Capital raises levies on fuel to make up for lost revenue

COVID-HIT FINANCES

Move to increase VAT by 30% follows additional 70% tax levied on liquor

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NEW DELHI: Retail prices of petrol and diesel in Delhi surged on Tuesday after the city’s government sharply increased excise duty on fuel, adding to fuel prices in the capital and elsewhere in India, allowing oil marketing companies (OMCs) to raise prices.

Petrol’s price at the pump increased by ₹7.87 per litre to ₹89.13, while diesel’s rose by ₹8.20 to ₹95.18, according to Indian Oil Corp, India’s largest OMC and refiner.

Delhi’s Aam Aadmi Party (AAP) raised the VAT rate on fuel after allowing state tax exemptions on fuel in the capital and elsewhere in India, allowing oil marketing companies to open, the self-employed like plumbers, electricians and domestic servants to return to work, and lower public movement, including the return of vehicular traffic.

On Tuesday, the government imposed additional tax of 10% on small varieties of liquor.

As the residents of the capital relied on the double whammy, Delhi’s deputy chief minister and finance minister Manish Sisodia tweeted: "Life isn’t all about rainbows and sunlight. Tough times need tough solutions - my learning as Finance Minister."

The government had doubled the levy on diesel to 30%, OMC executive officials said. The new VAT rate on petrol is also about 30%.

Earlier, Delhi used a 3% VAT on petrol and diesel.

Delhi is among the states that levies ad-valorem (Latin for “according to value”) taxes on petrol and diesel to protect themselves against a steep fall in revenue caused by a reduction in international petrol and diesel prices. Refineries that sell fuel to exporters in international oil markets.

If international prices jump, these states gain revenue proportionately, but they lose revenue when international prices fall. Revenue of states with ad-valorem rates has been hit badly as oil prices plummeted because of a demand slump resulting from the coronavirus pandemic and lockdowns.

The benchmark Brent crude price, that was around $60 per barrel two months ago, plummeted below $30 on April 2, his current hovering around $22 per barrel.

The government’s move is a specific excise duty on the two fuel.

On March 14, it hiked up an additional 33 paise per litre of petrol and diesel each to fund Covid-19 relief measures, existing total central levies on petrol at ₹32.98 per litre and on diesel to ₹27.98 per litre. Despite the hikes in the central levies, the pump prices of petrol and diesel hadn’t been raised since mid-March because of the decline in crude prices.

Since March 13, state-run oil companies have abandoned the practice of daily revision of the two fuel rates, making for present and potential inventory issues.

Pump prices of petrol and diesel differ in different states because of variations in sales tax or VAT rates and other levies.

States such as Tamil Nadu and Telangana have higher VAT rates, according to the oil ministry’s data. - Petroluem Planning and Analysis Cell (PPAC). Telangana charges 45.5%, VAT on petrol and 25% on diesel. VAT rates in Tamil Nadu are 36% and 31% on petrol and diesel, respectively.

The Delhi government’s announcement of hikes VAT on the two fuel came a couple of days after it levied a special excise duty on the sale of alcohol. From Thursday, an additional tax of 30% of the minimum retail price on all categories of liquor sold is being imposed in the capital.

In an interview with Hindustan Times, deputy chief minister Sisodia had said talks being discussed by the Delhi government owing to the coronavirus lockdown had been "hugs".

"In April last year, the collection was 15,000 crores. This year, till April 30, we have collected only 660 crores. So, factoring in an anticipated growth of 10%, we are losing around 9% on GST (goods and services tax) and sales tax. On top of that, there are losses in excise. This government cannot disburse salaries with just 10% of the usual revenue," he said.

The Congress party criticized the VAT hike.

"Citizens are seeking relief in the form of cess on tax being met out on this treatment in a shame. Nowhere in the world would any government have inflicted such hardships on its citizens. We demand immediate rollback of this," Congress leader Ajay Maken said.

Associated Chambers of Commerce and Industry of India (AssoCham) secretary general Deepak Sood said taxes were being raised at a time when demand should be stimulated within our markets. "Flaunting demand, demand would be further depressed, giving a job to the economy," he said.