

Implications on the Government Cooffers if Petrol & Diesel come under GST

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Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6837 4433

Author

Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-022- 6837 4410

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com
91-022-6837 424

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Overview

Since the nation-wide rollout of GST, crude oil, petrol, diesel, ATF and natural gas have been kept out of the GST ambit. Presently only LPG, kerosene and naphtha are subject to a GST rate. Bringing fuel products under the ambit of GST has been deliberated for long. However the state and centre have not been able to build a consensus on revenue sharing.

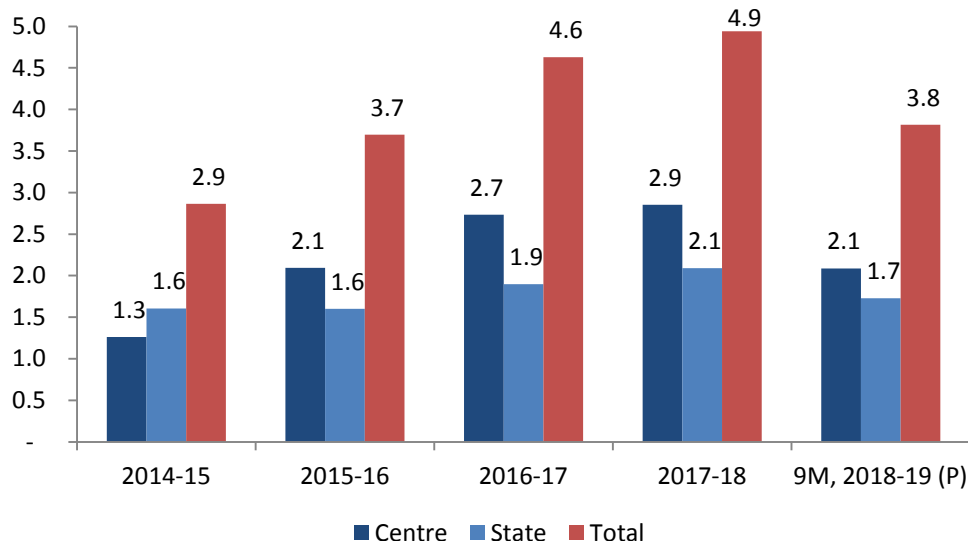
In this report we are analysing the potential impact on the government revenue if petrol and diesel were to come the GST purview.

Revenue Collection from Petro Products

Chart 1 below provides information on the tax revenue earned by the government in the last 4 years and 9 months of the current fiscal year. As can be seen during FY17, before GST was introduced, INR 4.6 lakh crore was generated by the government through various taxes and levies with the centre accounting for 59% of the total. For the centre, during FY17, 89% of the total came from excise duties and the balance from crude oil cess and customs. For the state, during FY17, 88% of the total came from state VAT levied on POL products and the balance from royalty from crude oil cess and octroi and duties.

During FY18, with the incidence of GST falling on LPG, kerosene and naphtha, 81% of the total tax collections for centre came from excise duties and 8% from IGST and CGST while in the case for the State, 89% was contributed by the VAT levies and 3% was from SGST/UTGS.

For the 9M-FY19 period, excise duty and CGST & IGST account for 71% and 14% of the total tax collections for the centre. VAT and SGST account for 87% and 5% of the state oil tax revenues. The share of collections of excise duty towards the centre's oil revenues has fallen as the government took the hit of absorbing INR 1.5/ltr on the retail price of petrol and diesel.

Chart 1: Tax collections on crude oil petro-products (INR/lakh crores)

Source: PPAC

It has been observed that the collection by the government of excise duty and VAT has increased over the years and even the lower price of global crude during the previous fiscal years (FY15 and FY16) did not lead to commensurate decline of retail prices as the tax rates were increased progressively.

