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Whitepaper on

One Bharat One Road Tax

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Executive Summary

India stands tall at a giant milestone today as it boasts of a 63.32-lakh-km road network, the second-largest in the world after the United States of America. According to the Ministry of Road Transport & Highways, the combined length of National Highways in the country has increased by almost 59% in the last nine years alone, with India making consistent and rapid strides in strengthening its road infrastructure thereby propelling the country towards this landmark achievement. Additionally, and very significantly, this expeditious and vast development in roadways has been a key factor in fuelling India's economic growth leading to a surge in sectors around supply chain, logistics, connectivity, and warehousing.

The transformation of the road infrastructure has also paved the path for an aspirational and ambitious population wanting to own motor vehicles. They are spoilt for choice since India now is home to the world's third-largest automobile industry (after China and the US), with the sector contributing a healthy 6-7% to the GDP of the country. Not surprisingly, the ownership of personal vehicles has increased sharply, with the number of registered motor vehicles in the country growing at a CAGR (Compounded Annual Growth Rate) of 9.83% (from 2010 to 2020).

With Indians across all strata of society becoming mobile and moving from state to state in search of a better livelihood, we are witnessing certain shifts. Other than a spike in the purchase in the number of vehicles, there has been an uptick in the movement of vehicles amongst states and a robust growth of the pre-owned vehicles segment. And yet, against this backdrop of auto ambitions being in top gear, the desire to have seamless mobility in India is facing a road bump in the form of a differential road taxation regime. The component of "Road Tax" as part of the composite cost of a vehicle purchased varies from state to state, having a significant bearing on its final cost.

At present, each state follows its own formula for arriving at the road tax, leading to differentiated pricing of the same model in different states; the rate varies from 2% to 18% of the cost of the vehicle, and the basic parameters considered are weight, length, sale price, make, and engine capacity. For consumers, who often have to burn a hole in their pockets to purchase the car of their dreams, this differentiation makes matters complicated and expensive.

Simply put, on-road prices turn out to be strikingly different from state to state for the same model, so it is fairly common to have buyers purchasing cars in another state, rather than their state of domicile or residence, due to lower road tax in those states.

With the introduction of the Goods & Services Tax (GST) regime, a major price anomaly that existed in the previous Value Added Tax (VAT) regime and that applied to the purchase of a vehicle has already been fixed. However, the anomaly of the road tax persists.

Executive Summary

MoRTH (Ministry of Road Transport & Highways) came up with the ingenious BH (Bharat) Series number plates to enable private vehicle owners to move to any part of the country without the need for re-registration. But there are a few caveats. One, there is limited eligibility for those who can avail of the BH Series: only employees of Union and State governments, administrative services, defence personnel, bank employees, and private sector employees working for companies that have offices across more than four states or union territories are eligible. Two, BH Series owners not only attract a higher road tax but this facility is also not available for pre-registered vehicles or commercial vehicles.

The ideal way forward to fix this slew of incongruities will be a **ONE BHARAT, ONE ROAD TAX regime**. Such an initiative will not only benefit consumers, car manufacturers, dealers, and pre-owned car start-ups, but the government and the country as a whole will stand to gain enormously too. It will:

1) Prevent tax evasion and do away with the multiplicity of payment of road taxes
2) Promote simplicity of transfers, payments and refunds
3) Remove a major economic roadblock in transferring, buying and selling of pre-registered vehicles
4) Bring about a much-needed ease of owning and disposing of vehicles.

Indiatech.org (TSIA) humbly recommends and requests the government of India and all the States to move towards a ONE BHARAT, ONE ROAD TAX model.

This whitepaper aims to flesh out different aspects of the motor vehicles segment in India and point out areas that need further strengthening in the existing system; and it recommends a process of seamless transition to a ONE BHARAT, ONE ROAD TAX regime. A uniform road tax regime will bring about **"Ease of Owning and Disposing of Vehicles"**.

The whitepaper also recommends the government to bring about "Ease of Doing Business" by easing out and clarifying certain regulations that affect the start-up ecosystem engaged in the pre-owned vehicle segment around deemed ownership, GST and further reforms including digitization of all RTOs in the country.

