

Withdrawal of Windfall Gains Tax

Posted at: 06/12/2024

Withdrawal of Windfall Gains Tax on Crude Oil and Fuel Exports

Context : The government has withdrawn the **windfall gains tax** on domestic crude oil production and fuel exports, including diesel, petrol, and aviation turbine fuel (ATF), as of **December 2, 2024**.

Background

- **Introduction:** Imposed on **July 1, 2022**, during a surge in global crude oil and fuel prices caused by Russia's invasion of Ukraine, to address concerns over **domestic fuel availability**.
 - **Purpose:** Designed to tax **unexpected profits** due to external factors like the energy price surge, with the goal of funding welfare schemes and narrowing the trade deficit.
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Reasons for Withdrawal

- **Global Stabilisation:** Oil prices have fallen from **over \$100 to under \$75 per barrel**, and supply chains have stabilised.
 - **Domestic Market Stability:** Fuel availability in the domestic market is robust, and revenues from the tax have declined significantly.
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Criticism of Windfall Tax

- **Market Uncertainty:** Retrospective imposition discouraged investments in the energy sector.
 - **Profitability Concerns:** Companies argued the tax penalised profits earned through industry risks.
 - **Populist Nature:** Seen as politically driven and poorly designed, with unclear criteria on who should be taxed.
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Impact

- **Revenue Decline:** Collections reduced from ₹25,000 crore in FY23 to ₹6,000 crore so far in FY25.
 - **Stakeholders:** Minimal financial impact on major producers and exporters, but the withdrawal signals confidence in market stability and reduced risk of supply shocks.
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Conclusion

The removal of the **windfall gains tax** reflects improved market conditions, a stable global oil environment, and a focus on fostering investment-friendly policies.



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