So how important is the collection of taxes on petro-products

Table 1: Share of Petro-products within Excise Duties (INR/lakh crores)

| | 2014-15(Actuals) | 2015-16(Actuals) | 2016-17(Actuals) |
|---------------------------|------------------|------------------|------------------|
| Excise Duty | 1.0 | 1.8 | 2.4 |
| Net-Union Excise Duties | 1.9 | 2.9 | 3.8 |
| % share of Petro-products | 52% | 62% | 64% |

Source: PPAC, Ministry of Finance

Prior to GST, the share of petro products contribution towards the excise duties was around 59% on an average. In case of states it was 36% (Table 2)

Table 2: Petro-products within State sales tax/VAT (INR/lakh crores)

| | 2014-15(Actuals) | 2015-16(Actuals) | 2016-17(Actuals) |
|--------------------------------|------------------|------------------|------------------|
| Sales Tax/ VAT on POL Products | 1.4 | 1.4 | 1.7 |
| State Sales Tax/VAT | 4.3 | 3.8 | 4.2 |
| % share of Petro-products | 32% | 37% | 39% |

Source: PPAC, RBI

The present tax/price build up for Petrol and Diesel

Table 3: Price build-up for petrol and diesel in Delhi as of 16.03.2019 (INR/ltr)

| | Petrol | Diesel |
|---|--------|--------|
| Price Charged to Dealers (including Dealers commission) | 39.20 | 43.44 |
| Excise Duty | 17.98 | 13.83 |
| VAT (includes VAT on dealer commission) | 15.44 | 9.88 |
| Retail Selling Price | 72.62 | 67.15 |
| Effective tax rate | 85% | 55% |

Source: Indian Oil/PPAC

Currently as of 16th March 2019, the governments (centre plus states) are collecting around 85% taxes (Excise Duty and VAT) on the base price of petrol and dealers' commission while on the other hand 55% in the case of diesel.

Crude oil prices have been ranging around USD 67-68/bbl. The dealers commission charged on petrol is INR 3.55/ltr and INR 2.50/ltr for diesel.

CARE Ratings Views and Opinions

In order to see the impact on the government revenue with the inclusion of petrol and diesel under the GST ambit, in our analysis we have fixed the effective GST rate at 85% for petrol and 55% for diesel. The rate chosen has to be well above the present range of the GST band. (Presently the GST rates prevailing in the economy are 5%, 12% 18% and 28%)

If in FY19 there was an increase or decrease in the price charged to dealers by INR 1/- (considering there could be a fall in crude oil prices or because of the appreciation in the rupee) the resultant loss to the government revenue amounts to approximately INR 8,500 crores, given the annual consumption of petrol and diesel has been around 3,700 crore ltrs and 9,800 crore ltrs respectively.

Concluding remarks

- Bringing fuel products under the ambit of GST has been long deliberated by the government. If petrol and diesel were to be brought under the GST regime a different tax system would have to be structured for petro-products.

Appendix

Movement in crude oil prices

Chart 2: Monthly prices of crude oil since the introduction of GST (USD/bbl)