The move will bring about a unified framework, making the public understand and comply with simplified road tax regulations irrespective of where they are living in the country. It has the potential to alleviate citizens of cumbersome compliances, open avenues for businesses to efficiently trade vehicles, and ensure that the government's efforts to digitally transform the nation bear fruit.

Background

A look into the existing system

India has witnessed rapid and major developments in roadways in the past decade, with an increase of about 59% in the total length of the National Highways alone! The country now has the second-largest road network in the world at 63.32 lakh km. This expeditious and vast development in roadways has also been an important factor in fuelling India's economic growth leading to a surge in industry, supply chain, logistics, connectivity and warehousing.

India is a proud home to the world's third-largest automobile industry, contributing a healthy 6-7% to the Gross Domestic Product of the country. Being an aspirational growing economy, the ownership of personal vehicles has increased sharply in India. The number of registered motor vehicles in the country has been growing at a CAGR of 9.83% (from 2010 to 2020).

According to the Ministry of Road Transport & Highways, the combined length of National Highways in the country has increased by almost 59% in the last nine years alone, with India making consistent and rapid strides in strengthening its road infrastructure thereby propelling the country towards this landmark achievement. Additionally, and very significantly, this expeditious and vast development in roadways has been a key factor in fuelling India's economic growth leading to a surge in sectors around supply chain, logistics, connectivity, and warehousing.

The growing road infrastructure has also paved the way for an aspirational population wanting to own motor vehicles. Emerging livelihood opportunities and existing job and personal requirements put a significant chunk of the population in a continuous migration mode across various strata of society. This further triggers more purchase of vehicles and also their movement among states either by way of transfers or pre-owned vehicles being sourced. However, the desire to have seamless mobility in India in the 21st century incurs bumps in the form of a differential road taxation regime.

With Indians across all strata of society becoming mobile and moving from state to state in search of a better livelihood, we are witnessing certain shifts. Other than a spike in the purchase in the number of vehicles, there has been an uptick in the movement of vehicles amongst states and a robust growth of the pre-owned vehicles segment. The component of "Road Tax" as part of the composite cost of a vehicle purchased varies from state to state, having a significant bearing on its final cost.

At present, each state follows its own formula for arriving at the road tax. States levy road tax when a motor vehicle is registered at the respective states' Regional Transport Office (RTO). States consider roads as a quasi-public good and therefore the argument to impose a road tax. This differential tax structure poses many problems. A look into the existing system is pertinent to recognize the challenges arising from the same and to design solutions to simplify it.

Background

A look into the existing system

Most of the young population today are moving from state to state due to all-round growth opportunities emerging across states and it is common to have someone moving across cities in different states in search of better livelihoods. The biggest dilemma one suffers here is to whether take your vehicle along or sell it as it depends on the longevity of the new job.

Indiatech.org spoke with many consumers who have already gone through this dilemma or are in the process of going through a decision point on whether to take the vehicle along or not. Most of them were of the opinion that if they decide to carry their vehicle along to the next state, they will encounter the processes of asking for a refund, re-registering their vehicle and paying the road tax again which is not only onerous and painful but also sounds a bit illogical being the citizen of the same country.

