

these was the possibility to convert agricultural land into non-agricultural use without payment of land conversion tax (LCT) in-order to recoup costs incurred. This arrangement regarding the LCT was maintained for the second leg of the sugar reform in 2007 while costs to be recouped were those in excess of the Accompanying Measures under the Sugar Protocol.

12.2 In 2016 the SIE (Amendment) Act 2016 was amended to make provision of LCRs and their tradability. Thus, for instance, the heavily indebted milling companies could use an instrument to recoup costs already incurred.

12.3 In 2010, the Finance Act came up with a new section 10A in the Income Tax Act purporting to establish a form of capital gains tax. Therein subsection 10A (7) made clear the intent of Government regarding the gains made by those participating in the sugar reform and the need to ensure that costs be recouped

12.4 Notwithstanding the fact that section 10A was subsequently repealed for reasons that had nothing to do with the sugar industry, the matter remains that costs incurred in the context of the sugar reform have to be recouped and require a special treatment. It is argued that as the First Schedule to the VAT Act does not specifically mention the LCRs, then the sale thereof should be vatable.

12.5 This measure will facilitate heavily indebted producers to use this instrument to recoup costs already incurred for the implementation of socio-economic sugar reform projects through the selling of LCR to third parties, which was initially exempted from VAT. The estimated benefit is around **Rs 290 / t sugar** over the next 3 years for those holders of LCR.

12.6 The JTC recommends that the sugar industry be for exempted from the payment VAT on LCR transferred to a third party in connection with sugar reform projects in line with the provisions of the SIE Act 2001 for any developmental projects. According to the MRA and based on the 1<sup>st</sup> Schedule of the VAT Act, LCR does not qualify for VAT exemption.

12.7 The JTC had a meeting with the MoFED and MRA to discuss the matter. The MoFED has sought legal advice thereon and subsequently, Government will take a policy decision on same. The advice received on 11 April 2018 is that LCR is a supply of service and is subject to VAT.

### **13.0 Duty Free, Trade Related Quota (TRQ) and Trade facilitation**

13.1 In order to ascertain a sustainable sugar industry, irrespective of the present efforts to improve its competitiveness and the expansion of the cane's different revenue streams, it is of paramount importance to secure preferential access for locally produced sugars in remunerative markets. Obviously, with the view to maintain