

- **VAT Rate LDO/HSD/FO etc.**

Ref 2bII/ 7096

December 26th, 2007

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

Subject: VAT Rate LDO/HSD/FO etc.

Sir,

We find from the rate schedule of VAT proposed to be implemented in UP w.e.f. 1st Jan 2008 that the following items of Petroleum Products which are consumed by the Industry in its production process are proposed to be taxed at rates mentioned against their respective description and that they are not VATable too :

- Diesel oil as defined in the United Provinces Sales of Motor Spirit, Diesel Oil and Alcohol Taxation Act, 1939 @ 21%
- Furnace oil including residual furnace oil @ 20%

These products are used extensively by Industrial units in their production processes to meet their needs of Thermal Heating and generation of Electricity. Hitherto before, these units were entitled to purchase these items at concessional rates of UPTT @ 2.5% against Form 3B, if the items were recognized for such use by UPTT department and were included in their respective recognition certificates issued u/s 4B of UPTT Act, 1948. You must already be aware that there is a massive gap between the demand and supply of Electrical power in the state and, therefore, the manufacturing units are largely dependent on use of HSD/LDO/FO for meeting their aforesaid needs of Thermal and Electrical energy to keep their units going. You would also appreciate that in present fiercely competitive business world it would not be possible for the consumer industry to either absorb the additional cost on this account or pass this on to their customers. If the proposed hike in the rates of the above products under VAT is not immediately revoked, it may lead to closure of a very large number of units across the state leading to other serious consequences unless they go in for import of these products from neighboring states which though costlier than the present UPTT regime will be cheaper than the proposed VAT rates. Such a situation too would be detrimental to the interest of the state as it would lose the legitimate VAT revenue to neighboring states.

It is, therefore, requested in the larger interest of the state to **please continue granting the facility of purchase of the aforesaid products for captive use by manufacturing units at present concessional rates as applicable under UPTT**. However, in order to protect the interest of revenue, following conditions may be imposed for eligibility/ applicability of concessional rates :

- Only those manufacturers will be able to purchase these products at concessional rates whose Eligibility certificates issued u/s 4B of UPTT Act, 1948 act include these items as items required in the process of manufacture.
- Provision can be made in the UP VAT Act/Rules to issue a Certificate of Eligibility for purchase of these items at concessional rates by holders of the certificate of eligibility and the proposed Certificate of Eligibility be issued to those units whose respective recognition certificates issued 4B of UPTT Act, 1948 included these items as items required for their manufacturing process.

An early action by issuing suitable modifications to relevant provisions of UP VAT Act 2007 will be highly appreciated and will save a large number of manufacturing units who are likely to be adversely affected by proposed rates of extra ordinary high rates of non vatable VAT on HSD/LDO/FO.

Thanking you,

Yours faithfully,

D.S. Verma
Executive Director