

Inclusion of Electricity in GST

What is the issue?

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With transitional implementation challenges with the GST being sorted out, it is a high priority now that electricity is included in GST.

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What is the current status?

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- Currently, there is a confusing multiplicity of electricity taxes.
- Notably, the taxes vary by states and across user categories, low for consumers, high for industrial users, etc.
- Taxes levied by the states vary from 0 to 25% and is an important source of revenue for them.
- On average, electricity taxes account for about 3% of own tax revenues of the states, going up to close to 9% in some states.
- States are, therefore, reluctant to give up the right to levy these taxes.

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What are the concerns?

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- **Costs** - The most serious concern is that costs to industrial users of electricity are higher.
- This is because they include the taxes on inputs that have gone into the supply of electricity.
- These include taxes on raw materials (coal, renewables) and other equipment

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(solar panels and batteries).

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- Not being part of GST means that no inputs tax credit can be claimed.

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- This certainly results in embedding of the tax in the final price.

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- **Embedding of taxes** - This clearly hurts manufacturers selling to the domestic market.

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- In particular, this affects the exporters of electricity-intensive products.

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- It is because they are not liable to any duty drawback i.e. relief for taxes embedded in exports.

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- **Industrial buyers of electricity** bear the impact of this in an indirect way.

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- Populist politics has long ensured that consumers (and other users in agriculture) pay either nothing for electricity or very little.

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- Ultimately, discoms cross-subsidise and charge higher prices to industrial users to make up for under-charging others.

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- But the embedding of taxes adds an extra layer of cross-subsidisation.

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- Totalling up all of these effects could lead to increased costs and lower margins for several industries.

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- These margins are significant, especially for exporters who face strong international competition.

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- **GST** - Currently, there is a large bias in favour of renewables in GST policy.

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- Inputs to renewables generation attract a GST rate of 5% while inputs to thermal generation attract higher rates of 18%.

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- Supporting renewables might be a conscious policy.

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- But subsidisation is proliferating across policy instruments, making it difficult to quantify the overall support and is thus distorting.

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- Thus, support for renewables should be direct and transparent.

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- GST should not become the instrument for adding non-transparently to that support.

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What could possibly be done?

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- **GST** - If electricity is included in GST, there would be no discrimination between renewables and thermal energy.

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- This is because all inputs going into both forms of electricity generation would receive tax credits.

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- Including electricity in GST would also reduce or eliminate embedded taxes in electricity-using products.

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- **Loss** - But both the central and state governments would lose revenues that would now accrue as input tax credits to the private sector.

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- In addition, state governments would lose taxes from electricity use itself.

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- The Centre could thus compensate the states only for the direct loss of revenues.

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- However, benefits of the reforms would be greater to be shared between the Centre and the states.

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- **Implementation** - To ensure that Centre does not suffer fiscal losses, the implementation with electricity should perhaps wait until GST revenues have stabilised.

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- Inclusion of electricity in the GST would thus -

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- i. reduce the costs for manufacturing

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- ii. improve the competitiveness of exporters

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- iii. reduce the cross-subsidisation of electricity tariffs that further undermines the competitiveness of manufacturers and exporters

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- iv. eliminate biases and restore neutrality of incentives in electricity generation

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Source: Indian Express

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