

## **WHY INDIA DEMANDS INCLUSION OF PETROLEUM PRODUCTS UNDER GST?**

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### **ABSTRACT**

Goods and Service Tax (GST) is a comprehensive tax levied on manufacturing, sales and consumption of goods and services at a national level, introduced in India from 1<sup>st</sup> July 2017 which subsumed all indirect taxes levied by the central and state governments. However, petroleum products such as Petroleum crude, natural gas, diesel and petrol were kept out of GST framework in order to preserve the revenue acquired by the state. The present study gives an overview of petroleum prices under GST wherein the central objective is to throw a light on three main aspects; to understand the current scenario of petroleum prices in India, reason for exclusion of petroleum products from GST and to analyze what if petroleum products come under GST.

**Keywords: GST, Petroleum Products, Price build up mechanism, VAT.**

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## INTRODUCTION

Petroleum products have become an indispensable part of our day-to-day life, and we can't imagine our life without it. But the petroleum prices are sky rocketing. This hike directly or indirectly affects all the major sectors like transportation, textiles, auto, FMCG etc., from 16th June 2017 Government implemented daily revision of fuel cost, which put a burden on consumers. Earlier, the prices were fixed twice in a month, but now the change in price happens at 6 a.m. every morning. The steady increase in prices had somewhat gone unnoticed till the petroleum prices touched a three year high. The Introduction of GST on 1st July 2017 was the biggest tax reform in India. By now everyone knows that Goods and Services Tax is a unified tax which incorporated all the taxes into one and further a certain percentage of the total tax goes to the Central exchequer and the rest to the State exchequer. After the rollout of GST, although petroleum products were not covered under the Goods and Services Tax, however, a significant change that happened was that the prices of petrol and diesel started being revised or changed daily as opposed to the previous system of fortnightly revision of prices. In fact, Minister for Petroleum DharmendraPradhan has made a statement saying that inclusion of petroleum under GST is the only way for rational pricing and also provides relief to the customers.

In present scenario the researcher has elevated the following research questions;

- What are the present trends in the movement of petroleum prices in India?
- Why petroleum products not included in GST?
- What if petroleum products come under GST?

The present study is based on secondary data collected from leading newspapers, reports of Petroleum Planning and Analysis Cell (PPAC), relevant websites etc. the researcher consider only petrol and diesel as petroleum products which are kept out of GST bracket.

## OBJECTIVES

- To study the current movement of petroleum prices in India.
- To understand the reasons behind the exclusion of petroleum products from the ambit of GST.
- To analyze what changes happen to prices of petroleum products if it comes under GST.

