



## Recommendations for Union Budget: 2021-22

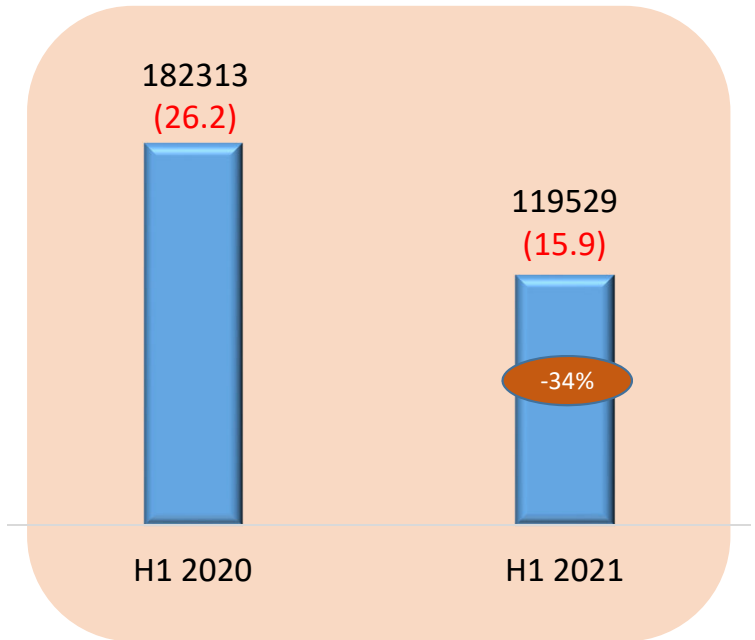
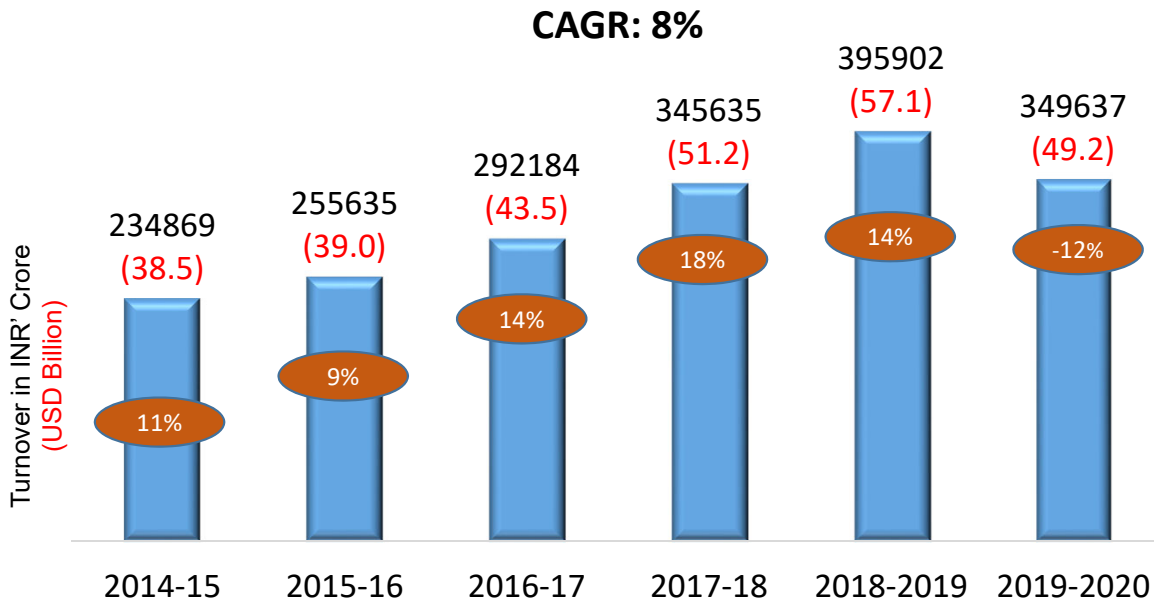
Presentation to  
Ministry of Finance, Government of India

