

Press Statement of the Hon'ble Minister for Finance and Human Resource Management Dr. Palanivel Thiaga Rajan on the reduction of taxes on petrol and diesel

Over the last 7 years, the Union Government has repeatedly raised taxes on petrol and diesel, thereby placing a heavy burden on the people. We have continuously urged the Union to reverse their increases in such taxes. Though the Union Government remained unmoved, we were the first state in the country to announce a reduction of tax of Rs. 3 per litre for petrol in the Budget presented on 13.08.2021, as directed by the Hon'ble Chief Minister of Tamil Nadu. This was done to benefit the low- and middle-income users, who own 2.63 crore two-wheelers in Tamil Nadu. We estimated the State Government would incur a loss of Rs. 1,160 crore annually due to this reduction. Yet this was done, despite the financial strain inherited from the previous government.

The Monetary Policy Committee of the RBI had also urged the Union Government to reduce taxes on petrol and diesel as a stimulus for economic growth, and to reduce inflationary pressures as crude oil prices rose. This demand was also put forth by several State Governments. On 03.11.2021, the Union Government announced a tax reduction of Rs. 5 per litre on petrol and Rs. 10 per litre for diesel. Since Tamil Nadu levies "ad valorem" taxes after Union taxes, this move by the Union will cause an additional reduction in the pump price of Petrol by Rs 0.65 (total of Rs 5.65), and Diesel by Rs 1.10 (total of 11.10) in Tamil Nadu and will result in a loss of about Rs. 1,050 crore in revenue to the State annually.

The Union Government has requested that all State Governments reduce the state taxes on petrol and diesel further, in conjunction with their own reduction of taxes. Unfortunately, this is not a reasonable request.

When buying a litre of petrol and diesel, there are many components which drive the final pump price- Basic price (based largely on crude oil & refining costs), Union Excise & Cesses/Surcharges on the Basic Price, Transportation costs, State Government Taxes and Dealer's Commission. **On 01.08.2014, the basic price of petrol and diesel and the global import prices were in line with the current import prices in rupee terms.** The basic price was Rs. 48.55 per litre for petrol Rs. 47.27 per litre for diesel. On 04.11.2021, the basic price of petrol was Rs. 48.36 per litre while that of diesel was Rs. 49.69 per litre. On 01.08.2014, the Union Government taxes were Rs. 9.48 per litre on petrol and Rs. 3.57 per litre on diesel. At that time, the State Government taxes were Rs. 15.47 per litre on petrol and Rs. 10.23 per litre on diesel.

Prior to the reduction of taxes on petrol and diesel by Union Government, the levy of tax by Union Government on petrol was Rs. 32.90 per litre and Rs. 31.80 per litre on diesel. This has currently been reduced to Rs. 27.90 per litre

for petrol and Rs. 21.80 per litre for diesel after the announced cut. So, when compared to 2014 (when Basic price was roughly the same), the Union Government still levies an **additional** tax of **Rs. 18.42 per litre for petrol** and **Rs. 18.23 per litre for diesel**.

In Tamil Nadu, the state government currently levies tax to the tune of Rs. 21.46 per litre on petrol and Rs. 17.51 per litre on diesel. The additional taxes (of Rs. 9 per litre on Petrol which was reduced by us by Rs. 3 in August, & Rs.7.25 per litre on Diesel) relative to the 2014 level were imposed by the previous ADMK Government.

This government, under the able leadership of the Hon'ble Chief Minister, has already reduced the tax on petrol by Rs. 3 per litre effective August 14th, 2021.

The Union Government has repeatedly continuously increased the levy of tax on petrol and diesel over the last 7 years. If it were to reduce the taxes to 2014 rates, the state tax - levied as an ad-valorem tax on the sum of basic price and Union government levy - will automatically reduce as well. The composition of the pump price is shown for August 1st, 2014, November 2nd, 2021 (prior to the Union Tax reductions), and November 4th, 2021 (post the Reductions)

Petrol			
	As on 01.08.2014 (in Rs)	As on 02.11.2021 (in Rs)	As on 04.11.2021 (in Rs)
Basic Price	48.55	47.98	48.36
Excise duty levied by Union Government (inclusive of cesses)	9.48	32.90	27.90
VAT levied by State Government	15.67	22.06	21.46
Transport Charges	0.00	0.20	0.20
Dealer's Commission	2.04	3.52	3.48
Retail Sale Price	75.74	106.66	101.40

Diesel			
	As on 01.08.2014 (in Rs)	As on 02.11.2021 (in Rs)	As on 04.11.2021 (in Rs)
Basic Price	47.27	49.72	49.69
Excise duty levied by Union Government (inclusive of cesses)	3.57	31.80	21.80
VAT levied by State Government	10.25	18.61	17.51
Transport Charges	0.00	0.20	0.20
Dealer's Commission	1.18	2.26	2.23
Retail Sale Price	62.27	102.59	91.43

While the Union Government's taxes continue to be exorbitant, it is neither fair nor feasible for the State Government to further reduce taxes. I reiterate that the sole, simple, and fair approach to improve the situation for all, is for the Union Government to reduce the levy of taxes on petrol and diesel to the rates prevailing in 2014. Such a move will automatically reduce States' taxation (as almost all States follow ad-valorem taxation).

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