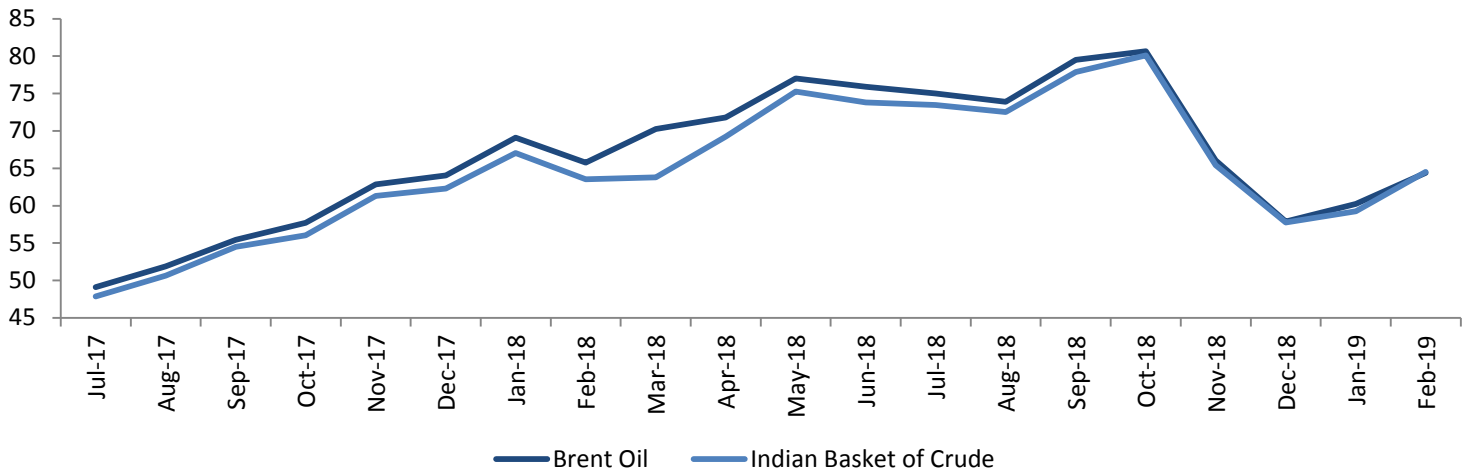
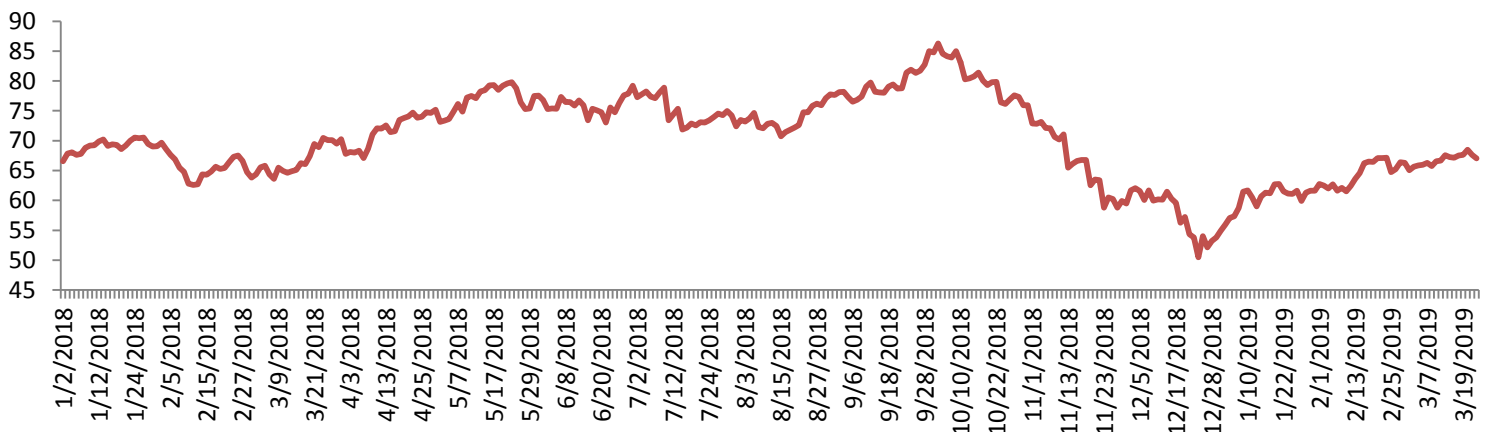


Chart 3: Daily prices of Brent Crude oil (USD/bbl)



Source: Bloomberg, PPAC

Prices of crude oil have been volatile throughout CY18. Crude oil price rose to its highest* during the first week of October 2018 due to the worries of a supply shortage with the approach of the US imposed sanctions on Iran. In retrospect oil prices also fell sharply with the US granting a temporary 180-day waiver to 8 countries - India, China, Italy, Greece, Japan, South Korea, Taiwan and Turkey. Crude oil prices also fell with the rise in US crude oil production and with global sentiment hovering towards the slowdown in the global economy due to the on-going trade wars between US and China

*highest in the past 2 years.

