONE NATION, ONE TAX" which simplified the taxation process and created a unified tax system for the entire country.

Even after 7 years of its launching, Petroleum products are not included in the catalog of taxable goods and services under India's GST regime. By considering the revenue implications and significant impact of petroleum products on country's economy, the government has decided to keep petroleum products outside the purview of GST. Instead of GST, petroleum products are subject to several taxes and duties such as Custom duty, VAT and Excise duty which are levied separately by the Central and State governments. In India, the GST Council is the highest decision-making authority for GST. The council has considered to bring petroleum products inside the purview of GST, but has not taken any action so far.

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Various debates and discussions have been going on in the industry and among policymakers about bringing the petroleum products under the purview of GST. Some experts are in favor of bringing petroleum products under the GST regime. According to them, it would lead to a more transparent and efficient tax system by eliminating multiple taxes levied on petroleum industry. Also, it would reduce the final price for ultimate consumers.

On the other hand, some experts are in against of bringing petroleum products under GST. They have argued that petroleum products significantly impact the revenue of Central government as well as State governments as they levy several taxes on petroleum products. Also, it could increase the final price for ultimate consumer due to the increased GST tax rate.

As GST is a destination-based tax and petroleum products are a significant revenue source for the Central and State governments, inclusion of petroleum products under GST could lead to redistribution of tax revenue from the oil producing states to the consuming states. Due to all these reasons and mixed opinions of various experts and policy makers, the council has not yet been able to decide whether to include petroleum products in GST or not.

#### **Objectives of the Study**

- To examine the challenges faced by Central government in imposing GST on petroleum products.
- Restrictions and Objections imposed by various state governments due to which GST on petrol and diesel could not be implemented yet.

#### **Research Methodology**

This study is descriptive as well as investigative in nature which uses the exploratory approach. Information required for the study has been collected from secondary sources viz websites, books, journals, reports, etc.

#### **Extent of GST**

GST is imposed on supply of all goods and services excluding the exempted goods and services and goods and services which are outside the scope of GST.

#### **Supplies Outside the Ambit of GST**

- **Transactions to be treated neither as supply of goods nor supply of services**  
Schedule III of CGST Act, 2017 specifies:
  - Services rendered by an employee to the employer in due course of his employment.
  - Sale of land and sale of building.
  - Services rendered by any court or tribunal.
  - Actionable claims, other than transacted through lottery, betting and gambling.
  - Warehoused goods supplied to any person before clearance for home consumption.
  - Supply in case of high sea sales.
  - Transactions of supply from a non- taxable territory to another non- taxable territory outside India.
  - Functions performed by MP, MLA, Members of Panchayat, Members of Municipalities and Members of local authorities.
  - Services rendered by any person holding any constitutional post.
  - Duties performed by any person in capacity of Chairperson/Member/Director in an organization established by Central govt, state govt, or local authority.
- **Zero-Rated Supply**  
It refers to any of the following:
  - Export of goods or services.
  - Supply of goods or services to SEZ developer of SEZ unit.
  - GST shall not be levied on such supplies yet ITC can be availed.

- **Exempted Supply**

It refers to transactions of supply of any goods or services which attracts:

- 0% tax rate.
- Wholly exempt from tax u/s 11 of CGST Act, 2017
- Wholly exempt from tax u/s 6 of IGST Act, 2017
- Non-Taxable supply which includes Alcoholic liquor and petroleum products.

### Revenue Dependency of Central Government on Petroleum Products

Revenue earned by Central government from Excise duty on petroleum products:

(Rs. in Crore)

Year	2020-21	2021-22	2022-23	2023-24
Tax/Duties on Crude oil and petroleum products				
• Cess on crude oil	10676	19214	21448	19580
• Royalty on crude oil/natural gas	3590	5639	9822	9286
• Custom duty	13514	11423	14985	13133
• NCCD on crude oil	1016	1121	1192	1191
• Excise Duty	372970	363305	287575	273684
• Service tax	0.3	-	-	-
• IGST	11594	19726	22236	20930
• CGST	6158	10843	13012	12230
• Other	365	338	60	52
Sub-Total(A)	419884	431609	370327	350086
Corporate tax	21909	29219	33292	57493
Dividend Income	10393	22612	15673	19310
Profit petroleum on exploration of oil/gas	2884	8862	8776	5505
Sub-Total(B)	35186	60693	57741	82308
Total (A+B)	455070	492302	428068	432394

### Revenue Dependency of State Government on Petroleum Products

Contribution to State Exchequer:

(Rs. in Crore)

Year	2020-21	2021-22	2022-23	2023-24
Tax/Duties on Crude oil and petroleum products				
1.Royalty on crude oil/natural gas	7179	13526	17914	12529
2.Sales tax/VAT on petroleum products	202937	256248	288086	292716
3.SGST/UTGST	6121	11017	13188	12288
4.Octroi/Duties	706	827	830	687
5.Entry Tax	328	355	293	302
Sub-Total(A)	217271	281972	320311	318523
Dividend Income	379	151	340	239
Sub-Total(B)	379	151	340	239
Total (A+B)	217650	282123	320651	318762

### Challenges being faced by Central Government on Introducing GST on Petroleum Products

The Indian government obtains a substantial portion of its revenue from the taxes imposed on the sale of petroleum products which includes Value added tax, Excise duty and various other state level taxes. The Excise duty on petroleum products is charged by Central government while the VAT and other state level taxes are charged by state governments.

India imports around 80-85% petroleum products to satisfy the everyday requirement of the country. Hence, the retail prices depend upon the prices prevailing in the international market. Prices of petroleum products are determined on the basis of demand-supply formula.

