



WINDFALL TAX: ECONOMY

NEWS: Govt scraps windfall tax on ATF, crude oil products, petrol, diesel

WHAT'S IN THE NEWS?

The Windfall Gains Tax, introduced in July 2022 to capture extraordinary profits of oil producers and fuel exporters during the global energy crisis, was withdrawn in December 2024 due to stabilizing crude prices and declining relevance. Its removal aims to foster a stable taxation environment and align with global market trends.

Windfall Gains Tax:

What is Windfall Tax?

- A tax levied on companies or individuals earning unexpected, large profits due to external factors.
- Typically applied to sectors like oil, gas, and mining.
- Aims to capture extraordinary profits for redistribution to the public good.
- Promotes fairness, transparency, and responsible economic practices in the energy sector.

Reasons for Imposition

- **Global Price Surge:** Crude oil prices exceeded \$100 per barrel after the Ukraine invasion, incentivizing fuel exports and impacting domestic supply.
- **Supply Concerns:** Export-driven shortages disrupted domestic fuel availability.
- **Revenue Generation:** Helped offset reduced excise duties on petrol and diesel.

Decline in Relevance

- **Price Stabilization:** Crude oil prices dropped below \$75 per barrel, reducing profit margins.
- **Revenue Decline:** Tax collections fell from ₹25,000 crore in FY23 to ₹6,000 crore in FY25.
- **Nil Levies:** By 2024, levies on petrol, diesel, ATF exports, and domestic crude production were reduced to zero.

Opposition and Industry Concerns

- **Profitability Constraints:** Limited the profitability of oil companies and discouraged domestic production.



- **Unpredictable Regime:** Frequent revisions created uncertainty, impacting long-term planning and investments.

Windfall Tax



Benefits

- Boosts government revenues
- Provide public services and other benefits to the citizens
- Windfall gains can repay interest-bearing consumer
- Invest the windfall proceeds in gold deposits

Impact of Withdrawal

- **Industry Reassurance:** Fosters confidence with a stable and predictable tax environment.
- **Global Alignment:** Reflects stabilized global energy markets, reducing the need for intervention.
- **Market Dynamics:** Demonstrates adaptability to changing market conditions.

Conclusion

The withdrawal highlights the government's responsiveness to global market trends while balancing domestic energy needs, fiscal stability, and industry growth.

Source: <https://www.newindianexpress.com/business/2024/Dec/03/govt-scraps-windfall-tax-on-atf-crude-oil-products-petrol-diesel#:~:text=NEW%20DELHI%3A%20Finance%20ministry%20on,first%20imposed%20in%20July%202022.>