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India Union Budget 2019-20

Point of View

Automotive and Industrial Manufacturing

#UnionBudget2019 #KPMGBudgetLIVE

Key announcements for the sector

- Proposed investments worth INR100 lakh crore over the next five years provide a massive push to the infrastructure sector, especially across transport infrastructure
  - — Dedicated fund of INR80,250 crore to construct 125,000 km of roads in the next five years
  - — INR50 lakh crore investment across railway infrastructure, metro manufacturing of rolling stock and delivery of passenger freight services via public private partnership (PPP) by 2030
- Incorporation of New Space India Limited, a public sector enterprise, to spearhead the commercialisation of space products and production of launch vehicles
- Special efforts to leverage engineering advantage and also to achieve self-reliance in the aviation sector special initiatives planned to promote the manufacturing, repair and operate (MRO) industry
- Introduction of the National Common Mobility Card (NCMC) under the 'One Nation, One Card' scheme across all segments such as bus, metro, suburban railways, toll taxes, parking charges and retail shopping
- Emphasis on positioning India as a global electric vehicle (EV) manufacturing hub
  - — GST on EVs reduced from 12 per cent to 5 per cent
  - — To incentivise e-mobility, customs duty is being exempted on certain EV components such as e-drive assembly, on-board chargers, e-compressors and charging gun
  - — Additional income tax deduction of INR1.5 lakh is granted on interest paid on EV loans
- Building of mega manufacturing plants in advanced technology will attract global companies across areas such as semiconductor fabrication, lithium storage batteries, computer servers, solar PV cells and charging infrastructure
- Boost to MSMEs through extension of corporate tax rate of 25 per cent to domestic companies with annual turnover of up to INR400 crore and a proposed legacy dispute resolution scheme for quick closure of pre-GST litigations related to service tax and excise.

Implications for the sector

- Government's plan to expand the 25 per cent corporate tax bracket, fast-track dispute resolution and increase focus on physical connectivity, MSME-focused initiatives and skill development are likely to improve the ease of doing business, thus attracting more investment for the manufacturing sector

- Increase in customs duties on specified auto components and reduction in the customs duty on specified capital goods would promote flagship Make in India programme
- There is a strong push to develop country's MRO, aerospace, aviation and defence sectors, which will create jobs and have a positive impact on the manufacturing and allied sectors
- India seems to be on the right path to becoming the global EV manufacturing hub, with encouragement to manufacture EV components locally, faster adoption of EV and development of charging infrastructure, thereby boosting the 'Make in India' initiative
- The Union Budget 2019-20 centred around 'Make in India' with a particular emphasis on MSMEs, start-ups, aviation, defence manufacturing, automobiles, electronics and batteries. These proposals are steps in the right direction, and their implementation will be vital for India to become a global manufacturing hub.

Tax implications

Indirect

- Key changes on import of capital goods:
  - Basic Customs duty (BCD) exemption extended to import of capital goods used for the manufacture of electronic items namely populated Printed Circuit Board Assembly (PCBA), camera module of cellular mobile phones, charger/adapter of cellular mobile phones, Lithium Ion Cell, display module, set top box and compact camera modules
  - BCD on capital goods used for manufacture of Cathode Ray Tubes, CD/CD-R/DVD/DVD-R, Deflection Components, CRT, Monitors/CTVs and Plasma Display Panel increased from nil rate to item wise applicable rates.
  - BCD on stone crushing plants used for construction of roads increased from nil to 7.5 per cent
- Key changes in BCD on import of iron, steel and other base metals:
  - On inputs for the manufacture of CRGO steel, decreased from 5 per cent to 2.5 per cent
  - For amorphous alloy ribbon decreased from 10 per cent to 5 per cent
  - On steel / other alloy ingots / semi-finished products etc. increased from 5 per cent to 7.5 percent
- Automobile sector would be impacted due to increase in Basic Customs Duty (BCD) on auto parts:
  - From 5% to 10% on import of Chlorobutyl rubber, Bromobutyl Rubber and Isobutene Isoprene Rubber
  - From 5% to 10% on import of Catalytic convertor (All goods under these tariff items other than catalytic converters will continue at 7.5%)
  - From 7.5% to 10% on import of oil and petrol filters, intake air filters for internal combustion engines, air purifiers or cleaners and other filtering or purifying machinery and apparatus for gases
  - From 7.5% to 10% on import of parts of visual or sound signaling equipment for bicycles or motor vehicles
  - From 7.5% to 15% on import of other visual or sound signaling equipment for bicycles or motor vehicles
  - From 10% to 15% on import of chassis fitted with engines, bodies (including cabs) for all motor vehicles falling under Chapter Heading 8701 to 8705
  - From 10% to 15% on import of various auto parts such as glass mirrors, whether or not framed, including rear-view mirrors, windscreen wipers, defrosters, demisters, sealed beam lamp units and other lamps, horns, locks, lighting or visual signaling equipment of a kind used in bicycles or motor vehicles
  - From 10% to 15% on import of friction material and articles thereof (for example sheets, rolls, strips, segments, discs, washers, pads) for brakes, clutches or the like, with a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textile and other materials

