Government mulls new duty on imports

Ahead of the Budget, the commerce department has asked the finance ministry to levy border adjustment tax (BAT) on imported goods to offset the impact of levies such as electricity duty, clean energy cess, levies on fuel and royalty that are not part of goods and services tax (GST).

Such taxes (which are not part of GST), while resulting in an increase in the cost of production of domestic goods, also place them on an unequal footing vis-a-vis imports rendering our exports uncompetitive.

An analysis shared by a steel manufacturer with the commerce department has estimated that the share of non-creditable taxes in the sale price of hot-rolled coil may be as much as 5% of the sale value, while in case of imports it could be around 3% of the price.

When GST was introduced in July 2017, a number of levies at the state and the central level were merged into it and some of the taxes, such as those imposed in mandis in Punjab and Haryana at the time of procurement, were done away with. While some of the levies are back in some form or the other, the commerce department is of the view that many were not included in GST, resulting in a situation where input credit on these taxes is not available.

As a result, two options were considered by the department, with the first one — to levy border adjustment tax — seen to be preferable. This will require amendments to the Customs Act, with an elaborate exercise needed to put in place rules for identification and quantification of such levies. Proposed additional tax of customs is compatible with World Trade Organization (WTO) rules as it can be imposed like taxes on domestic products or on an article from which the imported product is manufactured.

Source: The Economic Times