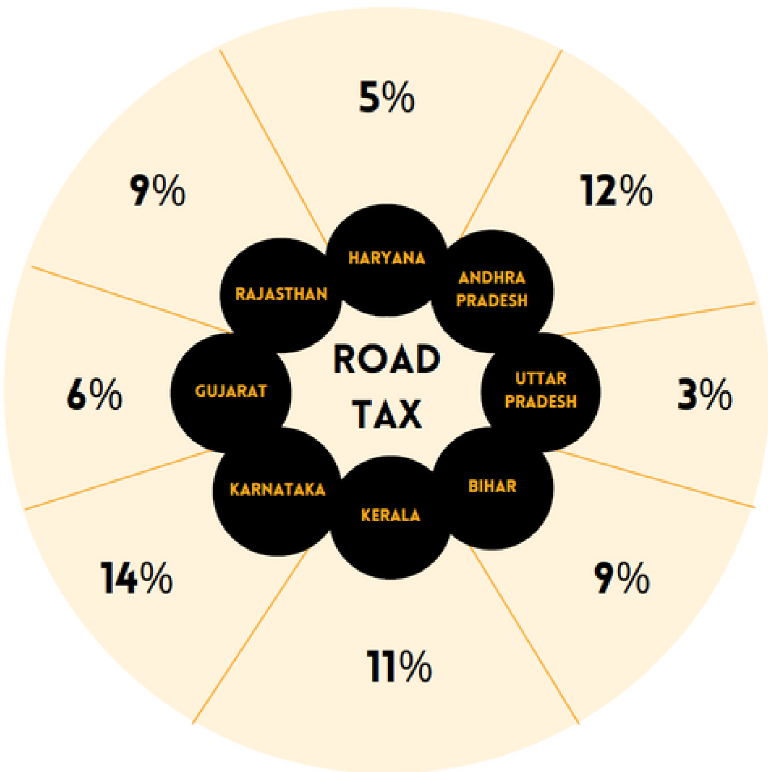

Image 1 - Variation of Road tax across states

Road Tax is shown as the percentage of the cost of the vehicle.

Road tax has been calculated for a new Rs-6 Lakh Petrol-run vehicle with an engine capacity upto 1200 cc.

Source - State Transport websites of respective state governments

ONE BHARAT, ONE ROAD TAX

A Vision: What and Why?

Presently, each state follows its own formula for arriving at road tax, leading to varied prices of the same model of vehicle in different states. In the current regime, road tax on vehicles is arrived at parameters such as weight, length, sale price, make, and engine capacity. Owning a vehicle is a costly affair, and with each state laying down its own criteria for collecting road tax, it further becomes complicated and costlier. The rate of road tax varies from 2% to 18% of the cost of the vehicle in different states.

Let us consider the scenarios where a differential road tax system poses significant challenges:

1 Purchase of New Vehicles

Due to the variation in the tax structure across states, people tend to buy/register their vehicles in states with lower road tax rates. A uniform road tax rate across the country would ensure much-needed relief to vehicle buyers and discourage consumers from purchasing vehicles in states with lower taxes while protecting the revenues of all states.

2 Transfer/Migration

Different tax structures pose a burden of compliance on people with transferable jobs. As per clause 47 of the Motor Vehicles Act, passenger vehicles can ply in a different state for a maximum period of 12 months after which penalties can be levied, if not re-registered. The current road tax system ensures an onerous process of re-registering the vehicle by paying road tax again for the already road tax paid vehicle supplemented with more paperwork and visits to Regional Transport Offices (RTOs). The owner also needs to cancel the old registration in the previous state and apply in the new state, which leads to the duplication of road tax payments as refunds are rare or calculated on depreciated value while the new state may use discretion and apply on invoice value again.

Theoretically, one can avail a refund from the original state, but after speaking with many vehicle owners who had moved states, Indiatech.org found that many either do not avail this or find it onerous due to the processes and paperwork. Lack of awareness amongst applicants as well as authorities along with the high cost in terms of time, effort, and the uncertainty in receiving the refund, discourages one further from applying for a refund. Moreover, the mechanism of getting a refund can vary from state to state adding to the burden of compliance.

ONE BHARAT, ONE ROAD TAX

A Vision: What and Why?

3 Inter-State Vehicle Sales

Road tax also comes into play when a used vehicle is sold. In FY 2021-22, the Indian used car industry was valued at $23 Bn, and it is expected to grow and expand at a CAGR of 19.5% in value and 12.7% in volume by FY 2026-27. The average car changes ownership multiple times in its lifetime. The used vehicle industry facilitates cross-state sales, and to capitalize on the potential this industry has, ease of compliance for the users is a must. Since road tax has been paid as a one-time payment for the life of the vehicle, a refund is due for the remaining life of the vehicle when it is sold by the first owner. The new owner, too, has to re-register the vehicle in their respective state. As mentioned earlier, getting a refund is not an easy process, and involves various hurdles.

To address these issues, **ONE BHARAT, ONE ROAD TAX** needs to be taken up on a priority basis in tandem with a few other complementary reforms.

