Syllabus subtopic: Government Policies and Interventions for Development in various sectors and Issues arising out of their Design and Implementation.

Prelims and Mains focus: about the govt.’s move and its implications; need for reform in road tax structure

News: The Union government is making a renewed push to get states on board to levy a uniform road tax for personal vehicles across the country.

Why?

The move is expected to bring relief to automobile buyers, while also helping protect revenue of states as some consumers tend to purchase vehicles in states with lower taxes, resulting in a loss of revenue for those with higher taxes.

Background

- A group of ministers on transport set up by the roads ministry in 2018 had recommended a uniform road tax structure for vehicles across states and that the tax be charged based on the invoice price of a vehicle. For all personal vehicles, the tax should be 8% for a vehicle costing under Rs.10 lakh, 10% for a vehicle costing between Rs.10 lakh and Rs.20 lakh and 12% for a vehicle costing more over Rs.20 lakh.

- A recent meeting between the Centre and state transport ministers to discuss the uniform road tax structure saw most of the ministers agreeing to the proposal.

About Road Tax

Road tax is paid during the registration of a vehicle in a particular state. It is levied along with the goods and services tax (GST) and directly impacts the price of a new vehicle.
Implications

- A rejig in tax rates will have fiscal implications.
- Tinkering with revenue has been a contentious issue. States have been averse to uniform tax rates as some of them would have to take a hit on revenue collection.
- It will depend on the states as road tax features on the state list.

Current scenario

- Currently, each state has a different formula for calculating the tax rate, which leads to anomaly in the final amount.
- For instance, in Delhi, the road tax is calculated based on the make, model, engine and seating capacity of a vehicle. For four-wheelers less than 1,000kg, the tax is more than Rs.3,800.
- However, in Arunachal Pradesh, it is calculated on the basis of the sale price of a four-wheeler, which is 2.5% or Rs.6,250 for a vehicle costing Rs.2.5 lakh, and 6.5% or Rs.1.3 lakh for a car costing over Rs.20 lakh.

Way forward

- On its part, the automobile industry has been pushing for a uniform road tax structure along the lines of the unified tax regime under GST as any arbitrary increase in road taxes by certain state governments results in higher vehicle prices, adversely impacting sales.

- This is a significant development for the auto industry since it was their long-standing demand. Apart from the poor state of the economy, increase in road taxes by states had impacted sales of vehicles in the past one year.