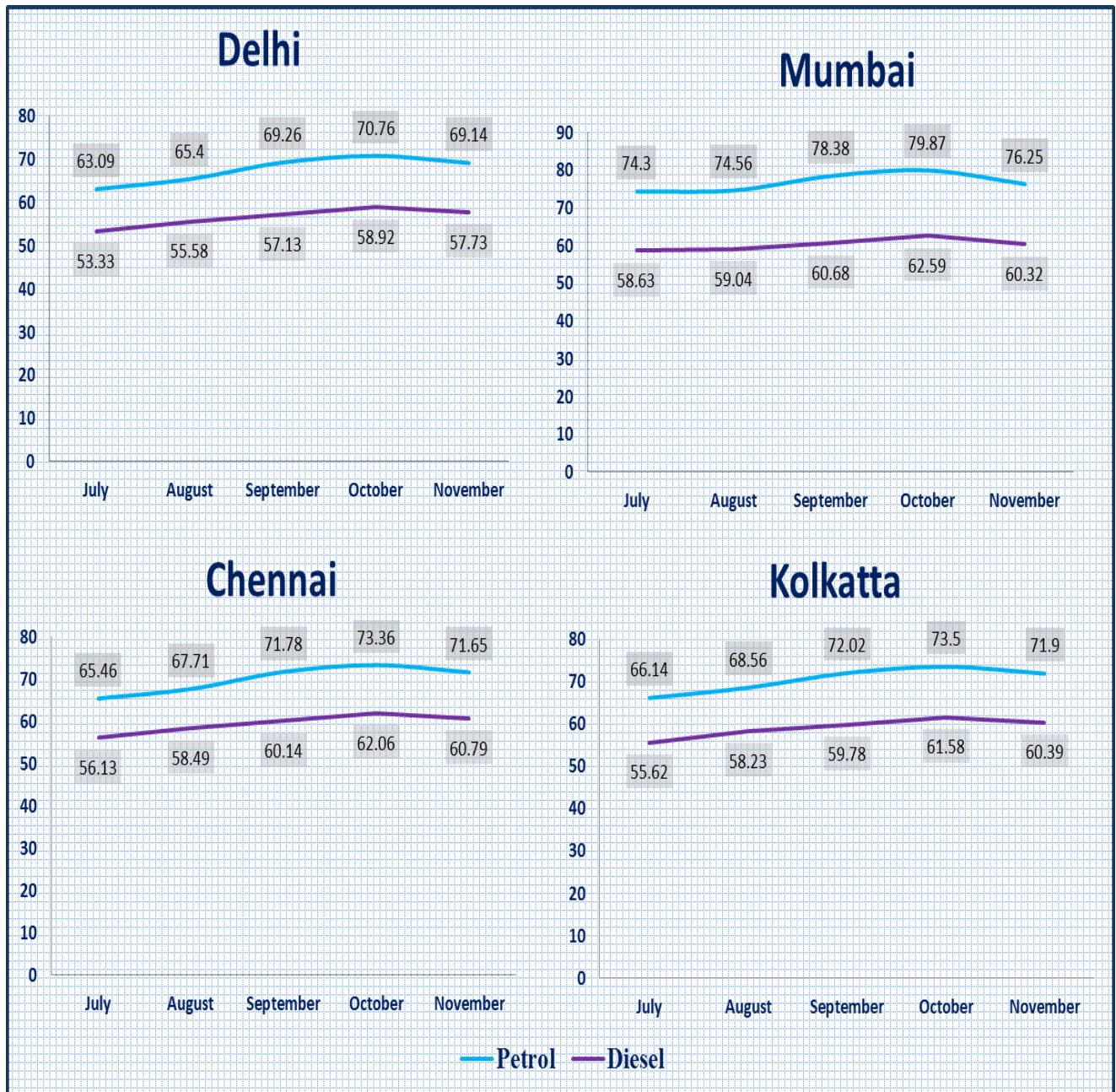
## STATEMENT OF THE PROBLEM

With the deregulation of petroleum product pricing, in 2010 and 2014 respectively, caused fuel prices to be determined primarily by the forces of supply and demand rather than input costs. Earlier, the prices were fixed twice in a month, but now the change in price happens at 6 a.m. every morning. So the steady increase in prices had somewhat gone unnoticed. This price hike will affect almost all the sectors and also put a burden on ultimate consumers in India. Excise duty and value added tax are the main culprits for price increments. While most of the taxable articles moved under the GST regime, petroleum products are still governed by VAT system. Different states have different rates of VAT applicable on petroleum products. Now the Indian government has a proposal to include the same under GST.

*This situation creates a challenge in to the study of “Why India Demands Inclusion of Petroleum Products under GST?”*

