



Snapshot of policy initiatives & tax incentives to market India as an attractive manufacturing destination

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Overview

- Manufacturing has emerged as one of the **high growth sectors** in India targeting **global markets** and are becoming formidable global competitors.
- India has jumped 30 places to reach the 100th spot in the world bank's "Doing Business Report 2017" and has been one of the top improvers.
- The country is expected to rank amongst the **top three manufacturing destinations by 2020**.
- Manufacturing sector is estimated to touch **USD \$1 Trillion by 2025** accounting for about **25 - 30% of the country's GDP**, creating up to **90 million jobs domestically**.
- The Government of India has set up an **ambitious plan of locally manufacturing around 181 products**. This along with digital push could be a big catalyst to sectors such as power, oil & gas, automobile manufacturing.



Further, **strong consumerism** in the domestic market and **sustained availability of high skilled low cost manpower** along with policy incentives from the government of India will boost the manufacturing sector.

Advantages available to Indian manufacturing sector



FDI Policy

- The **FDI equity inflow** received after the launch of Make in India initiative i.e. **October, 2014 to March, 2017 of 30 months is US\$ 99.72 billion**. It shows an **increase of 62%** compared to previous 30 months before the launch of initiative.
- The overall manufacturing sectors have witnessed a **growth of 14%** in comparison to previous 30 months before launch of Make in India initiative.
- The FDI equity inflow received during the **financial year 2016-17 is US\$ 43.48 billion which is the highest ever for a particular financial year**.

In India, FDI can be made under two routes – automatic route (no Government approval is required) and approval route (Government approval is required through Foreign Investment Promotion Board). The FDI sectoral caps vary with different sectors/ activities.

For the manufacturing sector, the permitted limit of FDI varies with each sub-sector, as listed below.



S.No.	Sector	Sectoral Cap	Route	Conditions
1.	Manufacturing	100%	Automatic	Nil
2.	Defence - subject to Industrial license under the Industries (Development & Regulation) Act, 1951; and Manufacturing of small arms and ammunition under the Arms Act, 1959	49%	Automatic	<ul style="list-style-type: none"> • Above 49% - under Government route on case to case basis, wherever it is likely to result in access to modern and 'state of art' technology in the country. • 100% under automatic route permitted for manufacturing small arms under the arms act, 1959.
3.	Pharma Industry – Greenfield	100%	Automatic	<ul style="list-style-type: none"> • FDI up to 100%, under the automatic route is permitted for manufacturing of medical devices.
4.	Pharma Industry - Brownfield	100%	Government	
5.	Railway Infrastructure	100%	Automatic	<ul style="list-style-type: none"> • Subject to sectoral guidelines of Ministry of Railways

With respect to sub-sectors not listed above, FDI is permissible up to 100% under the automatic route.

Key reforms and policy initiatives

- Implementation of **Goods and Service Tax ("GST")** - unifying tax rates across the country and thus simplifying the complex tax structure. By rectifying breaks in the supply chain and allowing easier flow of input tax credits, GST will substantially eliminate cascading effect of taxes.
- **National Manufacturing Policy ("NMP")** - launched way back in 2011 with the objective of enhancing the share of manufacturing in GDP and creating 100 million jobs over a decade or so. The policy is based on the principle of industrial growth in partnership with the States, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments.
- India has concluded **Free Trade Agreements ("FTA")** and Preferential Trade Agreements with various countries and is also negotiating with few other countries in order to eliminate hindrances, allow a free flow of trade between countries.
- **Pradhan Mantri Mudra Yojna** was launched to provide loans to entrepreneurs of small scale business in India.
- The Government of India has launched an **online portal 'eBiz'**, to provide one-stop clearance platform for investment proposals. Single application for a number of permissions, clearances, approvals and registrations will be routed automatically across multiple governmental agencies.
- The commerce ministry has introduced an annual ranking system based on which all the states are ranked on ease of doing business. This move is aimed at triggering competition among states to attract investments, enhancing business climate and also enabling the investors to make informed decisions.

- Pradhan Mantri Vikas Kaushal Yojana was launched with a target to skill 10 million people over by 2020.
- The Government of India has launched a **phased manufacturing programme (PMP)** aimed at adding more smartphone components under the Make in India initiative thereby giving a push to the domestic manufacturing of mobile handsets.
- The Central Board of Direct Taxes ("CBDT") has entered into 34 Advance Pricing Agreements ("APA") in the Manufacturing sector avoiding transfer pricing disputes and providing certainty to the taxpayer by reducing compliance costs and also make tax regime investment friendly

Key Infrastructure Developments

- **Industrial Parks:** Every state in India has developed industrial parks for setting up of industries.
- **National Investment & Manufacturing Zones ("NIMZ"):** NIMZ is a combination of production units, public utilities, logistics, residential areas and administrative services. It would have a processing area, where manufacturing facilities, along with associated logistics and other services and required infrastructure will be located, and a non-processing area, to include residential, commercial and other social and institutional infrastructure.
- **Special Economic Zones:** India has also developed SEZs that are specifically delineated enclaves treated as foreign territory for the purpose of industrial, service and trade operations, with relaxation in customs duties and a more liberal regime in respect of other levies, foreign investment.





