Inclusion of Electricity in GST

What is the issue?

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

What is the current status?

- 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.

What are the concerns?

- **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

(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?

- **GST** - If electricity is included in GST, there would be no discrimination between renewables and thermal energy.
- This is because all inputs going into both forms of electricity generation would receive tax credits.
- Including electricity in GST would also reduce or eliminate embedded taxes in electricity-using products.
- **Loss** - But both the central and state governments would lose revenues that would now accrue as input tax credits to the private sector.
- In addition, state governments would lose taxes from electricity use itself.
- The Centre could thus compensate the states only for the direct loss of revenues.
- However, benefits of the reforms would be greater to be shared between the Centre and the states.
- **Implementation** - To ensure that Centre does not suffer fiscal losses, the implementation with electricity should perhaps wait until GST revenues have stabilised.
- Inclusion of electricity in the GST would thus -

  i. reduce the costs for manufacturing
  ii. improve the competitiveness of exporters
  iii. reduce the cross-subsidisation of electricity tariffs that further undermines the competitiveness of manufacturers and exporters
  iv. eliminate biases and restore neutrality of incentives in electricity generation

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Source: Indian Express

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