GOODS AND SERVICE TAX: IT'S NON-IMPACT ON PETROLEUM AND DIESEL

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Abstract

Petroleum is the driver of economy. The ascent and the fall of oil affects the fundamental need which is nourishment. In the event that cost of petroleum goes down, the sustenance costs will go down. In the event that the oil was incorporated under GST, at that point the cost of oil would have descended and henceforth, the other ensuing cost including nourishment. In the event that the cost of sustenance will descend, it will enable the lower and lower to white collar class individuals. Notwithstanding, the administration pick not to incorporate it at any rate, for the present. Oil is something we are reliant on imports. Over the most recent three years, the worldwide cost has gone down. In any case, we have not decreased the petroleum cost in a similar extent. Had we done that, the cost of part of things would have gone down radically. The target of this examination is the non-impact of GST on petroleum in India.

Keywords: Goods and Service Tax, GST, Petroleum, Diesel

1. INTRODUCTION

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST. This will affect prices of everything in the market. Although petroleum products are exempted from GST change in prices other goods will a significant effect on petroleum. Prices of fuels varies as we across from one state to another, we will see how GST tries to erase this variation so that prices are same.

2.LITERATURE REVIEW

- ❖ Kumar (2018) discuss in their article that Deputy Chief Minister of Bihar and Member of GST Council Sushil Kumar Modi has ruled out the possibility of bringing gasoline and diesel into the realm of GST in the near future. He said that if both of these were brought to GST then Cess would be imposed with 28% tax. This will keep their retail prices close to the current market price. He said that by taking a hasty decision, both the Central and the State will have revenue loss. There is still no such opinion in GST Council on this issue.Modi was speaking at a program of PhD Chamber on GST. He said that Petroleum is not only a center but also a huge revenue for states. Tax revenues of 45 to 50% of the states come from petrol and diesel only. Now the taxes on Center and states on petrol are 45 to 50% and on diesel 35 to 40%. He said that the council could consider bringing natural gas and aircraft fuels to GST.

- ❖ Presently, the VAT on petroleum products is charged by the State Governments. This explains why the fuel prices are different in various states, since the states get to choose their own tax rates. Power to tax the "manufacture" of goods is vested with the Central Government. The Government infers the ability to assess anything from the Constitution. Subsequently, the ability to charge assess on the "deal" of products is vested with the State Governments; however the ability to impose the "fabricate" of merchandise is vested with the Central Government.

3. OBJECTIVE OF STUDY

- To study the impact of GST on petroleum
- To study why petrol and diesel prices not fall under GST
- To study GST impact on petroleum Traders across states in India

4.RESEARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

5.CONCEPT

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

6. TIMELINE OF GST IN INDIA

In 2000, an empowered committee was set up by NDA government under the chairmanship of Asim Das Gupta to design GST model. With UPA in power union finance minister, Mr. P.Chidambaram, proclaimed the implementation of GST from April2010 in budget of 2007and set up an empowered committee of state Finance ministers to work with center. Therefore, on 10 May 2007 Joint Working Group was set up by empowered committee of state finance ministers which submitted the report in Nov 2007.First detailed discussion paper on structure of GST was introduced by empowered committee in Nov 2009 with the objective of generating a debate and getting the inputs from all stakeholders. It suggested a dual GST Module along with a GST council and finally in March 2011, constitution 115th amendment bill was introduced to draw up laws for implementing GST. It includes the followings:

1) Setting up of GST COUNCIL by the president within 60 days of passage of bill. The council will chaired by union finance minister and its members includes MoS for revenue and finance ministers of states. It will work on GST rates, exemption limits etc.
2) Setting up of a GST Dispute Settlement Authority having three members to resolve dispute arising among states and take action against states.
3) GST Amendment Bill was referred to parliamentary committee on finance for evaluation.

In Aug 2013 the standing committee submitted the report and recommended that proposed Dispute Settlement Authority should be removed and its mechanism should be given to GST Council itself. It also recommended that GST Council should take decision by voting rather than consensus. The representation in the GST Council should be 1/3 from central and rest 2/3 from states. The decision in the council should be passed with more than 3⁄4 vote representatives present. The quorum of council is raised from proposed 1/3 to half by standing committee.

But the proposed 115 amendment bill was lapsed with dissolution of 15th Lok Sabha.

On 19 Dec 2014 after making slight changes in GST Bill, NDA government redefined it in 16thLok Sabha as 122nd amendment of constitution. On 6 may 2015 it passed in lower house of government.

