

## **Shri Deora Calls Upon State Governments to Bring Down High Rates of Vat on Petrol Diesel; Replace Ad-Valorem Levies by Specific Ones**

### **High Vat Rates by Some States on PDS Kerosene Needs Review in View of Lighting and Cooking Usage by the Common Man**

New Delhi, June 21, 2010

Shri Murlidhar Deora, Minister of Petroleum and natural gas has called upon the State Governments to reduce and rationalize Sales Tax / VAT on Petrol and Diesel. In a letter to the CMs of various State Governments he said that a rise in the international oil prices exerts an upward pressure on domestic prices of petroleum products. “Ad valorem rates of VAT imposed by the State Governments further aggravates the impact of international oil prices on the consumer,” Shri Deora added.

The Minister underscored the commitment of the Central Government to ensuring supply of essential fuels to the common man at affordable rates. “To achieve this objective, the Central Government has provided financial assistance of Rs.26,000 crore to the public sector OMCs, while the upstream oil PSUs have contributed Rs.14,430 crore towards under-recoveries of Oil Marketing Companies (OMCs) during 2009-10.,” Shri Deora said.

Enclosing a statement of VAT rates in different States, the Minister pointed out that the VAT rates are very high in most of the States, and need to be reduced. In some of the States, the VAT on Petrol and Diesel is as high as 33% and 24.7% respectively. Further, he said, in the current taxation structure, VAT is levied by the State Governments on an ad valorem basis, i.e., as a percentage of the price of the product. This means that when oil prices are high, the taxation on the products is higher, rendering the product even more expensive. At a time of rising prices, ad valorem taxes have a cascading impact on the retail price of petroleum products. “To address this issue, the ad valorem component of the VAT can be converted into a specific component, at the current levels,” Shri Deora suggested.

The Minister informed that the Central Government has already done away with the ad valorem component of Excise Duty on Petrol and Diesel, and the Excise Duty has been made specific. It is desirable that the State Governments also undertake similar tax rationalization on Petrol and Diesel. “Also, some of the States are levying high VAT rates on a product like PDS Kerosene, which needs to be looked into in view of its usage in lighting and cooking purposes by the common man,” he emphasised

Urging an early action on the part of State Governments, Shri Deora asked the CMs to have this subject reviewed at your level at an early date so that the much-needed tax reform can be implemented. Levying specific VAT rates instead of at ad valorem rates will help cushion the effect of rise in international oil prices. “While I appreciate your need for revenue mobilization, the current high levels of local taxes on petroleum products are clearly unsustainable, if we are to protect the interests of the consumers, particularly the vulnerable sections of society,” the Minister stressed.