



# India Union Budget 2024-2025

Point of view

#UnionBudget2024 #KPMGBudgetLIVE

Automotive and Industrial Manufacturing

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In line with the 'Viksit Bharat' vision outlined in the interim budget announced in February 2024, the Union Budget 2024-25 lays down various measures to incentivize and promote domestic manufacturing and local value creation. The estimated budget outlay has substantially increased to encourage and support domestic manufacturing and increase export competitiveness. The important announcements and implications for the sector are outlined below.

## Key announcements for the sector

### Direct Taxes

- Boost to investment in India
  - Comprehensive review of Income-tax Act expected in a time frame of next 6 months to achieve the objective of simplifying the existing provisions and providing much needed certainty to tax payers
  - The taxation of consideration received in excess of fair market value on share issuance by certain companies, also known as angel tax, will be withdrawn from 1 April 2024
- Litigation management
  - Introduction of Direct Tax Vivad se Vishwas Scheme, 2024 to settle pending disputes and thereby reduce litigation
  - Maximum time limit for issue of notice for initiating reassessment proceedings reduced from 10 years to 5 years and 3 months
  - Concept of block assessment re-introduced in search cases to cover a period of six preceding assessment years. Penalty of 50 per cent of tax payable on undisclosed income pursuant to search
  - Monetary limit of filing of appeal before Tax Tribunal, High Court and Supreme Court by the Revenue increased to INR 60 lacs, INR 2 Crore and INR 5 Crore, respectively as against existing limit of INR 50 lacs, INR 1 Crore and INR 2 Crore, to reduce litigation
  - No prosecution for delay in deposit of TDS/TCS if the sum is deposited on or before the due date of filing such return for the respective quarter
  - Opportunity to withdraw cases transferred from Authority for Advance Rulings to Board for Advance Rulings by 31 October 2024

- Time limit to file appeal before Income Tax Appellate Tribunal has been extended from 60 days of receipt of order to two months from the end of the month in which order is received.
- Major rationalization measures
  - Coverage of Safe Harbour Rules to be expanded and to be made more conducive
  - Scope for obtaining certificate to deduct/collect tax at lower rates expanded to include purchase/sale of goods
  - Time bound proceedings for TDS and TCS cases
  - Change in capital gain tax rates have been proposed
  - Buy-back of shares will now be taxed as dividends in the hands of shareholders.
  - Cost step up for unlisted shares acquired prior to 1 February 2018 and transferred under Offer for sale ('OFS') would be having regard to the indexed cost of acquisition of such shares as on 31 January 2018
  - Under new personal tax regime, deduction for employer's (other than Central Government or State Government) contribution to NPS increased to 14 per cent from 10 per cent of specified salary
  - Equalisation levy of 2 per cent removed w.e.f 1 August 2024.

## Indirect Taxes

- Goods and Services Tax ('GST')
  - Government working towards simplification and rationalization of GST tax structure
  - New Section 128A inserted in the Central GST Act to prescribe an amnesty scheme for the period 1 July 2017 to 31 March 2020
  - Exemption from GST Compensation Cess on imports in SEZ made effective retrospectively from 1 July 2017.
- Trade and Customs
  - Modification in Basic Customs Duty ('BCD') of key products to promote domestic manufacturing and deepening of local value addition:
    - Various BCD exemptions/concessions extended up to 31 March 2026 (earlier available till from 30 September 2024). Some of the key exemptions/concessions are mentioned below:
      - Lithium-ion Cell for manufacture of battery or battery pack of EVs/hybrid vehicles
      - Parts, components and accessories for manufacture of lithium-ion battery/battery pack [except lithium-ion cell and Printed Circuit Board Assembly (PCBA)]; and sub-parts thereof
      - Parts, sub-parts, inputs or raw material for manufacture of lithium-ion cells
      - Inputs, parts or sub-parts for manufacture of PCBA of lithium-ion battery/battery pack
      - Goods imported for being tested in specified test centers
      - Moulds, tools and dies, for the manufacture of parts of electronic components or electronic equipment
    - Current concessional BCD rate of 15 per cent on batteries for EVs, including electric two and three wheelers, allowed to be lapsed on 30 September 2024

- BCD exemption on Lithium-Ion cell for use in manufacture of battery for cellular mobile and other products extended up till 31 March 2026, previously valid till 30 September 2024
- Nil BCD for imports of special grade stainless steel, Titanium alloys, Cobalt-chrome, alloys and all types of polyethylene used in manufacture of specific artificial implants
- Nil BCD on oxygen free copper used in manufacturing of resistors
- Increase in BCD on imports of PCBA of specified telecom equipment by 5 per cent
- Nil BCD on import of specified capital goods used in manufacturing of solar cells or solar modules and parts for manufacturing such capital goods
- Increase in BCD from Nil to 10 per cent (w.e.f 1 October 2024) on imports of solar glass for manufacturing of solar cells or solar modules
- Increase in BCD from Nil to 5 per cent (w.e.f 1 October 2024) on imports of tinned copper interconnect for manufacturing of solar cells or modules
- Change in BCD rate for certain laboratory and industrial chemicals
- Reduction in BCD on Methylene Diphenyl Di-isocyanate (MDI) used for manufacturing spandex yarn
- BCD exemption/reduction on 27 critical minerals - beneficial for several sectors including automotive and industrial manufacturing.

— Other proposals

- Introduction of specific sub-classifications for following tariff entries in Chapter 87 (Vehicles other than railway or tramway rolling-stock), effective 1 October 2024
  - Lorries fitted with bridging systems [8705 90 10] and other [8705 90 90] under special purpose motor vehicles [HSN 8705]
  - E-bicycle or battery-operated pedal assisted vehicle [8711 60 80] under motorcycles and cycles with electric motor for propulsion [8711 60]. Specific supplementary note has also been inserted to define such vehicles, as vehicles equipped with an auxiliary electric motor having a thirty minute power less than 0.25 kW and maximum speed not exceeding 25 km/h.
- Time-period of duty-free re-import of goods exported out from India under warranty (other than under export promotion schemes) extended from 3 years to 5 years
- Exemption on specified capital goods, and other ancillary items imported for repairs in private bonded warehouse and exported thereafter, extended up to 31 March 2029 (earlier applicable till 30 September 2024)
- Ease of doing business for annual maintenance service providers - re-export period for imported products increased from 6 months to 12 months.

# Implications for the sector

- As the budget was unveiled, the industry found more indirect benefits rather than direct incentives.
- The Budget provides a boost to manufacturing sector by focusing on labour intensive manufacturing, promoting domestic value addition through PMP scheme (Phased Manufacturing Programme) and IGCR scheme (import of goods at concessional rate).
- Twelve Industrial parks under the National Industrial Corridor Development Programme have been announced, which would lead to industrial development in India.
- Budget allocation under major manufacturing schemes enhanced for auto and auto components by five-fold to INR 3,500 Crores, and doubled for semiconductor and display manufacturing to approx. INR 7,000 Crores.
- The investment in skilled labour is imperative for the automotive industry, which is increasingly integrating advanced technologies and automation in its operations.
- The reduced duties on essential chemicals used in battery manufacturing and other EV components would contribute to lower production costs, providing support to EV manufacturers.
- The Credit Guarantee Scheme for MSMEs will help strengthen their manufacturing capabilities and competitiveness, digitalization of factories to prepare themselves for global market.
- Nil BCD for critical components such as oxygen free copper will further support domestic manufacturing.
- Incentivizing private-sector driven research & innovation to promote India an attractive destination, thereby setting stage for multi-national entities to move their R&D function to India.

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