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Study of Road User Taxes in Haryana

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ABSTRACT

Some incentives could be built into the tax system to motivate States to use road taxes as an instrument to achieve certain policy objectives. First, these taxes could be introduced in such a way that they encourage the use of multi-axle vehicles. This is important in the context of over-loading of two-axle vehicles and their consequent damage to the roads. Transportation of heavy loads without causing excessive damage to pavement can be best achieved by using multiaxle vehicles. Second, the tax concession should be used to bring about noise-reduction and high value vehicles. That is, the tax rate could be inversely related to noise pollution and positively to the value of vehicles. Third, for abatement of pollution, it is recommended that a presumptive tax be levied for restricting the use of private vehicles and a well designed purchase and circulation tax levied to encourage cleaner car technologies and fuels to reduce vehicle emissions. Fuel duties can be used to reduce traffic as well as pursue other environmental policy goals related to transport.

I. INTRODUCTION

Road transport is a basic mode of transport for people to travel and to carry goods. Its capacity needs to be enhanced and road quality has to be improved to cope with the increasing pressure of road traffic. Over time, the number of personalized vehicles has increased significantly, causing concentration of vehicles in cosmopolitan towns and increase in air pollution. Revenue from taxation of motor vehicles is one of the increasing sources of revenue for the States. Levied primarily as a regulatory measure, it has over the years attained importance as an elastic source of revenue for the Government. With a growth rate of 13.3% and a 1.08 buoyancy during 1993-94 to 2007-08, taxes on motor vehicles has contributed 7.7% to the States' own tax revenue.

Road user taxes play an important role in achieving a desired level of growth in the number of vehicles and investment in roads. The existing structure of taxes on motor vehicles, however, is uneven with no regard for its economic effects. Both Central and State Governments impose taxes on vehicles. These are levied at the time of purchase, or for having ownership and when the vehicle is used. The major taxes levied include customs duty, CenVAT, and central sales tax levied by the Central Government; motor vehicles tax, passengers and goods tax, state VAT, and toll taxes levied by the State governments. The existing structure of road user taxes is characterized by its multiplicity. It shows wide variations in tax rates. First, there are differing schemes for classification of vehicles. Second, there is no uniformity in the bases of various levies.

Third, the tax is at times specific while in some cases it is ad valorem. Finally, in some States there is a one time levy and in others, there is an ad valorem levy payable every year. In fact, it is difficult to make comparisons of rates levied on different types of vehicles in different States. The efficiency and economy of motorized road transport operations are, to a great extent, affected by the road system. Almost all consumer and industrial goods are transported by road. Road transport is, therefore, a basic mode of transport for people to travel and for carrying goods. The Government is, however, finding it increasingly difficult to maintain the existing road system, besides providing for enhanced road capacity.

This is mainly due to the inadequacy of resources to meet the growing requirements of the road transport system. Another issue for efficient motorised transport operations is the adequacy of the present system to handle increasing traffic and to maintain the existing road net work. That is, the number of transport vehicles should be consistent with the increased load of goods and passengers. Over the years, the number of registered vehicles has recorded a spectacular increase, for private as well as commercial vehicles. The upward trend in the registration of vehicles indicates that while in 1971 the total number of vehicles was 18.65 lakh, the number has gone up to 53.91 lakh in 1981 and to 337.86 lakh in 1996; this further increased by more than two and a half times by the year 2006 (896.18 lakh). The growth over the period 1970-71 to 2006-07 has been 12.37 percent per annum (Table 1).

Table 1: Registered Motor Vehicles in Haryana

Year	All vehicles	Two-wheelers	Cars & Jeeps	Buses	Goods Vehicles	Other Vehicles*
1971	1865	576	682	94	343	170
1972	2045	656	740	100	364	185
1973	2109	734	709	95	308	263
1974	2327	838	768	105	323	293
1975	2472	946	766	114	335	311
1976	2700	1057	779	115	351	398
1977	3260	1415	878	119	383	465
1978	3614	1618	919	124	403	550
1979	4059	1888	996	133	444	598
1980	4521	2117	1059	140	473	732
1981	5391	2618	1160	162	554	897
1982	6055	3065	1243	173	613	961
1983	6973	3654	1385	185	675	1074
1984	7949	4351	1455	199	742	1202
1985	9170	5179	1607	223	822	1339
1986	10577	6245	1780	227	863	1462
1987	12618	7739	2007	245	984	1643
1988	14818	9300	2295	269	1114	1840
1989	16920	10965	2486	278	1179	2012
1990	19152	12611	2694	298	1238	2311
1991	21374	14200	2954	331	1356	2533
1992	23507	15661	3205	358	1514	2769
1993	25505	17183	3361	364	1603	2994
1994	27660	18899	3569	392	1691	3109
1995	30295	20837	3841	423	1794	3406
1996	33786	23252	4204	449	2031	3850
1997	37332	25729	4672	484	2343	4104
1998	41368	28642	5138	538	2536	4514
1999	44875	31328	5556	540	2554	4897
2000	48857	34118	6143	562	2715	5319
2001	54991	38556	7058	634@	2948	5795
2002	58924	41581	7613	635@	2974	6121
2003	67007	47519	8599	721@	3492	6676
2004	72718	51922	9451	768@	3749	6828
2005	81501	58799	10320	892@	4031	7457
2006 (P)	89618	64743	11526	992@	4436	7921
Gr. Rate	12.37	15.00	8.76	6.99	8.44	11.31

