

# **An Analysis of Interstate Disparities in Road Tax Policies and Their Economic Impacts<sup>1</sup>**

## **1. INTRODUCTION**

Taxation represents an inherent and sovereign authority of the State, empowering it to impose and collect compulsory contributions from individuals, properties, or rights for the purpose of generating the revenue required for public welfare. In essence, taxes are enforced, proportionate contributions levied upon persons and property by the law-making body of the State, exercised under its sovereign capacity, for supporting governmental operations and meeting public needs.

Across the world—whether in developing or developed economies—taxation continues to function as a vital and dependable source of income for financing developmental projects and people-oriented programmes. It remains a fundamental instrument of public policy, capable of achieving multiple objectives such as revenue generation for both Central and State Governments, ensuring economic stability, and facilitating the redistribution of income. Transport, in particular, forms the backbone of economic, social, cultural, and industrial advancement owing to its ability to create time and space utility. Yet, despite its pivotal role, the transport sector has not received proportionate academic or institutional attention. Only limited research has historically examined its performance or the policy frameworks governing it.

With respect to taxation, both the Central and State Governments participate in various levies. After the introduction of the Goods and Services Tax (GST) in 2017, the structure of indirect taxation has undergone significant transformation. Under the present system, GST is jointly administered by the Centre and the States. Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) apply to intra-state supplies, while Integrated Goods and Services Tax (IGST) applies to inter-state supplies and is subsequently apportioned between the Centre and the States. Customs duty, however, continues to fall exclusively within the jurisdiction of the Central Government. Prior to GST, states levied taxes such as entertainment tax, but most entertainment-related taxes have now been subsumed under GST, except for taxes

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on cinematograph shows which may still be imposed by local bodies under Article 243H of the Constitution. Vehicle tax, however, remains a State-imposed levy.

The constitutional authority for road-related taxation emerges from the Seventh Schedule of the Constitution. List II, Entry 56 earlier empowered states to levy “Taxes on goods and passengers carried by road or on inland waterways.” However, this entry has now been effectively subsumed under GST and is no longer a source of independent taxation for states. Entry 57 of List II, which authorises “Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars,” continues to operate and forms the principal constitutional basis for road tax. List III, Entry 35 relates to “Mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied.” Combined, these provisions establish that matters relating to road tax fall under a shared regulatory domain involving both the Centre and the States. Nevertheless, the actual levy and administration of road tax are carried out by State Governments under their respective Motor Vehicles Taxation Acts, read alongside the Motor Vehicles Act, 1988.

Road tax—also referred to as vehicle tax or vehicle excise duty—is primarily a state-level levy imposed on all categories of vehicles, including two-wheelers, four-wheelers, commercial vehicles, and private vehicles, for their lawful use on public roads. This tax is generally collected at the time of vehicle registration in the concerned state, and the amount varies depending on factors such as the type of vehicle, its purpose, fuel type, engine capacity, and the policies of the state in which the vehicle is registered.

Historically, the inability of service providers to recover costs from all beneficiaries discouraged private participation in the development and maintenance of certain public utilities. Road networks, in particular, have been treated as public goods—not because it is impossible to exclude users, but because exclusion mechanisms were technologically complex and economically unviable until recent innovations. Only with the emergence of electronic toll collection, smart infrastructure, and sophisticated monitoring systems has cost recovery for road usage become more feasible.

#### **NEED OF THE STUDY:**

The need of the study is that the study about the road tax and its efficiency. The benefits, and problems, challenges are to be analyzed in this study. Road tax used to setup the proper road and with the help road tax, roads are maintaining in proper manner. Also this study is to

made the analyze the awareness of people about Road taxing system in our country. So there is need to intensive research on this topic.

#### Objective Of The Study:

The specific objectives of this study are,

1. To examine the awareness of the taxpayers
2. To evaluate the efficiency of the government
3. To Analyse taxation system of road or vehicle tax

#### Scope And Limitation Of The Study:

The researcher has made an analytical study on the legislative aspect of Road tax and its impact confined to people. The scope of the study has been confirmed to the phenomenon that tax payers and society are been benefited by levying of Road Tax.

#### Hypothesis:

The Hypothesis of the study as follows;

People are not much aware about the Road tax system

Tax payers are not satisfied with the efficiency of the government

#### Research Methodology:

The research is based and followed by Non Doctrinal Research keeping in view the objectives, scope and research questions of the study. The researcher has incorporated survey method to collect the primary sources of data from the respondents. And also various text books, journals, articles with respect to the topic have also been referred.

#### Review Of Literature

A substantial body of academic writing and policy analysis has examined the nature, evolution, and implications of road taxation in India, particularly in the context of state-level fiscal powers and the economic burdens imposed on vehicle owners. Early scholarship described road tax predominantly as a benefit-based levy intended to support the development and upkeep of road infrastructure.

A study by Edwin Lowe on the development of transportation system in Japan portrays the transport and communication system during the Tokugawa Era (1600-1686) and explained the

process of the development with certain features which ultimately helped the establishment of modern transport system in Japan.<sup>2</sup>

An attempt made by Owen Wilfred<sup>3</sup> on the problems and potentials of transport system by focusing on the mobility of people and goods. A study made by the Ministry of Transport Scottish Development Department emphasizes the free flow of traffic at reasonable speed requires planned improvement of urban road systems. The study also suggested constructing secondary means of access enable goods and service vehicles to load and unload at the stops.

According to David Michal Newbery, Designing an efficient set of road user taxes and charges involving for scarce road space, setting corrective taxes for environmental externalities and possibly employing additional taxes to improve the overall efficiency and equity of the tax system. Road fuel taxes should probably be set at a level that accounts for average long run marginal cost of inter urban roads for typical cars, with the vehicle excise duty set to adjust total payment by type of vehicle<sup>4</sup>.

More recent scholarship focuses on the effects of the Goods and Services Tax (GST) regime on state taxation powers. Mukherjee (2019) and Chakraborty (2021) highlighted that after the introduction of GST, states experienced a contraction in independent revenue sources, leading many to increase vehicle tax rates as a compensatory measure. This situation has resulted in significant fragmentation and non-uniformity in road tax practices, with identical vehicles attracting highly variable tax amounts depending on the state of registration. Such disparities, the authors argue, have exacerbated issues of double taxation and compliance burdens for individuals relocating across states.

Institutional reports have echoed these concerns regarding transparency and utilisation. NITI Aayog (2020) and the Ministry of Road Transport and Highways (2022) observed that although states generate substantial revenue through vehicle taxation, there remains limited clarity on the allocation of these funds towards road maintenance or safety enhancement. These reports point to a widening gap between the intended purpose of road tax and its actual fiscal utilisation, raising concerns about accountability and policy coherence.

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<sup>2</sup> . Edwin, Lowe, Nevile Jr., The Development of Transportation in Japan – A case study of Okayama Ham, Ph.D. Thesis, 1959, University of Michigan, Ann Arbor, Michigan.

<sup>3</sup> 4 Owen Wilfred., Strategy for Mobility – Transportation for the Developing Countries, East West Centre Press, Honolulu, 1966.

<sup>4</sup> David Michael Newbery (2004), Road User and Congestion Charges, Theory and Practice of Excise Taxation,

The literature additionally highlights behavioural and market distortions caused by high state-level road taxes. Comparative studies by Deshpande (2018) and Jadhav (2022) found that consumers increasingly resort to registering vehicles in neighbouring states with lower tax rates, thereby creating tax arbitrage and contributing to revenue leakages. These studies further note the adverse effect on local automobile markets, where high road tax rates discourage local purchases and shift economic activity to adjoining jurisdictions.

Collectively, the reviewed literature underscores that while road tax remains constitutionally grounded and historically justified, its contemporary implementation in India has moved away from foundational principles of equity, uniformity, and benefit correlation. The recurring themes across studies—high tax burdens, lack of transparency, non-uniformity across states, and behavioural distortions—provide a strong scholarly basis for critically examining current road tax practices and advocating for a more rational, transparent, and harmonised taxation framework.