State revenue is mostly dependent upon the VAT on petroleum products, so if these products are included in the scope of GST, then state revenue might fall massively. Due to this, various states are antagonistic to the decision of imposing GST on petroleum products.

Some states are in favor of imposing GST on petroleum products on the condition that Central government should compensate all the states for their revenue deficit. And the Central government should draft a definite policy for revenue sharing between the Centre and States on petroleum products. Hence, this issue of revenue consideration is hindering the process of inclusion.

As stated above, bringing petroleum products under GST ambit would result in revenue loss to State governments and to compensate them Central government require enough funds and the solution to this is to keep a peak rate of tax on petroleum products and allowing states to levy some amount of VAT on such products. Hence, GST couldn't be purely applied on petroleum products. It has to be a combination of GST and VAT.

The current political aspect is also hindering the process of inclusion because the cooperative federalism is falling in the nation due to which policy implementation is getting harder these days.

Considering the above stated points, various states are opposing to include petroleum products under GST because they are not ready to give up on the revenue generated from VAT on petroleum products.

Even if somehow Central government manages to include petroleum products under GST, the issue of compensation to states for loss of revenue would still be there.

#### **Analysis of Impact on Supply Chain after Introducing GST on Petroleum Products**

- **Supply Chain:** It is an arrangement of organizations, companies and individuals which are involved in producing and delivering a product or a service to the ultimate consumer. It involves converting raw material into finished products and conveying them to end consumer.

The petroleum segment in India was held outside the domain of GST. Due to this, prices of petroleum products are high and volatile.

In the current tax structure various other taxes are levied on the sale of petroleum products in India. These taxes include VAT, Excise duty and several other state level taxes. The Excise duty on petroleum products is imposed by the Central government while the VAT and other miscellaneous taxes are imposed by the state governments.

Under the current tax structure, taxes imposed by the Central government and state governments account for a material portion in the retail price of petroleum products. The central excise duty on petrol is Rs.19.90/liter and on diesel it is Rs. 15.80/liter. These rates are same throughout the country which makes up 20% of the retail price of petrol and 17.6% of the retail price of diesel.

The value added tax on petroleum products varies from state to state which consequently leads to a substantial hike in the retail prices of petroleum products.

The augmentation of petroleum products in the GST regime will not only streamline the tax structure but also deplete the tax payload on the ultimate consumer. By applying GST, the tax will be imposed at a undeviating rate which would bring uniformity to the retail prices of petroleum products across the nation. It will also curtail the tax on tax effect, which is rampant in the current tax structure.

In nutshell, the impact on supply chain after inclusion of petroleum products under GST regime can be summed up as follows:

- **Price Drop:** Bringing petroleum products under GST ambit will put the consumers in a relatively better position. Under present tax structure, taxes cover up to 40-50% of the retail prices of the petroleum products. Under GST, the maximum tax rate will be 40% (20% maximum of CGST or SGST). Even if petroleum products are charged at the current maximum tax slab rate @ 28% end consumer will be paying relatively lesser price than they are paying under present tax structure.

Hence, there will be a considerable downfall in price under GST.

- **Unified Tax System:** The value added tax (VAT) on petroleum products varies from state-to-state which results in price differentiation among states. Bringing petroleum products under GST will ensure standard price for these items throughout the nation. Thus, interstate price differentiation will be over.
- **Simplified Tax Structure:** In the present tax structure, input goods and services are covered under GST whereas output is not covered, hence it leads to issue of double taxation and ineligibility of Input tax credit.

By subsuming petroleum products under GST, it allows the industry to utilize input tax credit on inputs consumed in the supply chain and eliminate the complex issue of Double taxation.

In conclusion, we can say that bringing petroleum products under GST eliminate double taxation and enable companies to claim input tax credit (ITC) and provide relief to various organizations, companies and customers.

#### **Positive Consequences of Including Petroleum Products under GST**

- Inclusion under GST regime would eliminate cascading impact and enable industry players to claim Input tax credit which will give relief to companies as well as customers.
- Price differentiation will be removed and a standard retail price will be fixed for petroleum products across the nation.
- Inclusion will positively impact state revenue as petroleum products would likely to be taxed at higher rate and states should be authorized to compensate for revenue deficit through an additional levy.
- Inclusion would standardize the tax structure across the states which would replace various state level taxes and thus simplifies the taxation process.
- A uniform tax structure simplifies the taxation compliances and reduce the administrative burden on petroleum industry.
- Inclusion leads to transparent taxation system which could eliminate chances of tax evasion.
- A uniform tax structure across the nation could make the revenue collection process more simplified, foreseeable and systematic.
- Inclusion of petroleum products under GST could lead to a reduction in prices for end consumers.
- Reduced prices of petroleum products could lead to a downfall in inflation which as a result will boost the economic activity in the industry and also attract more players to invest in the petroleum sector.

#### **Negative Consequences of Including Petroleum Products under GST**

- State revenue is massively dependent in taxes from petroleum products. Inclusion of such products could lead to significant revenue loss to states.
- The central government may need to compensate state governments for revenue losses which could create an additional financial burden on central government.
- Under inclusion process, if GST rate is not properly fixed it could lead to hike in prices which as a consequence leads to inflation.
- State governments may lose the benefit of Interstate price differentiation.
- The center and states have privileged flexibility to increase or decrease the tax rates on petroleum products which will not be available if such products are brought under GST.
- Inclusion would lead to revenue drop for both Centre and states as even the highest GST slab rate of 28% would not match the quantum of current taxes levied on such products.
- Inclusion of petroleum products under GST has deliberate social and political complications. Any change in the tax structure that enhances the retail prices of fuel can precisely impact consumer's pockets and their opinions on government policy which could lead to a disastrous protest by various consumer organizations against the inclusion making implementation difficult for the government.

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