RECOMMENDATIONS

For Ease of Owning and Disposing of Vehicles

1 People-friendly solutions for ease of owning and disposing of vehicles

a. For the burgeoning pre-owned vehicles market:

Having uniform road taxation across the country will disincentivize tax evasion, remove barriers in the used vehicle industry, and make inter-state sales of pre-owned vehicles easier with consumers not having to suffer the process of onerous compliances.

A precedent in the form of the GST model successfully brought the Union and State governments together. The tax collected under the GST regime is distributed equitably. Similarly, when the ONE BHARAT, ONE ROAD TAX structure is implemented, taxes collected can be distributed to the states equitably.

Recent reforms brought about in the pre-owned vehicles market have been a step in the right direction but there is a need to fix certain on-ground challenges like that of deemed ownership (by not allowing dealer-to-dealer sales of pre-owned cars), mandatory GST for small pre-owned car dealers despite exemptions brought about by the GST council etc.

A new development has been the emergence of multiple start-ups in the pre-owned market — a sector that has already been brought under a registration process by MoRTH. These start-ups have helped formalise the pre-owned market and brought about an electronic and audit trail for transactions. In many ways, it's been a boon for all parties concerned: buyers, sellers, and the government. However the discrepancy in road tax rates is threatening to complicate **'The Ease of Doing Business'** factor, and these start-ups are suffering because of the duplicity of road taxes being paid when the cars get sold in other states from the original state of registration. The ONE BHARAT, ONE ROAD TAX regime will incentivize start-ups to procure and sell cars in different states while providing the much-needed audit trail.

b. For Road Transport Offices (RTOs):

Digitalization has played a huge role in the success of GST. Likewise, an online payment and settlement system needs to be set up for the ONE BHARAT, ONE ROAD TAX to make the process of payments and refunds seamless.
The ONE BHARAT, ONE ROAD TAX regime will also help bring about essential reforms in Road Transport Offices (RTOs) countrywide to strengthen the ecosystem of "Ease of Owning and Disposing of Vehicles".

RECOMMENDATIONS

For Ease of Owning and Disposing of Vehicles

c. Additional Recommendations:

i. A NATIONAL RTO DIGITAL DASHBOARD:
While many RTOs in India have been already digitized, this needs to trickle down to all RTOs across the country; some states have made an effort to digitize their operations, but others are still catching up. The formation of a national digital RTOs' dashboard is of utmost importance, and those leading digitization efforts should be formally recognized through a system of incentives and awards. For others to catch up, the dashboard results must be made public each year.

ii. DIGITIZATION OF RCs:
Standardization and digitization of Registration Certificates (RCs) is another step that would ease owning, buying, and selling of a vehicle. It will also eliminate the tampering or forgery of paper RCs.

iii. 100% COMPLIANCE OF E-CHALLANS:
Achieving 100% digitization in the area of challans will improve revenue collection, and enhance efficiency, transparency, and accountability for all concerned. The Ministry of Road Transport & Highways, in collaboration with the National Informatics Centre, introduced the e-challan system in 2016 as part of the Digital India initiative. E-challans, issued via handheld devices, are sent to a centralized server, promoting real-time accessibility for authorities and enabling online fine payment. The system, piloted in major cities, proved successful and was expanded nationwide. But while some states have fully adopted this process, others lag.

2 USED VEHICLES MARKET: From stumbling block to stepping stone

The next set of recommendations are aimed at removing bottlenecks faced by the used vehicles market, which will help start-ups engaged in the sale of pre-owned vehicles to conduct business more efficiently.

a. Amending the Inter-State Vehicle Registration Process

A big roadblock in the pre-owned market is the requirement of state-wise registration of vehicles — as a significant part of sales are inter-state. Each new sale under Section 44 of the Motor Vehicles Act requires the vehicle to be presented to the RTO. Further, the registration process itself is cumbersome and requires physical filings. Therefore, it is proposed to exempt these obligations for pre-owned vehicles (at par with first sales of cars under section 44). An Aadhar-based system along with a 'vehicle evaluation' by the pre-owned vehicle dealer (issued in accordance with self-governance codes) should be sufficient.