The Government requires continuous financial resources for the purpose of providing essential public services such as maintaining law and order, offering educational facilities, ensuring public health, national defence and various welfare-oriented programmes. In order to meet the expenditure associated with these services, the Government mobilises funds through multiple sources, of which taxation remains the most crucial and dependable. As Edwin R. A. Seligman (1895) explains, tax represents a compulsory contribution imposed upon individuals for meeting the expenses incurred in the common interest of all, and such imposition is made without reference to any specific benefit conferred upon the taxpayer.<sup>5</sup>

The term “tax” is generally understood as a compulsory levy imposed by the Government or any authority lawfully empowered to raise revenue, on income, capital, assets, expenditure or transactions, for which the taxpayer receives nothing specific in return<sup>6</sup>. It is compulsory in nature; once imposed by law, the individual or entity concerned is legally bound to pay it. Taxes, in all economies, are broadly classified into direct and indirect taxes. A direct tax is one in which the burden of the tax is borne by the same person on whom it is imposed, meaning that the impact and incidence fall upon the same individual. In the Indian context, direct taxes—primarily income tax and corporate tax—are levied based on the principle of ability to pay. While they contribute significantly to equity in the distribution of tax burdens, they may

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<sup>5</sup> Edwin R. A. Seligman, *The General Property Tax* (1895).

<sup>6</sup> Musgrave, R. A. (1959). *The Theory of Public Finance*.

sometimes be perceived as a disincentive for higher earnings because increased income inevitably leads to higher tax liability.

Indirect taxes, on the other hand, are levies imposed on goods and services rather than on individuals. Under this category, the initial burden falls on the supplier or manufacturer, but the final incidence is shifted to the consumer through increased prices. Thus, the consumer indirectly bears the tax as part of the purchase price. Historically, India had several indirect taxes such as excise duty, service tax, VAT, sales tax and entry tax. However, with the introduction of the Goods and Services Tax (GST) in 2017, almost all major indirect taxes have been subsumed under a unified structure<sup>7</sup>. GST is a destination-based, multi-stage tax that integrates various indirect levies, thereby simplifying the overall system and creating a national common market. Nevertheless, a few indirect taxes remain outside GST, such as customs duty, stamp duty and state-imposed excise on alcoholic liquor for human consumption. Direct taxes continue to be administered under the Income-tax Act, 1961 and are collected by the Central Government, while the GST structure is jointly administered by the Centre and the States.

## 2. OBJECTIVES OF TAXATION

Taxation refers to the compulsory transfer of monetary resources from individuals and entities to the Government. It forms the primary source through which the Government secures revenue to undertake public expenditure, deliver social services and carry out welfare-oriented functions. Besides serving as an important fiscal instrument, taxation also performs significant socio-economic roles. One of the primary objectives of taxation is revenue mobilisation. The Government requires adequate funds to meet its routine administrative and developmental functions, and taxation provides the most stable channel for revenue generation.

Historically, classical economists viewed taxation mainly as a fiscal tool to raise revenue. However, modern economists such as Lerner expanded this understanding by stating that taxation is not merely a mechanism for raising funds but also an instrument for achieving broader economic objectives. According to Lerner, the true purpose of taxation lies in influencing economic behaviour, ensuring full employment, maintaining price stability and achieving other developmental goals. In this sense, taxation becomes a powerful policy tool

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<sup>7</sup> Government of India, *The Constitution (One Hundred and First Amendment) Act, 2016*.

that can guide economic growth, stimulate capital formation, promote competitiveness and ensure an optimal allocation of resources within the economy.

Taxation further serves social objectives by discouraging activities considered undesirable or harmful. Special excise duties on tobacco products, liquor, luxury items and gambling activities are examples of taxes intended to curb socially undesirable consumption. Through such measures, the Government attempts to promote a healthier lifestyle and to channel public behaviour towards more socially and environmentally responsible choices. Additionally, taxation is used as a redistributive tool for reducing income and wealth disparities between different segments of society. By imposing higher taxes on the affluent and using the revenue collected for public welfare schemes targeted at lower-income groups, taxation aims to minimise economic inequalities and promote greater social justice.

### **Principles of an Efficient Taxation System**

An efficient taxation system is one that minimises the excess burden of taxation and ensures low compliance costs while maintaining simplicity and transparency in its administration. The evaluation of any tax framework necessarily involves balancing the competing considerations of equity, efficiency and revenue productivity<sup>8</sup>. Taxes constitute a major component of the Government's budget, and therefore, the structure of taxation—including the composition of taxes, rates, assessment mechanisms, timing of collection and modes of administration—must be thoughtfully designed.

The Governments, both at the Central and State levels, continuously endeavour to widen the tax base and rationalise tax rates so that revenues can be generated without imposing an excessive burden on any particular group of taxpayers. Eminent scholars have attempted to articulate the foundational principles upon which a sound tax system should be constructed. Among them, Adam Smith, widely regarded as the father of modern economics and scientific taxation theory, articulated four fundamental canons of taxation: equity, certainty, convenience and economy<sup>9</sup>. Although there may be inherent tensions and conflicts among these principles, they continue to serve as guiding standards for policymakers in designing taxation systems worldwide.

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<sup>8</sup> Ministry of Finance, Government of India, *Union Budget Documents* (various years).

<sup>9</sup> Adam Smith, *The Wealth of Nations*, Book V (1776).

In the Indian context, both direct and indirect tax systems are progressively being aligned with these principles through structural reforms, digitalisation, simplification of procedures and rationalisation of tax laws. The transition to GST, the gradual reduction of corporate tax rates and attempts to widen the income tax base reflect the Government's ongoing efforts to create a fair, efficient and predictable tax environment that aligns with contemporary economic needs.

### **3. ROAD TAX SYSTEM IN INDIA**

#### **Theory of Road User Taxation**

The concept of road user taxation broadly encompasses all charges associated with the purchase, ownership, operation, and direct usage of motor vehicles within a road network. Traditionally, taxes imposed on motor vehicles began as regulatory charges meant to supervise vehicle operations and ensure road safety. Over time, however, these levies evolved into a substantial source of revenue for State Governments<sup>10</sup>. Road user taxation essentially represents the price paid by individuals for accessing, utilising, and benefiting from the publicly financed road infrastructure. The theoretical foundation for this form of taxation rests on the principle of cost recovery—where the users of road infrastructure are charged for the cost of constructing, operating, maintaining, and expanding the road network.

In modern public finance, the scope of road user taxation has expanded to include not only the direct costs of road supply but also the broader social costs generated by road transport. These include congestion, environmental pollution, accident risks, and the deterioration of road asset<sup>11</sup>. Thus, taxation of road transport today serves two distinct purposes: first, to impose charges on road users that reflect the costs they place upon the system and society; and second, to generate revenue for the Government for public purposes.

In the Indian context, cost-recovery mechanisms for fixed infrastructure costs are generally achieved through registration fees, one-time road tax, and lifetime vehicle tax, while variable costs are recovered through use-related levies such as fuel duties and cess on petroleum products<sup>12</sup>. Transportation activities generate significant negative externalities, including congestion, environmental degradation, road wear, and accident-related costs. From an

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<sup>10</sup> Motor Vehicle Taxation Enquiry Committee Report (1950)

<sup>11</sup> Ministry of Road Transport & Highways, *Road Transport Yearbook* (2022).

<sup>12</sup> Government of India, *Petroleum Planning & Analysis Cell – Tax Structure on Fuel* (2023).

economic perspective, vehicle owners often do not internalise these externalities, resulting in a disparity between private and social costs.<sup>13</sup>

Economic theory states that the socially optimal level of vehicle use is achieved when marginal private benefits intersect with marginal social costs. Where the marginal private cost is lower than the marginal social cost, a corrective levy—known as a Pigouvian tax—is required to internalise externalities and align individual behaviour with societal welfare. Road user taxation therefore plays a crucial role in regulating vehicle usage patterns, influencing modal choices, and shaping the overall composition of the vehicle population.

Historically, road user taxation has been justified on the benefit principle, whereby those who derive benefit from using road infrastructure are expected to bear the associated costs. Presently, registration charges, lifetime vehicle tax, fuel taxes, and environmental levies represent the primary fiscal tools for recovering road-related expenditure. In contemporary road finance theory, greater emphasis is placed on the benefit principle rather than the traditional ability-to-pay principle, given that road usage lends itself more appropriately to a user-charge model.

### **Road Finance Theory**

While road users are expected to bear the direct costs of using road infrastructure, the benefits of efficient road networks extend beyond the users themselves. Non-users—including businesses, residents, and the general community—also enjoy indirect benefits through enhanced mobility, reduced transportation costs, and improved economic productivity. Accordingly, road finance theory recognises that a portion of road expenditure must be supported through general revenues, especially when road improvements yield widespread socio-economic benefits.<sup>14</sup>

Thus, road financing in India follows a dual-source model—user charges paid directly by motorists and general taxation paid by society at large. This reflects the understanding that the cost of road infrastructure should be equitably distributed among all beneficiaries, both direct and indirect.

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<sup>13</sup> Transport Economics Theory – Button, K. (2010), *Transport Economics*.

<sup>14</sup> National Transport Development Policy Committee Report (2014).

