

## Can petrol come under the GST: A way forward?

Price Buildup of Petrol at Delhi effective 14-Sep-17

Sr. No.	Elements	Unit	
1	C&F (Cost & Freight) Price	\$/bbl	65.48
2	Average Exchange rate	Rs/\$	64.08
3	<b>Refinery Transfer Price (RTP) on landed cost basis for BS IV Petrol</b> (Price Paid by the Oil Marketing Companies to Refineries)	Rs/Ltr	<b>26.65</b>
4	<b>Price Charged to Dealers (excluding Excise Duty and VAT)</b>	Rs/Ltr	<b>30.70</b>
5	Add : Excise Duty @ Rs.21.48/Ltr	Rs/Ltr	21.48
6	Add : Dealer Commission	Rs/Ltr	3.24
7	Add : VAT (including VAT on Dealer Commission) applicable for Delhi @ 27%	Rs/Ltr	14.96
8	<b>Retail Selling Price at Delhi- (Rounded)</b>	Rs/Ltr	<b>70.39</b>

The inclusion of petrol prices under GST is a good way forward.

According to data released by the Indian Oil Corporation for the petrol price build up in Delhi, the fuel costs only Rs 26.65 at the refineries. Dealers get a litre of petrol at Rs 30.70. But, petrol is sold at Rs 70.39 a litre in Delhi. This means Rs 39.41 is charged as tax component and dealer's commission on every litre of petrol sold in the national capital. On top of it, petrol prices needs to be regulated.

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. This calls for a national decision to reduce petrol prices.

As per the data available with the Petroleum Planning and Analysis Cell (PPAC), Delhi charges a VAT of 27 per cent on petrol while it is 47.64 per cent in Mumbai, Thane and Navi Mumbai. This explains the difference of about Rs 9 in the petrol prices in the two cities.

Centre imposes excise duty on petrol and diesel. As per the PPAC data, excise duty on petrol has increased by 54 per cent since November 2014. An average increase of 46 per cent has been seen with regard to VAT on petrol while dealer's commission has been increased by as much as by 73 per cent. Similarly, in the case of diesel, the excise duty has gone up by 154 per cent, VAT by 48 per cent and dealer's commission by 73 per cent. The excise duty on petrol and diesel has been increased on 12 occasions since 2014.

The combined effect of taxation on petroleum product by the Centre and the state governments is that the prices of petrol and diesel have gone back to 2014-level while the crude oil have become cheaper by little less than half. It is not a surprise that during the same period revenue from petroleum products has increased from Rs 3.32 lakh crore in 2014-15 to Rs 5.24 lakh crore in 2016-17.

Under GST, the petrol and diesel prices under the present circumstances will become substantially cheaper. The GST regime provides for taxation rates of 0, 5, 12, 18 and 28 per cent. Petrol and diesel can't be expected to be taxed below 12 per cent.

At 12 per cent GST, the petrol will be sold at Rs 38.1 in Delhi - almost Rs 32 cheaper than the current rate for one litre of the fuel. At 18 per cent, petrol will be 40.05 a litre in Delhi while at 28 per cent, it will cost Rs 43.44 per litre.

If the SUV compensation cess is imposed over and above 28 per cent GST on petrol, it will cost Rs 50.91 in Delhi - still about Rs 20 cheaper than the existing rate.

As for diesel, its current price in Delhi is Rs 58.72 per litre. At 12 per cent GST, diesel will sell at Rs 36.65 in the national capital. At 18 per cent GST, diesel will cost Rs 38.61. At 28 per cent GST, diesel will cost Rs 48.88 in Delhi and if SUV cess is imposed, the customers will have to pay Rs 49.08 for a litre of the fuel - still Rs 9.64 cheaper than the existing rate.



But, bringing petroleum products under the GST involves politics. Under the GST Act, the decision to bring petroleum products under the new taxation regime can only be taken by the GST Council which has heavy representation from states, which are not ready to let go the hen laying golden eggs. It is time that we call on fixing the petrol under GST.

The fuel oil prices in India is not the same across the various states and cities, it is mainly because of the tax components at different levels. To give you a broad picture, The central government imposes different excise and taxes on petroleum products, which results in 25% of the total cost. Additionally, the state governments add to the local taxes along with the taxes and duties of the central government is around 20%. Hence we are paying cumulative tax nearly about 38 to 45 % to both the governments. Also Petroleum prices vary between district to district across the state, based on the local taxes and distances.

Global fuel oil or crude oil price is calculated based on the worldwide supply versus consumption. The worldwide oil manufacturers sell their crude to Oil to many large refining companies or consumers at the trading price. Actual Selling price is fixed based on refinery and Brent crude's daily price along with transportation taxes and duties.

Generally, One barrel or drum of crude oil has 160 litres of crude. Initially, the crude oil drums or tanks are transported to Indian refineries for the segregation of oil. Then parent

crude oil is then separated into other sub products like diesel, petrol, kerosene, xylene in the process of distillation. Now the process cost, storage cost, transportation cost, taxes, duties and dealer commissions are included in the prices we pay. That is the way prices are fixed in India. I guess it is time, that we need a good change.

Burden of fuel increases the tax on the middle class. A few state governments use this formula to arm twist the decision of the centre. The main cause of inflation is non-targeted items in India, mostly petrol and diesel. Inflation can be hugely tamed, if the petrol prices come down to a larger extent, given the hedging we have in the global crude oil prices.