



**Presentation before the: Finance
Minister of Telangana
GST on sugar industry and its
byproducts**

October 25, 2016

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State of Indian sugar industry

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- Socio-Economic Significance
 - Sustains the livelihood of 6 million agricultural and 0.5 million skilled and semi-skilled industrial worker families
 - Provides significant employment in ancillary and allied activities
 - Covers around 5 million ha – around 3% of gross cultivable land in country
- Significant part of global production and consumption
 - India is the second largest producer of sugar and largest consumer
 - India's share in the world production of sugar was 15.39 percent in 2013-14
- Four factors determine sugar production in India
 - Area under sugarcane production (5.3 million hectare)
 - Sugarcane yield per hectare (66 tons per hectare)
 - The production of sugarcane that is crushed by sugar factories in relation to the total sugarcane produced (69%)
 - Recovery of sugar [avg. 10.3 %]

Key inputs for sugar industry

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- Sugarcane is the primary raw material accounting for 74% of input cost
- Raw sugar - imported during shortages
- Electricity (partly self-supply and partly from grid)
- Packaging material:
 - Gunny bags
 - PP Bags
- Chemicals:
 - Washing soda, caustic soda , flocculent agent, Color precipitant, Boiler chemical, viscosity reducer, bleaching powder, Hydrochloric acid, phosphorous acid, common salt
- Lubricants (grease & oil)
- Transport services – during harvest and supply of output
- Plant & Machinery
- Real estate

Central and State indirect taxes on sugar industry

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Product	Central Tax	State Tax
Sugarcane	-	Purchase Tax
Electricity	-	Electricity duty
Raw Sugar	Import Duty + CVD	-
Sugar	Excise duty, sugar cess, CST	Entry tax , VAT on local sale
Molasses	Excise duty, CST	VAT, Administration charges *
Ethanol	Excise Duty**	VAT, Import Fee, Export Fee License Fee, Denaturant Purchase Tax (UP)
Rectified	Excise Duty	VAT, Entry Tax, Uttar Pradesh -Export Pass fee, Pharmacy excise fee, Ad valorem fee
Transport	Service Tax	-

*UP

** -Ethanol not meant for blending with petrol (CED is levied on denatured spirit including fuel grade ethanol)

Current incidence of indirect taxes on sugar industry

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#	Product	Taxability	Taxes	Rates
1	Sugarcane	Taxable*	Purchase tax (exempted in cane producing States)	➤ Purchase tax [2.72% in Tamil Nadu - Exempt from
2	Electricity	Taxable	Electricity duty	➤
3	Raw Sugar	Taxable	Import duty + CVD	➤
4	Sugar	Taxable	Excise duty, Sugar Cess, Entry ^, Service tax	➤ Excise- Rs. 71/Qtl ➤ VAT--1% in CG, , Kerala; 5% in Tamil Nadu ➤ Entry Tax- 1 -2 %, 11% in Punjab ➤ Service tax on Goods transport-3.708 % ➤ Sugar Cess- 24/Q
5	Molasses	Taxable	Excise duty, VAT, CST charges (denaturation	➤ Excise- 750/T ➤ VAT- 13.5-20% ➤ Entry Tax- Assam 4% ➤ Service tax on Goods transport 3.708%

Current incidence of indirect taxes on sugar industry

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#	Product	Taxability	Taxes	Rates
6	Ethanol	Taxable***	Excise duty, VAT^^	<ul style="list-style-type: none"> ➤ Excise- 12.5 % [Exempted for blending in petrol- from ➤ VAT- Rectified spirit – 5-13.5- 20 % ➤ Service tax on Goods transport-3.708 %
7	Bagasse	Taxable	VAT	<ul style="list-style-type: none"> ➤ VAT -5 %
8	Bio fertilizer	Taxable	VAT, Service Tax	<ul style="list-style-type: none"> ➤ VAT- 5% ➤ Service tax on Goods transport 3.708 %
9	Press Mud	Taxable	Service Tax	<ul style="list-style-type: none"> ➤ Service tax on goods transport- 3.708%
10	Transport	Taxable	Service tax	<ul style="list-style-type: none"> ➤ Service tax on goods transport- 3.708%

*** Nil excise for blending with petrol ; ^^ VAT in Karnataka, HP, Chandigarh; * Purchase tax in some states ; ^ in some states

GST on Sugar

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- At the current ex mill price of Rs 3300-3400 per quintal, the central excise duty works out to around 2.25% on sugar.
- Any rate of GST above 2.5% would result in a net increase in the retail price of sugar.
- Sugar is an essential commodity, consumed by all sections of the society and is an important source of energy in the rural households and amongst the poor families, the tax rate on sugar should be such that it does not increase the final price of sugar significantly.
- Therefore our submission before you would be to include sugar in the 6% category.
- It is submitted that sugar under any other rate except 6%, as the next higher rate of 12%, will clearly push sugar prices by Rs. 3 to 4 per kilo.

