Another cess coming? GST Council may approve imposition of Sugar cess

Running against the principles of the Goods and Services Tax, the Council's 27th meeting being held via video-conferencing on Friday may clear the imposition of a 5% Sugar cess. Currently, the government levies GST Compensation cess to compensate States that may incur losses in the first five years of GST implementation.

Sugar cess is a part of the GST Council's agenda, but gains significance after the Cabinet meeting on Wednesday approved financial assistance at the rate of Rs. 5.50 per quintal of cane crushed in sugar season 2017-18 to sugar mills to offset the cost of cane and in order to help sugar mills to clear cane dues of farmers. Due to depressed market sentiments and crash in sugar prices, the liquidity position of sugar mills has been adversely affected, leading to accumulation of cane price dues of farmers which have reached topped over Rs.19,000 crore. India last had a Sugar cess under The Sugar Cess Act 1982, the Sugar Development Fund Act 1982, but was abolished in 2017. Currently, there are a few cess which continue, but they are either on Customs or on goods outside GST.

Cess continuing under GST regime (They pertain to customs or goods which are not covered under the GST regime)

- The Finance (2) Act 2004 – Education Cess on Imported Goods
- The Finance Act, 2007 – Secondary and Higher Education Cess on Imported Goods
- Cess on Crude Petroleum Oil under the Oil Industry Development Act, 1974
- Additional Duty of Excise on Motor Spirit (Road Cess)
- Additional Duty of Excise on High Speed Diesel Oil (Road Cess)
- Special Additional Duty of Excise on Motor Spirit
- NCCD on Tobacco and Tobacco Products and Crude Petroleum Oil

"The idea of levying a Sugar Cess of up to 5% is not good news and is a retrograde step. One of the key objectives of GST was to move towards a single tax regime and do away with multiplicity of taxes. Thus, coming up with a new indírect tax levy in the form of Cess clearly goes against the key objectives of GST," says KPMG India, Partner, Harpreet Singh.

Singh adds that the introduction of a new Sugar Cess within a year of implementation of GST is not likely to send the right signals to the market as this would mean we are moving back to having many taxes instead of one GST, which was supposed to subsume all taxes, cess and surcharge.

India, the second largest producer of sugar after Brazil, has seen a prolong period of depressed prices for the product. According to Bloomberg the government's assistance is likely to help sugar mills that have been suffering from a 25 percent slump in local prices in the past 12 months following a bumper crop and an 11 percent increase in cane prices. The cess, if approved at the GST council meet, would look to mitigate the outgo from this subsidy.

“The challenge of imposing a new cess on a particular sector is that firstly, its imposition could mean a new law and related new compliances. Secondly, it sets a precedent for increasing revenue by imposing cess in other sectors. Last, but not the least as the cess may not be creditable against GST, the same would increase the end price of the product in the hands of the consumer,” adds Singh.

Imposition of Sugar cess could mean that not only the price of sugar, but the prices of products like sweets, confectioneries, chocolates etc. which use sugar as a key ingredient, are also likely to go up, thereby negatively impacting the end consumer.

According to ET, imposition of a Sugar cess and reducing goods and services tax on ethanol were some of the suggestions put forward by a group of ministers headed by Nitin Gadkari that was looking into the rising sugarcane arrears.

Not clear:

If the cess is imposed, it is not immediately clear on what it would be applied – would it be a cess of GST or on the cost of the product. The cess will also not be creditable, which would mean the burden on the sector would be passed on to the consumers. It will also increase the compliance burden for the taxpayer.

Experts believe that the cess, if it is imposed, may prompt the states to follow suit. Currently, collections from a sugar cess, if imposed, would go to the coffers of the Central Government. However, if in the future a state feels they would want more tax to flow from a certain sector; nothing would then prevent the states from doing it. For example, if Maharashtra feels they need more tax from entertainment, it can levy a cess on the sector.

(Economic Times)