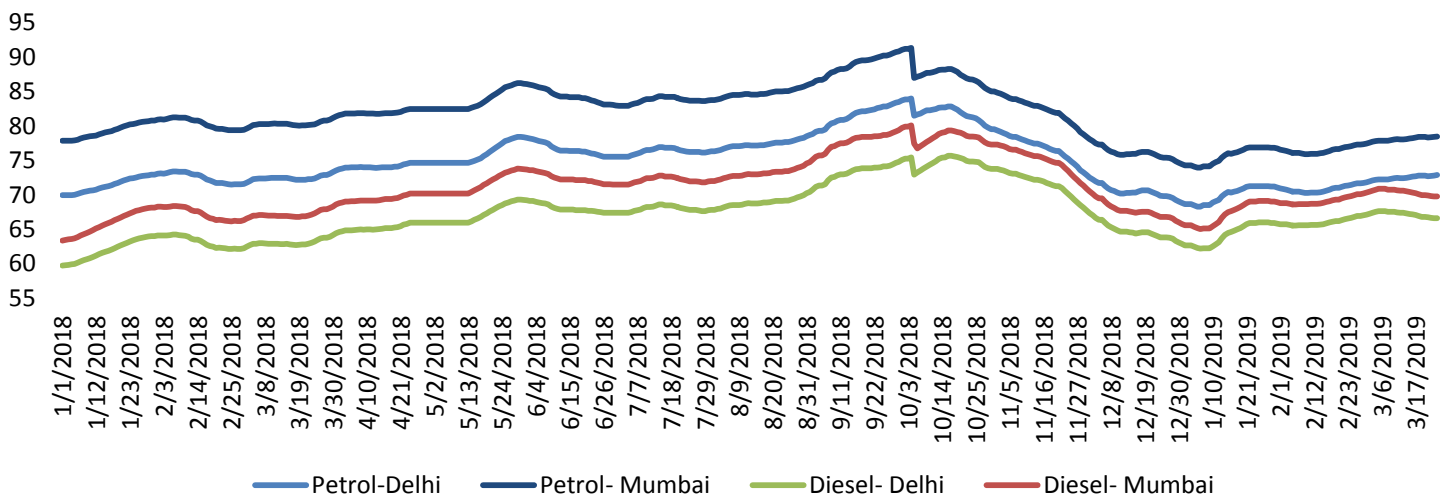
Prices of crude oil have been recovering since the beginning of CY19 ever since the OPEC and OPEC+ production cuts have come into play coupled with the sanctions on Venezuela and Iran by the US. A truce between the US-China tariff wars is also adding support to the prices of crude oil.

The Indian basket of crude oil represents a derived basket comprising of sour grade (Oman & Dubai average) and sweet grade (Brent Dated) of crude oil processed in Indian. During FY18 the ratio used to determine the Indian basket of crude prices was 74.77:25.23.

Movement and Price build-up of Petrol and Diesel Price

Oil firms consider the trade parity pricing which is based on the prevailing prices in the international markets. Retail prices of petrol and diesel in India are linked to their prices in the global markets and not crude oil. Prices of petrol and diesel in India are worked out based on the average of the trailing 15 days of benchmarked Arab-Gulf fuel prices which move in tandem with global crude oil prices. Refiners add insurance, a few other charges as well as excise duty, state Value Added Tax (VAT) and dealers’ commission to the international fuel rate to determine the retail price. The pricing formula involves 80% of import price and 20% export price of the fuel.

Chart 4: Daily prices of Petrol and Diesel (INR/ltr)



Source: Indian Oil/PPAC

Prices of petrol and diesel were at its peak when crude oil price had risen in to USD 86/bbl during the first week of October. In order bring the prices down, the government had announced a cut in the excise duty on petrol and diesel by INR 2.50/ltr. Of this, INR 1.50 was to be borne by the government and INR 1 by the OMCs. The states were also advised to lower their duties by a similar amount.

Revenue Collections

Taxes levied by the centre are a fixed amount whereas state governments not only follow a different tax rate regime but also levy taxes on an ad-valorem basis.

Table 4: Break up of Central Duty levied by the Central Government (INR/ltr)

| | Basic Excise Duty | Special Additional Excise Duty | Additional Excise Duty (Road and infrastructure Cess) | Total |
|-------------------|-------------------|--------------------------------|---|-------|
| Petrol | 3.0 | 7.0 | 8.0 | 18.0 |
| High Speed Diesel | 4.8 | 1.0 | 8.0 | 13.8 |

Source: PPAC

Table 5: Statement showing the Actual rates of State taxes (posted as on 19.02.2019)