16<sup>th</sup> December 2020; New Delhi

*Automotive Component Manufacturers Association of India*

# Auto Components Industry Performance: H1 FY 2021

Growth in INR



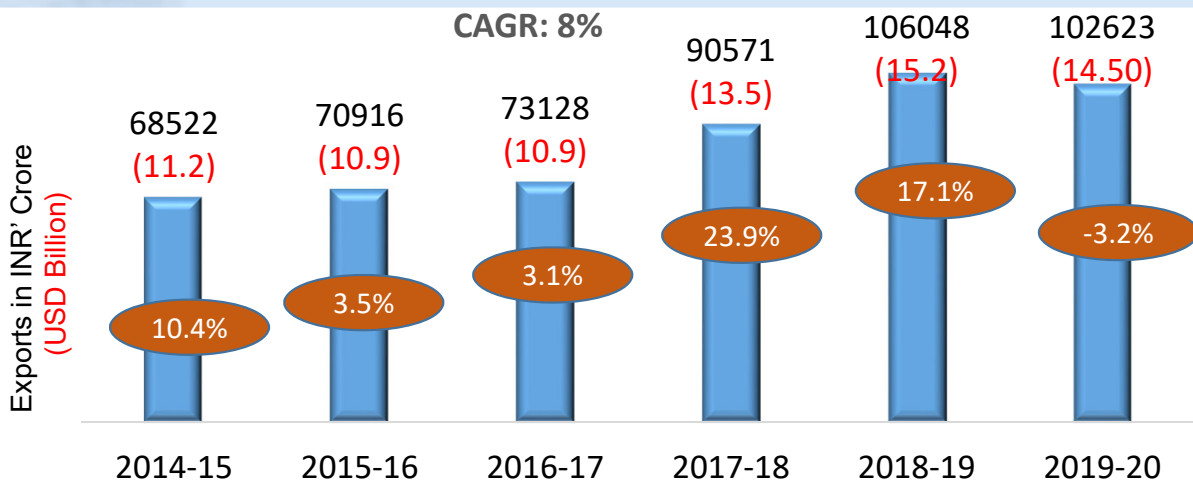
- Indications of vehicle demand sustaining post the festive season
- Industry cautiously optimistic about near to mid-term future

*(Turnover includes supplies to OEMs, aftermarket sales and exports)*

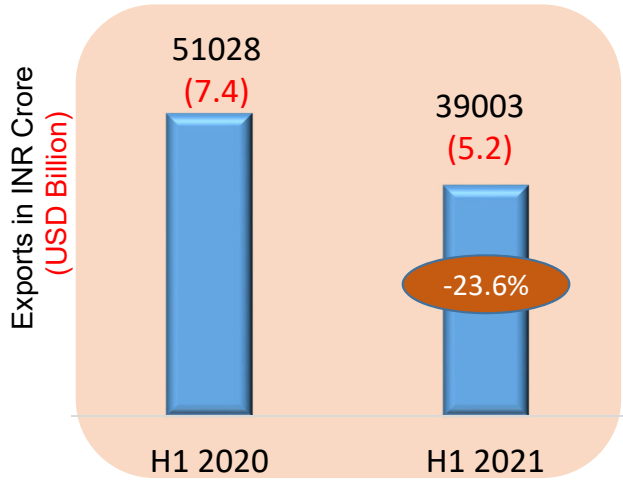
Conversion rate:  
 1 USD - INR 75.0 (H1 2021)  
 1 USD - INR 68.5 (H1 2020)