## Design of Road-Related Taxes or Motor Vehicle Taxes

Designing an equitable, efficient, and administratively viable structure of motor vehicle taxation requires careful consideration of the social, economic, and political implications of such levies. As Oliver Wendell Holmes famously observed, “Taxes are the price we pay for civilisation,” signalling that motor vehicle taxes must reflect fairness in distributing fiscal responsibility among different classes of road users.

The tax system can be effectively used to influence behaviour and correct market distortions. Where market prices fail to reflect the full social costs of an activity, taxes may be imposed to discourage excessive or harmful usage. In this regard, an efficient road taxation framework should incorporate the following elements:

- a. Efficient Charges for Scarce Road Space: Congestion charges and road damage levies that reflect the scarcity value of road capacity and the wear-and-tear imposed by heavy-vehicles.
- b. Corrective Taxes for Externalities: Taxes designed to address pollution, noise, accident externalities and environmental degradation arising from excessive motor vehicle use.
- c. General Taxes: Such as GST imposed on vehicle parts, tyres, accessories, and other goods forming part of vehicular consumption.
- d. Additional Levies or Subsidies: Imposed or granted on wider policy considerations such as promoting electric vehicles, encouraging public transport, or discouraging luxury vehicle consumption.<sup>15</sup>

In India, the design of road user charges is influenced significantly by federal structure, state autonomy, and the diversity of local conditions. While central legislation such as the Motor Vehicles Act, 1988 and its 2019 Amendment prescribes broad regulatory norms, States retain exclusive authority to determine the structure and rates of motor vehicle taxes. Consequently, the motor vehicle taxation regime remains highly varied across different States, reflecting differing policy priorities, fiscal needs, and political considerations.

## Tax System in India

The tradition of taxation in India can be traced back to ancient times, with clear references in the *Manusmriti* and Kautilya’s *Arthashastra*, both of which articulated the State’s duty to

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<sup>15</sup> Government of India, *FAME-II Electric Vehicle Policy* (2019).

collect revenue for maintaining law, order and public welfare<sup>16</sup>. Kautilya's treatise, in particular, emphasised that an ideal tax system is one that ensures efficient revenue collection while simultaneously promoting economic growth, prudent resource utilisation and fairness in taxation<sup>17</sup>. Although income, wealth and consumption taxes in their modern form are relatively recent developments, historical evidence demonstrates that some form of compulsory levy or tribute existed in ancient and medieval India in exchange for protection and governance.

In contemporary India, taxation forms the backbone of public finance and supports a vast range of governmental activities. Taxes today are imposed on income, expenditure, property, and transactions by the Union, State and local governments. Over the decades, the Indian taxation structure has undergone significant reforms to align with changing economic realities, global integration, technological advancements and public welfare priorities. A landmark reform was the introduction of the Goods and Services Tax (GST) in 2017, consolidating multiple indirect taxes into a unified national system<sup>18</sup>. GST subsumed excise duty (except on alcohol, tobacco and petroleum products), service tax, VAT, octroi and several other levies, thereby restructuring India's indirect tax landscape.

The tax system in India follows a three-tier federal arrangement consisting of the Union Government, State Governments, and Rural and Urban Local Bodies. Each level is constitutionally empowered to levy specific taxes.<sup>19</sup>

The Union Government levies income tax (other than agricultural income), corporate tax, customs duty, excise duty on specified products, and GST components such as CGST and IGST.

State Governments levy taxes on the sale of liquor, stamp duty, land revenue, professional tax, electricity duty, and motor vehicle tax under Entry 57 of List II.<sup>20</sup>

Local bodies impose property tax, water tax, user charges for utilities, and certain municipal levies.

Taxation policy in India aims not only to raise revenue but also to promote savings, investment, balanced regional development, employment generation, and social equity. The contemporary

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<sup>16</sup> *Manusmriti*, Chapter 7; Kautilya, *Arthashastra* (4th Century BCE).

<sup>17</sup> Kautilya, *Arthashastra*, Book II – Duties of the Collector-General.

<sup>18</sup> Constitution (One Hundred and First Amendment) Act, 2016.

<sup>19</sup> Constitution of India, Seventh Schedule.

<sup>20</sup> Constitution of India, List II, Entry 57.

system integrates principles of equity, economic efficiency, and administrative simplicity, while also responding to national economic goals.

### **Constitutional Background**

The systematic evolution of India's modern taxation framework began with the Taxation Enquiry Commission Report of 1953, which recommended a more coherent, rational and efficient tax system. The Indian Constitution provides the primary legal foundation for the country's taxation structure, particularly through Articles 246 and 265 which govern the legislative competence and authority to levy taxes<sup>21</sup>. The assignment of taxation powers between the Union and the States is clearly delineated in the Seventh Schedule, ensuring a balance of fiscal autonomy in the federal structure.

India's taxation system has continuously evolved to meet the demands of economic development. Reforms such as the liberalisation policies of 1991, the Fiscal Responsibility and Budget Management (FRBM) Act, and the GST reform in 2017 have transformed the landscape of taxation. Both direct and indirect tax rates have undergone regular recalibration to match economic cycles, fiscal needs and inflationary pressures. Currently, nearly 80% of India's public expenditure is financed through tax revenue, reaffirming the centrality of taxation in resource mobilisation.

The Constitution's three-tier structure assigns taxation powers as follows:

- a. Union Government: taxes on income (except agricultural income), corporate taxes, customs, excise (on petroleum and tobacco), and GST (CGST + IGST).
- b. State Governments: taxes on alcohol for human consumption, stamp duty, land revenue, motor vehicle tax, electricity duty, and state GST (SGST).
- c. Local Bodies: property tax, advertisement tax, water charges, sanitation fees and other municipal levies.<sup>22</sup>

Indian tax policy aims to promote macroeconomic stability, encourage investment, reduce inequalities of income and wealth, and ensure efficient allocation of resources across sectors. It also plays a critical role in influencing production, distribution and consumption patterns within the economy.

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<sup>21</sup> Constitution of India, Articles 246 & 265.

<sup>22</sup> Constitution of India, Eleventh & Twelfth Schedules.

### **Road-Related Taxes – Constitutional Provisions**

Under Article 246(3) of the Constitution, State Legislatures possess exclusive authority to make laws on matters in List II of the Seventh Schedule. Entry 57 of List II empowers States to levy taxes “on vehicles, whether mechanically propelled or not, suitable for use on roads.”<sup>23</sup> Entry 56 further authorises States to levy taxes “on goods and passengers carried by road or inland waterways.” However, Entry 56 has been largely rendered inoperative following the introduction of GST, which subsumed passenger and goods transportation taxes.

Additionally, Entry 66 of List II empowers States to levy fees relating to any matters connected with motor vehicles, including permits, licenses, and fitness certificates.<sup>24</sup> These constitutional provisions form the legal basis for road tax, vehicle registration fees, and other transport-related levies imposed by State Governments.

### **Legislative Powers to Levy Tax and Fees**

The Union Government is empowered under Article 246(2) to legislate on matters in the Concurrent List (List III). Entry 35 of List III includes “mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied,” allowing Parliament to lay down broad regulatory norms through the Motor Vehicles Act, 1988 and its subsequent amendments, including the Motor Vehicles (Amendment) Act, 2019<sup>25</sup>. Entry 47 further authorises the Union and States to levy fees on matters in the Concurrent List.

Motor vehicle taxation and the broader regulatory framework for transport are therefore governed by:

- a. Road Transport Corporations Act, 1950
- b. Motor Vehicles Act, 1988 (as amended in 2019)
- c. Central Motor Vehicles Rules, 1989
- d. State Motor Vehicles Taxation Acts and Rules

Under these Acts, both the Union and State Governments levy taxes and charges on the purchase, ownership, and operation of motor vehicles. India’s system is inherently multilayered:

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<sup>23</sup> Constitution of India, List II, Entry 57.

<sup>24</sup> Constitution of India, List II, Entry 66.

<sup>25</sup> Motor Vehicles (Amendment) Act, 2019.

The Central Government imposes excise duty (now restricted to petroleum products and certain goods), customs duty, GST on vehicle components, and fuel-related cesses.

State Governments impose vehicle tax, registration fees, permit fees, state GST, and road-related levies.

Local bodies may impose tolls, parking fees, and municipal charges.

Together, these levies serve dual objectives: regulating vehicle use and generating revenue.

### **Motor Vehicle Taxation in India – An Overview**

Road transport in India is subjected to a complex and multi-layered system of taxation imposed by the Union, the State Governments and, in certain circumstances, by local bodies. Taxes on motor vehicles may broadly be categorised into:

- (1) Taxes On The Purchase Of Vehicles,
- (2) Taxes On The Ownership Of Vehicles, And
- (3) Taxes On The Operation And Usage Of Vehicles.

