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A new Croatian Decree on the amounts of excise duty on petrol, gas oil and kerosene used as propellants

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Excise duties on refined petroleum products have increased gradually over the last few years, in order to reach the minimum rates prescribed in the European Union. Upon Croatia's EU accession, the tax system has been extended to include other energy products which have previously not been taxed. Even before the latest Decree on the Amounts of Excise Duty on Petrol, Gas Oil and Kerosene used as Propellants (OG 109/13), the rates of almost all excise duties were in line with EU standards. However, higher excise rates are also aimed at collecting additional tax revenues for the state budget. Any increase in taxes affects, among other things, the prices of products and services, consumption and standard of living. Below is an analysis of the impact of application of the Decree on fuel prices.

INTRODUCTION

The Government on 30 August 2013 issued a Decree on the Amounts of Excise Duty on Petrol, Gas Oil and Kerosene used as Propellants (hereinafter: Decree), raising the amount of excise duty on petrol (leaded and unleaded) and gas oil and kerosene used as propellants by 10 lipa per litre. Excise duty on gas oil used for heating (heating oil) increased by 8 lipa per litre. In terms of percentages, the largest was the increase in excise duty on gas oil used for heating (23.32%), which will, in view of the coming heating season, directly affect the cost of living. The rate on gas oil and kerosene used as propellants goes up by 3.9% and on unleaded petrol 3%; the least increased is the rate on leaded petrol (2.5%). As shown in Table 1, from January to September, excise duties increased by 8%-10% for petrol, 13%-23% for gas oil, and 18.6% for kerosene used as a propellant.

Excise duties (not only on energy products) rose significantly over the last three years. This was due to harmonisation with the minimum EU excise duties, the need to improve tax revenues for the coverage of growing public expenditures, and pressures coming from health and environmental policies.

Any increase in excise duties may lead to higher prices of taxable goods. However, the analysis below will try to demonstrate to what extent the latest increase in excise duties on energy products affects the retail prices of taxable products as well.

Table 1*Changes in the amounts of excise duty, 1 Jan. 2013 – 3 Sep. 2013 (in HRK/1,000 l)*

| Excisable products | Decree in effect since 1 January 2013 | Excise Duties Act in effect since 1 July 2013 | Decree in effect since 23 July 2013 | Decree in effect since 3 Sep. 2013 |
|-----------------------------|--|--|--|---------------------------------------|
| <i>Petrol - Motor fuels</i> | | | | |
| leaded | 3,801 | 3,801 | 4,000 | 4,100 |
| unleaded | 3,151 | 3,151 | 3,360 | 3,460 |
| <i>Gas oil (diesel)</i> | | | | |
| used as a propellant | 2,354 | 2,450.50 | 2,560 | 2,660 |
| used for heating | 343 | 343 | | 423 |
| <i>Kerosene (paraffin)</i> | | | | |
| used as a propellant | 2,243 | 2,450.50 | 2,560 | 2,660 |
| used for heating | | 1,752 | | |

Source: NN 137/12, 22/13, 93/13 and 109/13.

In the Decree proposal, the Ministry of Finance argues that the increase in the amounts of excise duty will not affect retail prices (RP), as the energy company premiums will be adequately reduced. Consequently, along with the Decree, Amendments to the Rules on the Determination of Maximum Retail Prices of Refined Petroleum Products (OG 109/13) entered into force, laying down new amounts of energy company premiums.

ENERGY COMPANY PREMIUMS AND THE DETERMINATION OF MAXIMUM RETAIL PRICES OF REFINED PETROLEUM PRODUCTS

The Rules issued by the Ministry of Economy lay down the method of calculating, publishing and applying the maximum RPs of refined petroleum products (petrol, diesel fuels and gas oil) that may be applied in the territory of the RC exclusively by energy undertakings engaged in wholesale and/or retail trade in refined petroleum products.

To understand the link between excise duties and energy company premiums, one must first explain the meaning of these terms.

In order to determine the maximum price of a refined petroleum product, a complex formula should be used to calculate the price of the product without excise duty and VAT. The following six variables are used: (1) average daily stock price of the refined petroleum product expressed in USD/t; (2) HRK/USD average daily exchange rate published by the Croatian National Bank as at the date of publication of the average daily stock price of the product; (3) number of daily data; (4) number of published average daily stock prices of the refined petroleum product within the calculation period; (5) density of the refined petroleum product; and (6) energy company premium expressed in HRK per litre of the product.

The energy company premium is a fee for the financing of compulsory reserves of oil and petroleum products, as well as a fee for bio fuels. The premium amounts for all refined petroleum products are determined by the Government, except for premiums for refined petroleum products sold at petrol stations on highways and on the coast for the supply of vessels (with the exception of marine diesel), which are determined by free market, and for petroleum products with multifunctional additives. Hence, these premiums may be higher than those determined in the Rules.

Under the new Rules, the amounts of energy company premiums for petrol and euro diesel BS are reduced by 10 lipa per litre, for gas oil used for heating by 8 lipa per litre and the price of marine diesel remains unchanged. The new premiums to be applied from 3 to 16 September 2013 will be used in the calculation formula for maximum prices of refined petroleum products.

Table 2

The amounts of energy company premiums (in HRK/l)

| Excisable products | 19 Dec. 2012 | Applicable since 1 June 2013 | 3 Sep. 2013 |
|--------------------|--------------|---------------------------------|-------------|
| Petrol | 0.76 | 0.76 | 0.66 |
| Gas oil (diesel) | 0.58 | 0.58 | 0.50 |
| Marine diesel | 0.50 | 0.50 | 0.50 |

Source: Pravilnik o utvrđivanju najviših maloprodajnih cijena naftnih derivata (NN 145/12, 62/13 and 109/13).

