KPMG

India Union Budget 2023-24

Point of view

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Automotive and Industrial Manufacturing

Key announcements for the sector

- Union Budget 2023 contains various tax proposals aiming to promote exports, boost domestic manufacturing, enhance domestic value addition, fewer tax rates to reduce compliance burden, encourage green energy and mobility
- Stating that the Indian economy is on the right track and heading towards a bright future, the Finance Minister announced a steep increase of 33 per cent in capex by Government totaling to INR 10 lakh crore
- Several proposals that can directly benefit the country's steel, aluminum and cement sectors through capital outlay schemes were announced for Indian Railways, transport infrastructure projects, Pradhan Mantri Awas Yojana
- To facilitate availability of raw materials for the steel sector, exemption from Basic Customs Duty on raw materials for manufacture of CRGO[1] steel, ferrous scrap and nickel cathode is being continued
- Fresh push to Make in India for the electronics sector has been given by lowering customs duties on components and parts while increasing them on the finished goods
- Customs duty has been increased on vehicles, including electric vehicles (EVs), which would be imported in either as Semi-Knocked Down (SKD) form or in Completely Built Unit (CBU) form
- To ensure locally manufactured products are cost competitive, customs duty exemption is provided to specific capital goods/machinery for the manufacture of lithium-ion cells for use in the battery of EVs and vehicles, specified automobile parts/components, sub-systems, and tyres when imported by notified testing agencies for testing and/ or certification
- In continuation with the vehicle scrapping policy mentioned in Budget 2021-22, funds have been allocated to scrap old vehicles and ambulances as an important part of greening of our economy.

Implications for the sector

- Union Budget 2023 is likely to attract capital flows in the economy with announcements relating to start up incentives, ease of doing business, strategic divestment, etc.
- Customs duty rationalisation to encourage green energy is a welcome move to boost local manufacturing
- Removal of customs duty on capital goods/machinery for manufacture of lithium-ion cell for use in batteries of EVs will eventually help in reducing the cost of EVs in the country

[1] Cold Rolled Grain Oriented Steel

- Government's continued focus on infrastructure would strongly help the building material industry
- Budget provides a boost to electronic manufacturing sector by rationalising Customs duty on inputs
- Budget would provide an impetus to manufacturing of products covered under IGCR[2] and PMP[3] Scheme
- Industry should keep a watch on roll out of other fiscal and non-fiscal measures like PLI, PMP, Quality Control Order for those products where duty has been increased. Combination of other measures could potentially accelerate value added manufacturing of these products in India for the world.

Direct tax proposals

- Amounts payable to a micro or small enterprise, beyond the time limit specified in MSMED Act 2006, allowable as deduction only on actual payment basis
- Specific provisions for enabling Assessing Officer to direct the assessee to get inventory valued by Cost Accountant
- Benefits or perquisites received in cash to be taxable as income under the head business or profession and also liable for TDS
- Time limit to furnish TP Documentation in response to notice u/s 92D(3) has been reduced to 10 days (erstwhile 30 days) (w.e.f. 1 April 2023) and such period may be extended on an application by assessee by a further period not exceeding 30 days
- Similar to goodwill, cost of acquisition and cost of improvement for all intangible assets and any kind of rights, for which no consideration was paid during acquisition, to be considered as nil
- Enabling provision to claim credit of taxes deducted at source for income offered to tax in a particular year and tax being deducted in any subsequent year
- Introduction of new authority, Joint Commissioner (Appeals) to take up cases involving low tax demand to clear the bottleneck of cases pending before Commissioner (Appeals)
- Timeline for completion of assessment for AY 2022-23 onwards has been increased from 9 months to 12 months from the end of the relevant assessment year
- Section 50AA introduced to tax income arising from market linked debentures, as short-term capital gains.
- Exemption withdrawn with respect to applicability of withholding tax on payment of interest on listed debentures to a resident
- Consideration for issue of share in excess of fair market value now taxable even on investment made by non-residents. This amendment could have far-reaching implications and potentially open litigation on M&A transactions particularly, startups, JVs and partnerships, requiring justification of fair value for transactions that involve share issuance to non-resident investors
- To facilitate further strategic disinvestment, provisions relating to carry forward of loss and unabsorbed depreciation on amalgamation/demerger has been expanded to include strategic disinvestment by a public sector company
- Relaxation to eligible start-ups for carry forward of losses in case of change in shareholding extended from 7 years to 10 years from date of incorporation
- Sunset clause for setting up of eligible start-ups to claim deduction of 100% of profits for 3 out of 10 years extended by one year to 31 March 2024
- Provisions inserted to enable completion of assessment/re-assessment proceedings by tax authorities on modified returns filed pursuant to business reorganisations.