At the central level, the Union Government imposes customs duties on imported vehicles and components, excise duties on petroleum products (such as petrol and diesel), and GST on vehicle components, tyres, tubes, spare parts and accessories.<sup>26</sup> These levies are relatively uniform across the country because the Centre alone possesses legislative authority to determine their rates and structure.

State Governments, however, impose a wide range of taxes relating to the ownership and operation of vehicles. Motor vehicle tax—often levied as a one-time lifetime tax for private vehicles or as annual/quarterly tax for commercial vehicles—constitutes one of the most significant non-GST revenue sources for State Governments. States also impose fees relating to registration, permits, transfer, fitness, passenger and goods carriage, and miscellaneous penalties. Even after the implementation of GST, vehicle tax under Entry 57 of List II remains exclusively within State jurisdiction, leading to significant disparity in tax rates across states.<sup>27</sup>

Local bodies may impose additional levies such as tolls, parking fees, wheel tax, and user charges depending upon local regulations. Although several committees over the decades—including the Post-War Transport Committee (1943), the M. N. Dalal Committee (1950), the

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<sup>26</sup> Government of India, *Customs Tariff Act, 1975*.

<sup>27</sup> Constitution of India, List II, Entry 57.

John Mathai Commission (1953–54), the B. V. Keskar Committee (1966–67), and the S. Sundar Committee (2009)—have recommended rationalisation of motor vehicle taxation, the system remains fragmented and inconsistent.<sup>28</sup> Disparities exist not only in tax rates but also in the methods of assessment, modes of levy and the tax base itself.

Several expert bodies have observed that the existing motor vehicle tax regime in India suffers from fundamental weaknesses. The World Bank, in its report *India: Financing Highways*, noted that road user charges in India are “insufficient, economically inefficient, inequitable, and do not reflect the true cost of road usage or the space occupied by each vehicle.”<sup>29</sup> These observations continue to remain relevant, particularly in the context of rising vehicle ownership, congestion, deteriorating road conditions and the lack of uniformity in tax administration across States.

### **Objectives of Motor Vehicle Taxation**

Motor vehicle taxation in India is shaped by multiple fiscal, economic, regulatory and social objectives. The primary purpose historically has been to mobilise funds for the development and maintenance of the road network. Roads being public goods, State Governments require substantial revenue for their construction, upkeep and enhancement. Since road users impose various costs on society—such as congestion, pollution, road wear and accident risks—motor vehicle taxation seeks to internalise these costs and ensure that users pay proportionately for the negative externalities they generate.

In accordance with road finance theory, an efficient system of road user taxation must incorporate considerations of equity, efficiency, administrative simplicity and flexibility.<sup>30</sup> The broader objectives of motor vehicle taxation may therefore be articulated as follows:

- a. **Cost Recovery:** Taxes should reflect the cost of providing, maintaining and expanding the road network.
- b. **Internalising Externalities:** The tax structure must account for congestion, pollution, environmental degradation, accident risks and road damage.
- c. **Revenue Generation:** Motor vehicle taxes serve as an important source of non-GST revenue for States, contributing significantly to public expenditure.
- d. **Economic Regulation:** Taxation should discourage excessive reliance on private

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<sup>28</sup> Reports of Motor Vehicle Taxation Committees (1943–2009).

<sup>29</sup> World Bank, *India: Financing Highways* (2004).

<sup>30</sup> National Transport Development Policy Committee Report (2014).

vehicles, promote public transportation and ensure optimal utilisation of transport resources.

e. Encouraging Sustainable Mobility: Tax incentives or reduced rates may be deployed to promote electric vehicles, low-emission vehicles and non-motorised transport.<sup>31</sup>

f. Traffic Management: By influencing the number and types of vehicles on the road, taxation acts as a tool for managing congestion and regulating urban mobility.

g. Administrative Flexibility: A dynamic tax framework ensures that rates are revised periodically to reflect inflation, environmental goals, and policy priorities.

h. Equity Considerations: Although MV taxes are not primarily redistributive, their indirect impact on affordability and access must be acknowledged.

A well-designed motor vehicle taxation system must therefore balance fiscal needs with mobility objectives, environmental concerns and social equity.

### **Structure of Motor Vehicle Tax in India**

The structure of motor vehicle taxation in India varies widely across States, reflecting their fiscal autonomy and differing policy priorities. Broadly, motor vehicle taxes fall under three categories:

#### **(1) Taxes Related to the Purchase of Vehicles**

These are non-recurring levies imposed at the time of purchasing a motor vehicle.

##### **Central Levies**

**Customs Duty:** Levied on imported vehicles and components under the Customs Act, 1962 and the Customs Tariff Act, 1975. Rates vary depending on the vehicle type, fuel system and engine capacity.

**Excise Duty:** Currently applicable only on petroleum products (not on vehicles themselves post-GST).

**GST (CGST + SGST):** Applicable on the purchase of new vehicles. GST rates range from 5% (EVs) to 28% (cars), with additional compensation cess varying from 1% to 22% depending on engine capacity and type.<sup>32</sup>

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<sup>31</sup> Government of India, *FAME-II Electric Mobility Mission* (2019).

<sup>32</sup> GST Council Notifications (2017–2024).

**State Levies**

Road Tax / Lifetime Tax: Imposed under the respective State Motor Vehicle Taxation Acts, typically as a percentage of the vehicle's invoice value.

Registration Fees: Fixed fees prescribed by State Governments under the Motor Vehicles Act.

Temporary Registration Fees and Hypothecation Fees may also be applicable.

**(2) Taxes on the Ownership of Vehicles**

Ownership-based taxes are recurrent levies imposed during the period of possession of the vehicle.

These include:

- a. Motor Vehicle Tax (annual or lifetime)
- b. Passenger and Goods Tax (for transport vehicles)
- c. Green Tax (environmental compensation)
- d. Renewal of Fitness Certificate Fees (transport vehicles)
- e. Road Safety Cess (in some states)

States determine their MV tax slabs based on vehicle type, weight, fuel type, price, usage category, and engine capacity.<sup>33</sup>

**(3) Taxes and Charges on the Operation of Vehicles**

These are imposed on the inputs and activities involved in operating a motor vehicle.

**Central Levies**

Excise Duty on Fuel: Central excise of 19.90/L on petrol and 15.80/L on diesel (as per 2024 structure).<sup>34</sup>

Road Infrastructure Cess: ₹2/L on petrol and diesel, earmarked for NH development.

GST on Lubricants and Spare Parts: GST @18% or 28% depending on the item.

**State Levies**


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<sup>33</sup> Tamil Nadu, Karnataka, Maharashtra, Kerala MV Taxation Acts.

<sup>34</sup> Central Board of Indirect Taxes & Customs (CBIC) Fuel Duty Notifications, 2024.

VAT on Petroleum Products: Petrol and diesel remain outside GST; States levy VAT which ranges from 17% to 36% depending on the State.<sup>35</sup>

Licensing, Permit and Fitness Fees

Toll Charges: Imposed by NHAI or State agencies under the National Highways Fee (Determination of Rates and Collection) Rules.

Municipal Levies: Parking fees, congestion charges (in some cities), and local body taxes.

#### **4.MOTOR VEHICLE TAXES**

##### **Motor Vehicle Taxes - An Evaluation**

As discussed earlier, motor vehicle taxes primarily consist of consumption-based taxes related to the purchase and use of motor vehicles. In this context, an attempt has been made to examine the major road-related taxes along with their impact and incidence. The impact of these taxes varies depending upon factors such as vehicle usage, carrying capacity, and ownership. The following are the major motor vehicle taxes applicable to State Transport Undertakings (STUs).

##### **Motor Vehicle Tax:**

Motor vehicle tax is a state subject and constitutes the primary tax imposed on all categories of vehicles. The legislative authority to levy this tax rests exclusively with the State Governments. It is essentially a charge imposed on road users for access to and use of the road network and is commonly referred to as road tax in several states. In the case of two-wheelers and private cars, the tax is generally collected as a one-time levy at the time of vehicle registration. Commercial vehicles, on the other hand, are subject to periodic taxation, usually on an annual basis, calculated on parameters such as seating capacity in the case of buses and laden weight in the case of goods vehicles.

