

FISCAL INCENTIVES FOR AGRO & FOOD PROCESSING SECTOR BENEFITS & DRAWBACKS

VIKAS KATIA

Assistant Professor, Post Graduate Department of Commerce, D.A.V College, Bathinda, Punjab, India

ABSTRACT

Industrial growth is necessary for development of any state of the country so, industrial growth is also required for growth of economy of Punjab. In effort to increase industrial growth Government of Punjab has announced new industrial policy in 2013. In new industrial policy various types of fiscal incentives are given to various types of industries, since economy of Punjab is based on agriculture so there is lot of scope for Agro and Food processing business. In new industrial policy Agro and Food process units have been given so many incentives. It is positive step towards economic growth of Agro and Food processing units. Neighboring state like Haryana and Himachal Pradesh are growing at very fast rate if Punjab wants to compete these states incentives to industries were very much necessary. It is a right move of the Government in right direction. This paper is an attempt to find the number of fiscal incentives given to Agro and Food processing units and try to find out whether these incentives are sufficient for all type of Agro and Food Processing industries.

KEYWORDS: Punjab Government, Industrial Growth, Geographical Area

INTRODUCTION

New industrial policy was announced by Government of Punjab in June, 2013. This policy was notified by the Government on Dec, 5th, 2013. At Mohali summit was organized by Government of Punjab to accelerate economic growth in industrial sector in which business magnets from whole Country were invited. The summit was organized before industrial summit to attract to 30000 to 50000 crore rupees investment in next two to three years as an investment in industrial sector of the state. In this policy along with other benefits to industry so many fiscal incentives have been provided by the Government to boost industrial development of the state. In new industrial policy fiscal incentives are provided for different sectors like manufacturing, Agro and Food Processing Industry, Integrated Textile Units, Electronic Hardware and Information Technology sectors. In industrial policy Incentives are given on VAT and CST, Property Tax, Stamp Duty, Electricity Duty. Incentives are given for various industries on time bound basis and incentives are fixed up to certain percentage is on VAT, CST, Property Tax, Stamp Duty, Electricity Duty etc.

In this paper secondary data notified by government of Punjab is taken as a base and only fiscal incentives concerned with manufacturing units are taken. In this paper effort have been done to know about provisions of incentives in form of tax and other benefits to various manufacturing industries and try to know whether these incentives are available for all manufacturing industries and areas of problems in industrial sector.

Main source of income of people of Punjab comes from agriculture sector. More than two third populations are engaged in cultivation. Total geographical area of the state is 50.33 lakh hectare, 84% of it 41.98 lakh hectare is under

cultivation. 98% of total cultivated area is under cultivation. Green revolution started from Punjab in late sixties and per hectare cultivation of different agricultural products is very good in Punjab as compare to per hectare yield in other states. Punjab is contributing wheat, rice, maize, cotton and other agriculture products to central pool. Out of the total agriculture products state produces only three percent horticulture products. Punjab is popular in production of kinnows, but there are so many other fruit like strawberry, guava, mangoes the cultivation area under these fruits is less. Only three percent of the cultivated area is under horticulture. Punjab is fourth state in the country in terms of milk production. Daily production of milk in Punjab is approximately 278 lakh liters. 11 thousand hectare area of Punjab is under fish cultivation. Punjab is first among all the states in inland fish cultivation production of fish are 6560 kilogram per hectare. People of Punjab are known for their hard work and economy Punjab is basically depend on agriculture. There are countless chances to promote agro food industry in Punjab. Punjab is the state from where food products can be sold to whole country and to the World. Punjab government has announced incentives to the food and agro industry of Punjab in industrial policy 2013. This paper is an attempt to know about measure announced by the Government and try to find whether those measures are sufficient for growth of agro and food processing industry.

OBJECTIVE

Main objective of this paper is to know about provisions of incentives given in new industrial policy to Agro and Food processing sector and to find out whether these incentives are enough for small and medium sector units.

Provisions for Agro & Food Processing Industry

Agro products means any produce of agriculture, horticulture, floriculture, and agro forestry are included in the list of agro products. Food processing means value addition in agriculture and edible animal products by grading standardization, packing and preserving of produce so that products could be formed in such type that it could be sold in market of the country and abroad.

Incentives given in industrial policy: For incentives industry is divided on the following category on the basis of investment.

