ACMA

Recommendations for Union Budget: 2020-21

Presentation to
Ministry of Finance, Government of India

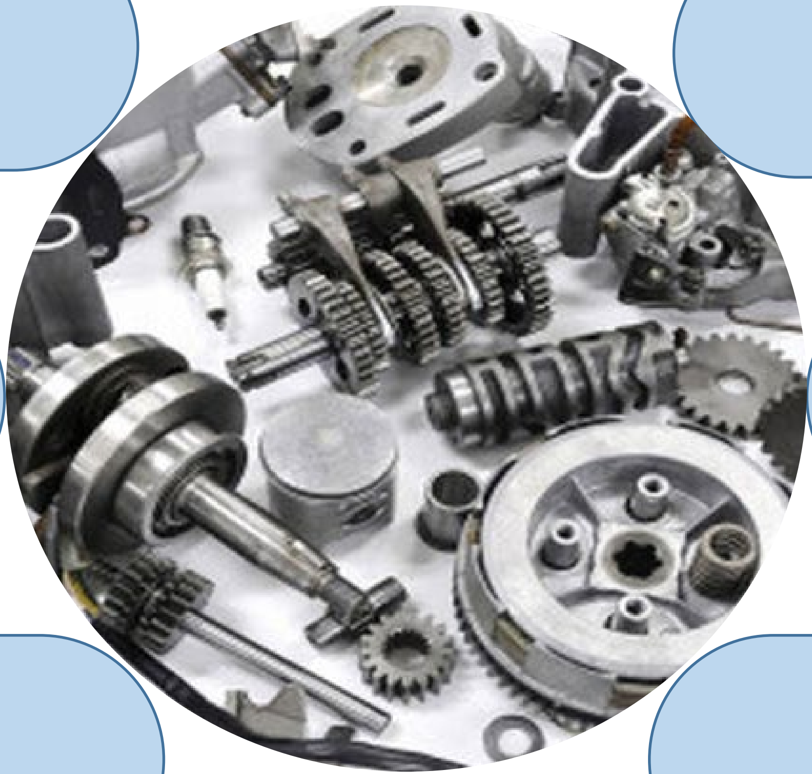
2nd December 2019; New Delhi

Automotive Component Manufacturers Association of India

Indian Auto Component Industry Snapshot: 2018-19

Turnover:
USD 57 Billion
INR 3,95,902 crore

Contribution to GDP:
2.3%



Exports:
USD 15.16 Billion
INR 1,06,048 crore

Share in India's Exports:
4%

Domestic Aftermarket:
USD 10.1 Billion
INR 67,491 crore

Employment:
50 Lakh (Approx)

Recommendations on Indirect Tax

1. Correcting inverted duty structure for seat belt and air bag

Raw material HS Code and Product Description	Effective rate of BCD	Finished Auto Components HS Code and Product Description	Effective rate of BCD
58063200- Narrow woven fabric of man made fibre	20%	87082100- Safety Seat Belts	15%
58063200- Narrow woven fabric of man made fibre	20%	87089500- Safety Airbags	15%
73269099- Sintered Metal Fibre Matrix Filter	10%	8421- Catalytic convertors	5%
72209090-Stainless Steel Foil	7.5%		
38101010- Brazing Paste	7.5%		

- The domestic manufacturers are in a disadvantageous position since the raw material is at a higher rate

Recommendation:

- Seeking correction of Inverted Duty Structure

2. 18% GST for Chapter 84, 85 and Chapter 87 auto components and 5% for xEVs auto components

- Auto Components attract two different rates- 18% and 28%, 2.5 – 3 X compared to other emerging & developed markets
- GST Council reduced rate to 18% on approx. 60% auto components tariff lines over a period of time, rest continue to attract higher GST rate of 28%
- 28% GST on aftermarket- encourages Grey market; Challenge of compliance
- All critical and safety items falls under chapter 84, 85 and 87
- GST rate on Electric Vehicles are at 5% whereas xEV components are 18% and 28%

Recommendations:

- Auto component industry is an intermediary - Uniform GST rate of 18% across all product categories
- 5% GST rate for xEV components to encourage industry and avoid unnecessary credit over-flow at the end of value chain

Recommendations on Direct Tax

1. Extending concessional tax rate to existing manufacturers and to individuals/ partnerships

- Government reduced effective tax rate on existing domestic companies to 25.17% (22% tax + 10% surcharge + 4% cess: section *115BAA)* and newly set up companies (domestic + foreign) which are engaged in manufacture effective tax rate to 17.16% (15% tax + 10% surcharge + 4% cess: *Section 115BAB) – This is indeed a welcome step.*
- Marginal relief for small manufacturers as their tax rates reduced from 26% (25% + 4% Cess) to 25.17%.
- Individuals and Partnerships/ LLPs still attract higher rate of 34.9% (30% tax + 12 % + 4% Cess)

Recommendation:

- It is recommend said concessional tax rate should be made available to all individuals/partnerships/ LLPs in auto business, which constitute major strata in the automotive components Industry.
- Additionally, Government should consider allowing the concessional tax rate of 15% u/s 115BAB to existing automotive component manufacturers that are MSMEs.

2. Investment Allowance

- Investment Allowance under section 32AC was available at 15% to manufacturing companies whose new investment in plant and machinery was more than INR 25 crores, if acquired and installed on or before March 31, 2017

Recommendation:

- Re-introduction of provision will encourage new investments
- Scope of investment allowance if reintroduced should be enlarged to include investments in new building used for manufacturing, as it constitutes a major portion of the total investment. In such cases, the benefit should be allowed on completion of building.
- The minimum amount of investment to be considered for investment allowance should be INR 5 crore for MSMEs.
- This benefit should be in addition to lower rate of tax allowed u/s 115BAA & 115BAB to ensure industry's global competitiveness.

3. Encourage Research and Development

- Frequent regulatory and technological changes require enhanced spend on R&D in the following key areas in the sector:

  a) Emission; b) safety; c) Industry 4.0; d) Electric Mobility e) Increasing electronics in vehicles

- Budget 2016-2017, reduced weighted deduction benefit to 150% and further restricted the deduction to 100% from 1st April 2021.

Recommendation:

- Weighted deduction for R&D investment should be extended beyond 1 April 2020 and rate should be increased to 200% to encourage R&D spend

- Weighted Deduction should be extended for R&D outsourced to Third-Party Service Providers.

- This benefit should be in addition to lower rate of tax allowed u/s 115BAA & 115BAB.

4. Additional Incentive under Direct Tax to expand scope of FAME-2 Policy

- The Government of India announced the Faster Adoption and Manufacturing of Electric Vehicles (FAME2) in March 2019.
- The policy includes incentives for generation of demand of electric vehicles in India.
- Although Government through Finance Act 2019, has introduced deduction of interest payable on loan taken from any financial institution for purchase of EV subject to maximum of INR 1.5 lakh from FY 2019–20, there is no incentive given by the government for promotion of manufacture of EV components although it was announced in the Budget speech it would do so

Recommendation:

- Amend the Act to provide direct tax incentives for the manufacturers of EV components and infrastructure related to the same.
- Such incentives will robust the supply chain and foster usage of EV in India.

5. Enhancement of depreciation rate on plant & machinery

- Considering the Auto Industry is capital-intensive industry and the cost of plant and machinery is very high, 15% rate of depreciation on plant & machinery is quite low
- Further, current depreciation rate of 15% does not assist auto companies in meeting the objective of timely accumulation of funds for replacement of assets.

Recommendation:

- Current depreciation rate should be increased to at least 25%.
- Further, to boost the demand of domestically manufactured plant & machinery, we recommend that depreciation rate for manufacturer using domestic plant & machinery should be increased to 40%. This will give impetus to local Capital Goods industry.
- Also, additional depreciation u/s 32(1)(iia) should be extended to companies opting for tax regime u/s 115BAA & 115BAB.

Thank you!