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Should Petroleum, Alcohol, And Electricity Be Included Under GST?

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Abstract-The Goods and Services Tax (GST) in India was a major tax reform that aimed at unifying the tax system and making it more transparent. However, some large sectors, such as petroleum, alcohol, and electricity, have been left out, resulting in uneven taxation and loss of input credit benefits. This paper examines their exclusion reasons, estimates the economic and fiscal effects of their inclusion, and identifies the benefits and challenges for the central and state governments. It uses only secondary data from government publications, research papers, and policy reports. In fact, the results indicate that the inclusion may lead to a simpler tax system, greater transparency, and strengthened fiscal coordination, though state compensation and implementation that is done with care are still necessary. The paper ends with the suggestion that a phased-in approach would help achieve a balanced, efficient, and growth-oriented tax framework for India.

Keywords: Goods and Services Tax (GST), Petroleum, Alcohol, Electricity, Fiscal federalism, State revenue, Tax reform in India.

I. INTRODUCTION

1.1 What GST is and its purpose

The Goods and Services Tax (GST) is a single, indirect tax regime that was implemented in India on July 1, 2017, to harmonies the various central and state levies such as excise duty, service tax, VAT, and entry tax. It is a destination-based tax; hence, the tax is collected at the place where the goods or services are consumed and not at the place of their production. GST is a tax on the supply of goods and services at every stage of the production and distribution chain; however, businesses are allowed to claim input tax credit (ITC) for the tax paid on their purchases. This makes sure that the tax burden is handed over to the last consumer, thereby solving the problem of "tax on tax" (referred to as the cascading effect).

1.2 Why some goods are excluded

Products like petroleum, alcohol, and electricity have been kept out of the Goods and Services Tax (GST) network mainly because they are the major contributors to the revenue of the state governments. The addition of these products can cause a sizeable revenue loss to the states, making them less fiscally independent. Besides, these industries are very vulnerable to price changes, and if they are put under GST, it could lead to inflation throughout the economy. Their inclusion is also limited by administrative and technical complications, as well as constitutional provisions, mainly because electricity is in the State List. Moreover, products like food that are necessary for people's lives are given exemptions based on social welfare to maintain their affordability and to provide them protection under the support of the lower-income households.

1.3 Why the question is important for economic policy

Bringing petroleum, alcohol, and electricity under the Goods and Services Tax (GST) is quite a big deal for India's economic policy. That's because these changes affect the government's fiscal balance, how revenue is shared, and whether prices remain stable or not. These areas alone are among the top revenue sources for both the central and state governments, so any change in their tax structure has a strong impact on public financing and the relations between different levels of government. On the one hand, their inclusion in the tax system might lead to uniformity, openness, and efficiency of the tax system. On the other hand, their exclusion keeps the states' autonomy and fiscal control intact. Thus, the decision to place these products under the GST is very important for a balanced, growth-oriented, and cooperative federal tax system.

1.4 The objectives of the study

This research aims to accomplish the following:

- To analyse the reasons for the exclusion of petroleum, alcohol, and electricity from the GST structure.

- To explore the economic and fiscal impact of the inclusion of these products under GST.
- To identify the possible advantages and obstacles of their inclusion for the central and state governments.
- To suggest Indian policy interventions that would facilitate a well-functioning and efficient tax system.

1.5 Research questions

- Why are these products - petroleum, alcohol, and electricity - exempted from the GST net in India?
- What would be the effects on the economy and the treasury if these goods were to be brought under GST?
- How would state revenues and intergovernmental financial relations change with the inclusion of such commodities?
- What could be the advantages and difficulties of incorporating petroleum, alcohol, and electricity in the GST regime?

II. LITERATURE REVIEW

2.1. Chandra Kant Parmar & Partha Pratim Ghosh (2021) Inclusion of Petroleum Products under GST

Chandra Kant Parmar and Partha Pratim Ghosh, in their research "Inclusion of Petroleum Products under GST" (2021), discovered that putting petroleum products under the GST bracket can lead to a significant loss of revenue from the central and state governments. I share the view that this financial issue is the main cause of why they are kept out. Nevertheless, I think the paper is mostly concentrating on the short-term loss of revenue and disregards the long-term advantages like one tax system, transparency, and growth of the industry. It would be possible to harmonise the two objectives of revenue conservation and economic advancement by gradually including states with adequate compensation.

