Tough Times, Desperate Steps

States bump up levies on fuel, liquor in bid to make up for drastic revenue shortfalls during the lockdown amid dwindling fund transfers from Centre

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State governments across India are desperately looking to boost revenues and have implemented a range of measures, including raising tax on fuels and bumping up liquor cess, as they attempt to offset drastic revenue shortfalls because of the coronavirus lockdown.

With dwindling fund transfers from the Centre and limited avenues to raise taxes after the goods and services tax (GST) was introduced in 2017, states have relied heavily on borrowing money from the markets to combat the covid-19 health crisis.

Now that they have hit the borrowing ceiling, among the few options left with states is to raise taxes on fuels, liquor and tobacco that are still outside the GST regime.

States’ own tax collections are expected to take a 40% hit in April, and with the Centre’s GST revenues also collapsing, states are getting a smaller share in a double whammy for them. Punjab finance minister Manpreet Singh Badal cautioned last Monday that the combined fiscal deficit of central and state governments this financial year could touch 10% of gross domestic product (GDP).

The Centre has already taken initial steps to reopen the economy. Economic activities have now been allowed with proper precautions in areas that are covid-free to breathe life into the battered economy that is set to contract for the first time in four decades. This has helped restart sale of transportation fuels, liquor and tobacco in so-called non-containment zones, opening up a vital source of tax revenue for states.

Petrol and diesel prices were raised in 14 states, including Delhi, Rajasthan and Karnataka, since 22 March, even as global oil prices plunged. Brent crude is trading near a 21-year low, and US oil futures traded in negative territory last month. “There was a downward trend in petroleum product prices from the second fortnight of January. Accordingly, during January-March,

Data compiled by howindialives.com

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States bump up levies to boost revenues

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prices from the second fortnight of January. Accordingly, during January-March, state-owned oil marketing companies had reduced the prices of petrol and diesel by more than ₹10 per litre, including the impact of increase in excise duty of ₹3 per litre effective 14 March, but that was not passed on in retail prices,” said a senior executive at a fuel retailer requesting anonymity.

The Aam Aadmi Party-led Delhi government late on Monday announced a 70% special corona levy on liquor. Neighbouring Haryana, ruled by the Bharatiya Janata Party, is also planning to levy a special cess. The moves come as the first day of opening of liquor stores saw a rush of buyers flouting social distancing norms across the country, risking the spread of the virus.

The Andhra Pradesh government also raised alcohol prices by 50%, a day after retail liquor stores opened up.

“New levies that have been introduced by state governments are essentially measures to make up for losses they have incurred and also curb crowds at alcohol stores,” said Saloni Roy, senior director, Deloitte India in a statement.

There have been instances in the past wherein states have taken recourse to such a practice to combat a crisis. In 2018, Kerala raised excise duty on liquor to finance humanitarian work after the state faced the worst floods in a century.

The liquor industry contributes about ₹2.5 trillion a year to states by way of excise and other taxes, according to an industry executive. Bulk of this goes to state governments as liquor is a state subject.

Karnataka raised excise duty on liquor by 6% in its budget presented on 5 March to help mitigate a ₹20,000 crore reduction of the state’s share in GST, central taxes and the divisible pool under the 15th Finance Commission’s calculations. The state is also trying to tap other revenue sources.

“Government is in deep trouble and one of the consequences is revenue and finances. There needs to be a structural relook at the way government spends money,” said Krishna Byre Gowda, former minister and Congress legislator from Byatrayanapura.

Utility of goods has been a key criteria guiding indirect tax policies of central and state governments. Thus, polluting fossil fuels like petrol and diesel have attracted high taxes. Yuvraj Y. Lasania in Hyderabad; Sharan Poovanna in Bengaluru; and Pretika Khanna and Gireesh Chandra Prasad in New Delhi contributed to the story.