Motor vehicle tax is intended to serve as a mechanism to compensate for road usage and the wear and tear caused by vehicles, and it remains a significant source of revenue for state governments for road construction and maintenance. In respect of buses, the basis of taxation varies widely and may include factors such as distance operated, permitted mileage, classification of routes (A, B or C category), type of service rendered (ordinary, express, semi-

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<sup>35</sup> Petroleum Planning & Analysis Cell (PPAC): State VAT Rates on Petrol/Diesel, 2024.

deluxe or deluxe), cost of the vehicle and chassis, and wheelbase. Different rates are prescribed based on these criteria and the category to which the vehicle belongs.

Vehicles are classified not only on the basis of their design and carrying capacity but also as commercial and non-commercial vehicles. The incidence of motor vehicle tax primarily falls on ownership, though it is indirectly related to consumption through road usage. In the case of buses, the tax burden varies according to seating capacity, distance travelled and nature of routes operated. Higher seating capacity and longer distance coverage generally result in greater road damage compared to vehicles with lower capacity and limited usage. Consequently, motor vehicle tax results in differential incidence based on factors such as vehicle weight, distance covered, route classification and type of service provided.

### **Passenger Tax:**

Passenger tax is also a subject falling within the legislative competence of the State Governments. It is imposed as a levy on the movement of persons from one place to another and is generally collected as a component of passenger fares. The structure and method of levying passenger tax vary considerably from state to state, resulting in a lack of uniformity across the country. There exists substantial diversity in both the rate and the base of passenger tax, with some states imposing rates as high as 17.5 per cent of the total fare.<sup>36</sup> In most states, the tax is levied on a per-passenger basis, while in a few cases it is calculated as a fixed percentage of total passenger revenue earned by transport corporations. Certain states levy passenger tax even on standees, whereas several others exempt them from such levy.

In some states, passenger tax is not imposed as a separate charge, while in others it is collected independently in addition to the fare. In states such as Haryana, Uttar Pradesh, Himachal Pradesh, Gujarat and Uttarakhand, the fare and passenger tax are shown separately on the ticket, whereas in Punjab, the tax component is merged with the fare itself. In Maharashtra and Karnataka, passenger tax is charged as a fixed percentage of total traffic revenue. In states where passenger tax is not explicitly levied, it appears that the tax element has been subsumed within the motor vehicle tax structure.<sup>37</sup>

Passenger tax does not constitute a financial burden on State Road Transport Corporations (SRTC), as these entities merely act as collecting agencies on behalf of the State Government

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<sup>36</sup> Motor Vehicles Taxation Enquiry Committee, *Report on Motor Vehicle Taxation in India* (Government of India, 1950).

<sup>37</sup> Government of India, *National Transport Policy Committee Report* (1980).

and remit the collected amount to the exchequer. The incidence of this tax falls directly on passengers rather than on transport operators. However, the burden of passenger tax disproportionately affects low-income groups who primarily depend on public transport, thereby rendering the tax regressive in nature.<sup>38</sup> Excessive passenger taxation may discourage the use of public transport and induce a shift towards alternative modes of travel, which may adversely affect the viability and efficiency of public transport systems.

Passenger tax is closely linked to carrying capacity, as it is generally levied based on seating capacity. It operates as an additional charge over and above the motor vehicle tax and is justified on the ground of increased wear and tear caused by higher passenger loads. Nevertheless, the tax raises concerns of equity, as passengers using buses are subjected to this levy, whereas individuals travelling by private cars are not required to pay any comparable tax on passenger movement. This unequal treatment undermines the fairness of the existing passenger taxation framework.<sup>39</sup>

### **Fuel Tax:**

Motor fuel is subjected to taxation by both the Union and State Governments and continues to be one of the most significant sources of revenue for financing the road transport sector. Imported fuel attracts customs duty, while domestically produced fuel is subjected to central excise duties and various cesses imposed by the Union Government. Despite the introduction of the Goods and Services Tax (GST) regime, petroleum products such as petrol and diesel remain outside its ambit, and consequently, State Governments continue to levy Value Added Tax (VAT) on fuel. Thus, motor fuel is simultaneously subjected to customs duty, central excise duty, and state-level VAT, resulting in a multi-layered taxation structure.<sup>40</sup>

State-level taxes on fuel vary considerably across the country, reflecting differences in fiscal priorities and revenue requirements. In the framework of road user taxation, fuel tax assumes greater importance than vehicle ownership taxes, as fuel consumption serves as a practical indicator of road usage. Higher fuel consumption generally corresponds to greater road use, making fuel taxation an effective proxy for charging road users. In India, fuel taxes contribute

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<sup>38</sup> Richard M. Bird, "Taxing Public Transport: Equity and Efficiency Considerations" (1992) *Public Finance Quarterly*.

<sup>39</sup> David M. Newbery, "Road User Charges and Public Transport Pricing" (2004) *Journal of Transport Economics and Policy*.

<sup>40</sup> Ahmad, E. & Brosio, G. (2019). *GST Reforms and Petroleum Taxation in India*. *Journal of Asian Economics*, 63, 101–112.

a substantial portion of road-related revenue due to the high and growing consumption of petroleum products.<sup>41</sup>

In the case of passenger transport, particularly State Transport Undertakings (STUs), the burden of fuel taxation is largely transferred to consumers through increased fares. Fuel expenditure constitutes one of the major components of operating costs for transport undertakings, and any increase in fuel taxes directly affects their financial performance. The exclusion of fuel from GST has further intensified the tax burden on transport operators, as they are unable to claim input tax credits on fuel purchases, thereby increasing operational inefficiencies and financial stress on public transport systems.<sup>42</sup>

### **Tyres and Tubes Tax:**

Similar to motor fuel, tyres and tubes used in motor vehicles are subjected to multiple layers of taxation. Under the post-GST regime, tyres and tubes fall within the ambit of the Goods and Services Tax and are generally taxed at higher GST slabs, in addition to customs duty on imported products. Central excise duty, which earlier applied to domestic manufacture, has largely been subsumed under GST, except for limited cesses. Accordingly, taxation on tyres and tubes now occurs at the point of manufacture or supply under GST, as well as at the point of import through customs duties. The revenue generated from these levies is of a general nature and not specifically earmarked for road development.<sup>43</sup>

The tax on tyres and tubes is closely associated with vehicle usage, as the frequency of replacement depends upon the intensity of road use, quality of road infrastructure and vehicle load. Although expenditure on tyres constitutes a relatively smaller proportion of overall vehicle operating costs when compared to fuel and maintenance, variations in tyre durability and performance significantly influence the incidence of this tax. Vehicles operating on poor-quality roads or under heavy load conditions tend to incur higher tyre replacement costs, thereby increasing the indirect tax burden on road users.<sup>44</sup>

### **Spares and Accessories Tax:**

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<sup>41</sup> Newbery, D.M. (2004). Road user charges, congestion pricing and sustainability. *Journal of Transport Economics and Policy*, 38(2), 179–199.

<sup>42</sup> Rao, R.K. & Chakraborty, P. (2021). Fiscal federalism, fuel taxation and transport economics in India. *Economic and Political Weekly*, 56(15), 45–53.

<sup>43</sup> Rao, R.K. & Chakraborty, P. (2019). Goods and Services Tax in India: Progress, performance and prospects. *Economic and Political Weekly*, 54(38), 45–54.

<sup>44</sup> Newbery, D.M. (2018). Road infrastructure, vehicle operating costs and user charging. *Journal of Transport Economics and Policy*, 52(3), 241–258.

Taxation on motor vehicle spare parts and accessories, similar to tyres and tubes, is subjected to a multi-tier tax structure. Under the current Goods and Services Tax (GST) regime, spare parts and accessories fall within the GST framework and are taxed at prescribed rates at the point of manufacture or supply, while imported spares attract customs duty. The earlier system of central excise duty and state-level sales tax has largely been subsumed under GST, resulting in a unified indirect tax structure, except for applicable cesses. The revenue generated from such taxes forms part of general government revenue and is not earmarked specifically for the road sector.<sup>45</sup>

The taxation of spare parts and accessories is closely linked to vehicle usage, as the demand for replacement arises primarily from operational wear and tear. Expenditure on spares and accessories constitutes a relatively small component of total vehicle operating costs; however, the frequency of replacement depends upon factors such as intensity of vehicle use, road conditions, and the nature of routes operated. Vehicles operating on inferior road infrastructure or rugged routes tend to incur higher maintenance and replacement costs, thereby increasing the effective tax incidence on users.<sup>46</sup>

Similarly, lubricants used in motor vehicles are subjected to GST and customs duties in the case of imports. Although lubricant costs form a minor share of operating expenses, regular usage makes them an inevitable input in vehicle operations. Consequently, taxes on lubricants indirectly contribute to the overall burden of road user charges, particularly for commercial vehicles engaged in intensive operations.<sup>47</sup>

### **Road Tolls:**

Toll charges represent a user fee levied on vehicles for the utilization of specific roads, highways, and bridges. These charges are directly linked to the cost of construction, maintenance, and operation of the road infrastructure. Toll collection is administered by the National Highways Authority of India (NHAI) for national highways and by designated state-level authorities for state highways and bridges.<sup>48</sup> Vehicle owners are required to pay tolls based on the rates specified for particular stretches, which may vary according to vehicle type, size, and axle configuration. For commercial trucks, some states determine toll based on payload

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<sup>45</sup> Rao, R.K. & Chakraborty, P. (2020). Sub-national taxation and GST reform in India. *Economic and Political Weekly*, 55(12), 35–44.