— From 25% to 30% on import of Completely Built Units (CBUs) of motor vehicles falling under Heading 8702 or 8704

- The exemption of BCD on notified goods used in manufacture of hybrid motor vehicles shall be available subject to fulfillment of specified procedures and with actual user condition
- To encourage the electric vehicle segment, Government has extended exemption on import of parts of electric vehicles which are E-Drive assembly, On board charger, E-Compressor and Charging Gun. This is in addition to the recommendation of GST Council to reduce the rate of GST on e-vehicles to 5% from current rate of 12%

Direct

- Benefit of corporate tax rate of 25 per cent extended to domestic companies having annual turnover / gross receipts up to INR400 crores in FY 2017-18 as against INR250 crore
- The Government plans to launch a scheme to invite global companies through transparent competitive bidding to set up mega-manufacturing plants in sunrise and advanced technology areas and provide investment linked income tax exemptions
- Currently, if the payment exceeds a certain limit for certain items, law permits tax deductibility, only it is paid through account payee cheque / bank draft / electronic clearing system through bank. It is now proposed to include such other electronic modes as may be prescribed
- Every person having total sales / turnover / gross receipts in business exceeding INR50 crore is required to provide facility for accepting payment through prescribed electronic modes, in addition to the facility for other electronic modes of payment, if any, already provided. Non adherence could lead to penalty implications
- Cash withdrawal above INR1 crore per bank account per annum subject to withholding of 2 per cent. This levy of TDS will provide impetus to digital payments and discourage practice of making business payments in cash
- A deduction up to INR1.5 lakh in respect of interest on loan taken by an individual for purchase of an electric vehicle from any financial institution allowed subject to fulfilment of prescribed conditions and would boost sale of electric vehicles
- Favorable amendment in provisions relating to payments made to non-resident, in terms of which no disallowance would be made for the resident on account of non-deduction / payment of withholding taxes.
- Secondary adjustments:
  a. Excess amount can be paid by any of the overseas Associated Enterprise(s) of the Group; interest to be computed only on excess amount or part thereof
  b. Instead of interest payment every year, assesse shall have the option of a one-time payment of tax of specified amount at 18 percent (+12 per cent surcharge) as additional income tax.
- Once an Advance Pricing Agreement (APA) has been signed and modified return is filed by the assessee, the Assessing Officer (AO) needs to only modify the total income in accordance with the APA
- Master file needs to be filed even when there is no international transaction (but meeting the consolidated group revenue threshold)
- In case of Country by Country Reporting (CbyC), the accounting year of Parent Entity will be applicable to Alternate Reporting Entity
- It is proposed to relax provisions of the Act to avoid genuine hardship on transfer of shares at less than prescribed Fair Market Value (FMV) where the consideration for such transfer is approved by authorities, thereby providing relief to companies under the insolvency and bankruptcy proceedings
- To curb the practice of large buyback by listed companies in lieu of dividends, buy back tax @ 23.30% has also been extended to listed companies
- Exemption from Angel Tax has been extended to Category II Alternate Investment Funds. It has been further clarified that where there is non-compliance with prescribed conditions for exemption, the excess premium would be taxed in the year of non-compliance.

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