

India tackles three-tier popcorn levy as US tariffs spur reform of goods and service tax

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India's consumers are spoilt for choice when it comes to popcorn — and it is a question of tax as much as taste. Sales tax is 5 per cent for salted loose popcorn, 12 per cent for packaged popcorn, and a hefty 18 per cent for caramelised popcorn.

The three-tier popcorn tax is for many emblematic of a goods and service tax that has long been criticised for its labyrinthine and confusing classifications.

This week, ministers and states are set to approve the biggest reform to this tax in years, a move that Prime Minister Narendra Modi hopes will better equip India to withstand trade tensions with the US — and boost sales of popcorn as well as other goods.

"The government will bring 'next

generation' GST reforms, which will bring down the tax burden on the common man. It will be a *Diwali* gift for you," Modi said during his Independence Day speech last month, referring to the upcoming festival of light.

A draft blueprint of the reform proposes collapsing four key GST rates into two main rates. Most of the items in the 12 and 28 per cent tax brackets will move into the 5 and 18 per cent brackets. There will be a special 40 per cent rate for "sin" goods, such as tobacco, and some high-end products, including luxury cars.

"What is going to be the major sigh of relief for the consumers is migrating from the current four-tier structure towards a two-tier one," said Dipanwita Mazumdar, economist at Bank of Baroda.

With India bracing itself for the economic impact of US President Donald

Trump's 50 per cent tariffs, the government hopes "GST 2.0" will spur consumption growth with everything from clothes to two-wheelers expected to be taxed at a lower rate.

"Immediate tax cuts could spur demand across products — food, beverages, consumer durables, autos, hotels, cement, building materials. And over time, efficiency gains of moving to a simpler and more predictable tax regime with fewer rates could raise India's potential GDP growth," HSBC economists Pranjul Bhandari and Aayushi Chaudhary wrote in a research note.

Originally envisaged as a two-rate tax — 5 per cent on essential goods and 18 per cent on everything else — by the time it was launched eight years ago, anomalies had already been baked into the system.

A 28 per cent sin tax was slapped on

items such as online gambling and a 12 per cent rate was added to the mix. Such was the confusion at the time that opposition lawmaker Veerappa Moily asked: "Is KitKat a chocolate or a biscuit? Is coconut oil a hair oil or a cooking oil?"

There are other complications. Regis-



Crunch time: Indian popcorn lovers are hoping for a simpler tax regime

tering for a GST number requires an official to physically verify the address. Companies that operate in multiple states need multiple registration. Companies also have to submit themselves to audits in multiple states.

"The lack of a centralised audit means that companies have to address each state's concerns separately, even if the essential question is the same," said M S Mani, a partner at Deloitte consultancy.

The government only this year began setting up tribunals for GST dispute resolution in every state, though they are not yet operational.

"People have been sitting on their cases, waiting for the tribunal benches to be set up. So the minute they are functional, they will start with a massive backlog of cases," said Sudipta Bhattacharjee, partner at law firm Khaitan & Co.

Officials say they expect the bump in

consumer demand will help compensate for any hit to GDP from Trump's tariffs. But the GST cuts are expected to shrink government revenue by about \$16bn, according to HSBC estimates.

Moreover, GST is redistributed among India's states. Even if the pain is equally split between New Delhi and the states, it could have a greater impact on state revenues. Some states are calling for compensation.

For businesses, such as Amara Raja Energy & Mobility, one of the country's largest makers of lead-acid batteries, the advantage is clear. The GST rate on its main product will fall from 28 per cent to 18 per cent, similar to that on lithium batteries.

"The first thing that will happen is both the batteries will come on to the same tax rate," Y Delli Babu, chief financial officer at the Hyderabad-based manufacturer, told analysts.