

# India Union Budget 2022-23

## Point of view

### Aerospace and Defence



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## Budget Allocations for the Aerospace and Defence sector

- In the Union Budget 2022, INR 525,167 crores (~ USD 70 Bn) is allocated towards the total Defence Budget (including the defence pensions) for Financial Year ('FY') 2022-23.
- The breakup of the budgetary allocations into capital and revenue expenditure, along with the comparative figures for Budget 2021 are as below:

(in INR crores)

Particulars	FY 2022-23	FY 2021-22	Percentage Change
<b>Capital Expenditure</b>	INR 152,370* (~USD 20.32 Bn)	INR 135,061 (~USD 18.01 Bn)	<b>13%</b>
<b>Revenue Expenditure</b>	INR 233,001 (~USD 31.07 Bn)	INR 212,028 (~USD 28.27 Bn)	10%
<b>Defence Pension</b>	INR 119,696 (~USD 15.96 Bn)	INR 115,850 (~USD 15.45 Bn)	3%
<b>MoD (Civil)</b>	INR 20,100 (~USD 2.68 Bn)	INR 15,257 (~USD 2.03 Bn)	32%
<b>Total Defence Budget</b>	<b>INR 525,167</b> <b>(~USD 70.02 Bn)</b>	<b>INR 478,196</b> <b>(~USD 63.76 Bn)</b>	<b>10%</b>

\*68% earmarked for procurement from domestic industry

- Further, the capital expenditure on defence services is envisaged as below\*:

(in INR crores)

Particulars	Allocations	% of Total Capital Outlay
<b>Army</b>	INR 32,015 (~USD 4.27 Bn)	21.01%
<b>Navy</b>	INR 47,591 (~USD 6.35 Bn)	31.23%
<b>Airforce</b>	INR 55,587 (~USD 7.41 Bn)	36.48%
<b>Others (Ordnance factories, Research &amp; Development ('R&amp;D'), Inspection, Technology development, etc.)</b>	INR 17,177 (~USD 2.29 Bn)	11.27%
<b>Total capital expenditure</b>	<b>INR 152,370</b> <b>(~USD 20.32 Bn)</b>	

\*excluding allocation towards Ministry of Defence (Civil)

# Key announcements for the Aerospace & Defence sector

## Direct taxes

- For availing the concessional corporate tax rate of 15%, the deadline for commencement of manufacturing operations is proposed to be extended to 31 March 2024 (from 31 March 2023). This is an important amendment considering that investment in the aerospace and defence industry needs significant time for set-up.
- Surcharge on Association of Persons (AoPs) is proposed to be capped at 15%. This is relevant specifically since a lot of complex contracts under 'Make in India' could need multiple parties coming together in the future as consortiums.
- Exemption for royalty income of a non-resident, on account of lease of a ship, paid by a unit of International Financial Services Centre (IFSC), under prescribed conditions.
- Airports are enlisted as one of the seven engines of the Government's Gati Shakti master plan for developing holistic infrastructure.

## Indirect taxes

- No change in basic customs duty rate on goods falling under Chapter 88 (i.e., aircraft, spacecraft, and parts thereof).
- Sunset date mentioned for conditional custom exemptions, the validity period for most of the conditional exemption applicable to the sector is until 31st March 2023.
- Advance ruling under Customs Act will be valid for three years or till there is a change in law or facts, whichever is earlier.
- Special Economic Zone ('SEZ') reforms leading to the replacement of SEZ Act, changes in Customs administration of SEZ, the introduction of risk-based intervention and usage of common Electronic Data Interchange ('EDI') platform (w.e.f. 30 September 2022) – details of these changes are awaited.
- Key highlights of Goods and Services Tax ('GST') proposals:
  - Time limit to avail input tax credit and issuance of credit notes in respect of a supply made in the previous financial year extended till 30th November of the subsequent financial year– earlier the due date was until 20<sup>th</sup> October.
  - Retrospective amendment for applicability of interest only if credit wrongly availed is utilized.

# Key policy takeaways for the Space sector

- The Department of Space (DoS) is allocated INR 13,700 crores (~USD 1.83 Bn) in the Union Budget 2022, out of which INR 7,465 crore (~USD 0.995 Bn) is earmarked towards the capital expenditure.
- There has been a nominal increase of INR 1,058 crores (~USD 0.14 Bn) from the Revised Budget 2021-22.
- Further, the economic survey 2021-2022 highlights that though India only accounts for 2% of the space economy, with the recent policy initiatives coupled with active private industry interest and participation, the Indian space sector is expected to capture a major share in the global space market.

# Key Implications for the sector

The Aerospace and Defence sector has been a key focus area for the Indian Government with a commitment to reduce the import of defence equipment and develop the domestic defence industry. In line with the vision of a “self-reliant” defence sector, the Government has further committed to increase domestic procurement to 68 per cent of the budgeted Capital expenditure vis a vis 58 per cent from the last year.

In the Union Budget 2022, the highest ever Defence Budget is allocated at INR 5.25 lakh crores (~USD 70 Bn) for FY 2022-23 with an increase of about 10 per cent from the last year vis a vis a nominal increase of 1.45 per cent in 2021-22.

Another notable announcement is the opening up of defence R&D for industry, startups, and academia by earmarking 25 per cent of the defence R&D Budget for them. The overall capital outlay for R&D has also been increased by about INR 2,106 crores (~ USD 0.28 Bn which is 21.3 per cent over the revised estimate for 2021). This would help to leverage the capabilities of the private industry in defence research for building the indigenous technical capability.

In the tax proposals, there is an extension of the deadline for commencement of manufacturing to March 2024 for availing the preferential 15 per cent corporate tax rate. As the state-of-the-art defence projects involve huge investment and time costs, this proposal could further incentivise domestic manufacturing in the sector. Ideally, another year extension would have been more feasible but at least the time frame till March 2024 is a start.

While many constructive policy reforms have been announced in the sector since 2020, specific tax holiday/product linked incentives are still a miss which could be a deterrent to the Government’s ambitious vision of achieving a turnover of INR 175,000 crore (~ USD 23.33 Bn) including exports of INR 35,000 crore (~ USD 4.67 Bn) in Aerospace and Defence goods and services.

With the Government’s impetus on indigenisation and Indian value addition, an Indian presence seems to be a prerequisite for acquiring a stronghold in the Indian defence market in the coming years. It would be prudent for OEMs/tier-1 vendors to go back to the drawing board and revisit their India strategy.

*Note – All figures have been converted to USD using the exchange rate of 1 USD = INR 75 as on 01 February 2022*

## KPMG in India contact

**Gaurav Mehndiratta**

**Partner and Head**

Aerospace and Defence

E: gmehndiratta@kpmg.com

[home.kpmg/in/socialmedia](https://home.kpmg/in/socialmedia)



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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011  
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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