Currently, the 122nd constitutional amendment is cragfasted in Rajya Sabha where it has to passed with 2/3rd majority in order to be implemented from 1April 2016.

7. FEATURES OF PROPOSED GST

AMBITION OF GST

1) It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
2) Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate. [Proposed article 366(12A)]
3) Petroleum products [crude oil, HSD (high speed diesel), motor spirit(petrol), natural gas, ATF(aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
4) Tobacco products are included in GST along with central excise tax.

IMPOSITION AND COLLECTION OF GST

1) The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law.(proposed article 246A)

2) GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.

3) IGST is levied on supplies in the course of interstate trade incuding imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council.(proposed article 269A)

8. Items not covered under GST

The following are categorized as "neither goods nor services" and are exempt.Regular salary paid to an employee, Court judgements, Constitutional functionaries/heads of government bodies and the remuneration they get for doing a statutory job, and Funeral services across all religions.

These will not come under GST at all.*Oil and gas, and alcohol*continue to be under the earlier VAT/excise regime. The GST notification specifies the intent of the Central Government to bring these under GST in due course of time

9. India buy fuel from other countries

India is the 3rd largest importer country of petroleum crude oil, after China and the United States of America. India's imports of crude oil amounted to USD 60869 million in 2016.

The country imports petroleum crude oil the most from the following countries:

1.	Saudi Arabia	:	19.9%
2.	Iraq	:	16.2%
3.	Iran	:	11%

4.	Nigeria	:	10.9%
5.	United Arab Emirates	:	9.3%
6.	Venezuela	:	8.3%
7.	Kuwait	:	4.5%
8.	Qatar	:	2.8%
9.	Malaysia	:	2.8%
10.	Angola	:	2.8%
11.	Mexico	:	2.4%
12.	Brazil	:	1.6%
13.	Egypt	:	1%

10. Petroleum Price Mechanism

- Till 2002, the administration was following the Administered Price Mechanism (APM), where by the legislature foreordained the costs at cost in addition to equation. Here, OMCs were qualified for a settled quantifiable profit in view of their cost of creation (standardizing costs), as opposed to a cost in light of interest and supply of the fuel.

This framework did not permit rivalry as there was no impetus to enhance effectiveness, nor did it produce adequate budgetary assets for oil organizations to put resources into vitality security. Along these lines, APM hindered the development of the area and was in a path in charge of its inability to rise as a universally aggressive division. APM was however disassembled in 2002, and different practices for halfway deregulation were received in the vicinity of 2002 and 2010.

In 2010, petroleum costs were totally deregulated and liberated to be resolved in light of market powers. A move was made to the programmed value instrument which would consider global market costs and remote trade rates. The ability to set the last retail costs now lay with the oil showcasing firms.

	Petrol Price *
International Price of Crude Oil with Ocean Freight (as on 24th August 2017)	50$ or Rs 3210 per Barrel
1 Barrel of Crude Oil	159 Litre
Crude Oil - Cost per Litre	Rs 20.19 per Litre
Basic OMC Cost Calculation	
Entry Tax, Refinery Processing, Landing Cost & Other Operational Costs along with Margins	Rs 6.03 per Litre
OMC Margin, Transportation, Freight cost	Rs 3.31 per Litre
Basic Cost of Fuel after Refining Cost	Rs 29.53 per Litre
Additional: Excise Duty as Charged by Central Government	Rs 21.48 / Litre on Petrol
Pricing Charged to Dealers before VAT	Rs 51.01 per Litre
Calculating Dealer Retail Price - Base Location Delhi	
Commission to Petrol Pump Dealers	Rs 3.23 per Litre
Fuel Cost Before VAT (rounded off for approximation)	Rs 54.24 per Litre
Additional:VAT (Varies from State to State - 27% on Petrol & 16.75% on Diesel + 25p as Pollution Cess with Surcharge)	Rs 14.64 / Lit on Petrol
Final Retail Price as on 24th August 2017 - (*calculation*)	Rs 68.88 per Litre

Problem with bringing Petroleum under GST

Petroleum costs that you and I pay are portrayed as takes after: (as in Delhi, 24th August 2017)
For each liter of Petrol:

●Crude oil is foreign by refineries at □20.19

●Their income in refining it to utilization status: □9.34 (That's a sensible 15% edge passing by the □3.31)

●Excise gathered by Center: □ 21.48, (that is 70% of the info cost) brings it to □51.01 at which it is sold to merchants.

●Dealers include □3.23, which isn't much by method for edge for them. (Around 6-7%, scarcely enough to keep up a running business)

●Now the executioner. The VAT that states force. This shifts, however the impact of exacerbating is telling! A few states charge 27% on this □54.24 which includes □14.64.