### **Current movement of petroleum prices in India.**

**Figure 1: Movement of Petroleum Prices in Major cities in India for the last 5 months (July to November 2017)**

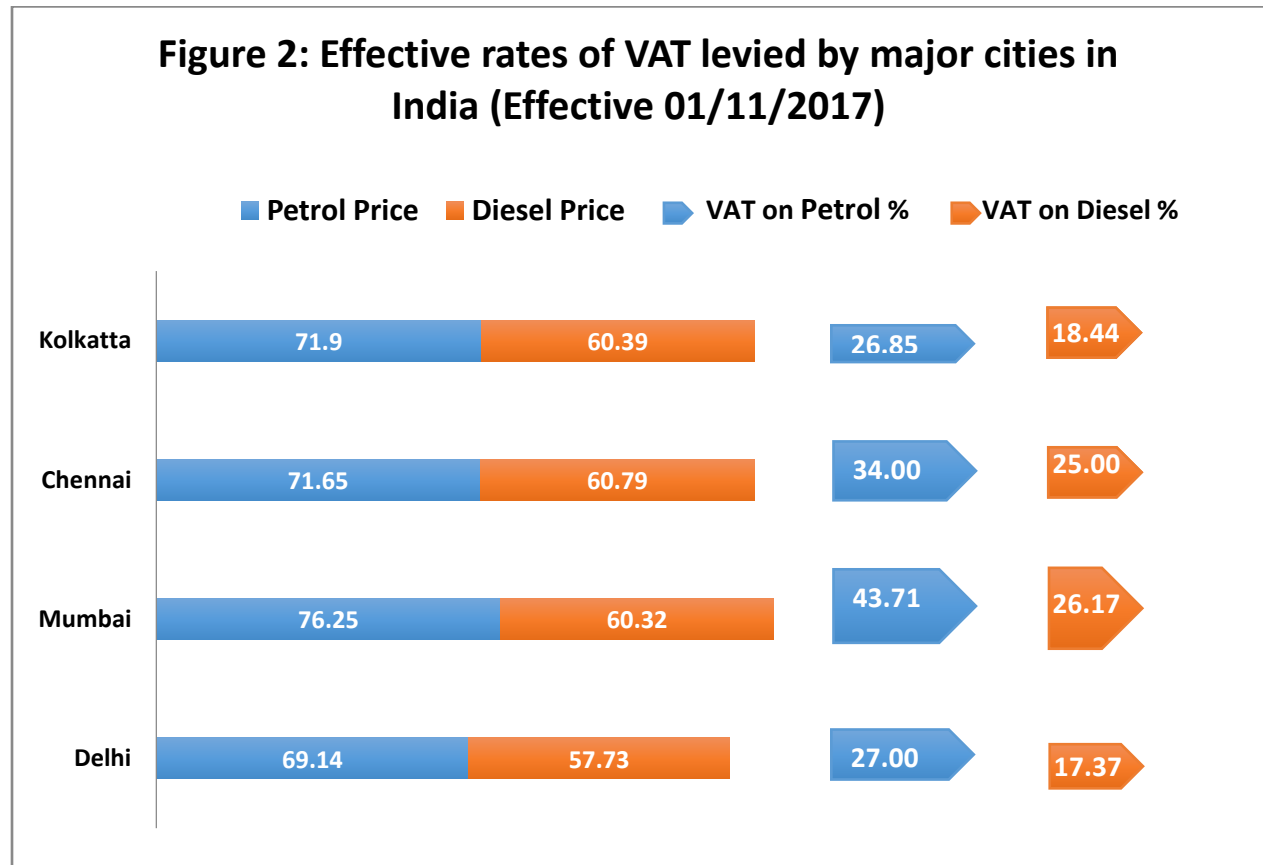


Source: Retail selling price of petrol and diesel, [www.ppac.org.in/](http://www.ppac.org.in/)

The above chart depicts the movement of petroleum prices in four major cities in India for the last five months. For the last four months ranging from July to October the prices of petrol and diesel shows an increasing trend, since the introduction of daily pricing policy on 16<sup>th</sup> June 2017. But in November there is slight decline in the petrol and diesel prices.

