

# Bring natural gas under GST to realise PM's vision of gas-based economy: Industry



The government should bring [natural gas](#) under the Goods and Services Tax ([GST](#)) regime to realise Prime Minister [Narendra Modi](#)'s vision for a gas-based economy and raising the share of the environment-friendly fuel in India's energy basket, an industry body that represents the likes of Reliance Industries as well state-owned firms, has said.

Natural gas is currently outside the ambit of GST, and existing legacy taxes -- central excise duty, state VAT, central sales tax -- continue to be applicable on the fuel.

In its pre-Budget memorandum to the finance ministry, Federation of Indian Petroleum Industry ([FIPI](#)), which boasts of members from across the oil and gas spectrum, also demanded rationalization of GST on transportation of natural gas through pipeline as well as on re-gasification of imported LNG to help bring down cost of the environment friendly fuel.

The Prime Minister has set a target of raising the share of natural gas in the country's primary energy basket to 15 per cent by 2030, from 6.2 per cent currently. Greater use of natural gas will cut fuel cost as well as bring down carbon emissions, helping the nation meet its COP-26 commitments.

"Non-inclusion of natural gas under the GST regime is having adverse impact on natural gas prices due to stranding of taxes in the hands of gas producers/suppliers and is also impacting natural gas-based industries due to stranding of legacy taxes paid on it," FIPI said.

VAT rate on natural gas is very high in some states -- Andhra Pradesh levies 24.5 per cent tax, Uttar Pradesh 14.5 per cent, Gujarat 15 per cent and Madhya Pradesh 14 per cent.

Inclusion of natural gas under GST is required to provide uniform taxation and to encourage free trade of it across the country without any tax anomalies. "This is one of the key prerequisites for the development of gas exchange in the country," it said.

FIPI said non-inclusion of basic petroleum products such as crude oil, natural gas, petrol, diesel and ATF under the newly introduced GST regime is affecting the sector adversely.

"Presently, industry is paying GST on procurement of plant machinery and services and is unable to get the input tax credit as the final product is not included under GST. This is leading to immense pressure on the industry, which, in turn, is straining the entire economy," it said.

It sought earliest inclusion of petroleum products such as crude oil, natural gas, petrol, diesel and ATF under the GST regime.

The industry body also sought lowering of import duty on LNG to make it competitive with polluting liquid fuel.

Liquefied natural gas (LNG) is a clean fuel and mainly used in the fertilizer and power sector. Recognising the shortage of gas in the country, the government has encouraged import of LNG. Presently, import of LNG attracts customs duty of 2.5 per cent plus SWS cess of 10 per cent.

"However, the basic customs duty levied on import of crude oil is only Rs 1 per tonne. Since LNG falls in the same logical category as crude oil, they must have the same level of taxation as applied to crude oil," it said, seeking exemption from levy of customs duty on import of LNG.

Import of LNG for exclusive consumption in generation of electric energy for public distribution is exempt from custom duty subject to certain conditions. However, other important sectors like fertiliser, LPG, CNG and petrochemicals bear the burden of effective custom duty of 2.75 per cent.

"The custom duty increases the landed cost of imported LNG for domestic and industrial consumers. Since the domestic production of natural gas is not enough to cater the increasing demand, import of LNG at large scale is required to augment supply of natural gas for priority sectors such as fertiliser, CNG, piped natural gas, LPG etc," it said.

FIPI said the imported LNG has to be re-gasified and converted into natural gas (known as RLNG - regasified liquefied natural gas) for transportation and consumption in India. The activity of regasification of LNG presently attracts a high GST of 18 per cent.

"The levy of GST at a higher rate of 18 per cent on the regasification of LNG increases the landed cost of imported LNG for domestic industrial consumers.

"Natural gas is kept outside the ambit of GST (but) regasification of LNG is under GST ambit resulting in stranding of taxes, and a higher rate of tax owing to limited clarification is reducing the competitiveness of RLNG with other polluting fuels," it said.

The activity of regasification may be considered as manufacturing, going by the definition of manufacture as per Sec 2(72) of the CGST Act, to attract GST of 12 per cent instead of 18 per cent. However, presently the industry is not considering the said definition due to lack of clarity and continues to charge GST at 18 per cent.

"In order to promote gas-based industry in India, it is suggested that suitable amendment/clarification may be made so that activity of regasification attracts 12 per cent GST on job work basis," it said.

FIPI also sought rationalisation of GST rate on services of transportation of natural gas through pipeline by levying 5 per cent tax with input tax credit (ITC) benefit instead of present 12 per cent.

"This will lead to lower cost of transportation of natural gas and will help in promotion of cleaner sources of energy for power and CNG where ITC of GST paid on transportation of natural gas is not available," it said.