

4. Liquor Revenue for States

Prelims Syllabus: Taxes and Taxation

Mains Syllabus: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Why in News?

- Recently, the central government eased restrictions in the third phase of the nationwide lockdown and allowed the sale of liquor.

About the News:

- The Delhi government announced a 70% hike as 'Special Corona Fee' in the price of liquor across categories. This shows the importance of liquor to the economy of the states.
- Liquor contributes a considerable amount to the exchequers of all states and Union Territories (UTs) except Gujarat and Bihar, both of which have enforced prohibition.
- Andhra Pradesh announced prohibition in 2019, however, sale of the liquor has been allowed with "prohibition tax".
- States levy excise duty on manufacture and sale of liquor.
- States also charge special fees on imported foreign liquor, transport fee, and label & brand registration charges.
- A few states like Uttar Pradesh, have imposed a 'special duty on liquor' to collect funds for special purposes, such as maintenance of stray cattle.

RBI's report on State Finance:

- The Reserve Bank of India published the report '**State Finances: A Study of Budgets of 2019-20**' in September 2019.
- It shows that state excise duty on alcohol accounts for around 10-15% of Own Tax Revenue of a majority of states.
- In fact, state excise duties on liquor is the second or third largest contributor to the category State's Own Tax revenue; Goods and Services Tax-GST is the largest.
- This is the reason states have always wanted liquor kept out of the purview of GST.
- According to the report, in 2019-20, state GST had the highest share, 43.5%, in states' Own Tax Revenue, followed by Sale Tax at 23.5% (mainly on petroleum products which are out of GST), state excise at 12.5%, and taxes on property and capital transactions at 11.3%.

About State Excise:

- Excise duty on production of few items including that on liquor and other alcohol-based items is imposed and collected by state governments and is called 'State Excise' duty.
- Excise duty is basically a production tax. It is imposed on manufactured items in India that are meant for domestic consumption. Revenue receipts from state excise come mainly from commodities such as Country Spirits; Liquor; Foreign Liquors and Spirits; Medicinal and Toilet Preparations containing Alcohol, Opium etc; Opium, Hemp and other Drugs; Sales to Canteen Stores Depots. Apart from these, a substantial amount comes from licences, fine and confiscation of alcohol products.

What are the Sources of Revenue for States?

Tax Revenue:

- **State's Own Tax Revenue:**
 - ✓ Taxes on Income (agricultural income tax and taxes on professions, trades, callings and employment)
 - ✓ Taxes on Property and Capital Transactions (land revenue, stamps and registration fees, urban immovable property tax)
 - ✓ Taxes on Commodities and Services (sales tax, state sales tax/VAT, central sales tax, surcharge on sales tax, receipts of turnover tax, other receipts, state excise, taxes on vehicles, taxes on goods and passengers, taxes and duties on electricity, entertainment tax, state GST, and "other taxes and duties")

Share in Central Taxes:

- Article 280 of the Indian Constitution requires the composition of the Finance Commission in every five years so that the states can get a reasonable part in the tax revenue of the Union Government.

Non-Tax Revenue:

- These are collected by the governments for providing/facilitating any goods and service.
- It is compulsory to pay a part of the income earned/generated and amount of goods and services consumed as tax. However, non-tax revenue becomes payable only when services offered by the government are availed.

Other Components:

- **Interest:** It comprises interest of loans given to states and union territories for reasons like non-plan schemes and planned schemes with a maturity period of 20 years and also interest on loans advanced to Public Sector Enterprises (PSEs), Port Trusts and other statutory bodies etc.
- Dividends and profits, Petroleum license, Power supply fees, Fees for Communication Services, Broadcasting fees, Road, Bridges usage fees, Examination fees etc.