For each liter of oil, the refinery charges you □9.34 and the merchant □3.31 which takes care of their expense of tasks and benefit. On its substance that isn't much. The genuine guilty party is the □36.12 that passes by method for focal and state charges, nearly multiplying it.

Why is it so essential for the government to maintain such high taxes?

Revenues.

Oil extract incomes contributed 54% of Central extract incomes, up from 29 and 34% the past two years. Extract commitment to add up to charges additionally ascended from 11 to 15% out of 2016. The Center has been exploiting low worldwide raw petroleum costs to shore up its incomes, setting something aside for a blustery day. Straightforward negotiating prudence.

Same goes for the states. Which political gathering will walk the discussion and surrender their VAT incomes? For all its discussion of being with the general population the comrade administration of Kerala has climbed VAT from 26 to 40% more than two years. This was likewise done by Maharashtra and Haryana so this isn't party particular.

What would be the rates if the GST did come into force?

In the event that GST came into compel, the Center would just get the chance to force GST on the □9.34 which the refinery charges and the □3.31 the merchant charges. (Keep in mind, GST dissimilar to VAT isn't compoundable)

At the most noteworthy piece of 28% the aggregate expenses come to □3.61, that is one tenth of the □36.1 that as of now go as duties!

To keep up existing assessment incomes under GST, oil should be burdened at 280%

Unmistakably that gives scope for monstrous frenzy and untruths. (It gives scope for falsehoods and disinformation, playing with brain research on the extensive looking figure of "280% assessment", to individuals who don't comprehend this language)

The Government may bring it under GST at a far lower charge rate, say half (on the two differentials of 9.34 and 3.31 rupees) and that Would cut down the last cost to a sensible □51.64 (recollect, it's not about oil incomes alone. These charges are imperative for the general arranging of Government spending).

But,The Central Government charges a level rate of □21.48 NOT a rate. This is to guarantee PREDICTABILITY in Central incomes. Whatever the merchants charge, the refineries charge, universal costs of dollars per barrel go, the legislature is ensured □21.48 for each liter of oil sent to a merchant.

The day by day variances you see are to a great extent because of the commission the merchant charges (the □3.31, that is raised or brought down unregulated, however on a push wink premise with the administration), and the VAT the states charge, which is just touched occasionally. (Oil VAT is similarly indispensable to a state's funds!)

The Government can't leave its single greatest expense income supporter of the leniency of global fuel costs and the conversion scale with the dollar.

Changing to the GST (whatever the rate) will bring them down that course. Their incomes will be a sure level of the incomes earned by the oil advertising organizations and the merchants, which is thusly a component of the same feared match of worldwide oil costs and trade rates! One little kerfuffle in the Middle East and we are toast! Supplies would dry and costs would rocket!

On $50 a Barrel universally, that is generally □20 a liter unrefined, and □51.64 last cost on oil GST of, say half. On $100 a barrell that is afnother □25 (□20 approx for the oil and □5 cynical gauge on expanded merchant and refinery edges)

11. GST impact petroleum traders across the states in India?

According to the Constitutional Amendment Bill (pending with the Rajya Sabha), oil might be secured under GST from some future date, at whatever point it is indicated. Thus, starting at now retailers are not influenced by the GST. What occurs later on will rely upon illuminations issued later on.

Present status of taxation

Presently, the VAT on petroleum products is charged by the State Governments. This explains why the fuel prices are different in various states, since the states get to choose their own tax rates. power to tax the "manufacture" of goods is vested with the Central Government.

The Government infers the ability to assess anything from the Constitution. Subsequently, the ability to charge assess on the "deal" of products is vested with the State Governments; however the ability to impose the "fabricate" of merchandise is vested with the Central Government.

Changes By GST

Since India is actualizing Dual GST framework, it implies that a same exchange will be charged to assess by the Central and additionally State Governments. Since this can't happen unless the Constitution is altered, the BJP Government at the Center has issued a Constitutional Amendment Bill.

This bill, which is passed by the Lok Sabha and is pending in Rajya Sabha, discusses the ability to charge the "deal" of items being given to both the Center and the States.

The special case of petroleum

The situation is like this -

1. Presently, the power to charge tax on sale of goods lies with State Governments
2. In the future, this power must lie with Central Government also because it is necessary for implementing GST.
3. **However, Central Government cannot charge tax on Petroleum, till the date when this is specially notified.**

This means that the Central Government will have power to tax all goods except Petroleum. Till such time as another notification is introduced, this position shall continue.

