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No VAT hike on diesel, petrol, fags

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The Government last night made changes to Excise duties on petrol, diesel and cigarettes to ensure prices of these items are not increased with the imposition of the Value Added Tax (VAT) from today.

Previously petrol and diesel were not subject to GST but only 6.5% National Security Levy but under the VAT they are subject to 10% concessionary rate. Technically if the downward revisions were not made in excise duty prices of these items would have to go up from today.

To negate the increase the Government from midnight of August 1, reduced the excise duty of petrol per litre to Rs. 21 from Rs. 24 and that of diesel to Rs. 3 from Rs. 4.

A similar downward revision has also been made with regard to Excise duty on cigarettes, which is subject to 20% VAT as against around 19% rate with NSL-GST combined. Ceylon Tobacco Company had recommended this as well.

Sources said that the reduction in applicable excise duties on these goods is to safeguard the "price neutrality" and "revenue neutrality." This will also ensure that there is no major impact on cost of living following the introduction of VAT, especially on items such as diesel and petrol. Sources said that a similar move was effected when GST was introduced in 1998.

The excise duty on petrol and diesel was last revised on July 15 by the Government following the withdrawal of the debt recovery levy embedded in the excise tax on these products as a measure of relief to the people considering the rising cost of living. This as well as favourable international prices and stable exchange rate saw CPC reducing fuel prices. Bus fares are also slated to be reduced from today as a result of this move. Prices of petroleum products at present are determined to reflect the international crude oil prices and the exchange rate movements on a monthly basis. CPC is expected to make its customary monthly revision in a few weeks time.

Official sources also said that with the implementation of VAT if the international petroleum prices drop noticeably in the future, Government revenue accruing on account of the VAT is likely to drop to a level less than estimates while in a scenario of sharp increase in international crude oil prices, the revenue is likely to go up surpassing estimates considerably.

In both these situations in order to avoid a sharp deviation in government revenue and also to avoid sharp price increase on account of taxes, the Government is expected to make appropriate changes to the excise duty whenever deemed necessary.