Government rules out cuts in fuel taxes, looks at NRI bonds for rupee

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Highlights

- While the rupee hit an all-time low of 72.67 against the dollar before closing the day at 72.45, petrol and diesel prices in Delhi also hit their all-time highs.
- The Centre ruled out an immediate reduction in excise duty on petrol and diesel but indicated that it could consider options of selling NRI bonds or deposit schemes to foreigners to stem the slide in the rupee.
- As calls for a cut in taxes imposed by the Centre and States grew louder, the cut in excise duty will impact fiscal math and dent revenues.
- There were also concerns over implementation of development projects if the Centre and states reduce taxes.

Fiscal Deficit

- A cut in oil taxes will add to the fiscal deficit.
- National fiscal deficit determines bond yield and with a higher fiscal deficit the rupee becomes shaky. Then (if there is a cut in taxes) you have to make budget cuts in development expenditure.
- This is the real consequence of oil tax cut," adding that states "do not have the capacity" to reduce tax rates.
- The government is also looking at all options to curb the widening current account deficit.
- "The RBI (Reserve Bank of India) is intervening as and when required.
- The government is looking at ways to reduce current account deficit by considering several options which could include overseas borrowing like NRI bonds or deposit scheme for foreigners.
- The government is vigilant on rupee fall.

Increasing Compliance

- The government will be able to reduce taxes on oil only when it is able to increase compliance on the non-oil front, that is, income tax and Goods and Services Tax (GST).
- However, bringing in petroleum products under GST is unlikely in the near future and the government may only push for inclusion of natural gas under the indirect tax regime as of now.
- Bringing oil in GST is not a solution. The only way taxes on oil can be brought down is by increasing non-oil tax-GDP ratio, we will be able to lower taxes when we are able to increase compliance on income tax and GST.

- Till then dependence on oil will continue.
- The tax ratio can be raised not by increasing rates but by bringing evaders and non-filers in tax net. “2007 was the only year when we saw an increase in tax-GDP ratio.
- 2008-2014, it was static. From 2014-18, there was an increase of 1.5 per cent in tax-GDP ratio. Of this, 50 per cent is non-oil and 50 per cent is oil.
- Over the next five to six years, the target should be to increase non-oil tax to GDP ratio by at least 1.5 per cent and this is the long-term solution.
- In countries which are tax compliant, oil is taxed at a rate which is less than that in India.
- “Oil prices disturb your Current Account Deficit,” adding oil companies will not be asked to take a hit for now as users should pay for the utility they use.
- The government anticipates international oil prices to moderate in coming days.
- Since states levy VAT as ad valorem duty, a rise in prices has increased their profits.
- Inflation was 4.1 per cent in Vajpayee government, 5.8 per cent in UPA-1, 10.4 per cent in UPA-2 and in current NDA around 4.5 per cent average.”

Amid calls for a cut in fuel prices, some states announced cuts in their taxes. While Rajasthan on Sunday announced a 4 per cent cut in VAT on petrol and diesel, Andhra Pradesh Monday said fuel prices will be reduced by Rs 2 each from cut in sales tax.

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