RETAIL PRICES OF REFINED PETROLEUM PRODUCTS

On 2 September 2013, the Ministry of Economy¹ published the maximum levels of RPs determined by adding excise duty and VAT to the maximum prices of refined petroleum products calculated according to the previously given formula.

During the calculation period, energy companies are obliged to apply the RPs that are equal or lower than the prices published by the Ministry. However, this provision does not apply to the refined petroleum products sold at petrol stations on highways and on the coast for the supply of vessels. Energy companies are authorised to apply different RPs for the same refined petroleum products in the territory of the RC, as well as to change these prices during the calculation period.

As shown in Table 3, RPs of all categories of refined petroleum products went up in 2013. As of 3 September, the largest increase will be seen in Super Petrol BS 100 (0.31 HRK/litre), which will raise the price of an average 50 litre fuel tank by HRK 15.5.

Table 3

Maximum levels of retail prices of refined petroleum products in 2013, (in HRK/l)

| Name of refined petroleum products | 1 Jan. | 5 March | 28 May | 23 July | 20 Aug. | 3 Sep. | Increase on 3 Sept. |
|------------------------------------|--------|---------|--------|---------|---------|--------|---------------------|
| MB Super BS 95 | 10.17 | 10.82 | 10.23 | 10.64 | 10.51 | 10.78 | 0.27 |
| MB Super BS 98 | 10.47 | 11.17 | 10.55 | 10.96 | 10.83 | 11.12 | 0.19 |
| MB Super BS 100 | 10.69 | 11.41 | 10.76 | 11.17 | 11.04 | 11.35 | 0.31 |
| Diesel fuel EURODIESEL BS | 9.65 | 9.93 | 9.43 | 9.92 | 9.82 | 10.01 | 0.19 |
| Gas oil, LU EL EURO | 6.81 | 7.04 | 6.58 | 6.75 | 6.69 | 6.87 | 0.18 |
| Blue-dyed gas oil EURO | 6.15 | 6.66 | 6.16 | 6.29 | 6.29 | 6.47 | 0.18 |
| Blue-dyed gas oil | 6.06 | 6.28 | | | | | |

Note: The dates were selected at 2-month intervals (in 2013, there were 19 announcements).

Source: MINGO (2013)

CROATIAN EXCISE DUTIES VS. MINIMUM PRESCRIBED EU DUTIES

According to Article 2 of the Decree (OG 109/13), by virtue of the Decree, the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (OJ L 283, 31. October 2003) is transposed into the legal system of the Republic of Croatia. From the entry into force of the Excise Duties Act (1 January 2010) on, excise duties on fuels increased gradually. As of 1 January 2013, new excise duties are introduced on some energy products which have not been taxed before, e.g. natural gas and electricity.

A comparison between the excise duty levels in the RC (Table 4) and the minimum prescribed levels in the EU shows that harmonisation has already been made, so that Croatian excise duties even exceed the minimum prescribed EU rates. However, even if the minimum rate requirement laid down in the EU

¹ The RPs of refined petroleum products are changed at a 14-day interval.

directives is met, pursuant to Article 60 item, (7) of the Excise Duties Act, the Government can, by a decree, change (i.e. raise) the prescribed excise rates, depending on the fiscal policy goals and needs (budget deficit, public expenditure and public debt growth, etc.). After all, the Council Directive 2003/96/EC itself provides that "Member States should be given the flexibility necessary to define and implement policies appropriate to their national circumstances."

Table 4

The amounts of excise duty in Croatia vs. minimum levels of excise duty in the EU (in HRK/1,000 l)

| Excisable product | Excise Duties Act | The Decree enters into | Minimum EU excise duty | |
|-----------------------------|----------------------------------|------------------------|------------------------|-----------------|
| | enters into force on 1 July 2013 | force on 3 Sep. 2013 | in EUR/1,000 l | in HRK/1,000 l* |
| <i>Petrol – Motor fuels</i> | | | | |
| leaded | 4,000 | 4,100 | 421 | 3,158 |
| unleaded | 3,360 | 3,460 | 359 | 2,693 |
| <i>Gas oil (diesel)</i> | | | | |
| used as a propellant | 2,560 | 2,660 | 330 | 2,475 |
| used for heating | | 423 | 21 | 158 |
| <i>Kerosene – paraffin</i> | | | | |
| used as a propellant | 2,560 | 2,660 | 330 | 2,475 |
| used for heating | 1,752 | | 0 | 0 |

*1 EUR=7.5 HRK

Source: NN 22/13 and 109/13; Council Directive 2003/96/EC

CONCLUSION

Tax increases usually affect the price of a taxable product, unless equal changes are made in some other elements in the calculation of the product's RP. The amount of the energy company premium determined by the Rules (subject to certain exemptions, or free determination of prices under specific circumstances) is used for the calculation of the prices of refined petroleum products, but it is less important than other variables for the calculation of the maximum prices of refined petroleum products. The latter prices are mostly influenced by prices in the Mediterranean market and the exchange rate. After the Decree was issued, retail prices of fuels increased by 18 - 31 lipa per litre, which affected not only citizens but business entities as well, and could also lead to an increase in the prices of other goods and services. The increase in excise duties on energy products can no more be accounted for by the harmonisation with the minimum prescribed EU excise duties. The real reason would rather be one of the main goals of taxation, i.e. filling the budget gaps.

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