

Govt mulls basic Customs duty cut to align with FTA

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India plans to cut some of its import duties in Budget 2023-24. The cuts will sit well with a raft of free trade agreements (FTAs) the government is negotiating with several countries.

Since these cuts will be on basic Customs duty (BCD), they will have a very minuscule impact on collections under integrated goods and services (IGST). The cuts will also not impact the viability of the production-linked incentives (PLIs) the government has rolled out to encourage domestic manufacturing in 13-odd sectors, including electronics, automotive, and textile.

"Let me say the Customs duty receipts shall not be a significant part of our tax estimates," said Finance Secretary T V Somanathan recently. He made the comments to Arvind Panagariya at the India@75 Conference organised by Columbia University in November.

Panagariya, former vice-chairman of NITI Aayog, had asked him about the scope for slashing import duties in the forthcoming Budget. Without committing, Somanathan said continuing with both PLI and high import duties may not be a good policy.

Finance Minister Nirmala Sitharaman will be presenting the Union Budget on February 1, 2023, in Parliament, outlining her tax and expenditure plans for 2023-24. A World Trade Organization estimate reckons that India's Most Favoured Nation import tariffs at 13.8 per cent are "the highest of any major economy".

India's import tariff structure includes BCD, an additional duty, a special additional duty, and a cess like the one on education. While a combination of these duties is imposed on imports, the cuts in the Budget are expected to be limited to only BCD.

To calculate the applicable IGST on any commodity which is levied on interstate movement of goods and services, as well as imports, the BCD element is also grossed up, but as a percentage of



KEY POINTS

- ▶ **The cuts on basic Customs duty will have minimal impact on collections under IGST and the viability of PLI schemes**
- ▶ **According to WTO estimate, India's Most Favoured Nation import tariffs at 13.8% are "the highest of any major economy"**
- ▶ **The BCD cuts will also be in line with what India will offer as tax concessions in the FTA**

the applicable tax, it comes to a single digit. A cut there will not, therefore, impact IGST significantly, said experts.

In November, for instance, of the total ₹1.46 trillion of GST, ₹38,635 crore was realised in IGST from imports.

"Since the objective of enhancing productivity, quality, scale, and overall efficiency in strategic manufacturing sectors through PLI schemes is happening quite well, the fiscal policy may now do well to revisit and draw up a plan of gradually scaling back basic Customs duty in the course of the next three to five years," said Atul Gupta, partner, Deloitte India, who is a specialist on indirect tax.

Echoing his thoughts, a government official said, "No one expects the government to slash import duties on all tariff

lines, but you can be reasonably sure some cuts will be made this year."

The BCD cuts will also be in line with what India will offer as tax concessions in the FTA. Budget 2022-23 had pencilled in receipts of ₹1.68 trillion as BCD - a modest growth rate of 6.1 per cent over 2021-22. As part of the gross tax revenue, it is just 6 per cent in 2022-23.

Former finance minister Arun Jaitley in his Budget 2018-19 announced an increase in Customs duty on 40 categories of goods. These ranged between 33 per cent and 100 per cent and marked a clear reversal of India's policy of steadily clipping duties in vogue for more than two decades. The increased Customs duties were meant to encourage domestic value addition by manufacturers by stepping up production capacity in India.

The government has subsequently built an elaborate PLI structure with a subsidy element of close to ₹2 trillion. While these are built on the premise that the import of competing items shall not get preferential duties, government officers said the cut in BCD in some areas will not affect them at all.

"This graduated reduction in Customs duty can be in sync with the avowed Ministry of Commerce policy of enlargement of FTAs and shall in tandem drive and infuse quality and competitiveness in key areas of domestic manufactures," added Gupta.

RUN-UP
TO THE

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