A benign budget for rubber industry

The rubber industry has been spared of resource augmentation measures and given some reliefs and incentives to enhance production in the Union Budget

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THE United Front Ministry's maiden budget for 1996-97 has been sympathetic to the rubber industry. The fiscal measures largely leave the finished products untouched and allow further cuts on customs and excise duties on raw materials and manufactured intermediaries.

The reduction in the customs duty on natural rubber by 5 per cent and by 15 per cent on nylon filament yarn will contain the cost of production in the tyre sector as these two constitute about 65 per cent of the raw material cost. The tyre industry also derives benefits through duty reliefs on other raw materials and components, though the excise duty on finished tyres remains at the high pitch of over 50 per cent ad valorem excepting for the tyres of power tillers. The tyre industry will derive benefit out of the reduction of customs duty on caprolactum as the nylon tyre cord's cost of production will come down correspondingly. The indigenous producers of caprolactum like the Gujarat State Fertiliser Corporation and FACT will now be forced to bring down their price to the level of duty reduced landed cost of imported caprolactum.

The rubber industry has been spared of the resource augmentation measures. It has been given some reliefs and incentives to enhance production. The following are broadly the measures which influence the rubber industry in the Union Budget for 1996-97:

Chidambaram : The rubber industry has been spread

Customs duty

(i) Exemption : All chemicals used for the manufacture of contraceptives have been fully exempted from the customs duty. Such chemicals made within the country have also been exempted from excise duty.

(ii) Peak rate reduction : Peak rate of duty has been brought down from 50 per cent to 40 per cent on organic chemicals and inorganic chemicals under Chapters 28 and 29 of the Customs Tariff. Accelerators, antioxidants and peptisers imported for the rubber industry will get the benefit of this reduction. At the same time their indigenous producers may bring down price to match the landed cost of imported material and improve the quality in order to stay competitive in the market.

(iii) Reduction: Reduction in customs duty has been effected in the following cases.

a) Petroleum crude — from 35% to 20%
b) Cyclohexane, toluene, cumene and acrylonitrile — from 20% to 10%
c) Caprolactum — from 45% to 30%
d) Phenol and vinyl pyridine monomer — from 40% to 20%
e) Linear alkyl benzene — from 40% to 30%
f) Polyester filament yarn — from 45% to 35%
g) Nylon filament yarn — from 45% to 35%
h) Natural rubber — from 25% to 20%
i) Retreaded aircraft tyres — from 50% to 30%

(iv) Fresh levy: A surcharge as special duty of customs on imported goods and 2 per cent of the value of goods imported has been introduced. This will be for the period ending March 31, 1999. Goods that are exempted from the whole of customs duty or chargeable to nil duty will be exempted from this levy.

Excise duty

The budget has made changes in the excise duty structure of many goods. Items that relate to the rubber industry are indicated below with the extent of modification.

a) **Exemption :** All the chemicals used for the production of contraceptives have been fully exempted from excise duty. In the case of footwear, the exemption limit for excise duty has been raised from Rs. 50 to Rs. 70 per pair. This would offer consolation to the hawai chappal producers.

b) **Reduction :**

Excise duty on specified animal drawn vehicle tyres, off the road tyres aero tyres and aero tubes	from 35% to 30%
Reduction in basic excise duty on polyester filament yarn	from 50% to 40%

c) **Enhancement :**

Excise duty on petroleum products other than kerosene and petroleum gases	from 10% to 15%
Basic excise duty on viscose filament	from 15% to 20%

Reduction in the import duty of petroleum crude will generally bring down price of petroleum feedstocks for rubber chemicals, nylon and rayon yarn, synthetic rubber, etc. With the reduction in duty of cyclohexane, tuluene, cumene and acrylonitriles, the cost of production for solvents, additives and nitrile rubber will come down.

Modified phenol is utilised to make antioxidants. Vinyl pyridine monomer is the feedstock for vinyl pyridine latex used by the tyre industry. The duty reduction would benefit the tyre industry.