2.2 Sacchidananda Mukherjee & R. Kavita Rao (2019) Exploring Policy Options to Include Petroleum, Natural Gas and Electricity under GST

Mukherjee and Rao (2019) examine policy scenarios for the incorporation of petroleum, natural gas, and electricity into the GST net and recommend models to lessen the revenue loss and price shocks. Their viewpoint that inclusion can be made possible through a diligent design resonates with me. Nevertheless, I think that their paper misses out on the political and administrative challenges that the states are dealing with. Although their policy proposal is realistic, its effectiveness hinges on a tight coordination effort between the central and state governments.

2.3 Designing GST for India, inclusive of Petroleum, Natural Gas and Electricity from the National Institute of Public Finance and Policy (2014)

Mukherjee and Rao (2014) provide a thorough interpretation of the ways in which the incorporation of petroleum, natural gas, and electricity under the GST regime can be arranged to lessen the tax-cascading and maintain the prices at the same level while still ensuring the revenue is protected. I agree with their technical evaluation that a properly implemented GST could integrate these sectors into the tax base without giving rise to an increase in final prices. However, the paper, in my opinion, is somewhat lacking in emphasis on the institutional and political constraints, particularly the states' considerable reliance on taxes that they impose now, which may obstruct the implementation. I find their design scenarios convincing, but I feel that for my research, it is necessary to have a stronger emphasis on the transition strategy, the compensation mechanisms and the feasibility in the real world.

2.4 G. Shrithar & Shylaja S (2025) Comparative Study on Petroleum Under GST

Shrithar and Shylaja (2025) delineate the comparative study of the use of petroleum products for various economic activities and the effects of their non-inclusion in the GST regime. I consider their research very insightful, as it practically demonstrates how the existing tax framework on petroleum is causing the doubling of tax liabilities and inefficiencies in the various sectors of the economy. Nevertheless, I think the paper somewhat underplays the role of policy transition mechanisms, such as state

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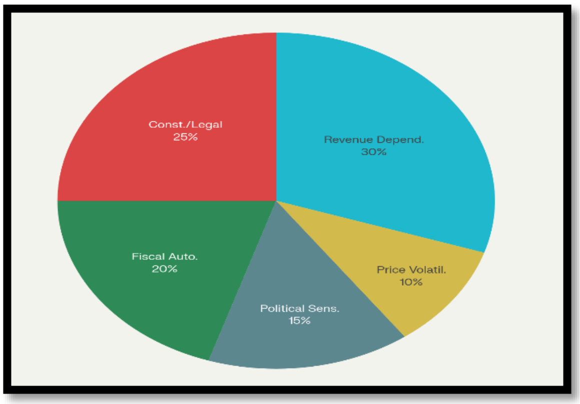
compensation schemes or phased inclusion models, in alleviating revenue losses and ensuring a smooth transition. Given their empirical focus, it is my research aims to extend their findings by emphasising implementation pathways and governance challenges, along with the technical tax analysis.

III. OBJECTIVE ANALYSIS

3.1 To analyse the reasons why petroleum, alcohol, and electricity were excluded from the GST structure

First of all, these areas have been kept out of the GST net primarily as a measure to safeguard the states' income and their financial independence, as they are major sources of revenue through excise duties and VAT. The tossing of these items into the pool might have resulted in instant fiscal losses and operational difficulties. Moreover, the interplay of political and constitutional factors was instrumental in the decision, with the states opting to retain control over these commodities, which yield high revenues. Consequently, their non-inclusion was a strategic, provisional step taken to ensure a smooth handover to the GST system.



Source: New Indian Express and Business Standard (2023–2025).

3.2 To explore the economic and fiscal impact of the inclusion of these products under GST

Product	Economic Impact	Fiscal Impact	Potential Challenges
Petroleum	Reduced cascading taxes; stability in retail prices; improved compliance	Temporary revenue losses; need for compensation	Price volatility, states' revenue dependency, and political resistance
Alcohol	Simplified tax structure; reduced cascading; increased transparency	Complex revenue sharing; need for constitutional amendments	Constitutional exclusion; political reluctance
Electricity	Better input credit, reduced price volatility, and sector efficiency	Increased GST collections; potential reduction in local taxes	Distribution complexity; regulatory issues

Source: New Indian Express, '8 Years of GST June 30, 2025

The inclusion of petroleum, alcohol, and electricity under the GST umbrella could have as many positive effects as negative ones on the economy. It would, in fact, establish a uniform tax structure, eliminate the cascading effects of taxes, and reduce production costs through input tax credits, thus being a combination of factors that would bring benefits to both consumers and the industry. However, there is also the possibility of a short-term revenue loss for the state governments that would still depend on taxes from these sectors. The focus here is on assessing government revenue changes, inflation, prices, and overall economic growth that would result from such a move, thereby indicating whether the reform would strengthen or weaken India's fiscal balance.