The breakup of the overall increase in the number of vehicles suggests that there has been a significant increase in the number of personalized modes of vehicles, viz. cars, jeeps, two-wheelers etc. With rising income and an inadequate urban public transport system, personalized mode of transport is likely to grow faster in the coming years. These vehicles increased from 12.58 lakh in 1971 to 37.78 lakh in 1981 and further to 274.56 lakh in 1996; in the year 2006, the number stood at 762.69 lakh recording a growth rate of 13.19 percent during 1971 to 2006.

Objectives and Scope of the Study

Given the status of roads and road transport system in Haryana, the increase in the number of registered vehicles causes congestion and stress on the available meagre infrastructure of highways and other motorable routes. Also, given that the taxes on road use levied by different States is uneven and levied mainly for mobilizing resources with no regard for its economic effects, this study aims at:

- Analyzing fiscal importance of taxes on motor vehicles.
- Evaluating the structure of all transport taxes levied by the Central, State and local governments o on purchase and use of vehicles in terms of cost for users, especially for trade and industry to have least cost and efficiency in national and international trade and commerce;
- Presenting an estimation of combined incidence of all the taxes on road transport for a few select categories of vehicles; and
- Recommending a rational system of taxation for the transport industry and putting forth reforms for

The study hypothesizes that the road user taxes should mainly be an instrument to regulate and control the vehicles; these are not necessarily meant for only mobilizing resources. However, with the rational and regularized growth of vehicles, the revenue will automatically grow in all the States. Also, it hypothesizes that the combined incidence of all taxes on road transport, levied by the different tiers of governments on different facets of owning a vehicle, is substantial. These taxes affect the (i) purchase of vehicles, (ii) ownership of vehicles, and (iii) the operation of vehicles. This excessive burden of all types of taxes on vehicles hinders the growth of different types of vehicles in the country. In addition, the taxes on the road transport sector lead to a cascading effect due to the tax levied at earlier stages. The study, therefore, attempts to estimate total burden of taxes on different types of vehicles. The study also tests the hypothesis that the governance of these taxes, presently based on a large number of check-posts for passengers and goods tax, interferes with the free flow of trade and traffic within a State and causes harassment to a large body of dealers. Also, it examines the procedures of assessment and collection, and recommends policy imperatives to have reforms in the structure and governance of motor vehicles tax and the other taxes on goods and passenger vehicles.

Issues in Road Pricing

Roads are different from other economic activities. First, these are specific to location. Second, there are significant economies of scale in the production of road services. Third, their capacity and quality are in the nature of joint products. And fourthly, their services are generally sold under conditions of state monopoly. Given the above inherent characteristics of roads, the efficient price for road use is determined by the short-run marginal cost resulting from road usage. Every time a vehicle uses a given stretch of road, it results in wear and tear of the road. The user cost is, thus, to be established at the level covering the cost of damage done to the road. Since this prescription does not allow for recovery of capital investment on roads, the pricing of road faces several problems. In the long-run, such a method of pricing could lead to excessive development of the road transport sector relative to other modes.

Accordingly, in the long run, pricing in road transport sector is mainly done on the basis of the long run marginal cost principle. Assuming a perfectly competitive industry, this pricing would result in efficient allocation of resources. But in reality, for a perfectly competitive firm supplying road services and investing in road capacity, the main constraint is the road capacity which cannot be adjusted in small units. In equating price with long run marginal cost it is assumed that the roads are like “putty”. That is, it can be adjusted in small units. The firm can expand capacity for one additional vehicle journey if the price is higher than the cost involved in expanding capacity. However, road capacity cannot be expanded or contracted by small amounts. Thus, it is economically desirable to invest in roads which are un-congested if augmentation in quality and resultant savings in user costs (duly discounted) are greater than the investment expenditure.

