



## Dealing with Fuel Price Rise

### What is the issue?

\n\n

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

\n\n

### What is the response?

\n\n

\n

- The Centre has urged the states to take action.

\n

- Andhra Pradesh announced a Rs 2 per litre cut in VAT on petrol and diesel.

\n

- Rajasthan also announced a 4 percentage point cut.

\n

- But states have been largely unenthusiastic in cutting down the excise duty.

\n

\n\n

### How important is taxes on petrol and diesel?

\n\n

\n

- 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.

\n

- 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.

\n

- Clearly, taxes on petrol and diesel are a key revenue source for both the Centre and states.

\n

- Any reduction in this would significantly hit their fiscal position.

\n

\n\n

## **Will bringing it under GST help?**

\n\n

\n

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

\n

\n\n

## **What can states do?**

\n\n

\n

- Rates of state sales tax or Value Added Tax (VAT) vary from state to state.
- Unlike excise duty, VAT is ad valorem, and results in higher revenues for the state when rates move up.
- This is because taxes imposed by the Centre are specific i.e. fixed in terms of Rs per unit.
- On the other hand, the states tax the oil on ad valorem basis.
- This means that the tax is based on the assessed value of the commodity.

\n

- So, with increasing petroleum prices, states' tax collection correspondingly goes up.  
\n
- Thus, the states could make a 10-15% duty cut and still get the same amount of tax revenue as budgeted.  
\n
- Therefore, the call for reduction in taxes on petroleum products applies more to the states than to the Centre.  
\n

\n\n

\n\n

**Source: Indian Express**

\n



**IAS PARLIAMENT**  
*Information is Empowering*  
A Shankar IAS Academy Initiative