‘Higher excise, rebound in volumes to push states’ sales tax from petro products by 9%’

MUMBAI: Sales tax revenue for states on petroleum products will grow by up to 9 per cent in FY21 despite the impact of the COVID-19 pandemic, a report said on Thursday.

The rise will be primarily driven by a rebound in volumes with the economic recovery after sharp fall in the initial months, benefits of the increase in central and state taxes and also firmness in crude prices, domestic rating agency Crisil said.

The combined monthly volumes of petrol and diesel account for 90 per cent of sales tax collections from petroleum products for states.

The sales tax gets computed on the value of fuel after adding the excise duties, which are at an elevated level at present.

The agency said sales tax on petroleum products contributes a 15 per cent to states’ own tax revenues and hence, the expected recovery in collections should offer a breather to state finances, which have been under pressure since the lockdown began.

“There could be a 7-9 per cent on-year rise in sales tax receipts to Rs 1.96 lakh crore, despite an expected 25 per cent fall in collections in the first quarter on-year,” it said in a note.

Its senior director Manish Gupta said sales volumes dropped by a third because of the COVID-19 induced lockdown but with the economy slowly unlocking and industrial and commercial activities clawing back, vehicular traffic has started to improve.

The volume of petrol and diesel dipped to 43 per cent in April, during the lockdown, but has since doubled up to 85 per cent in June and 83 per cent in July, it said, adding if economic activity rebounds to pre-pandemic levels by November, the annual volume decline will be restricted to 11-12 per cent in FY21.

Its director Ankit Hakhu explained the role played by the higher excise duty and its importance in the revenue arithmetic.

Central excise duty was raised in March and May 2020. An increase in excise duty increases the taxable value of petrol and diesel for the levy of state sales tax.

This higher taxable value of the fuel is providing additional sales tax of Rs 3 per litre to states on a weighted average basis,” he said.

Additionally, many states have directly raised their sales tax rates by Rs 1.5-1.8 per litre for the current fiscal, he added.

State’s receipts will also be supported by the rebound in crude prices, which have gone up to $40 a barrel after falling to $30, it said, adding that every $10 increase per barrel gives states Re 1 in sales tax revenue on the fuel sold.

It made it clear that the estimate is based on an assumption of economic recovery and no further lockdowns.