States Reluctance to cut Fuel Tax

Why in news?

After announcing the excise duty cuts on petrol and diesel, Finance Minister had reiterated Prime Minister's plea for States that had not cut their taxes since November 2021.

What is the background?

- The price of the Indian basket of crude oil has risen by more than 33% since November.
- With a bulk of the surge coming in the wake of the Ukraine war in February, state-run oil marketing companies had raised retail fuel prices sharply over a 16-day period starting March 22.
- As a result of the higher fuel prices and quickening food costs, inflation based on the Consumer Price Index accelerated to 7.8% last month, while wholesale price gains soared to a multi-decade high of 15.1%.
- So, the RBI intervened and opted to raise interest rates earlier this month.

What is issue with the Centre's levy of taxes?

- In the past seven years, the Union government's levies on petrol had gone up substantially, resulting in a manifold increase in its revenues, but the States did not see a matching increase in their revenues.
- This is because the Union government has increased the cess and surcharge on petrol and diesel while reducing the basic excise duty that is shareable with the States.
- The Centre is expected to transfer the unshareable cess to the designated reserve funds but the CAG has observed that the centre retained 40% of all cess collections in FY2019.
- The Union government had never consulted the States when it increased the taxes on petrol and diesel multiple times.
- The exorbitant increase in taxes by the Union government has been only partially reduced through the cuts and the taxes continue to be high, compared with the 2014 rates.

What is the stance of the States?

- The Maharashtra government cut off its value added tax (VAT) levies on petrol and diesel by Rs 2.08 and Rs 1.44 per litre respectively.
- Telangana Finance Minister termed the Centre's partial reduction of the cess levied on petroleum products 'bogus' and 'humbug'.
- Tamil Nadu Finance Minister P.T.R. Palanivel Thiagarajan called for further cuts in the Union taxes as they had been hiked sharply since 2014.
- Karnataka Chief Minister Basavaraj Bommai said he would consider if duty cuts were feasible.
- Chief Minister Mamata Banerjee had said that duty cuts would be possible only if Centre cleared its pending dues of about Rs 97,000 crore.

What lies ahead?

- Fiscal measures that help cool price pressures and leave an extra rupee or two in the consumer's pocket can only aid to undergird vital consumption demand in the economy.
- All States must realise that the best way to safeguard their revenue interests would be to ensure that the growth momentum in the economy as a whole remains well supported.
- The policymakers at the different levels of government must realise this and act in concert.

References

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