This signifies that the power to charge tax on Petroleum shall continue to be vested in the State Governments. Therefore, the situation of different taxes on fuel shall continue even after implementation of GST.

The rationale behind this restriction

According to the Report of Select Committee appended to the Bill, the reasons for non-inclusion are as follows -

1. This decision was taken after Finance Minister's meeting with State Finance Ministers on 15-Dec-2014, where it was discussed that it is necessary to protect the Revenues of the States
2. Most of the State Governments were of the view that GST should not be levied on Petroleum products, since they derive a substantial part of their revenues from Petroleum, and would not like to share it with Central Government.

The Expert Committee believes that petroleum forms a basis for a substantial portion of goods and services in India (transport etc.). Therefore, not covering petroleum under GST would ultimately lead to cascading effect on taxes - which is precisely against the core purpose of GST. Nevertheless, since the State Governments were not on the same page, this decision was taken. The only good news is that the bill also mentions that GST can be levied on petroleum products in the future, from a date specified.

Impact on Traders

Starting at now - **nothing changes.** The presentation of GST does not influence Petroleum in so far as their own duty obligation is concerned. Be that as it may, the Government has not yet discharged any directional principles which elucidate their situation with regards to the Cenvat Credit and different techniques.

At this stage (Nov-2015), it is suitable to feel that no real change will occur in the oil business. This will change just when the Petroleum is secured under GST.

12. Finances

India's gross oil import charge, including shipments of both raw petroleum and oil based goods, rose 9 for each penny last budgetary year to $ 80.3 billion on the back of seven percent ascend in volumes and a three percent expansion in the normal rough cost, as indicated by crisp information discharged by the oil service.

Raw petroleum imports ascended by in excess of five percent to 213 million ton (MT) and the unrefined petroleum import charge expanded by in excess of nine percent to $70 billion last monetary when contrasted with $64 billion recorded in 2015-2016.

India's oil based commodity imports by amount ascended by 22 percent last financial year to 36 MT from 29.5 MT in 2015-2016. "The expansion in oil based commodity imports can be credited to increment in pet-coke imports by the private segment," the oil service's specialized arm Petroleum Planning and Analysis Cell (PPAC) said in a report. As far as esteem the nation's oil based commodity import charge ascended by five percent to $10.6 billion last financial year.

In total, the nation imported around 249 million tons (MMT) of rough and oil based goods amid 2016-2017, a seven percent development more than 232 MT imported in past financial year.

The Indian bin of rough - that speaks to a blend of 71 for each penny Oman and Dubai evaluations and 29 for each penny of dated Brent - arrived at the midpoint of $47.56 per barrel in 2016-17 when contrasted with $46.18 per barrel in the past financial, as per information distributed by Petroleum Planning and Analysis Cell (PPAC), the oil service's specialized arm.

As per information accessible on PPAC, oil based good creation - including oil, diesel and LPG - from indigenous unrefined fell one percent to 34.7 million ton (MT) last financial year from 35.2 MT in 2015-2016, while the nation's utilization of oil based commodity expanded by five percent to 194 MMT. The nation's independence in oil based goods declined from 22 percent in 2013-

2014 to 18 percent in 2016-2017 because of solid utilization development and declining residential creation.

India's import reliance on rough additionally expanded barely to 82 percent in 2016-2017 from 81 percent a year back. Import reliance remained at 77.6 percent in 2013-2014. On oil based commodities' fares front, India's shipments grew seven percent to 65 MT last monetary. The Oil Marketing Companies represented 20 percent of the fares volume.

13.CONCLUSION

As said, the hazard is of backpedaling on the reasonable arrangement to protect India from world oil stuns or conversion standard issues. In excess of a low value, organizations and individuals would be more joyful with a STABLE cost. The due date for submitting pre-GST bills to assert input credit against GST, initially booked for Aug 31 is currently reached out to Oct 31 because of individuals not yet being enlisted or the online website separating

On the off chance that Government actualizes GST for Petrol and diesel, and furthermore remunerates the States to certain degree then it should endure an immense shot on its incomes which could affect foundation spending/monetary development. The Government needs to locate an elective wellspring of income, until at that point, I trust that it will keep on playing 'heads I win, tails you lose' with the customer.

We likewise need to look out at the worldwide oil costs. They have recouped over 65% from their current low levels in January (2017). In any case, they are as yet 60% underneath their 2014 pinnacle. Going ahead, potential supply teach by OPEC nations and worldwide request situation will be the pivotal components that would drive development of oil costs.

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