

Govt Mulls New Category to Tax Hi-tech Items

Move to allow Centre to impose import duties without violating global pact

The government is exploring the possibility of creating new categories in its tariff structure that will allow it to impose import duties on hi-tech products without violating a global agreement that mandates nil duties. The government has already imposed customs duties on mobile phones to encourage manufacturing in India. The finance and commerce ministries and the department of electronics are in discussions on the issue to give a 'Make in India' push to hi-tech products.

Officials say some countries have already used the flexibility available in the Harmonised System of Nomenclature of goods to raise duties without running afoul of the Information Technology Agreement 1, or ITA1. Violations of the agreement are challenged at the World Trade Organization (WTO). The government has also sounded out the industry on the idea, said a person privy to the move.

New Delhi had imposed customs duty on smartphones from July 1, 2017 and subsequently on some inputs as well. However, there have been protests from countries such as Japan disputing imposition of these duties. A review of the tariff structure to introduce new lines would ring-fence India from protests that can be taken to the WTO, say experts. "The proposal to introduce new tariff lines may possibly help in protecting domestic industry and possibly not being questioned from binding commitment perspective," said Rahul Shukla, executive director, PwC. Sophisticated electronic equipment and Internet of Things (IoT) devices could be considered for this rejig. Centre Working with Industry "There are products which are getting wrongly interpreted to be under ITA1 which need not be there," a senior industry executive said, asking not to be named.

HARMONISED SYSTEM OF NOMENCLATURE

India follows Harmonised System of Nomenclature for tariffs that is used to classify traded products. The HSN usually contains six digits, with first two determining the chapter itself, second two the heading and last two sub heading. For example, potatoes will be in the chapter dealing with vegetables while frozen potatoes or potato flakes would be in sub heading depicted by last 2 digits of the six digits. Tariffs in most multilateral and free trade agreements are bound at six-digit level. Countries have flexibility after six digits in tariffs and some countries have availed this. US, China and Korea have tariffs pegged at 10 digits and Japan at 9 digits. Malaysia switched to 10 digits from 9 digits last year.

"There is flexibility for sovereigns at six digits.... A number of products in the electronic space did not exist when the ITA1 was signed.... So new tariff lines need to be created to accommodate them," said a senior government official privy to the deliberations. Trade experts say this could be done at domestic level.

"In my personal view, the best way to address this issue is to have specific new products that did not exist earlier to be classified at an HS code at appropriate level of disaggregation of which the aggregated HS code is not already a part of the ITA commitment," said Ram Upendra Das, head at Centre for Regional Trade. According to people aware of the development, the ministry of IT

and electronics is working with the industry through the Indian Cellular Association to look into the issue of classification of products available in the market but not covered by the ITA1.

“If we’re interpreting something (classification) wrongly then it can be corrected within the codes in India. The way mobile phones were taken out of ITA1, similarly errors in some other components have been noticed for which work is going on,” said the industry official quoted earlier.

(Economic Times)