

Hon'ble Minister For Finance and Human Resources Management
Dr Palanivel Thiaga Rajan Press Statement

The Hon'ble Union Minister of Finance, Tmt. Nirmala Sitharaman spoke on 01.08.2022 in the parliament regarding price rise, increase in GST rates and taxes on petrol and diesel. I wish to offer some explanations regarding the same.

The Union Finance Minister stated that the State Government did not reduce the taxes on petrol and diesel while the Union Government had reduced their taxes. Even before the Union Government had first reduced its taxes on petrol and diesel in November 2021, the Government of Tamil Nadu had cut the VAT on Petrol by Rs. 3 per litre in August 2021. Further, the reduction of taxes by the Union Government on petrol has reduced the State taxes by Rs. 1.95 per litre. Therefore, the State taxes on petrol have reduced by a total of Rs. 4.95 per litre. Similarly, the reduction of taxes by the Union Government on diesel has reduced the State taxes by Rs. 1.76 per litre. Further, the State Government provides diesel subsidy to the Fisheries and Transport departments.

On the other hand, the Union Government's levies on petrol have gone up substantially in the past 7 years. Though the revenue to the Union Government has increased by several lakh crores, there has not been a matching increase in the revenues to States. 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.

Over the last seven years, the Union Government has increased the taxes on petrol by Rs. 23.42 per litre (247%) and Rs. 28.23 (790%) per litre on diesel. The Union Government's reduction in taxes in November 2021 and May 2022 together was Rs. 13 on petrol and Rs. 16 on diesel. Though the Union Government has reduced the taxes, it is still higher than the 2014 rates by Rs. 10.42 per litre for petrol (110%) and Rs. 12.23 per litre for diesel (342%). Therefore, there is a need for the Union Government to further reduce its taxes.

The Union Government's reduction in taxes that were announced on 03.11.2021 will cause an additional loss of about Rs. 1,050 crores in annual revenue to Tamil Nadu. The reduction in May 2022 will cause a further loss of Rs. 800 crores in annual revenue to the State.

Since the imposition of GST on essential food items will adversely affect the common man, the Government of Tamil Nadu had sent its objections in written through a letter. The decision regarding the imposition of taxes is being taken in three stages. The recommendations on tax impositions were placed in the GST council (i.e the third

stage) for taking a decision. There are inherent issues in the basic structure and design of the GST council. The Union Government has a voting right of 33% and all the other States have 2% each. All states have only 2%, whether it is a big state or a small state. In such a structure, if any decision regarding GST tax imposition is to be stopped by the State Government, it requires the full support of 25 states or the support of the Union Government.

Further, the report containing the recommendations of tax imposition which was placed before the GST council for decision had to either be accepted in its entirety or rejected in its entirety. After deliberations, the interim report of the Group of Ministers containing 56 recommendations was accepted by the GST council. Even the Hon'ble Union Finance Minister had mentioned about this three-stage process of deciding upon the imposition of GST.

Tamil Nadu's share in the national population is 6.21 % and it's share in the GDP is 9.16%. However, the State gets only 4.079% as devolution from Central taxes. Tamil Nadu did not get its due share in successive Finance commissions and the share for the State has continually decreased.

After the introduction of GST, the State's power to levy taxes has been reduced greatly. There are not enough avenues for the State to augment its revenues. Therefore, it is the Union Government which has the opportunities and resources to help the common man and I request the Union Government to come forward and reduce its taxes.

Issued By : - DIPR, Secretariat, Chennai - 9.

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