3.3 To identify the possible advantages and obstacles of their inclusion for the central and state governments

Comprising petroleum, alcohol, and electricity, the implementation of GST on these items has many pros, including a uniform tax system is one of the main advantages; the taxes are reduced cascading, transparency is improved, and trade becomes easier between states. There are, nevertheless, difficulties such as the possibility of a decrease in the income of the states, opposition from the political sphere, and problems in the administrative area, like rate fixation

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and tax sharing. Besides, it may also jeopardise the fiscal balance between the Centre and the States, thus requiring negotiation and compensation provisions. The overall effect of this ambition is to determine how inclusion can lead to greater tax efficiency while still ensuring the financial stability of the states.

Product	Advantages (1-10)	Obstacles (1-10)
Petroleum	8	9
Alcohol	7	10
Electricity	9	7

Source: New Indian Express, '8 Years of GST June 30, 2025

3.4 To suggest Indian policy interventions that would facilitate a well-functioning and efficient tax system

The goal of this objective is to outline sensible government policies that will facilitate the gradual incorporation of petroleum, alcohol, and electricity into the GST regime without a shock to fiscal stability. It is mainly about ways that include gradual implementation, revenue compensation methods for states, and standardisation of GST rates to ensure fairness and maintain the level of efficiency. Besides, it highlights the importance of enhancing the tax administration, the compliance system, and the good coordination between the Centre and the States. This objective, therefore, through such measures, aims at establishing a well-balanced, clear, and growth-friendly tax system that both governments and consumers can reap the benefits of.

Policy Intervention	Purpose	Expected Outcome
Gradual/phased inclusion approach	Minimize disruption	Smooth transition
Revenue-neutral GST rates	No revenue loss	Fiscal stability
Compensation mechanism for states	Mitigate state fiscal impact	Reduced opposition
Constitutional amendments for alcohol	Enable legal inclusion	Feasibility of alcohol GST
Stakeholder consultations & consensus	Reduce resistance	Faster policy adoption
Flexible state-level surcharges	Allow state fiscal autonomy	Balanced federalism
Improved technology for compliance	Simplify GST processes	Better compliance, ease of business

Source: New Indian Express, 'GST 2.0: A landmark overhaul,' September 5, 2025

IV. RESEARCH QUESTIONS

4.1 Why are these products - petroleum, alcohol, and electricity - exempted from the GST net in India?
In the major part, petroleum, alcohol, and electricity have been excluded from the GST system as a consequence of their being the major sources of revenue for the state governments. States are raking in a lot of money from VAT and excise duties on these commodities, and the merging of these commodities into the GST may cause a drop in revenue and also a reduction in fiscal control. Besides, these commodities are very sensitive to price changes, and changes in the tax rates may have an impact on inflation and consumer prices. Alcohol is left out for social and political reasons, as it is regulated by the state. The study explores the possibility that the inclusion of these commodities in GST could lead to a simpler and more uniform tax system or result in a decrease in state finances and economic instability.

4.2 What would be the effects on the economy and the treasury if these goods were to be brought under GST?
If the goods and services tax were to include petroleum, alcohol, and electricity, along with other items, the whole taxation system would become simpler and the production costs would be lower, which in turn would lead to economic growth and an increase in its overall efficiency. Nevertheless, it may result in a momentary decrease in income for both the central and state governments since the rates of GST are lower than the existing taxes. Eventually, it might become a better tax system and ensure sustainable government budgets in the future.

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4.3 How would state revenues and intergovernmental financial relations change with the inclusion of such commodities?
The inclusion of petroleum, alcohol, and electricity in GST, along with that of other commodities, will have a significant impact on state revenues and fiscal relations with the Centre. To begin with, states would see a drop in their revenues because they are currently making handsome profits from VAT and excise duties on these products, which would be subsumed in GST. This, in turn, may result in an increased reliance on the central tax transfers and compensation, which would change the vertical fiscal federalism equilibrium. Nevertheless, a single GST regime may well usher in improved coordination, greater transparency, and more equitable revenue sharing between the Centre and the States in the long run.

