

1 February 2022

# Union Budget 2022

## Tax Alert – Key amendments impacting Automotive sector

## How does the budget impact Automotive sector?

### Key takeaway for a tax professional

- ▶ Increase in customs duty rate on kits for conversion of petrol/diesel to CNG/LPG/ Propane driven vehicle and revocation of anti-dumping & CVD duty on certain steel products in order to boost domestic manufacturing by increasing capex programs

### Key amendments

- ▶ Increase in Basic Customs Duty rate for specified auto components as follows (w.e.f. 01 April 2022):

HSN	Description	Rate Movement (%)	
		From	To
84 or any Other Chapter	The following goods, namely:-  (1) Kits required for the conversion of motor-spirit or diesel driven vehicles into Compressed Natural Gas driven or Propane driven or Liquefied Petroleum Gas driven vehicles;  (2) Parts of the kits specified at (1)	5%	Applicable Tariff rate

- ▶ Extension of BCD exemption to iron or steel including stainless steel upto 31 March 2023 to reduce cost of inputs as follows:

HSN	Description	Rate Movement (%)	
		From	To
7204	Scrap of iron or steel including stainless steel and alloy steel	Nil	Nil

## Highlights

BCD rate on kits for conversion of petrol/diesel to CNG driven vehicle



**Increased BCD rate from 5% to applicable Tariff rate**



Revocation of Anti-dumping and CVD duty on certain steel products

	<i>[Exemption hitherto available till 31 March 2022 is being extended up to 31 March 2023]</i>	(up to 31 March 2022)	(up to 31 March 2023)
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▶ **Permanent revocation of anti-dumping duty or countervailing duty on certain products of steel on imports (w.e.f. 01 February 2022):**

Notification No.	Product	Exporting Country
54/2018- Customs (ADD) dated 18.10.2018	Straight length Bars and Rod of alloy Steel	China PR
38/2019-Customs (ADD) dated 25.09.2019	High Speed Steel of Non-Cobalt Grade	China PR, Brazil, Germany
16/2020 - Customs (ADD) dated 23.06.2020	Flat rolled products of steel, (Al or Zinc coated)	China PR, Vietnam, and Korea RP
1/2017-Customs (CVD) dated 07.09.2017	Hot rolled and cold rolled stainless steel flat products	China PR

▶ **Clarifications on the scope of exemptions in relation to imports of CKD/SKD of EV (including commercial, passenger and two-wheeled electric vehicles)**

- ▶ For an EV kit to be eligible for the duty benefits available to a CKD form of an EV, each individual component in the kit need not be in a disassembled form.
  - ▶ Even if some components are missing in the EV kit, the benefit of concessional rate of duty available to CKD/SKD kits would still be available, provided it has the essential character of EV.
  - ▶ Lower BCD rate of 15% would be available only when none of the specified components, parts or sub-assemblies inter-connected with each other and not mounted on a chassis and for other SKD imports, concessional rate of 25%/30% would be applicable.
- ▶ **Entry 531A of notification No. 50/2017 dated 30.06.2017 provides for concessional rate of Customs duty on import two-wheeled electrical vehicles. The words 'electric compressor' and 'contactor' have been deleted from this entry as these parts are not used in two-wheelers.**



## Impact analysis

Changes in customs duty rates and revocation of anti-dumping & CVD duty on certain steel products will nurture domestic manufacturing. Further, the amendment clarifying that import of EV in an SKD form even when some of the parts / sub-assemblies are inter-connected would attract the concessional rate of BCD of 25%/ 30% (depending on vehicle type) is a welcome change for the industry.

These measures, along with PLI scheme and other indirect tax incentive taken in last one year will herald domestic manufacturing for automotive sector.



## Glossary

CKD- Completely Knocked Down

SKD- Semi Knocked Down

EV- Electric Vehicles

MOOWR- Manufacture & Other Operations in Warehouse Regulations

PLI- Production-linked Incentive

RoDTEP- Remission of Duties or Taxes on Export Products



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# Our offices

## Ahmedabad

22nd Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon  
Temple, Off SG Highway  
Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

## Bengaluru

12th & 13th floor  
"UB City", Canberra Block  
No.24 Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing  
Divyasree Chambers  
# 11, O'Shaughnessy Road  
Langford Gardens  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

## Chandigarh

Elante offices, Unit No. B-613 &  
614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

Tidel Park, 6th & 7th Floor  
A Block, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Golf View Corporate Tower B  
Sector 42, Sector Road  
Gurugram - 122 002  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jamshedpur

1st Floor, Shantiniketan Building  
Holding No. 1, SB Shop Area  
Bistupur, Jamshedpur - 831 001  
Tel: + 91 657 663 1000

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

## Pune

C-401, 4th floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

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