## Reasons behind the exclusion of petroleum products from the ambit of GST

It was a decision made by the Empowered Committee as these (basic petroleum products such as petroleum crude, high speed diesel, motor gas, and aviation turbine) are the main sources of income for the States. The minister for petroleum and natural gas said, “42 per cent of the central tax is coming to states. And states have their own tax mechanism (See figure 2). So a substantial portion of tax collection is utilized and coming to the states.” Bringing petroleum products under the purview of the GST will result in big losses for both the Centre as well as states, resulting in a huge hit on their revenues and making the state exchequer poorer.



Source: Statement showing the effective rates of GST/Sales tax/VAT levied by various States/UTs, [www.ppac.org.in/](http://www.ppac.org.in/)

Consider Delhi as an example. The state earns 27 per cent VAT from sale of a litre of petrol. On top of that, the states also receive 42 per cent of the Excise Duty charged by the Centre, according to Oil Minister DharmendraPradhan. In all, the state earns Rs 22.91<sup>\*</sup> from sale of each litre of petrol. In case, the 28 per cent GST is applied, the states will be entitled to 14 per cent of it in the form of SGST (State goods and Services Tax) which will amount to Rs 4.41<sup>\*\*</sup>, thus causing a loss of Rs 18.5

perlitre to the state exchequer. It is the main reason why the government reluctant in bringing fuel products under GST.

*India demands the inclusion of Petrol and other petroleum products in GST due to the following reasons;*

1. Results in uniform taxation and abolition of other indirect taxation.
2. Lower Revenue Neutral Rate (RNR).
3. To check inflation which will be there; after implementation of GST in India.
4. To complete the chain and extend real benefit of GST.
5. To boost the GDP.

### **Changes happens to prices of petroleum products if it comes under GST**

**Table No. 1: Price buildup of Petrol and Diesel at Delhi effective 5<sup>th</sup> December 2017**

Sl. No.	Elements	Unit	Petrol	Diesel
1	C&F (Cost & Freight) price	\$/bbl	74.10	75.13
2	Average Exchange Rate	Rs./\$	64.70	64.70
3	<b>Price charged to dealers (excluding Excise duty and VAT)</b>	Rs./Ltr	<b>31.50</b>	<b>31.99</b>
4	Add Excise duty @ Rs. 21.48/Ltr	Rs./Ltr	19.48	15.33
5	Add Dealers Commission (Average)	Rs./Ltr	3.58	2.52
6	Add VAT (including VAT on dealers' commission applicable for Delhi @ 27% for Petrol and 16.75% + Air Ambience Charges @ 250/KL for Diesel)	Rs./Ltr	14.73	8.63
7	<b>Retail Selling Price at Delhi (Rounded)</b>	Rs./Ltr	<b>69.29</b>	<b>58.48</b>

*Source: Price Build-up of Petrol at Delhi at BPCL Retail Pump Outlets, <https://www.bharatpetroleum.com/>*

The above table shows the calculation of retail selling price of petroleum in Delhi as on 5<sup>th</sup> December 2017. Retail selling price of petrol was Rs. 69.29/Ltr which includes Excise duty, Dealers' commission and VAT. Rs. 37.79/Ltr is the excess amount paid over the price charged to dealers (Rs. 31.50/Ltr). Retail selling price of Diesel was Rs. 58.48/Ltr which includes Excise duty, Dealers' commission and VAT. Rs. 26.48/Ltr is the excess amount paid over the price charged to dealers (Rs. 31.99/Ltr).

From this we can understand that main reason for hike in petroleum price is amounts paid on Excise duty, Dealers' commission and Value Added Tax by different States.

Presently the prices of petrol and diesel influenced by heavy taxes levied by Central and State governments by way of Excise duty and VAT.

**Table No. 2: Tax Percentage on Petrol and Diesel**

Sl. No.	Particulars	Petrol	Diesel
1	Retail Selling Price	69.29	58.48
2	Total Tax = State VAT + Central Excise Duty	34.21	23.96
3	Price without considering TAX = (1) - (2)	35.08	34.52
4	<b>Tax percentage= (2)/(3)*100</b>	<b>97.52</b>	<b>69.41</b>

From the above table it is crystal clear that the consumers have to pay 97.52% and 69.41% by way of tax on petrol and diesel respectively.

