

## Windfall Tax

### Why in news?

Against the backdrop of rising crude oil prices due to Russia's invasion of Ukraine, there has been a buzz in markets about a one-time windfall tax on oil and gas companies.

### What is a windfall tax?

- When a company benefits from something that they are not responsible for, the financial gain that ensues is called windfall profits.
- Governments, typically, levy a one-time tax over and above the normal rates of tax on such profits and that is called windfall tax.
- Since, energy companies are gaining profit not because of any improvement in their processes but because of the geopolitical situation, many governments are considering to impose such tax.
- This will boost the government's finances, and help fund efforts to protect vulnerable sections from rampant inflation.

### Which countries have imposed such taxes?

- Italy and the UK are two key economies that have levied windfall tax.
- **Italy's case-** Italy announced taxing the profits of energy companies at 25% to help fund a support package for consumers and businesses that have been hard-hit by soaring energy costs.
- **UK's case-** UK will increase the headline rate of tax on those profits to 65 % from 40% to profits arising on or after May 26, 2022.
- A Bill is being introduced for an 'Energy Profits Levy' and it will also include a sunset clause, which will remove the tax after 2025.

### What is the case with India?

- The public expenditure on fuel, food and fertiliser subsidies are ballooning amid skyrocketing inflation.
- The FY23 fertiliser subsidy budget estimate is Rs 1.05 trillion.
- Oil and Natural Gas Corporation (ONGC) and Oil India Ltd (OIL) reported bumper profits in the March quarter and record earnings in 2021-22.

### What has to be well thought before imposing windfall tax?

- **Compromise on profits-** The first consideration by the government to impose windfall tax will be the production sharing contracts (PSCs).
- PSCs are long term contracts where the government is also a party and when the prices go up, the government also stands to profit.
- So, the government has to compromise on dividends and share buybacks, both of which the

centre is a beneficiary of.

- **Royalties**- The second consideration is the royalties and ad valorem duties.
- **Investor confidence**- If such changes are made to the taxation policy, the government will have to consider what signal this will send out to the foreign investors under the FDI policy.

## What are the criticisms against imposing windfall tax?

- The one-off taxes, which by definition are imposed retrospectively, are seen as arbitrary, fueling uncertainty among businesses about future taxes.
- The imposition of windfall tax is branded as anti-investment and anti-business.

### References

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