<sup>46</sup> Button, K. (2010). Transport economics and road user charging. *Transport Policy*, 17(5), 318–326.

<sup>47</sup> Newbery, D.M. (2018). Infrastructure pricing and transport taxation. *Journal of Transport Economics and Policy*, 52(2), 133–150.

<sup>48</sup> NHAI. (2023). *National Highway Tolling Guidelines*. New Delhi: National Highways Authority of India.

capacity, while others consider multiple factors such as type of route, geographical region, nature of permits, and type of fuel used.<sup>49</sup> This system ensures that road users contribute proportionately to the cost of infrastructure, reflecting the principle of cost recovery and road use-based taxation.

### **Fees:**

Fees related to motor vehicles are levied by the respective state governments and include a variety of charges such as vehicle registration fees, driving license fees, permit fees, fitness certificate fees, conductor's fees, and brake certificate fees.<sup>50</sup> These levies are generally classified as specific fees rather than general taxes and are intended primarily to cover the administrative costs associated with vehicle regulation and road transport management, rather than serving as a significant source of state revenue.<sup>51</sup> The structure and quantum of these fees are periodically revised under the Motor Vehicles (Amendment) Act, 2019, which has streamlined fee collection and digitized services through the Parivahan e-governance platform.<sup>52</sup>

**i. Registration Fee:** Vehicle registration, whether permanent or temporary, is mandatory for operating a motor vehicle on public roads.<sup>53</sup> A vehicle may be driven in public spaces only after it has been registered with the competent registering authority, as stipulated under Section 39 of the Motor Vehicles Act, 1988, and further reinforced by provisions in the Motor Vehicles (Amendment) Act, 2019.<sup>54</sup> The registration process involves a physical inspection of the vehicle by the authorized inspecting officer to verify its specifications and particulars. Fee structures for vehicle registration vary between temporary and permanent registrations and differ across states.<sup>55</sup> Additionally, differential rates are applied based on factors such as engine

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<sup>49</sup> Santos, G., Behrendt, H., & Teytelboym, A. (2010). Part II: Road user charging and toll policies. *Transport Reviews*, 30(6), 689–709.

<sup>50</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Motor Vehicle Fees and Charges: State-wise Guidelines*. New Delhi: Government of India.

<sup>51</sup> Goyal, R., & Dhingra, S. (2021). Motor vehicle taxation and fee structures in India: A critical review. *Transport Policy*, 105, 45–53.

<sup>52</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>53</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Guidelines on Vehicle Registration in India*. New Delhi: Government of India.

<sup>54</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>55</sup> Goyal, R., & Dhingra, S. (2021). Vehicle registration and taxation in India: Comparative state-level analysis. *Transport Policy*, 108, 67–75.

cubic capacity, fuel type, and number of axles, reflecting both the vehicle's potential road impact and environmental considerations.

**ii. Fitness Certificate Fee:** Under the provisions of the Motor Vehicles Act, 1988, vehicle registration is considered valid only if the vehicle holds a valid certificate of fitness (COF).<sup>56</sup> The fitness of a vehicle is assessed by a Board of Inspectors at the designated inspection unit of the respective transport department. Vehicles that comply with the prescribed safety, emission, and operational standards are deemed fit for use.<sup>57</sup> For private vehicles, the certificate of fitness is valid for 15 years from the date of initial registration and is subsequently renewable every five years. In the case of commercial vehicles, a fitness certificate is initially issued for two years for new vehicles and thereafter requires annual renewal. These provisions were further reinforced and clarified under the Motor Vehicles (Amendment) Act, 2019, which emphasizes stricter compliance with safety and emission norms.<sup>58</sup>

**iii. Permit Fee:** This provision pertains specifically to commercial motor vehicles. A permit is an official authorization issued by the State or Regional Transport Authority that allows a motor vehicle to operate as a transport vehicle in a specified manner, in accordance with the relevant provisions of the Motor Vehicles Act, 1988, and its associated rules.<sup>59</sup> The permit defines not only the routes or geographic area of operation but also the nature of the vehicle's service, whether as a stage carriage, contract carriage, private carrier, or public carrier.<sup>60</sup> The State Transport Authority periodically announces schemes for the issuance of stage carriage permits based on the demand for buses on different routes, ensuring that the allocation of permits aligns with public transport requirements and operational efficiency.<sup>61</sup> The Motor Vehicles (Amendment) Act, 2019 further emphasizes streamlined processes for permit issuance and stricter compliance with safety and operational standards for commercial vehicles.

**iv. Licence Fees:** Annual vehicle license fees serve as an important and flexible mechanism for road user charging.<sup>62</sup> It functions as a fixed levy aimed at recovering the fixed costs

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<sup>56</sup> Government of India. (1988). *The Motor Vehicles Act, 1988*. New Delhi: Ministry of Law and Justice.

<sup>57</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Vehicle Fitness Inspection Guidelines and Procedures*. New Delhi: Government of India.

<sup>58</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>59</sup> Government of India. (1988). *The Motor Vehicles Act, 1988*. New Delhi: Ministry of Law and Justice.

<sup>60</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Guidelines for Permit Issuance and Commercial Vehicle Operations*. New Delhi: Government of India.

<sup>61</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>62</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Road User Charges and Licensing Framework in India*. New Delhi: Government of India

associated with the construction, operation, and maintenance of the road network. Additionally, license fees are levied for the purpose of assessing and certifying driving competence; however, this component is not considered a road user charge, as it primarily relates to road safety and the regulation of drivers.<sup>63</sup> The Motor Vehicles (Amendment) Act, 2019, and subsequent state-level notifications emphasize the collection of these fees to enhance compliance, promote safety standards, and ensure sustainable funding for road infrastructure.<sup>64</sup>

**v. Fines and Penalties:** Fines and penalties constitute punitive levies imposed on traffic offenders for violations of traffic regulations.<sup>65</sup> These levies, however, are not linked to the actual use of road infrastructure and do not serve as a source of road user funding. State Transport Undertakings (STUs) in India are subject to a diverse range of motor vehicle taxes, and while some of these taxes could theoretically be passed on to passengers through fare adjustments, regulatory constraints often prevent fare increases.<sup>66</sup> As a result, STUs are compelled to absorb these additional tax burdens, which negatively impacts their financial performance and operational efficiency. The Motor Vehicles (Amendment) Act, 2019, along with state transport regulations, reinforces this framework by delineating permissible fare structures and highlighting the limitations on revenue recovery from passengers.<sup>67</sup>

### **Research tools used for field work:**

#### **Questionnaire:**

Questionnaire is a tool of research methodology in which some questions are short listed and in a given format it is distributed between and to get the response. For this chapter a close ended Questionnaire was framed with few options amongst which the subject had to make a choice.

#### **Sampling:**

Sampling which has been done is a stratified sampling. A stratum is identified that of retailers Who would prove fruitful to the research.

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<sup>63</sup> Government of India. (1988). *The Motor Vehicles Act, 1988*. New Delhi: Ministry of Law and Justice.

<sup>64</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>65</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Traffic Offences and Penalty Framework in India*. New Delhi: Government of India.

<sup>66</sup> Government of India. (1988). *The Motor Vehicles Act, 1988*. New Delhi: Ministry of Law and Justice.

