Dealing with Fuel Price Rise

What is the issue?

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Even amidst widespread opposition for petrol and diesel price rise, the government ruled out any immediate reduction in excise duty.

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What is the response?

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- The Centre has urged the states to take action.
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- Andhra Pradesh announced a Rs 2 per litre cut in VAT on petrol and diesel.
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- Rajasthan also announced a 4 percentage point cut.
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- But states have been largely unenthusiastic in cutting down the excise duty.
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How important is taxes on petrol and diesel?

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- The Centre has had nearly Rs 2 to 2.5 lakh crore from excise duty on petroleum products in 2016-17 and in 2017-18.
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- The states' earnings through sales tax/VAT on petroleum products increased around Rs 1.6 to Rs 1.8 lakh crore from 2016-17 to 2017-18.
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- Clearly, taxes on petrol and diesel are a key revenue source for both the Centre and states.
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- Any reduction in this would significantly hit their fiscal position.
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Will bringing it under GST help?

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- LPG, kerosene, naphtha, furnace oil, and light diesel oil attract GST.
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- But five other petroleum products lie outside the GST regime.
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- These are crude oil, high speed diesel, motor spirit (petrol), natural gas, and aviation turbine fuel.
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- But the Centre and the states are not fully ready to include these five petroleum products in the GST regime.
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- Even if petrol and diesel are included under GST, prices are unlikely to fall.
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- This is because of the GST principle of keeping rates close to the earlier tax rates.
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- Also, worldwide trend suggests that if petrol and diesel are included in GST, states levy additional taxes to prop up revenue.
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What can states do?

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- Rates of state sales tax or Value Added Tax (VAT) vary from state to state.
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- Unlike excise duty, VAT is ad valorem, and results in higher revenues for the state when rates move up.
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- This is because taxes imposed by the Centre are specific i.e. fixed in terms of Rs per unit.
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- On the other hand, the states tax the oil on ad valorem basis.
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- This means that the tax is based on the assessed value of the commodity.
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- So, with increasing petroleum prices, states' tax collection correspondingly goes up.
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- Thus, the states could make a 10-15% duty cut and still get the same amount

of tax revenue as budgeted.
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- Therefore, the call for reduction in taxes on petroleum products applies more to the states than to the Centre.
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Source: Indian Express

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