Unit with investment of 1 crore to 25 crore

From 25 crore to 100 crore

From 100 crore and above

Four sectors have been inserted in the policy in which different fiscal incentives are provided in new industrial policy and those fields are as follows

Incentives in VAT and CST

Incentives in electricity duty

Incentives in stamp duty

Incentives in property tax

Table 1: Incentives in VAT and CST

Eligible Area	FCI Rs. 1.0cr to Rs. 10cr*	FCI above Rs. 10cr to below Rs. 100cr*	FCI Rs.100cr and above
VAT and CST	80% VAT + 75% CST	85% VAT + 80% CST	90% VAT + 85% CST
Maximum eligibility period	10 years	10 years	12 years
Maximum quantum	80% of FCI	85% of FCI	90% of FCI

Source: Department of Industries & Commerce, Government of Punjab

Table 2: Exemption on Electricity, Stamp Duty and Property Tax

Eligible Area	FCI above Rs.1 cr to below Rs. 10cr	FCI above Rs. 10cr to below Rs. 100cr	FCI Rs. 100cr and above
Incentives on electricity	Maximum quantum is 100% of FCI and 100% of payment up to 10 years	Maximum quantum is 100% of FCI and 100% of payment up to 12 years	Maximum quantum is 100% of fci and 100% of payment up to 12 years
Incentives on property tax	Maximum quantum 100% up to 10 years	Maximum quantum 100% up to 10 years	Maximum quantum 100% up to 12 years

Source: Department of Industries & Commerce, Government of Punjab

Incentive on VAT and CST are available to new units only, already existing units are not entitled to get incentives on tax under this heading.

Incentives are available to all above units only if they have taken a loan from financial institutions or banks. Unit established without taking loan from banks or financial institution is not eligible to get financial incentives under this head.

Incentive of VAT and CST will maximum up to certain limit for example 80% of fixed capital investment in first case where investment is from one crore to below 10 crore and duration of incentive is 10 years and maximum quantum is 80% of fixed capital investment whichever is earlier. Means if unit does not reach to the limit of 80% in first ten years than it will lose remaining value of tax exemption.

Units will get property tax and electricity duty exemption during stipulated period to new units which are mentioned in above chart, if units is exporting electricity to companies other than PSPEL those units will not be eligible for exemption on electricity duty. Exemption on payment of electricity duty on power including captive power used by the unit or exported to PSPEL will be eligible to get exemption according to chart. Amount deposited by unit in social security fund that amount is not entitled for exemption under this head.

Amount of stamp duty lived under 1-A of Indian stamp duty act paid by unit is eligible for exemption in incentives in stamp duty head. If land is purchased/ on lease prior to three years of commencement of project in that case also units are eligible to get exemption under this head. Any amount paid for social security fund as lived in schedule 1-B of the act is not exempted. Quantum of land must be according to project report appraised by financial institution otherwise exemption will not be given on stamp duty.

General Conditions

Maximum exemption in all above written heads means in VAT, CST, electricity duty, stamp duty and property tax exemption should not exceed 100% of the fixed capital investment, so total amount of fiscal incentives for Agro and Food processing industry will be equal to or less than total amount of fixed capital investment. Amount incurred on fixed capital expenditure must be stated in financial report of financial institution that provided loan to the firm and that report must be certified by chartered accountant, that fixed capital amount will be the amount which can be used as criteria for getting exemption under this head.

Debatable Points

Small scale units having fixed capital investment from one crore but less than ten crore will get less tax exemption on VAT and CST as compares to units having more fixed capital investment. VAT exemption is 80% and CST is 75% for small scale units but the exemption of VAT and CST is 85% and 90% and CST is 80% and 85% in case of companies having fixed capital investment more than 10 crore but less than hundred crore and companies having fixed capital investment more than hundred crore rupees respectively. According to this policy rate of financial incentives is increasing with increase in the amount of fixed capital amount that means more benefits to big companies. No doubt big companies play huge role to accelerate economic growth of the state without giving incentives to medium and large scale companies it is very difficult to achieve high rate of economic growth in the state, but at the same time more benefits should be given to small scale industries. In the policy rate incentives on VAT and CST to small scale industry is less as compare to big companies that is not a good move. On one side Government assure about giving maximum benefits to small scale industry but on other side incentives on tax given to small scale industries are less than that of large scale industry in new economic policy. It seems that government of Punjab is more concerned to attract investment through medium and large scale industrial investment and the interests of small scale industry are not watched properly. Medium and large scale industries play equal role in development of industry. These provide job opportunities to thousands of people and provide indirect employment to many, but at the same time if not more at least equal benefits should be given to small scale industry so that small should get benefits of the policy.

In new industrial policy fiscal incentives are given under this head to new Agro and Food Processing industries or fresh fixed capital investment in existing units. Government of Punjab wants fresh capital investment in the state and it is necessary to boost economic growth of the state, but the provisions of exemption only to new fixed capital investment is detrimental for existing units because these units are not getting financial incentives in the policy and it will be very difficult for them to compete to new units. New units will be in the position to sell their products at lower price because they would get incentives as a result there are chances of shut down of business of existing units and that will be dangerous for economy of the state. Economic growth is possible only when along with new units existing units should get benefits of new industrial policy. In the lack of incentives for existing units if existing units goes for closure than there would be no benefit of industrial policy in this segment.