*Let's have a glimpse on the possible price scenario of petrol and diesel under GST.* The below calculations (Table No. 2 and 3) are assumptions-based on price of petrol and diesel in Delhi on 5<sup>th</sup> December 2017. The tables give a clear picture about the calculation of retail price of petrol and diesel after including petroleum products under GST at different slabs.

**Table No. 3: Calculation of Petrol prices under GST**

Sl. No.	Elements	Unit	GST Slabs			28% GST+ 22% luxurycess under GST
			12%	18%	28%	
1	C&F (Cost & Freight) price	\$/bbl	74.10	74.10	74.10	74.10
2	Average Exchange Rate	Rs./\$	64.70	64.70	64.70	64.70
3	<b>Price charged to dealers (excluding Excise duty and VAT)</b>	Rs./Ltr	<b>31.50</b>	<b>31.50</b>	<b>31.50</b>	<b>31.50</b>
4	Add GST	Rs./Ltr	3.78	5.67	8.82	17.69
5	<b>Retail Selling Price at Delhi (Rounded)</b>	Rs./Ltr	<b>35.28</b>	<b>37.17</b>	<b>40.32</b>	<b>49.19</b>

Assuming that the government brings petrol prices under 12 percent GST bracket, then petrol price could

come down to Rs 35.28 in Delhi while at 18 percent, petrol price will come down at 37.17 per litre. If the government pushes petrol to highest GST tax bracket of 28 percent, then it will cost Rs40.32 per litre in the national capital. Even if the government decided to levy luxury cess on petrol the price will be only Rs. 49.19/Ltr which is far away from current retail price of Petrol (see figure 3).

**Table No. 4: Calculation of diesel prices under GST**

Sl. No	Elements	Unit	GST Slabs			28% GST+ 22% luxurycess under GST
			12%	18%	28%	
1	C&F (Cost & Freight) price	\$/bbl	75.13	75.13	75.13	75.13
2	Average Exchange Rate	Rs./\$	64.70	64.70	64.70	64.70
3	<b>Price charged to dealers (excluding Excise duty and VAT)</b>	Rs./Ltr	<b>31.99</b>	<b>31.99</b>	<b>31.99</b>	<b>31.99</b>
4	Add GST	Rs./Ltr	3.84	5.76	8.96	17.97
5	<b>Retail Selling Price at Delhi (Rounded)</b>	Rs./Ltr	<b>35.83</b>	<b>37.75</b>	<b>40.95</b>	<b>49.96</b>

The above table shows the imaginary calculation of diesel price under GST, if the government brings diesel prices under 12 percent GST bracket, then diesel price could come down to Rs35.83/Ltr in Delhi while at 18 percent, petrol price will come down at 37.75 per litre. If the government pushes diesel to highest GST tax bracket of 28 percent, then it will cost Rs40.95 per litre in the national capital. Even if the government decided to levy luxury cess on petrol the price will be only Rs. 49.96/Ltr which shows high deviation from current retail price of Diesel (see figure 3).



**Figure 3: Price of petrol and diesel before and after GST**

## CONCLUSION

Petrol prices and GST are the two key issues in India today. Some reports suggest that the cost of petroleum prices in India is more than any other Southeast Asian countries. The main reason behind this is the extra charges on petroleum products like Excise duty, dealers' commission and VAT. If the GST council decided to include petroleum products under GST, it brings the country into a "uniform tax mechanism". If the petroleum product is brought under GST, the price will be reduced to half of what is paid by the customer at present. In India, 50 percent of the revenue is earned by States from indirect taxes charged on Petroleum and other related products. Hence, including Petroleum products under GST Bill has increased the fear of loss of revenue for the states. This is one of the reasons due to which GST is not levied on Petroleum Products.

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