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[2] Import of Goods at Concessional Rate of Duty

[3] Phased Manufacturing Programme

Indirect tax proposals

I. Changes in customs duty rates (effective 2 February 2023)

- Change in customs duty rates on Completely Knocked Down (CKD) kits and CBUs of passenger vehicles (including EVs) classifiable under HSN 8703
  - BCD rate hike from 30% to 35% on CKD kits of EVs, with any of the specified components, parts or sub-assemblies inter-connected with each other but not mounted on a chassis
  - BCD rate hike from 30% to 35% on CKD kits of vehicles other than EVs, with engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly
  - BCD rate hike from 60% to 70% on CBUs of EVs, other than with a CIF value more than USD 40,000
  - BCD rate hike from 60% to 70% on CBUs of other vehicles, other than with CIF value more than USD 40,000 or with engine capacity more than 3000 cc for petrol-run vehicles and more than 2500 cc for diesel-run vehicles, or with both
  - Social Welfare Surcharge (SWS), applicable at 10% on BCD, exempted on the import of above vehicles.
- BCD rate hike from 30% to 35% on bicycles; SWS exempted
- BCD exemption on import of specified vehicles, automobile parts/components, sub-systems and tyres, by notified testing agencies for testing and/ or certification, subject to specified conditions
- Following BCD exemptions to be available up to 31 March 2024:
  - 15% on batteries for EVs
  - 2.5% on parts, components and subparts for use in manufacture of lithium-ion battery and battery pack, except lithium-ion cell and printed circuit board assembly (PCBA)
  - 2.5% on inputs, parts or subparts for manufacture of PCBA of lithium-ion battery and battery pack
  - 5% on lithium-ion cell for use in manufacture of battery or battery pack of EVs or hybrid vehicle
  - Nil rate on parts, sub-parts, inputs or raw material for use in manufacture of lithium-ion cells
  - Nil rate on specified goods for production of semi-conductor wafers/ other processes
  - Nil rate on specified capital goods/machinery for manufacture of lithium-ion cell for use in battery of EVs
  - 5% on machinery, components required for setting up fuel cell-based power generation plant or required for balance of systems operating on biogas or bio-methane or by-product hydrogen.
- BCD rate for the following input products imported for manufacture of the output products in compliance with IGCR procedure, have been reduced:

Sr. No	Input Product	Current Duty Rate	Reduced Duty Rate	Output Product
1	**Denatured ethyl alcohol**	5%	Nil	Industrial Chemical
2	**Crude Glycerin**	7.5%	2.5%	Epichlorohydrin
3	**Seeds**	5%	Nil	Rough Lab. Grown Diamond
4	**Camera lens and its input/parts**	2.5%	Nil	Camera Module of cellular mobile phones
5	**Specified parts for open cell of TV panels**	5%	2.5%	Open cell of TV panel
6	**Heat coils**	20%	15%	Electric Kitchen Chimney

- Increase in Customs Duty will result in the rising cost of the following products:
  - Kitchen Chimneys
  - Completely Built Unit (CBU) vehicles (including Electric Vehicles)
  - Bicycles.
- Validity period of two years for conditional BCD exemptions not to be applicable in specified cases such as, multilateral or bilateral trade agreements, schemes under Foreign Trade Policy, re-imports, temporary imports.

II. New tariff entry for dumpers designed for off-highway use, effective 1 May 2023

III. Central excise exemption on blended CNG equivalent to GST paid on biogas /compressed biogas contained in such blended CNG, subject to specified conditions, effective 2 February 2023

IV. **GST legislative changes (to be effective from a notified date, except for retrospective amendments)**

- ITC restricted on goods and services used/ intended to be used for corporate social responsibility activities obligated under Companies law
- Supply of warehoused goods to any person before clearance for home consumption is proposed to be construed as exempt supply and will require a reversal of input tax credit on value of such activities or transactions as may be prescribed
- Place of supply of international transportation of goods services to GST registered customer will be determined basis the location of recipient of services and will not be construed as inter-state supply as per the existing provision (to be effective from future date)
- Transactions of supply of goods from non-taxable territory to non-taxable territory without goods entering into India, supply of warehoused goods before clearance for home consumption and high sea sale transaction are construed as neither supply of goods nor supply of services retrospectively from 1 July 2017.
- Maximum time limit of '3 years from due date' has been prescribed for filing of following returns/ statements (with powers to extend such time limit):
  - GSTR – 1 and 3B (Monthly returns)
  - GSTR – 9 and 9C (Annual returns).
- Provisions empowering cross sharing of data furnished by taxpayers on GSTN portal with other systems notified by Government. Such details to be shared post obtaining consent of supplier/recipient as applicable
- Power has been granted to prescribe the manner and conditions for computation of interest in case of delayed refunds
- Proposal to amend definition of non-taxable online recipient so as to provide for taxability of OIDAR service provided by any person located in non-taxable territory to an unregistered person receiving the said services in a taxable territory
- Proposal to increase the monetary threshold for launching prosecution for the offences to two crores except for offences related to the issuance of invoices without supply of goods or services or both
- Proposal to decriminalise following offences:
  - obstructs or prevents any officer in the discharge of his duties under GST Act
  - tampers with or destroys any material evidence or documents
  - failure to supply any information which he is required to supply under or supplies false information.

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