In incentives to above written Agro and Food processing industries all units will be entitled to get benefits if these companies get financial loan from financial institutions or banks. it is better for companies to get loan from banks or financial institutions to run the business. Getting of loan is good for companies as for as their leverage is concerned but compulsion of the provisions for a benefit does not seem justifiable.

In case of property tax if at present companies does not fall within municipal limits means at present property tax is not lived and later on property tax lived on the property than company will eligible to get benefit of remaining period which is left from that date, means incentive of property tax is for ten years from installation of the project and at the time of installation property is not covered under property tax but later on say after six years units come under the preview of property tax than company will eligible to get benefits of property tax exemption only for remaining four years those have been left.

Not only policy but proper infrastructure is required for successful implementation of policy. For that proper place for establishment of industry like growth centre, focal points, food parks, power and other proper governance is required. Government of India is finding difficult to establish Food Park in the country because of rising prices of land clearance from state Government out of proposal of 30 food parks those have been cleared by centre only two has been established till date, according to reports published (The Economic Times, December 5th, 2013). Out of thirty food parks four are for Punjab those have not been established till date.

SUGGESTIONS

Small scale Agro and Food processing units should be given more incentives in VAT and CST rates companies having investment 10 crore or more and 100 crore or more have 85% to 90% tax rate exemption on VAT and 80% to 85% exemption on CST respectably, rate of exemption for small scale industries if not more at least same to rate of companies having fixed capital investment 10 crore or more means VAT and CST exemption should be at least 85% and 80% respectably. companies having fixed capital investment less than 10 crore rupees should be given more incentives as compare to companies having investment more than 10 crore because small companies require more assistance from Government because of their less recourses and small scale industries are providing direct and indirect jobs to lakhs of people of the state.

Fiscal incentives given to Agro and Food based industry are only available to new and investment of fresh investment of fixed capital in existing units means no fiscal; incentives given to existing companies. Is economic growth is possible without giving incentives to existing industrial units? Incentive for only new companies means Government of the state want only new investment in industrial area but not inclusive growth of economy in the state. New units will have competitive advantage over existing companies and as a result existing units would not be able to survive in front of new units, so incentives on tax should also be given to existing units along with new units for real economic growth.

Most of the companies take loan to run the business but that should be compulsory for companies to get incentives under this head. All companies should be eligible to get exemptions under various above written heads whether company has taken a loan or not, now above written incentives to Agro and Food processing industries are available only for those have taken a loan from banks or financial institutions.

Any entrepreneur who established an industry which does not fall under municipal limit hence exempted from property tax but later on fall in municipal limits and comes under the preview of property tax should be given fell tenure for exemption means its ten years from date on which date company become under the preview of property tax.

Incentives announced by Government is well come step for economic growth of the economy of the state, but these would not accelerate growth until proper implementation of polices does take place. Red tapeism, inspector raj,

corruption in different departments also discourage entrepreneurs for establishing industries in the state. Good Governance is must to run all policy matters successfully.

Government should make an effort to improve Infrastructure facilities road in industrial centres, water and sewage system should be up to mark so that Agro and Food processing units feel comfort in establishing industries in the state. Technical training should be given to the youth so that shortage of skilled labour could be cover up.

CONCLUSIONS

State Government want huge investment from industrial sector in the state and in new policy lot of incentives are given by the State Government to Agro and Food processing industries are welcome step but incentives on tax should be given to existing units as well. Small and medium scale units face more hardship but incentive rates and period of getting incentives is less than large units, at least equal incentives should be given to those. Conducive atmosphere is necessary for industrilists. Proper arrangement of power infrastructure facilities and hustle free environment must be provided because without smooth atmosphere only financial benefits will not work for growth of the industry in the state.

REFERENCES

1. Business Standard (2013). Punjab Announces New Industrial Policies. June 3, 2013.
2. The Tribune (2013). Liberal Incentives for Manufacturing Sector. June 3, 2013.
3. The Hindu (2013). Punjab's New Industrial Policy Ignore Stagnating Units. June 4, 2013.
4. Business Standard (2013). Punjab Notifies Industrial Policy, Dec 5, 2013.
5. The Pioneer (2013). Punjab Government Finally Notify Industrial policies, Dec 6, 2013.
6. The Times of India (2013). Punjab Industrial Policy offers few incentives for existing industries. Dec 7, 2013.
7. Yes Punjab.Com (2013). Punjab Notify Industrial Policy 2013: Complete Text of The Notification. December 5, 2013.
8. www.pbindustries.gov.in
9. http://www.punjabgovt.gov.in/jsp/apps/work/Fiscal%20Incentives%20for%20Industrial%20Promotion_2013.pdf.