

Windfall tax – Petroleum

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India cut its windfall tax on petroleum crude to 1,700 rupees (\$20.53) a tonne from 2,300 rupees a tonne, according to a recent government notification.

Windfall Tax

It is a tax levied by governments against certain industries when economic conditions allow those industries to experience significantly above-average profits.

- *The term “windfall” refers to an unexpected rise in profits, and the tax on windfall gains is known as the windfall tax.*

When is it imposed?

- *When the government notices a sudden increase in an industry's revenue, they impose this tax.*
- *However, these revenues cannot be linked to anything the company actively pursues, such as its business strategy or expansion.*
- *Rather, it is related to a one-off external event for which the business is not responsible.*
- *Consequently, a Windfall Tax is imposed on an industry's profits when it experiences a sharp increase in revenue due to unrelated external events.*
- *A recent example is the sudden rise in the profits of the oil and gas industries due to the Russia-Ukraine conflict.*
- *The unexpected windfalls are taxed by the government over and above the normal tax rates.*

The most common industries that fall target to windfall gains tax include oil, gas, and mining.

Purpose:

- *Redistribution of unexpected gains when high prices benefit producers at the expense of consumers;*
- *To fund social welfare schemes;*
- *As a supplementary revenue stream for the government;*
- *As a way for the Government to narrow the country's widening trade deficit.*