

• **VAT Rate on LDO/HSD/FO/NATURAL GAS etc. for exempted goods.**

Ref. 2bII/7142

14th January 2008

Shri Sunil Kumar I.A.S.
Commissioner,
Commercial Tax, U.P.
Trade Tax Bhawan,
Vibhuti Khand Gomti Nagar, Lucknow

Subject: VAT Rate on LDO/HSD/FO/NATURAL GAS etc. for exempted goods

Sir,

We refer to our letter no. 2bII/7096 dated: 26th Dec.07, regarding concessional VAT rates on LDO/HSD/FO/ Natural Gas for captive use by manufacturing units. We are thankful to you for accepting our proposal albeit partly.

We find from the notification no KA.NI.-2-67/XI-9(1)08-U.P.Ordi.-37-2008-Order-(2)-2008 dated January 10, 08, which has been issued modifying VAT rates for certain commodities that (i) Diesel oil as defined in the United Provinces Sales of Motor Spirit, Diesel Oil and Alcohol Taxation Act,1939; (ii) Furnace oil including residual furnace oil and (iii) Natural gas used in the manufacturing process of any taxable goods will attract concessional VAT @4%. This implies that the use of these products i.e LDO/HSD/FO/NATURAL GAS etc by manufacturing units which are producing exempted goods will attract full rates of tax i.e. 20/21%. For your ready reference some of exempted category VAT products that have been put under Schedule I of VAT Act that require substantial use of LDO/HSD/FO/NATURAL GAS are as under:

- Agricultural Implements
- Poultry Feed
- Milk and related products
- Electrical Energy
- Bread, Buns and Rusks
- Maida, Atta , Suji

You will agree with us that exempted goods as kept in schedule-I of VAT rates are generally the goods which are used in agriculture, goods produced for consumption by poor people, goods produced in micro /cottage industries etc. and therefore, if the rate of VAT on LDO/ HSD/ FO / Natural Gas used in the process of manufacture of such goods is kept high, then the cost of exempted goods will also be high, nullifying, the intention of the Govt. to keep the prices of such products low. Moreover, in the previous regime of Trade Tax no such discrimination was there.

It is, therefore, requested that the VAT rates on LDO/HSD/FO/ Natural Gas for use in manufacturing process should be uniformly put at 4% whether it is for manufacture taxable goods or exempted goods.

Hoping for a favorable and immediate action.

Thanking you,

Yours truly,

D.S. Verma
Executive Director