

TAX FLASH NEWS

Revised Modified Special Incentives Package Scheme notified by the Government of India

In order to promote electronic manufacturing in India and to build an ecosystem for supporting a globally competitive Electronic System Design & Manufacturing (ESDM) sector, the Government of India, under the National Policy on Electronics 2012, notified the Modified Special Incentive Package Scheme (M-SIPS or the Scheme). The cut-off for receiving applications under the Scheme was 26 July 2015.

Pursuant to representation received from the industry and other stakeholders, the Department of Electronics and Information Technology (DeitY) has, vide notification dated 3 August 2015 (the Notification), extended M-SIPS by five years. Additionally, the DeitY has expanded the scope and simplified various aspects related to approval, investment threshold and disbursement of subsidy under the Scheme.

Some of the key modifications to the Scheme have been highlighted below:

Widening of scope

Benefits under M-SIPS extended to additional verticals that include 12 electronic products, five intermediaries, capital equipment for electronic products, raw material exclusively for electronic products and remanufacturing of electronic products.

A. Electronic products			
S. No.	Product name	S. No.	Product name
1.	Telecom products: Optical fibres and Optical fibre cables, Headends*	2.	IT hardware products: Automatic Machines (ATMs), etc.*
3.	Consumer electronics: Audio video products, electronic watches and clocks, electronic toys, wearable electronics, electronic personal care products, etc.*	4.	Automotive electronics: Brushed DC motors*, etc.
5	Bio-metric and identity devices/RFID: Smart card manufacturing and personalisation*	6.	Consumer appliances like refrigerators, ACs, fully automatic washing machines, microwave ovens, etc.
7.	Electronic product design including PCB design	8.	Machine to Machine (M2M) and Internet of Things (IoT) products
9.	Home fuel cells	10.	Multi-functional electronic devices

11.	Semiconductor equipment such as automatic test handler, pick and place machines, test head manipulator and their accessories like test sockets, probe cards, ATE load boards, conversion kits, docking mechanisms	12.	Electronic security devices – including CCTV/surveillance equipment, CCTV, access control, intruder alarms, etc.
B. Intermediaries			
1.	Electro-plating, small precision plastic and metal parts, tools, moulds and dies	2.	Liquid Crystal Module (LCM)
3.	Organic Light Emitting Diodes (OLED)	4.	Chip modules for smart cards
5.	Analog/mixed signal semiconductor chips		
C. Capital equipment for electronic products			
D. Raw material exclusively for electronic products			
E. Remanufacturing of electronic products			

*These verticals already exist in the notification dated 27 July 2012 and have been amplified to include additional products.

Expansion of period under the Scheme

Incentives under the Scheme to be available from date of receipt of application; i.e. the 10 year period under the Scheme shall now commence from 'date of filing' the application as against 'date of letter of approval' as stipulated under the earlier Scheme. The amendment, however, would be prospective in nature; i.e. applicable after the date of the Notification (3 August 2015).

Revision of investment threshold

Based on industry inputs, minimum investment threshold for various verticals has been revised. Most notably, the investment threshold under Electronic Manufacturing Services (EMS) has been revised from INR1 billion to INR100 million.

Introduction of operational incentives for certain verticals

New 'production subsidy', calculated at the rate of 10 per cent of production turnover (ex-factory), to be introduced for fabrication and Assembly, Test, Marking and Packaging (ATMP) of analog/mixed signal semiconductor chips, power semiconductors, OLEDs, LCD (LCD fabrication and glass substrate), fabrication of chip components, discrete semiconductors, SPV (polysilicon, ingots and/or wafers, cells), LEDs and manufacturing of PCBs, nano-electronic components and LCM.

Existing provision of 'reimbursement of central taxes and duties' for semiconductor wafering, logic microprocessors, Digital Signal Processors (DSP) and Application Specific Integrated Circuits (ASICs), memory, LCD fabrication is proposed to be replaced with production subsidy at the rate of 10 per cent of production turnover (ex-factory).

Reformed disbursement mechanism

Disbursement of subsidy to commence as soon as investment threshold has been achieved. Subsequently, disbursements to be made on a quarterly basis. This is a significant departure from the erstwhile Scheme that allowed annual disbursement of incentives commencing a year after the financial year in which applicable investment threshold has been achieved.

Location restrictions removed

The Scheme to be applicable for units located in any industrial area notified by central/state government or local authority. The current practice of notifying Electronic Manufacturing Clusters (EMC) where eligible units can be set up has been done away with.

Simplification of the approval process

The practice of having separate Technical Evaluation Committees (TECs) has also been done away with.

The Scheme has been expanded and simplified to incentivise domestic electronic manufacturers and substitute import of electronic products. It is pertinent to note that subsequent to the Notification, the Operational and Disbursement Guidelines is expected to be appropriately amended to capture proposed amendments.

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