4.4 What could be the advantages and difficulties of incorporating petroleum, alcohol, and electricity in the GST regime?
Bringing petroleum, alcohol, and electricity into the GST net will, in fact, be beneficial in several ways. These include the creation of a uniform tax structure across the country, the reduction of the cascading effect of multiple taxes, and the granting of input tax credit, which can lower production costs and thus promote industrial growth. Besides these, the move will also result in increased transparency, ease in tax compliance, and price uniformity across states, thus leading to improved economic efficiency. But on the flip side, there are challenges associated with this decision, such as the possibility of revenue losses for the states that are currently dependent on these commodities for their income through VAT and excise duties. Moreover, the states may resist losing their fiscal control over these items, which generate high revenue, and the transition may cause price instability and policy disputes between the Centre and the States, which, in turn, may make the implementation of the decision difficult.

V. RESEARCH METHODOLOGY

This research is based on secondary data, which were obtained from credible and dependable sources.

5.1 Type of Research:

- Descriptive Research: Used to explain the present tax scenario and reasons for exclusion of the selected sectors.
- Analytical Research: Involves evaluating the possible economic, fiscal, and administrative outcomes if these sectors were included under GST.

5.2 Data Collection Method:
The data was collected by examining documents and conducting a thorough content analysis of research papers, government documents, and statistical data that are relevant to the topic.

5.3 Method of Analysis:
The researchers have compared and interpreted the data that they collected. They have compared the current taxation system with different scenarios of including it in GST. They have also used the tables and charts as visual aids to make the economic and fiscal effects more transparent and easier to understand.

5.4 Scope and Limitation:
The research work revolves around the Indian tax system, deliberating on the implications at the national level for the central and state governments. Moreover, the study does not entertain any primary data collection means like surveys and interviews, and thus, it is wholly dependent on secondary data and policy analysis.

VI. FINDINGS

6.1 Current Exclusion and Fiscal Dependence:
Still, petroleum, alcohol, and electricity are not included in the GST bracket in India. Various states are charging high VAT and excise duties on these three products to keep up their revenue, which is still their major source. This dependence on these three commodities has made these states cautious about the inclusion of these products under GST, as they are scared of losing their revenue and fiscal autonomy.

6.2 Economic and Administrative Implications:
The existing tax system results in inefficiencies and stands in the way of the emergence of a single market in the true sense of the word. The lack of these main sectors in the GST causes taxation to cascade, the cost of production to rise and the benefits of input tax credit to be very limited in the industrial sectors.

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Their inclusion under GST could not only simplify tax collection but also increase compliance and make the process more transparent; however, this should be done with adequate compensation for the states.

6.3 Future Prospects and Policy Considerations:
Discussions between the central and state governments are ongoing to consider phased inclusion, especially for petroleum products. Expert committees and GST Council meetings have indicated that future inclusion could strengthen India's indirect tax base and improve overall economic efficiency. However, a careful and consensus-driven approach is essential to maintain state revenue stability and avoid fiscal imbalance during the transition.

VII. SUGGESTIONS / RECOMMENDATIONS

- Petroleum, alcohol, and electricity inclusion under GST need to be phased out one by one, relying on petroleum products first, to have a transition without any troubles.
- The Central Government must extend sufficient monetary relief to the States to compensate for short-term revenue losses that will result after the implementation of the scheme.
- It is necessary to establish a uniform rate structure of taxation to retain the principle of fairness and to prevent tax evasion.
- It is suggested that the regular GST Council meetings and consultations with experts be used as a forum to discuss the views of the Centre and the States and thus reach an agreement.
- Information and training sessions for the industrial sector and the departments of state taxation will be of great help in the proper execution of the work and in the observance of regulations.

VIII. CONCLUSIONS

In summary, incorporating petroleum, alcohol, and electricity into the GST framework would enhance the transparency and efficiency of India's tax system. Their exclusion has resulted in tax gaps and restricted the advantages of a unified market. While states rely on these sectors for revenue, a gradual and strategically planned integration, accompanied by adequate compensation, can harmonise both state and national interests. This reform would advance India towards the genuine objective of "One Nation, One Tax."

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