RECOMMENDATIONS

For Ease of Owning and Disposing of Vehicles

b. Creating a Comprehensive Central Database

VAHAN is a national vehicle registry created by the Ministry of Road Transport & Highways that allows access to all details related to vehicles such as registration number, chassis/engine number, body/fuel type etc. This has been a great initiative, and it can be improved further by maintaining a comprehensive database that will enable consumers to sift through information and make an informed choice.

It is recommended that controlled access to the database is given to other players in the industry: licensed used car dealers (UCDs), insurance companies, scrap dealers, and automotive workshop organizers can be allowed to exchange information with the VAHAN database so that it is updated with the on-ground realities of the vehicles.

Here are some more ways a **'Comprehensive Central Database'** can be of great value:
i. Having a comprehensive central database for pre-owned vehicles would help in verifying the hypothecation details when a vehicle is being sold. Currently, there is no obligation under the MV Act or otherwise to ensure those details of the vehicle are registered under Form 34 prescribed by the Central Motor Vehicle Rules. The obligation under Clause 48 of the MV Act is only to obtain a 'no objection certificate' (NOC) at the time of transferring registration. As a result, buyers often end up purchasing vehicles without obtaining an NOC, as they are not aware of any pre-existing hypothecation or other charges of the vehicle. Therefore, it is proposed to impose a mandatory condition for banks and financial institutions to file a Form 34 to record any hypothecation over a motor vehicle.

ii. RTOs often maintain a register of **'blacklisted'** vehicles on grounds such as non-payment of dues, involvement in accidents etc. A buyer cannot obtain a transfer of ownership on the registration certificate for a blacklisted vehicle. Information on such blacklisted vehicles should be made available on the VAHAN portal database. It is also proposed that there be national-level guidelines for the process of whitelisting such vehicles.

RECOMMENDATIONS

For Ease of Owning and Disposing of Vehicles

3 Amending 'Deemed Ownership'

Earlier, a registered vehicle owner was held responsible when any untoward incident occurred, even when the vehicle was in possession of a dealer. To rectify this, the concept of "Deemed Ownership" was introduced: once a vehicle is sold to a registered used car dealer, the seller (ex-owner) and the dealer shall jointly sign and electronically submit Form 29C with the relevant RTO to record the sale. The used car dealer is "deemed" the owner of the vehicle once it is sold to them and hence becomes liable for any subsequent issues associated with the vehicle.

This amendment, however, fails to recognize the transfer of vehicles from one dealer to another dealer — a common practice in the industry. The first dealer remains the deemed owner even though the vehicle has been sold to another dealer as a B2B transaction.

It is, therefore, proposed that the current Form 29C is amended to include the transfer of deemed ownership from one registered dealer to another registered dealer.

4 Enabling Registration of Small Dealers

There are several used car dealers in India whose turnover is much below the prescribed threshold limit required under GST laws, and hence do not have a GST registration. It is recommended that Form 29A (application for grant or renewal of authorisation certificate for sale of registered vehicle) should provide an option for dealers to either enter their GST registration number or declare that they are exempt from GST. An alternative authentication process may be considered here involving either PAN or a mandatory bank account.

5 Having a Centralized Registration for Used Car Dealers (UCDs)

Section 55A of the Central Motor Vehicle Rules states that the authorization of dealers of registered vehicle shall be made only to the registering authority under whose jurisdiction they have their business. This makes things complicated for pre-owned sector startups whose area of operations is pan-India. Therefore, it is proposed to have a centralized registration process for pre-owned vehicle dealers.

CONCLUSION

ONE BHARAT, ONE ROAD TAX and the added reforms in operations of RTOs will remove pain points and roadblocks faced by the market. Uniform taxation will put an end to regional disparities, make way for better consumer satisfaction, ensure ease of business and clear the path for transparency in the system.

India is on a trajectory to scale new heights — from setting global benchmarks in digital public infrastructure to being a USD 5 trillion economy. It is time to remove anomalies in tax structures that slam the brakes on the country's growth and ensure that the policies across states are citizen-friendly.

About IndiaTech.org

IndiaTech.Org (TSIA) is a not for profit organization with an objective of building the world's largest and the most successful internet commerce ecosystem in India. The organization serves as a collaborative platform for Indian consumer internet start-ups, unicorns and their investors to support positive business, conducive policy and regulations.

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