| State/UT | Petrol | Diesel |
|---|---|---|
| Andhra Pradesh | 31% VAT + Rs.2/litre VAT | 22.25% VAT + Rs.2/litre VAT |
| Arunachal Pradesh | 16.20% VAT | 8.60% VAT |
| Assam | 32.66% or Rs.14 per litre whichever is higher as VAT , Reduction of Rs.2.5/Litre | 23.66% or Rs.8.75 per litre whichever is higher as VAT, Reduction of Rs. 2.5/Litre |
| Bihar | 22.20% VAT (30% Surcharge on VAT as irrecoverable tax) | 15% VAT (30% Surcharge on VAT as irrecoverable tax) |
| Chattisgarh | 21% VAT + Rs.2/litre VAT | 21% VAT + Rs.1/litre VAT |
| Delhi | 27% VAT | Rs.250/KL air ambience charges + 16.75% VAT |
| Goa | 15% VAT + 0.5% Green cess | 15% VAT + 0.5% Green cess |
| Gujarat | 17% VAT+ 4% Cess on Town Rate & VAT | 17% VAT + 4 % Cess on Town Rate & VAT |
| Haryana | 22.26% or Rs.14.25/litre whichever is higher as VAT+5% additional tax on VAT | 13.24% VAT or Rs.8.15/litre whichever is higher as VAT+5% additional tax on VAT |
| Himachal Pradesh | 23.10% VAT | 11.60% VAT |
| Jammu & Kashmir | 24% MST+ Rs.5/Litre employment cess, Reduction of Rs.2.5/Litre | 16% MST+ Rs.1/Litre employment cess , Reduction of Rs.2.5/Litre |
| Jharkhand | 22% on the sale price or Rs. 15.00 per litre, whichever is higher + Cess of Rs 1.00 per Ltr and this calculated amount reduced by Rs. 2.50 per litre. | 22% on the sale price or Rs. 8.37 per litre , whichever is higher + Cess of Rs 1.00 per Ltr and this calculated amount reduced by Rs. 2.50 per litre. |
| Karnataka | 32% sales tax | 21% sales tax |
| Kerala | 30.08% sales tax+ Rs.1/litre additional sales tax + 1% cess | 22.76% sales tax+ Rs.1/litre additional sales tax + 1% cess |
| Madhya Pradesh | 28 % VAT + Rs.1.5/litre VAT+1%Cess | 18% VAT+1% Cess |
| Maharashtra – Mumbai, Thane & Navi Mumbai | 26% VAT+ Rs.7.12/Litre additional tax | 24% VAT |
| Maharashtra (Rest of State) | 25% VAT+ Rs.7.12/Litre additional tax | 21% VAT |
| Manipur | 21.20% VAT | 10.60% VAT |
| Meghalaya | 22% VAT + 2% surcharge, Reduction of Rs.2.5/Litre | 13.5% VAT +2% surcharge, Reduction of Rs.2.5/Litre |
| Mizoram | 20% VAT | 12% VAT |
| Nagaland | 20.38% VAT +5% surcharge + Rs.1.50/Litre as road maintenance cess | 10% VAT+ 5% surcharge + Rs.1.50/Litre as road maintenance cess |
| Odisha | 26% VAT | 26% VAT |
| Punjab | Rs.2050/KL (cess) +20.11% VAT+10% additional tax on VAT | Rs.1050/KL (cess) 11.80% VAT+10% additional tax on VAT |
| Rajasthan | 26% VAT+Rs 1500/KL road development cess | 18% VAT+ Rs.1750/KL road development cess |
| Sikkim | 25% VAT+ Rs.3000/KL cess + Rs 100/KL Sikkim consumer welfare fund | 17.5% VAT + Rs.2500/KL cess + Rs 100/KL Sikkim consumer welfare Fund |
| Tamil Nadu | 34% VAT | 25% VAT |
| Telangana | 35.20% VAT | 27% VAT |
| Tripura | 23% VAT+ 3% Tripura Road Development Cess | 15.50% VAT+ 3% Tripura Road Development Cess |
| Uttarakhand | 22.07% or Rs.14.50/litre whichever is | 13.53% VAT or Rs.8.40/litre whichever is higher |


| | | |
|---------------------------|--|--|
| Uttar Pradesh | higher as VAT 23.78% or Rs.14.41/Litre- whichever is higher | as VAT 14.05% or Rs8.43/Litre- whichever is higher |
| West Bengal | 25% or Rs.13.12/litre whichever is higher as sales tax+ Rs.1000/KL cess- Rs.1000/KL exemption (20% Additional tax on VAT as irrecoverable tax) | 17% or Rs.7.70/litre whichever is higher as sales tax + Rs 1000/KL cess – Rs 1290/KL sales tax rebate (20% Additional tax on VAT as irrecoverable tax) |
| Andaman & Nicobar Islands | 6% | 6% |
| Chandigarh | Rs.10/KL cess +17.45% VAT | Rs.10/KL cess + 9.02% VAT |
| Dadra & Nagar Haveli | 20% VAT | 15% VAT |
| Daman & Diu | 20% VAT | 15% VAT |
| Lakshadweep | Nil | Nil |
| Puducherry | 21.15% VAT | 17.15% VAT |

Source: PPAC

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

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