ECONOMICS OF ROAD USER TAXES

The analysis in the previous chapter clearly highlights the fiscal significance of road user taxes in Haryana. The trend indicates that whereas road user taxes are one of the constituents of States’ own revenue, these do not play a very significant role in financing highway expenditure in the country. This is primarily due to the fact that the theories of road pricing do not facilitate a proper solution to determine the required rate of road user taxes. The pricing mechanism is generally meant to solve two different problems simultaneously. One problem relates to the allocation of resources to a particular use. There then arises the issue of allocating the goods and services produced among the members in that particular economy. In a

competitive framework, the pricing mechanism solves both the problems simultaneously with the equilibrium set of prices. This solution is efficient from the point of view of resource allocation as well as in the use of existing facilities. However, when the two problems are not solved simultaneously, there arises ambiguity about pricing principles. This is particularly true in the case of roads.

Concept of Road User Tax

Historically, the local population (especially the landowners) was responsible for the repairs of roads and bridges. Since they were the dominant users and beneficiaries of such roads, this was found to be the ideal approach. Each individual had to devote time and money to maintain the roads. Land owners were levied special assessments for access roads because land would have little value if it were inaccessible. Anyone who caused extraordinary damage to a road could be held accountable for its repair. This framework was based on a static theory of roads; the emphasis was on maintaining the roads, not on improving them or providing for an expansion of the road network. With the development of commerce and trade in the latter part of the 18th century, a more dynamic view of roads emerged. Certain routes began to be used as important inter-city routes thereby losing much of their local service characteristics.

At the same time, roads continued to be built and maintained by property taxes collected in the successive towns along the routes. Thus, a divergence was created between costs borne by local property owners and the benefits resulting from the provision of the route to travellers "passing by". Moreover, local governments did not have capability to develop highways to the degree that was required. As a result of this and also because centralizing of such a function was generally opposed, the toll road movement developed. Heavily traversed routes were converted into turnpikes that were financed by tolls levied on the actual users of the facility. The professionals replaced amateur road builders and road taxes replaced statute labour requirements or local assessments levies.

The removal of roads from their dominant local role, thus, resulted in the acceptance of the idea that road services could be developed by ordinary investment standards and financed by specific beneficiaries, viz. the motor vehicle and its user rather than the general public. Fuel consumption, tyre wear and other aspects of vehicle operations determined the various types of improvements to be effected in a road, and hence, these were the basis for ascertaining the warranted expenditure on roads. There was also the strong belief that the rate of road improvement should depend upon the appearance of opportunities for profitable investment according to business standards and should depend upon the exigencies of politics and the state of the public treasury. Thus, the altered view of road functions has been reflected in the special taxes whose purpose is road financing and whose basis is road use.

Why Road User Taxes

The distinguishing feature of governmental supply of a private good is its employment of a user tax as a means of financing the good or service. A user tax (price) is defined as the price one paid incident to the ownership and operation of a vehicle. Alternatively, it could be defined as a payment which a motor vehicle operator is required to pay over and above his payment of other taxes.. The user tax is meant to recover for the government some part or all of the costs of supplying road services through direct charges on those using the same. In order that user prices effectively replace taxes as a means of financing publicly supplied services, there has to be a possible measure of the individual's share in the total usage of the services. But this in itself is not a sufficient condition to warrant a user price. In addition, there must be equity or an efficiency reason or both. If the benefits of publicly supplied services are enjoyed mainly by the direct users, that is, if these benefits do not spill over to people other than the direct users, there seems no reason why the others should be called upon to pay the costs. Further, the user price (as with any price in a market economy) must serve the essential function of rationing the available supply among many possible demands.

STRUCTURE OF TAXES ON MOTOR VEHICLES

Haryana has a federal political and administrative framework under which the Central, States and local authorities have well defined powers for taxation and management of roads and road transport. The jurisdiction of each tier of Government for the levy of tax is earmarked in the Seventh Schedule of the Constitution. The powers within the jurisdiction of the Centre are enumerated in List I and those within the legislative powers of the States are mentioned in List II. The Concurrent List, as mentioned in List III, inter alia, gives tax powers and principles to levy taxes on motor vehicles. For the road transport sector, regulation and taxation of motor vehicles are treated as two distinct powers in the Haryanan Constitution. While the former falls within the concurrent list (list III, entry 35) and the power is exercised by both the Central and State Governments; taxation of motor vehicles is clearly within the ambit of State legislative competence. Except for the national highways, the responsibility for roads is vested in the State governments. Both Central and State Governments impose taxes on vehicle purchase, vehicle ownership and vehicle use.

Taxes on Ownership of Vehicles

These taxes include recurring charges levied on vehicles during the period of ownership, usually in the form of an annual tax. This category includes motor vehicle tax, registration fee, fees for transfer of ownership of vehicle, and entry tax. Several criteria have been adopted to differentiate motor vehicles for taxation purposes, each reflecting one of the many objectives of the levy. There is also considerable diversity in vehicle classifications among States making comparisons of some rates difficult.