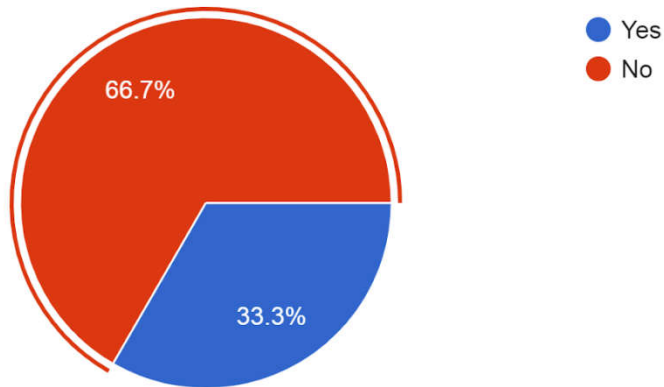
<sup>67</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

**Findings in the shape of pie chart of all the questions asked in the questionnaire:**

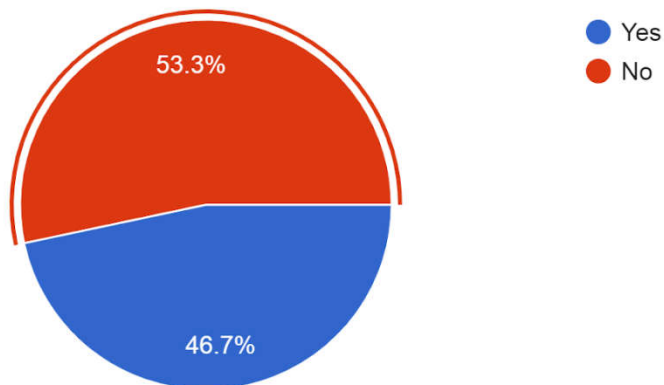
An overall evaluation of the findings of the research reveals that the awareness among people and efficiency of government.

The responses for each of the questions are,

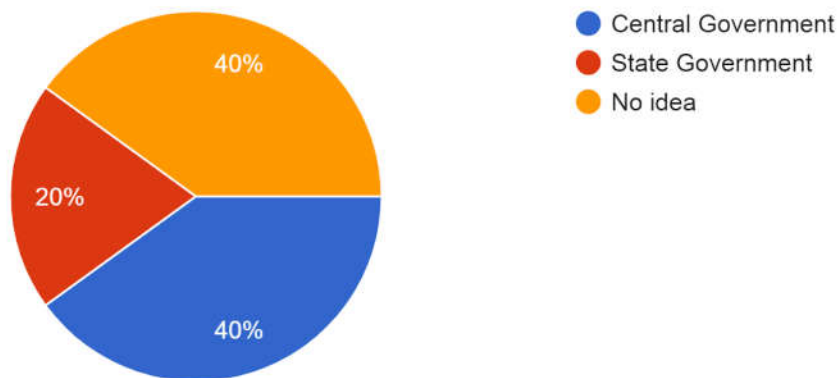
**Do you know how much percentage of Road Tax you are paying?**



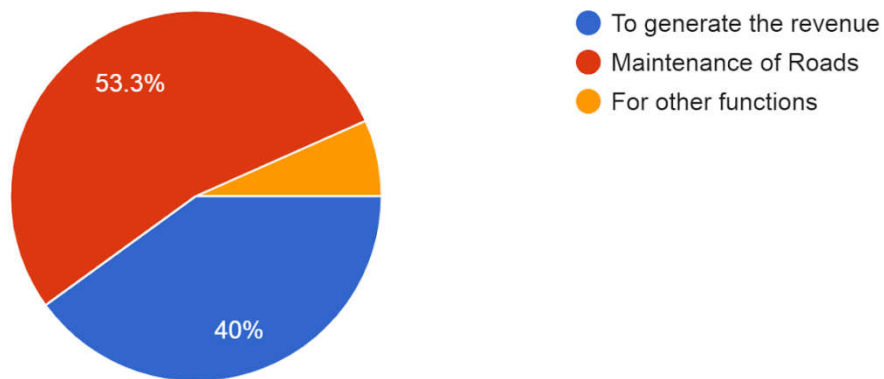
**Do you aware that total cost of your vehicle also includes the Road tax?**



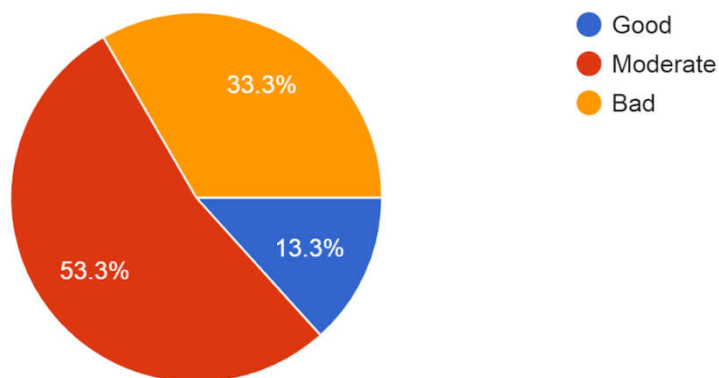
**The road taxes are levied by?**



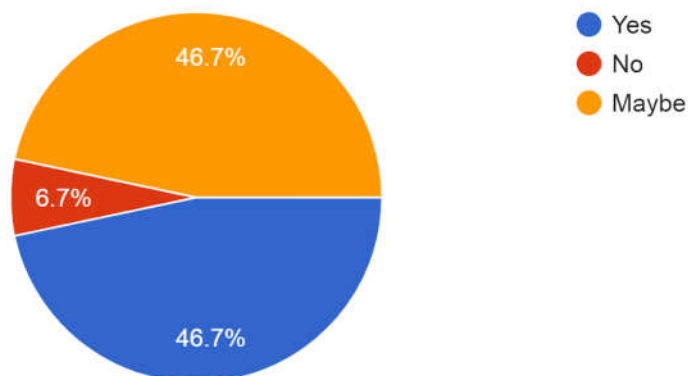
**Is the road tax are used for?**



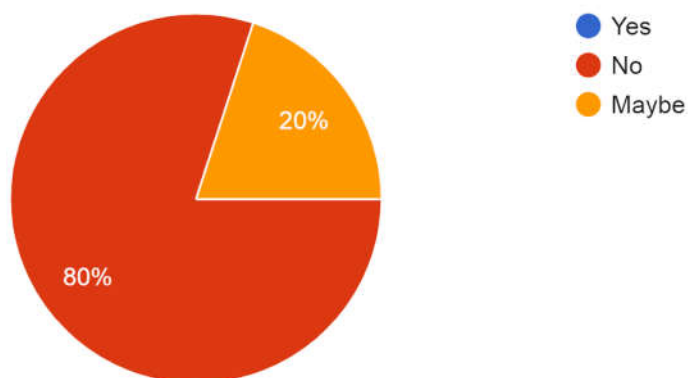
**Is the roads are good facilitated and in proper Condition?**



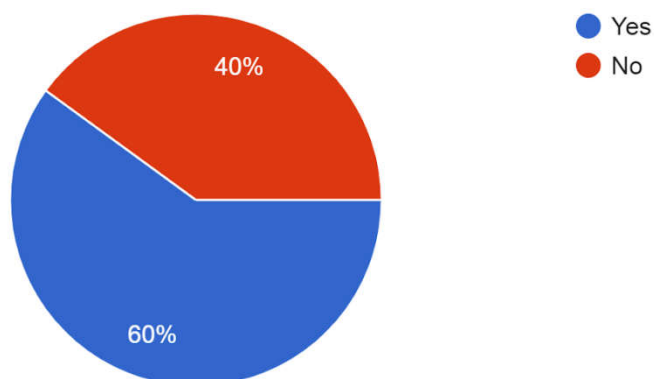
**Do you think accident occurs because of improper roads?**



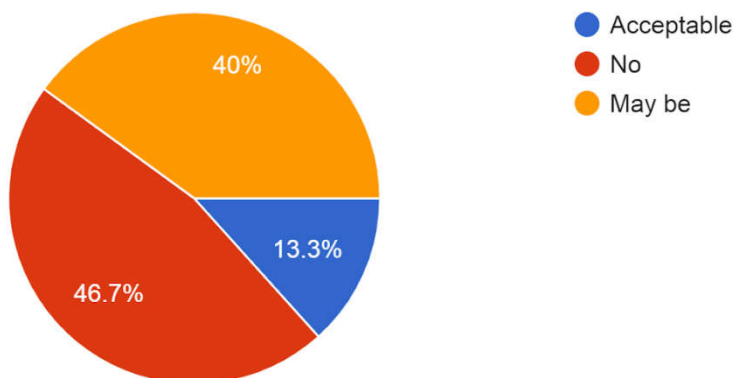
**If yes, do you feel that road taxes are utilizing properly?**