GST on Sugarcane

- Sugarcane is an agricultural crop, produced by 50 million farmers and their family members.
- In order to ensure that the farmers get a good remuneration for the crop, sugarcane should be totally exempted from GST.
- Currently there is almost no tax on sugarcane and hence it is submitted to exempt sugarcane, from any GST levy.

GST on by-products of sugar

- The sugar industry produces electricity in the form of green power, alcohol for making potable liquor and fuel grade ethanol for blending with petrol.
- GST will be applicable on the inputs to produce electricity and liquor will have to be absorbed by the sugar industry. Currently, there is a fixed rate of central excise duty of Rs. 750 per ton on molasses, which is then used to make either potable alcohol or fuel grade ethanol.
- Fuel grade ethanol is currently subjected to central excise duty of 12.5%. Some States are levying an import/export duty on inter-state movement of ethanol.
- However, with the amendment of the IDR Act and the Central Government clearly stating that only alcohol for human consumption is within the purview of the States, fuel grade ethanol should not henceforth be taxed by any State.

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- Fuel grade ethanol, when blended with petrol, reduces the net oil import bill to that extent, improves the returns to the sugarcane farmers and industry as well as reduces environmental pollution from car engines and improves air quality substantially, fuel grade ethanol should be incentivized by the Government as a green renewable bio-fuel.
- Considering many of its positive properties and contribution to the economy and environment, GST on fuel grade ethanol should be either zero rated or it should be under the exempted category.

Cess on Sugar

- The Sugar Cess Act imposes a cess on production of sugar. The rate of sugar cess is notified by the Central Government from time to time. Recently, the ceiling on cess has been increased from Rs. 25 per quintal to Rs. 200 per quintal of sugar.
- The cess has been increased to help the Government to collect funds for payment of cane price/FRP dues to sugarcane farmers. The cess so collected is credited to the Sugar Development Fund, which is then utilized for the welfare, growth, modernization, by-product utilization, sugar exports, interest subvention etc. of the sugar sector exclusively, as also cane price payments of farmers.

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- The cess has been very efficiently utilized all these years to reduce the surplus sugar and improve the highly depressed sugar prices to keep the sugar industry viable. There is no doubt that the cess on sugar has played a very critical role in times of distress, both to help the sugar mills and the sugarcane farmers and assist the Government in their efforts, without burdening the general exchequer.

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- The Commission for Agricultural Costs and Prices (CACCP) has recommended that if the industry is unable to pay the minimum cane price, i.e. FRP fixed by the Central Government, the gap should be filled up through a Price Stabilization Fund (PSF) to help the sugarcane farmers. The cess so collected, especially in times when the sugar prices are depressed (which will not burden the final consumers because of depressed ex-mill sugar prices), can be utilized either for PSF or through the Sugar Development Fund to pay directly to the farmers, a part of the FRP, when the sugar mills are unable to pay during times of depressed sugar prices and surplus sugar production.

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- In other words, as submitted above, the cess on sugar and Sugar Development Fund has not only played a very vital role in the growth and development of the sector, but has also helped the industry and the farmers in times of distress, without burdening the Government.
- Our submission is that the cess on sugar should be continued and utilized to pay a part of the FRP fixed by the Central Government, directly to the farmers in times of depressed sugar prices. If the decision of the Government is not to utilize the cess to bridge this gap and pay a part of the FRP to the farmers, the cess may be discontinued.

Agricultural Services

- Sugar mills purchase sugarcane from large number of cane growers. Sugarcane transportation from field to factory is arranged by mills. In addition, sugar mills offer certain extended support to sugarcane farmers, including help in sowing, irrigation etc. In this endeavor, sugar mills organize harvest labour and transportation.
- U/s 2(7) of the Model GST Law, the definition of agriculture is much narrower compared to the exemption granted for several agricultural services u/s 66 D of the Finance Act 2012. It is submitted that under the proposed GST, all agricultural services pertaining to sugarcane including harvesting, loading/unloading, plant protection, testing, supply of farm labour, transportation etc. should be fully exempted from GST.

Summary of our submissions

It is our submission to include sugar in the lowest 6% category to avoid any net increase in the retail price of sugar.

To exempt sugarcane from any GST levy.

GST on fuel grade ethanol should be either zero rated or it should be exempted.

Sugar cess to should be continued and utilized to pay a part of FRP fixed by the Central Government, directly to the farmers in times of depressed sugar prices.

Scope of Agricultural Services to be widened to include all agri services pertaining to sugarcane, which should be fully exempted.

Thank You