The Indian **EXPRESS**
NEW DELHI ■ MONDAY ■ SEPTEMBER 17, 2001

Guest Column

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Travails of the varying sales tax

RECENTLY, the Indian Oil Corporation (IOC) announced a revised 'plant-wise' prices of liquid feedstock viz, naphtha and fuel oil for the fertiliser industry. While, IOC has not provided a break-up of these prices, according to reports, sales tax at a 'uniform' rate of about 6.0 per cent has been included for arriving at the factory gate price. The rate of sales tax differs from State to State.

For instance, on naphtha, whereas, in Uttar Pradesh, this is 4 per cent, in Gujarat, the rate is much higher at 20 per cent. How can then, a 'uniform' rate of 6 per cent which is different than the prevailing rate in the respective States be charged? Is it legally tenable? What are the implications of this for various stakeholders like consumers, States and IOC?

Prima facie, charging sales tax at a rate different than provided for under the Act is 'untenable'. From consumers angle, this will lead to serious distortions. Thus, plants located in a State like Uttar Pradesh, where, prevailing rate is lower than the 'uniform' rate, will be made to pay more. On the other hand, plants in a State like Gujarat, where the prevailing rate is higher, will pay less.

Apart from rationalisation in price based on import parity, they also reap a bonanza due to lower sales tax. In contrast, plants located in Uttar Pradesh, pay more due to the overpowering effect of including 'notional' freight from port to inland refinery (domestic refineries do not actually incur it) on one hand and charging of higher sales tax on the other.

What will be the impact on State governments? In a State where, the rate charged is lower than the rate prescribed under the Act will incur significant loss of revenue. On the other hand, a State like Uttar Pradesh, where, the rate charged is higher than the prevailing rate, inflows into its coffers will be more than justified.

Presumably, it would have arrived at the 'uniform' rate by taking a weighted average of the rates in respective States (weights being the share of sales in each State to the total). Only then, the collections will match the total liabilities. The ability of IOC to fully meet its sales tax obligations critically depends on realising the sales forecast in the respective states.

Now, if in Uttar Pradesh (here, actual sales tax is lower than the 'uniform' rate), actual sales is less than the projected level; there will be shortfall in collection vis-à-vis the requirements. The outcome will be similar if, in a State like Gujarat, actual sale is higher than the forecast.

IOC will thus, be in serious trouble. If, actual sales are as per targets, IOC may not face any problem in fully meeting the liabilities towards sales tax. However, the fact that the rate actually charged is at variance with the prevailing rate as per the Sales Tax Act cannot be wished away.

The concept of charging sales tax on a 'uniform' basis will help in reducing inter-plant variations in delivered cost of feedstock and facilitate a smooth transition toward eventual decontrol of urea—by the year 2006—as recommended by ERC. But, then a proper course to achieve this is to actually put in place a 'uniform' sales tax regime. This incidentally, was agreed upon by all at the Chief Ministers' Conference held in November, 1999. As regards, redeeming of this pledge, only time will tell.

(The author is a chief economist and additional director with the Fertiliser Association of India and the views are his personal)