Reduction of customs duty and excise duty on polyester filament yarn and lowering the excise duty on viscose filament yarn will also help the raw material cost of the tyre industry to come down. Matched against all these measures the enhancement of excise duty by 5 per cent on petroleum products and the introduction of 2 per cent surcharge as special duty on imported goods will not be a burden on the rubber industry.

Over 1000 companies whose total income is below 30 per cent of the book profit are liable to pay the minimum alternative tax (MAT)

The import duty on natural rubber has been reduced by 5 per cent. This has evoked sharp reactions from some of the politicians who, without understanding the issues involved, vilify the reduction. Though natural rubber import attracted 25 per cent customs duty, the duty was exempted in the past two years to make the landed cost of imported rubber competitive. Natural rubber price is currently ruling high in India by about Rs. 6 at Rs. 50 per kg. for the RSS 4 grade compared to the international price of Rs. 44 per kg. Even 20 per cent duty on imported rubber will put the landed cost of the rubber above the Indian price. Not much import is expected to take place during 1996-97. Even the import recommendation of 40,000 tonnes was not utilised since demand declined owing to power cuts in the Southern States and the credit squeeze. Only a few thousand tonnes was imported under the advance licence against export of rubber goods. This does not attract any import duty. Now that the peack production season for natural rubber is round the corner, it is doubtful whether the Government would allow any quantum to be brought down apart from the imports under the advance licence. In this contingency the hue and cry over reduction of import duty on natural rubber by 5 per cent is meaningless.

Corporate tax

Under corporate tax proposals the Finance Minister, Mr. Chidambaram, has proposed a minimum alternative tax (MAT) on companies which are not liable to pay any tax at present. If the total income of such a company is less than 30 per cent of the book profit after the eligible deductions, then 30 per cent of the book profit is to be taxed at a rate of 43 per cent which comes to an effective tax rate of 13 per cent. However, surcharge on the corporate tax has been reduced to half; from 15 per cent to 7.5 per cent. There is also reduction on long-term capital gains in the case of domestic companies, from 30 per cent to 20 per cent

On a rough estimate, over 1,000 companies whose total income is below 30 per cent of the book profit are liable to pay MAT. MAT will not allow them to write down taxes completely against depreciation. Some of the companies are from the rubber industry, but their total liability to MAT may not be sizable. A rough calculation indicates that in the non-tyre sector zero tax companies attracting MAT may earn about Rs. 18.3 crores of taxable income a year with liability to pay MAT for a little over Rs. 2.3 crores. In the tyre sector the total taxable income of such companies comes about Rs. 92 crores a year. Their MAT liability would be nearly Rs. 12 crores. All the major tyre units are existing tax paying concerns. Units under the Export Processing Zone and the 100 per cent export oriented units are exempted from the levy.

New units

Large companies used to set up new industrial units in notified backward areas to take advantage of the tax exemption. This had the indirect advantage of developing the undeveloped area. The tax deduction also contributed to the development of infrastructure facilities in the backward region and improvement in rural employment. Some of the industrial houses have remarked that they will now prefer to put up additional ventures in the developed areas. If that happens, MAT may deal a blow to the rural development. However, companies set up to develop infrastructure facilities stand exempted from the levy.

There are also views against MAT that the cash flow of the weaker companies will be adversely affected, that the Government is introducing fresh ambiguities by forcing different tax structure for different categories of firms having similar operations and that the new measure will affect investments in expansion and diversification of existing companies. Despite the divergent criticism, it is a fact that the companies capable of reasonable performance will not be hard hit by MAT. The impact of the levy may perhaps reduce the dividend pay out or delay it until the unit gains strength to make allocable surplus.

Even in the midst of the criticism there are people in the corporate sector who have welcomed MAT. A doyen among them is from the rubber industry, Mr. Onkar S Kanwar, Managing Director of Apollo Tyres. He has welcomed the measure and indicated that his company would gladly bear the additional burden and fulfil the social obligations. Though Apollo Tyres is already a tax paying company, his other firm, Apollo International, has a liability of around Rs. 2.4 crores under MAT. □