Motor Vehicle Tax (MVT) / Road Tax T

he avowed purpose of motor vehicle tax (MVT) is to defray the costs of road maintenance out of the revenue realized from user charges. Besides, motor vehicle taxation is also geared to fulfil other objectives like the reduction of both congestion and pollution. However, multiplicity of objectives results in complex tax structures, cross-classifications and unintended economic and welfare effects. Broadly the rationale behind motor vehicle taxation is two-fold. First, levies on the road transport sector can be justified as approximate user charges. MVT in the form of registration charges are essentially a charge on access to road network. In fact, the more a motor vehicle is used, the less the vehicle charge per kilometer travelled. But while access charges may vary according to vehicle type, they do not discriminate according to usage. The current structure of MVT in Haryana is primarily based on ownership and only indirectly linked to consumption (of the road transport service). Hence it is not a perfect user charge.

Second, MVT is supported on the ground that it has a fast growing base and an important source of tax revenue for the States. MVT is being levied in all States and UTs except the UT of Lakshadweep. Existing tax structure for commercial vehicles shows wide variations among States. There are different bases for computation and different rates, leading to differing incidence of taxes per vehicle in different States. In fact, it is not easy to make comparisons of rates levied on different types of vehicles in different States. Inter-State comparisons are somewhat difficult due to different classification principles for the taxation of vehicles in different States; variations in the application of 'lifetime' and annual tax rates to vehicle categories; use of specific and ad valorem rates; and multiplicity of rates. In addition, several criteria have been adopted to differentiate motor vehicles for taxation purposes across the States making comparisons of incidence difficult.

TOLL CHARGES FOR FINANCING OF HIGHWAYS

Toll charges or toll taxes are user charges upholding the concept of the "user-pays". Tolls are paid only when a particular facility is used and the tolls paid cover operating and maintenance costs as well as debt retirement of the facility. It is a form of pay-as-you use. This involves less cross-subsidy amongst road users and makes the incidence of tolls more visible and real to the user. Further, it permits rapid construction, inclusion of adequate operating and maintenance costs in the toll rates and the use of tolls as a form of congestion pricing.

Developed and developing countries are finding it increasingly difficult to maintain their road systems and provide for road expansion. This is mainly because prevalent sources of funding are inadequate to meet the growing requirements. Given the persistent pressure on resources, often the need has been felt to explore more extensive use of alternatives i.e. unconventional sources of funding for road construction and maintenance. One such alternative is toll financing of roads which is in limited use in the United States and in some countries of Europe and Asia. A significant number of toll roads have been built since World War II particularly in France, Italy, Japan, Spain, Portugal and the United States. In these countries, toll roads actually form a system of roads which, in general, is crucial, though its proportion in the total road system is often minimal.

Road Network Scenario

Haryana has a vast network of National Highways (NHs) totaling 1461 km and connecting important towns, cities, ports and industrial centres of the country. For the purpose of management and administration, roads in Haryana are divided into National Highways (NH), State Highways (SH), Major District Roads (MDR), Other District Roads (ODR), and Village Roads (VR) 1. The National Highways are intended to facilitate medium and long distance inter-city passenger and freight traffic across the country. The State Highways are supposed to carry the traffic along major centres within the State. Other District Roads and Village Roads provide villages accessibility to meet their social needs as well as the means to transport agriculture produce from village to nearby markets. Major District Roads provide the secondary function of linkage between main roads and rural roads. National Highways constitute only about 2% of the road network but carry about 40% of the total road traffic. While the traffic on National Highways has been growing at a rapid pace, it has not been possible for the Government to provide matching funds due to competing demand from other priority sectors. This has led to a large number of deficiencies in the network. Many sections of the national highways are in need of capacity augmentation by way of

widening grade separation, construction of bypass bridges and expressways etc. Many bridges are in need of replacement. The traffic movement on national highways is also hindered due to a large number of rail-road crossings where road traffic is forced to stop due to the frequent closures. The overall scenario on the highways has

CONCLUSION

The analysis of the activities of integrated information system presented in preceding paragraphs suggests that except for a few states where the efforts have significant impact, in other states, the attempts are ad hoc, and the treatment meted out to the MIS is usually casual. With a view to improving the existing information system in the motor vehicles tax administration of the states, it is important to reform the systems on the lines suggested below: First, it is essential that we adopt a suitable computational technology for proper motor vehicles tax management. In view of vast improvements in computer technology it is absolutely necessary that a requisite system, suitable to the structure and administrative reforms of the state concerned, is adopted. In adopting computer technology we have to keep in mind the capacity of the computer system to be adopted. Indeed, it should not be too big creating problems of under utilised capacity. In selecting the system one must also keep in mind the principle of 'Keep it Simple'. Similarly, requisite education and training to the staff using the computer is essential for its success. Hence, it is important to work out details of overall requirements of the operations of the tax.

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