

Cement sector demands uniform excise duty

What were the regulatory changes (various duties) within the cement sector in 2009? What is the current duty structure?

The major regulatory change the cement industry experienced in 2009 was the one pertaining to the reduction in the excise duty consequent to announcement of the stimulus package. The other notable change has been that in the classification of cement that was moved from class 140 to 150 resulting in railway freight going up in January 2009 by about eight per cent for cement. The other change is the increase in royalty on limestone which has gone up to Rs 64 a tonne from Rs 46. This has resulted in further load on cement which is heavily burdened by the high tax structure.

Besides this, some of the States have increased the rate of value added tax (VAT). In Uttar Pradesh, VAT has gone up to 14 per cent from 12.5 per cent earlier. It may not be out of place to mention that the Empowerment Committee headed by Mr Asim Dasgupta had recommended a uniform VAT rate of 12.5 per cent on cement which already was much higher than the earlier sales tax in most of the states. Steel, one of the other main construction material, was put in the bracket of four per cent VAT. Some of the States have now started tinkering even with the already high VAT rate and Gujarat, Rajasthan and Uttar Pradesh have increased it to 14-15 per cent.

At present, the excise duty is based on the Maximum Retail Price. The excise duty rate on cement at pre-stimulus package was 12.36 per cent. In the case of products where excise duty is charged on MRP, normally abatement is provided to cover the post manufacturing expenses. Even in the case of white cement an abatement of 35 per cent is provided. NCAER (national Council for Applied Economic Research) had recommended an abatement of 55 per cent on grey cement. Unfortunately, at present no abatement is being given on excise duty though being charged on MRP in the case of cement.



What are the cement industry's expectations from Budget 2010-11?

The cement industry's expectations basically relate to rationalisation of its high tax structure. Thanks to the competitiveness of Indian cement industry that despite its high taxation which constitutes over 60 per cent of the ex-factory realisation, cement is still sold as one of the cheapest commodities, at about Rs 4.50 a kg. Some of the major suggestions which have been submitted to the Government are:

- Abatement of 55 per cent on excise duty, as recommended by NCAER
- Alignment of VAT in line with steel. VAT on cement is pegged at 12.5 per cent (some States have increased it to 14-15 per cent) while VAT on steel is four per cent
- Existing excise duty structure on cement is complicated with a combination of fixed and ad valorem duties. It should be converted to uniform rate.
- Import duty on cement is zero while that on inputs such as coal, petcoke, and gypsum is 5 per cent. Industry has requested that import duty on inputs should be same as the import duty on finished product, that is, cement.
- Royalty on limestone is very high. It should be allowed as either Cenvat credit or VAT credit. So also duties/cess levied on indigenous coal.

Besides these, the industry needs to be insulated from the vagaries of demand cycles so that the industry retains its attractiveness for huge investments required to achieve desired growth in the infrastructure sector.

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as told to Rajalakshmi Sivam.**