- **Industrial corridors:** The Government of India is developing the Delhi-Mumbai Industrial Corridor (DMIC) as a global manufacturing and investment destination utilizing the 1,483 km-long, high-capacity western Dedicated Railway Freight Corridor (DFC) as the backbone.
- **Other four corridors:** planned include Bengaluru Mumbai Economic Corridor (BMEC); Amritsar - Kolkata Industrial Development Corridor (AKIC); Chennai Bengaluru Industrial Corridor (CBIC), East Coast Economic Corridor (ECEC) with Chennai Vizag Industrial Corridor as the first phase of the project (CVIC).
- **21 new nodal Industrial Cities** to be developed. These 21 new nodal cities will be having advantages like; Large land parcels, Planned communities, ICT enabled infrastructure, Sustainable living, Excellent connectivity- Road, Rail etc.

Key incentives

- **Sector specific initiatives:** The government of India provides sector specific subsidies for promoting manufacturing for example in order to boost manufacturing of electronics, the Govt. of India provides capital subsidy of up to 25% for 10 years.
- **Area based incentives:** Incentives are provided for units in SEZ/NIMZ as specified in respective acts or setting up project in special areas like North East Region, Jammu & Kashmir, and Himachal Pradesh & Uttarakhand.

Tax Benefits under Income Tax

- Corporate tax rate for domestic companies reduced to 25% plus surcharge and cess from AY 2018-19 if turnover is less than INR 50 crores in FY 2015-16.
- Profit linked deductions for an eligible startup for a period of three years out of the initial five years of

establishment and relaxation for carry forward of losses subject to fulfillment of conditions.

- Tax holiday benefits to newly established units in Special Economic Zone (SEZ) for a period upto 15 years subject to fulfillment of certain conditions.
- MAT credit carry forward proposed to be extended to 15 successive assessments years from existing 10 years.
- An additional depreciation of 20% is available on new plant & machinery for entities in the business of manufacture or production of an article/thing.
- Any manufacturing entity that acquires and installs new assets exceeding INR. 25 crore on or before March 2017, is eligible for an investment allowance of 15% of the cost of such assets subject to fulfillment of certain conditions.
- For manufacturing units, deduction equal to 30% of additional wages paid to new regular workmen employed by the assessee over and above 50 workmen.
- Manufacturing entities or entities involved in biotechnology which incur in-house research expenditure are eligible for claim of twice the sum of expenditure incurred, subject to approval of Department of Scientific and Industrial Research.

Income Tax issues in manufacturing

Some of the income tax issues in respect of the Indian manufacturing industry has been outlined below:

- Date of set up of business / Treatment of preliminary or pre-operative expenses;
- Treatment of interest income earned during setting up of business;
- Tax treatment of subsidy received from the Government;
- Allowability of lease premium on long term lease arrangements;

- Allowability of additional depreciation;
- Denial of SEZ benefits in few cases, MAT issues and valuation of closing stock;
- Transfer Pricing challenges -
 - Characterisation of the manufacturing operations
 - Denial of adjustments in relation to under-utilisation of capacity
 - Compensation for marketing or brand promotion activity of intangibles such as brandname / trademark owned by associated enterprise (“AE”)
 - Payment of Royalty & Technical fee for use of know-how to AEs
 - Payment of management / administration support charges to AEs
- Stock transfers shall also be treated as supply and be liable to GST. This implies that transfers from factory to warehouse shall be liable to GST.
- Subsuming of entry taxes shall reduce the cost of procurement and time taken to deliver the goods to the purchasers.
- Free Supplies of Goods / Services, i.e., supplies without consideration shall be liable to tax in some specific cases.
- The concept of centralized registration has been done away with. Each location of the entity has to obtain separate registration under the Act. Significantly impacts those businesses which has a wide supply chain foot print.
- Availing of input credit by the manufacturer shall be linked to filing of returns by the provider of inputs or input service. This might lead to additional hardships for the manufacturer. This matching concept has been deferred till March 2018.

Impact of GST on Manufacturing Sector

- It shall eliminate cascading effect of the taxes since various central and state levies shall be subsumed into one and credit shall be available across the supply chain for the entire GST paid. However there are some restrictions on credits of some inputs or input services. The tax incurred on such inputs/input services would be a cost.
- Inter-state supplies shall be liable to IGST, which shall be at the rate combining CGST and SGST. Therefore, a higher rate of tax will be incurred when compared to the existing rate of CST. However, these procurements shall be eligible for input credit, thus reducing the actual cost.
- All returns shall be filed electronically giving details of every purchase and supply transaction. Further, the number of returns to be filed shall increase considerably under GST regime. The requirement of filing GSTR-2 and GSTR-3 has been deferred till March 2018.
- The concept of ‘Manufacture’ and ‘trading’ under the previous regime has been done away with. This gives an opportunity to structure the supply chain and realize strategic benefits.

Concluding thoughts

- The manufacturing industry in India is poised for rapid growth. “Make in India” initiative has led to a spur in the manufacturing activities.
- It is expected that India with its advantageous geographic location and huge pool of labour resources clubbed with the slew of measures rolled out by the Government would transform itself into a “Global manufacturing Hub”. The Indian Government’s message is loud and clear when it comes to manufacturing, to come and “Make in India” where measures are taken to provide the investors a conducive environment.

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