

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.

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- Notably, the taxes vary by states and across user categories, low for consumers, high for industrial users, etc.

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- Taxes levied by the states vary from 0 to 25% and is an important source of revenue for them.

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- On average, electricity taxes account for about 3% of own tax revenues of the states, going up to close to 9% in some states.

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- 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.

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- This is because they include the taxes on inputs that have gone into the supply of electricity.

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- 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.
- This certainly results in embedding of the tax in the final price.
- **Embedding of taxes** - This clearly hurts manufacturers selling to the domestic market.
- In particular, this affects the exporters of electricity-intensive products.
- It is because they are not liable to any duty drawback i.e. relief for taxes embedded in exports.
- **Industrial buyers of electricity** bear the impact of this in an indirect way.
- Populist politics has long ensured that consumers (and other users in agriculture) pay either nothing for electricity or very little.
- Ultimately, discoms cross-subsidise and charge higher prices to industrial users to make up for under-charging others.
- But the embedding of taxes adds an extra layer of cross-subsidisation.
- Totalling up all of these effects could lead to increased costs and lower margins for several industries.
- These margins are significant, especially for exporters who face strong international competition.
- **GST** - Currently, there is a large bias in favour of renewables in GST policy.
- Inputs to renewables generation attract a GST rate of 5% while inputs to thermal generation attract higher rates of 18%.
- Supporting renewables might be a conscious policy.
- But subsidisation is proliferating across policy instruments, making it difficult to quantify the overall support and is thus distorting.
- Thus, support for renewables should be direct and transparent.
- 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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