

# Fuel Cruelled in India : When will the Misery End?

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## Abstract

The study tries to find out the reason for high fuel price in India and its prospective solution to ease the burden of huge fuel price from the shoulder of citizens of India. GST is being thought to be a solution for the problem of record high petrol and diesel rates India, as it would end the cascading effect of tax on tax. Ultimately, the article recommends rationalization and consideration of this sensitive issue from the part of India government as well as from its different state governments and urging a concerted effort on the part of government so that the principle of 'one nation, one tax and one price' may become a symbol of veracity.

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## 1. Introduction:

A serious move initiated on 17<sup>th</sup> september, 2021 on part of the Central government of India in its 45<sup>th</sup> GST Council's meeting with several state governments to bring petrol and diesel under GST, citing one nation, one tax regime cried in vain because of reluctance on the part of some state governments for fear of losing revenue. GST is being thought to be a solution for the problem of record high petrol and diesel rates India, as it would end the cascading effect of tax on tax (state VAT being levied not just on the cost of production but also on the excise duty charged by the Centre on such output. On the other hand, the inclusion of petrol and diesel in the Good and Services Tax (GST) will help in reducing their prices and give relief to the people across the country. In the midst of this escalating fuel price scenario across India, the common perception among the people is that bringing petrol and diesel under GST will reduce their retail prices vis-à-vis their sufferings. But is it really possible?

## 2. Price mechanism of fuel in India:

Practically, movement of petrol and diesel price in India became a subject of fluctuation to international oil market rates. Naturally, if crude oil price becomes costlier in overseas market, it will directly strike prices of petrol and diesel in India because India being oil scarce country depends heavily on import of crude oil to meet its domestic demand. Moreover, fuel price relies on movement of rupees against dollar. For example, a weak rupee value will make oil price expensive and vice versa. Moreover, retail selling price of petrol and diesel is also dependent upon central excise duty imposed on base price of fuel as well as state VAT and in addition, freight, oil processing charges in refineries, and dealers' commission add up to get retail selling prices of petrol and diesel. Therefore, the retail price of petrol in India is directly based on crude oil, profit of oil marketing company, transportation cost, tariff cost, central government tax, state government tax, excise duty and other taxes. The cost of the oil marketing company is the price at which the oil marketing companies refine crude oil into petrol and sell it to dealers.

## 3. Present scenario:

On 15<sup>th</sup> September, 2021, petrol was sold at Rs 101.19 per litre in Delhi and diesel at Rs 88.62. If we take, for example, the price of petrol in Delhi, the capital of India, on September 15, 2021, which was Rs. 101.19 per liter, this retail price includes crude oil price at Rs 34.49 per liter [1 barrel of crude oil costs USD 74.60; rupee-dollar exchange rate Rs 73.50, 1 barrel=159 liters] and refinery processing, refinery margins, OMC margin, freight cost and logistics at Rs 6.06 per liter. On aggregate of this, the central government levies an excise duty of Rs 32.90 per liter of petrol and a dealer commission of Rs 3.82 per liter of petrol which adds up to Rs 77.84 per liter. It is subject to 30 per cent value-added tax collected by the state government, which is Rs 23.35 per liter. Therefore, on September 16, 2021, the retail price of petrol in Delhi was Rs. 101.19 per liter (total Rs 77.84 + Rs 23.35). The above calculated figure may vary from state to state, but the logic remains the same.

Therefore, it has been observed that the total tax on petrol in Delhi is Rs. 56.25 per liter (excise duty Rs. 32.90 + value added tax Rs. 23.35) which is calculated to be about 127 per cent of the price taken from the dealers. It means that for every liter petrol we are filling in our car, we are paying a steep tax of nearly Rs 56 per liter in Delhi to both concerned State and Central government which is nearly 56 percent of consumers' retail petrol price of Rs 101.19 per liter and it is even higher in other states depending upon the state VAT.

If we can conduct similar calculation for diesel, the price of diesel in Delhi at that time was Rs 88.62 per liter [Rs 41.50 for dealers by charged by oil marketing companies + Rs 31.80 for excise duty for central government + Rs 2.59 per liter for dealer commission + Rs 12.73 per liter for state government VAT at the rate of 16.75 percentage]; Therefore, the total tax collected amounting Rs 44.53 per liter of diesel by both state and central government on price charged from dealers in Delhi is about 107 per cent.

#### **4. Potential effect on price of fuel if goods and service tax is imposed:**

Now, if fuel prices are brought under GST, 28 per cent tax will be levied on them as it is the highest slab of tax duty. None of these rates are now close to the actual tax rate on petrol and diesel charged by both central and state governments under prevailing situation. A true snapshot can be cited; Let us consider that on September 15, 2021, the price of petrol in Delhi was Rs 40.55 per liter of petrol (base price & freight cost). Now, the same dealer commission of Rs 3.82 per liter is to be added with. Before GST, the price of petrol bang will be Rs 44.37 per liter. Charging the maximum GST rate of 28 per cent on this petrol price bang will result in tax revenue of Rs 12.42 per liter, resulting in an affordable consumer price of Rs 56.79 per liter. Thus, if fuel is brought under GST, the consumer will save Rs 44.40 in Delhi at the then prevailing retail price and at the same time, the government will lose the same amount of tax revenue. The same example applies to other states, but at different rates.

By Charging excise duty and state VAT, Central and state taxes on petroleum products contributed over Rs 5.55 lakh crore in 2019-20, and diesel and petrol are the two biggest revenue earners in that order. The petroleum sector contributed Rs 3,71,726 crore central excise revenue in 2020-21, and state levies on value-added tax (VAT) of Rs 2,02,937 crore.

Tax experts believe that bringing petro products under GST will be a tough call for both the Centre and states as both will stand to lose. The Centre will also lose as the majority of the Rs 32.90 per litre excise duty on petrol and Rs 31.80 on diesel is made up of cesses, which it does not share with the states. Under GST, all revenues will be split 50:50 between the Centre and the states.

#### **5. Conclusion:**

In order to bring petrol and diesel under GST and to maintain same amount of revenue from fuel taxes, the rate of GST has to be very high, even more than 100 per cent to uphold equivalent amount of tax revenue that government is earning at present. Only then will the central and state governments be able to maintain this equivalent amount of revenue they are currently generating. Although the current various taxes on petrol and diesel are more than 100 per cent of the total as presented above, the current tax system is not so transparent and straightforward. Therefore, most people fail to understand that they are paying high taxes. Of course, if prices of fuel come under GST, GST authority will take more transparent tax measures. The problem is whether the government will want to come up with an indirect tax with 28 percent tax rate, which would be tantamount to economic suicide of governments. Thus, we can assume that only when the government's reliance on taxes on fuel is reduced, then it will be possible to bring petrol and diesel under GST, and for that to happen, economic growth will have to return to its own rhythm which may not be possible without long-term waiting. In fact, only then the entire nation as well as the consumers of India will heave a sigh in relief.

Moreover, it is now golden time to ease the burden of fuel price hikes from the shoulder of common people because Brent crude oil price per barrel is gradually diminishing from USD 76.1 on 5<sup>th</sup> July to USD 74.60 on 15<sup>th</sup> September. Ultimately, we may be optimistic that by rationalizing and considering this sensitive issue, concerted effort should be there on the part of government so that the principle of 'one nation, one tax and one price' may become a symbol of veracity.

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