Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS)

Background
The Government of India (GoI) attaches high priority to electronics hardware manufacturing as it is one of the important pillars for both ‘Make in India’ and ‘Digital India’ programs. The vision of National Policy on Electronics 2019 (NPE 2019), notified on 25 February 2019, is to position India as a global hub for Electronics System Design and Manufacturing (ESDM) by encouraging and driving capabilities in the country for developing core components, including chipsets, and creating and enabling environment for the industry to compete globally.

In line with the above vision, the Ministry of Electronics and Information Technology, GoI has introduced a Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS).

Objectives and targeted segment
Through SPECS, the GoI aims to offset the disability for domestic manufacturing of components and semiconductors in order to strengthen the electronics manufacturing ecosystem in the country.

Incentives under the scheme
SPECS offers financial incentive of 25 percent of the capital expenditure incurred for the manufacturing of specified components and semiconductors that constitute the supply chain of an electronics manufacturing ecosystem.

- Capital expenditure shall include total expenditure in plant, machinery, equipment, associated utilities and technology, including for research and development.
- For the purpose of calculating the eligible capital expenditure, total value of refurbished plant, machinery and equipment (including for associated utilities and R&D), whether imported or domestically procured, shall not exceed 20 per cent of the total eligible capital expenditure.
- The unit receiving incentive under SPECS will have to remain in commercial production for a period of at least 3 years from the date of commencement of production or 1 year from the date of receipt of last incentive, whichever is later.

The GoI’s estimated incentive outlay under SPECS is INR 3,252 crore (i.e. approx. USD 425 million).

Eligibility
i. SPECS will be applicable to investments in new unit as well as expansion of capacity/ modernisation and diversification of existing units.
ii. SPECS shall be open for applications initially for a period of 3 years from its notification i.e. application can be filed till 31 March 2023.
iii. Application can be filed by any entity registered in India.
iv. Multiple applications can be made by an applicant and/ or for multiple locations.
v. The benefits under the scheme shall be available for a minimum investment made within 5 years from the date of acknowledgement of the application.

1 INR 1 crore is equal to INR 10 million
### Description of the qualifying electronic components and semiconductors

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<th>Minimum Investment required</th>
<th>Description of the qualifying electronic components and semiconductors</th>
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| 1       | INR 5 crore                 | i. SMT components including LED Chips  
  
  ii. Chip Modules for Smart Cards, RFID Antenna & Labels, CoB/ System in Package  
  
  iii. Passive components including resistors, capacitors, ferrites, etc. for electronic applications  
  
  iv. Electromechanical components including transformers, inductors, coils, relays, switches, micro motors, stepper motors, BLDC Motors, Connectors, Heat Sinks, Antenna, Speakers, Microphones, etc. for electronic applications  
  
  v. Magnets, Wave guides, Circulators, Couplers, Isolators, Filters, Magnets, RF Components for electronic applications  
  
  vi. Printed Circuit Boards (PCBs), PCB Laminates, Prepegs, Photopolymer films, PCB Printing Inks; Printed Flexible Electronics  
  
  vii. Sensors, Transducers, Actuators and Crystals for electronic appliances  
  
  viii. Camera Modules, Vibrator motor/ ringer  
  
  ix. USB/Data Cables, HDMI Cables  
  
  x. Capital goods for all the goods covered under SPECS |
| 2       | INR 15 crore                | i. Active Components:  
  
  a. Discrete semiconductor devices including transistors, diodes, etc.  
  
  b. Power semiconductors including FETs, MOSFETs, Thyristors, etc.  
  
  ii. Preform of Silica and Optical Fiber  
  
  iii. Display Assembly and Touch Panel/ Cover Glass Assembly |
| 3       | INR 25 crore                | i. Micro/Nano-electronic components such as Micro Electro- Mechanical Systems (MEMS) and Nano Electro-Mechanical Systems (NEMS)  
  
  ii. Assembly, Testing, Marking and Packaging (ATMP) units |
| 4       | INR 75 crore                | Mechanics (plastic and metal parts) for electronic applications |
| 5       | INR 250 crore               | Compound Semiconductors such as GaN, SiC, GaAs, etc. and Silicon Photonics devices/ Integrated Circuits, Optoelectronic components |
| 6       | INR 500 crore               | Semiconductor Wafers |
| 7       | INR 1000 crore              | i. Semiconductor Integrated Chips (ICs) including Logic [Microprocessor, Microcontrollers, Digital Signal Processors (DSP), Application Specific Integrated Circuits (ASICs), etc.]; Memory; Analog/Mixed Signal ICs, etc.  
  
  ii. Display fabrication units including Liquid Crystal Displays (LCD), Light Emitting Diode (LED), Organic Light Emitting Diode (OLED), etc. for electronic applications |

**Our comments**

One of the impediments in the way of attracting investments for manufacturing of electronic components/semiconductors in India has been imports at “Nil” Basic Customs Duty (BCD) of various electronic
components/semiconductors covered under the Information Technology Agreement (ITA-1) of WTO.

Given that the M-SIPS scheme has phased out, the incentive under SPECS, along with the recent reduction in the income-tax rates (including for new manufacturing companies) will provide support to domestic manufacturing sector and strengthen the electronics manufacturing ecosystem in the country. The investments on which incentive under M-SIPS have been claimed, will not be entitled to benefit under this scheme. The timing of this policy is apt, considering the current economic scenario where companies are looking at re-engineering their supply chain. Accordingly, SPECS makes India an attractive investment destination.

As the total outlay under the scheme has been laid down in the policy, it would be prudent to consider that the benefit would be available on first come basis. Therefore, it would be important for business houses to evaluate their business plans in light of the above scheme which provide for reimbursement of capital expenditure, and PLIS which provides for incentive between 4-6% on the incremental sales, subject to meeting the specified eligibility conditions:\(^2\). Amongst others, one may also need to evaluate different business models/structures and the consequent tax implications thereof.

While the scheme provides an outline of the incentives proposed/eligibility conditions etc, one may expect the authorities to shortly lay down the details regarding application process, disbursement guidelines and other procedural requirements. In our view, simplified process and timebound disposal of the applications and disbursement of incentives would be one of the key factors for the success of this policy.

Also, it would be noteworthy that the GoI has introduced a Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme that aims to establish EMCs to create infrastructure with common facilities and amenities in EMC Projects and upgrade the infrastructure in Industrial Estates / Parks / Areas as Common Facility Centre for attracting investment in electronics manufacturing.

For a deeper understanding of the policy and any assistance in this regard, please feel free to connect with any of the following:

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\(^2\) Please click on the following link to understand the PLIS -  
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