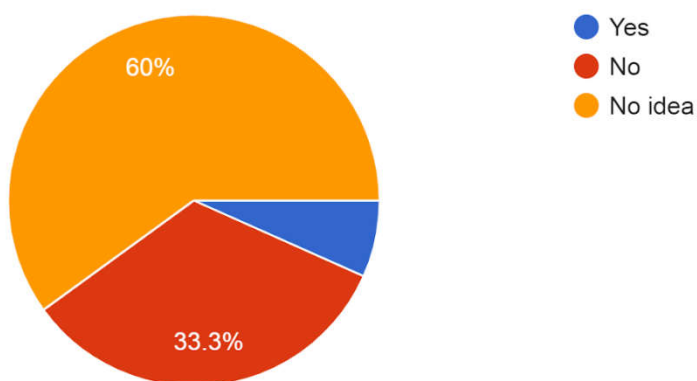
**Do you aware, the diesel vehicles are leived higher rate of road tax than petrol vehicles?**



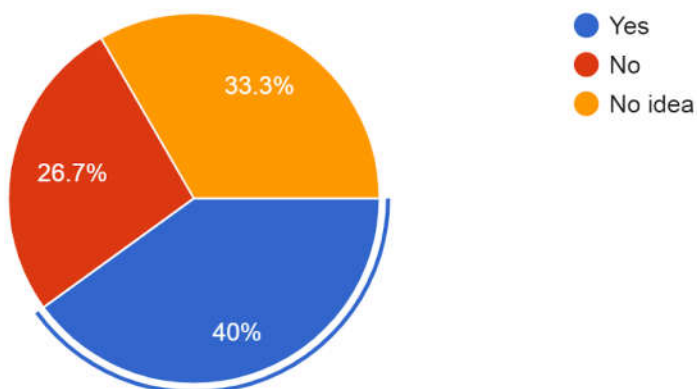
**Is it justifiable to levy the road tax when you change the registration of your vehicle to another state?**



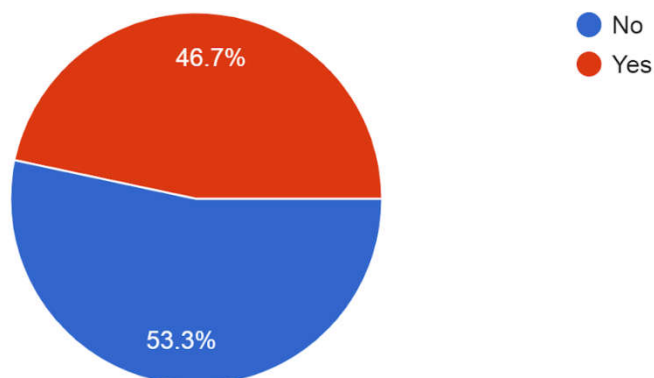
**Is the existing government refunds the road tax when you changed registration of vehicle to others state?**



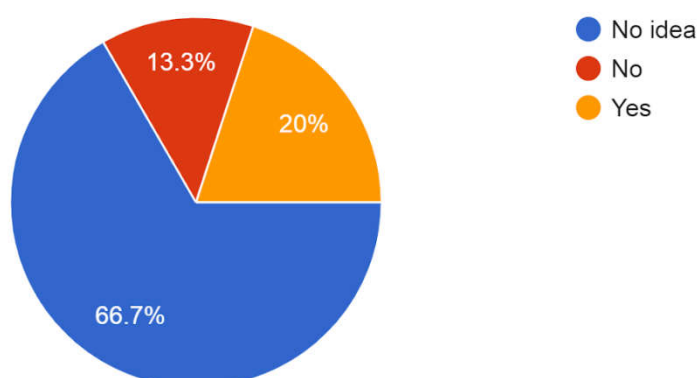
**Is toll fees are distributed to State government**



**If yes, did you ever felt like you paying over taxation or double taxation for using roadways?**



**Do you feel high rate of road tax will affect and increase the cost of vehicle?**



## 5. CONCLUSION

The **benefit principle of taxation** suggests that individuals or entities should pay taxes in proportion to the benefits they receive from government expenditure, particularly in relation to the services provided, such as road construction, maintenance, and safety enforcement.<sup>68</sup> Conversely, the **ability-to-pay principle** argues that taxation should be based on the taxpayer's financial capacity, ensuring that wealthier individuals or organizations contribute a

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<sup>68</sup> Musgrave, R.A., & Musgrave, P.B. (1989). *Public Finance in Theory and Practice* (5th ed.). New York: McGraw-Hill.

proportionally higher share.<sup>69</sup> While both principles provide useful guidance, neither can serve as the sole basis for road transport taxation, especially in the context of State Transport Undertakings (STUs), which operate within a complex network of regulatory, fiscal, and service delivery obligations.

In India, **motor vehicle taxation is primarily a state subject**, although the Constitution places it under the **Concurrent List**, allowing both the Union and State governments to legislate.<sup>70</sup> The current road user taxation framework is multi-layered, comprising vehicle registration fees, annual motor vehicle tax, passenger tax, fuel tax, tolls, fees for permits and fitness certificates, fines, and other levies. While these taxes aim to recover road construction and maintenance costs, research shows that the system often disproportionately affects lower-income commuters, particularly bus passengers, and does not always correlate directly with road use or damage.<sup>71</sup>

A critical challenge lies in the **complexity and multiplicity of taxes**, which not only increases compliance costs for STUs but also hinders operational efficiency. In many cases, STUs are unable to pass on the tax burden to passengers due to regulatory restrictions on fare hikes.<sup>72</sup> Consequently, the financial performance of STUs is adversely affected, creating a vicious cycle: limited resources reduce the ability to maintain fleets efficiently, impacting service quality, and discouraging public transport use.

**Equity and efficiency concerns** are further highlighted by the taxation of buses, which, despite being the most road-space and energy-efficient vehicles, face high taxation relative to private vehicles.<sup>73</sup> Since buses primarily serve low-income groups, the effective tax burden is regressive, raising ethical and policy questions about fairness in road user taxation. Moreover, multiplicity in taxation—such as VAT/State GST on fuel, customs duties, excise duties, tolls, and registration fees—complicates the transparency and predictability of costs for both operators and commuters.

## RECOMMENDATIONS FOR REFORM:

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<sup>69</sup> Stiglitz, J.E. (2015). *Economics of the Public Sector* (4th ed.). New York: W.W. Norton.

<sup>70</sup> Ministry of Road Transport and Highways (MoRTH). (2023). *Road User Charges and Taxation in India*. New Delhi: Government of India.

<sup>71</sup> Government of India. (2019). *The Motor Vehicles (Amendment) Act, 2019*. New Delhi: Ministry of Law and Justice.

<sup>72</sup> Comptroller and Auditor General of India (CAG). (2022). *Report on Public Expenditure on Road Infrastructure*. New Delhi: Government of India.

<sup>73</sup> National Transport Development Policy Committee (NTDPC). (2014). *Report on Urban Transport and Public Bus Services*. New Delhi: Government of India.

1. **Simplify and rationalize road taxes:** Motor vehicle tax rates should be minimal and proportionate to road use and damage, focusing on efficiency rather than revenue maximization.<sup>74</sup>
2. **Enhance road maintenance and safety:** Governments should ensure high-quality road infrastructure to reduce accidents, improve travel efficiency, and enhance the perceived value of taxation.<sup>75</sup>
3. **Periodic inspection and monitoring:** Regular inspection of vehicles and roads by authorized personnel should be enforced to ensure compliance, reduce wear-and-tear, and improve safety outcomes.<sup>76</sup>
4. **Transparency in road expenditure:** Governments should publish detailed reports on the allocation and utilization of funds collected from road user taxes to enhance public trust and accountability.<sup>77</sup>
5. **Rationalization or abolition of tolls:** Toll fees should be reviewed, reduced, or eliminated where redundant, to avoid multiple taxation of the same users and promote equitable road access.<sup>78</sup>

Such reforms would not only reduce the **regressive impact of road user taxes** on low-income commuters but also support the sustainable growth of the public transport sector and encourage greater reliance on efficient modes of transport, such as buses, thereby improving overall traffic management, reducing congestion, and lowering environmental pollution.

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<sup>74</sup> Ministry of Road Transport and Highways (MoRTH). (2021). *Rationalization of Toll Policy*. New Delhi: Government of India.

<sup>75</sup> National Highways Authority of India (NHAI). (2022). *Annual Report on Road Maintenance and Development*. New Delhi: NHAI.

<sup>76</sup> Government of India. (2023). *Central Motor Vehicle Rules, 1989 (as amended)*. New Delhi: Ministry of Road Transport and Highways.

<sup>77</sup> Comptroller and Auditor General of India (CAG). (2022). *Audit Report on Road Infrastructure Expenditure*. New Delhi: Government of India.

<sup>78</sup> Ministry of Road Transport and Highways (MoRTH). (2020). *Policy Guidelines on Road User Charges*. New Delhi: Government of India.