# Auto Components Industry Export Performance: H1 FY21

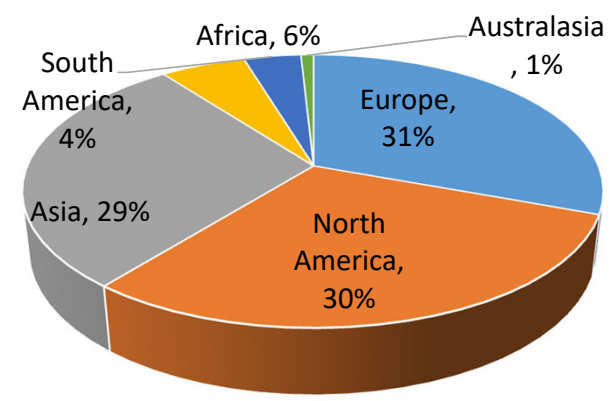
Growth in INR



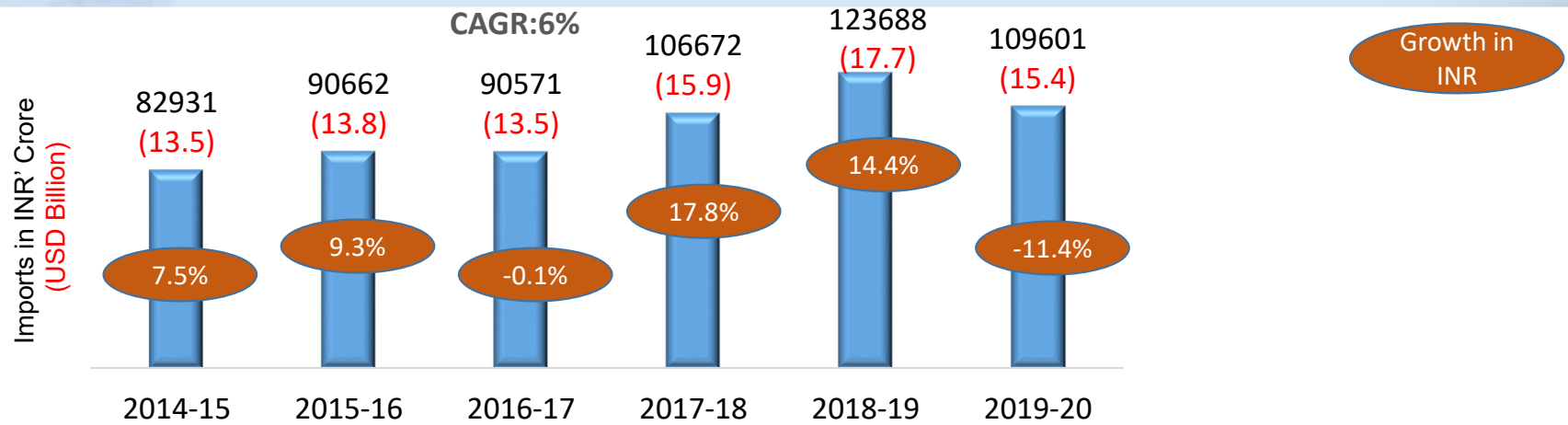
H1 Performance



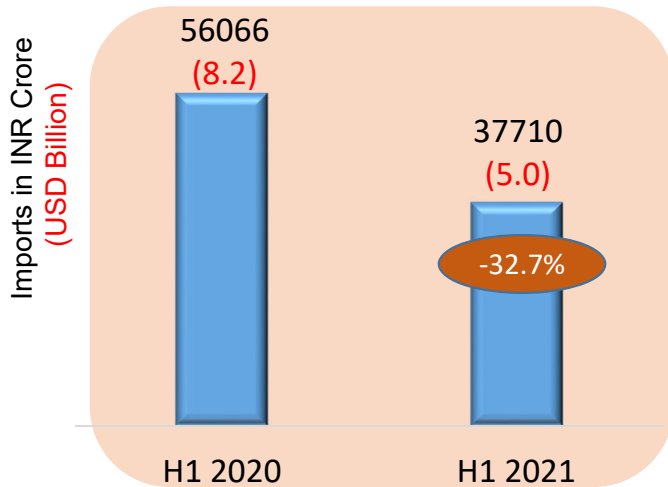
Region wise share



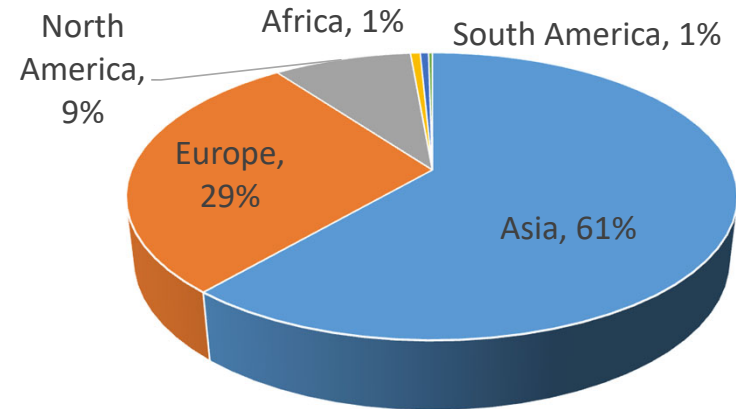
# Auto Components Industry Import Performance: H1 FY21



**H1 Performance**

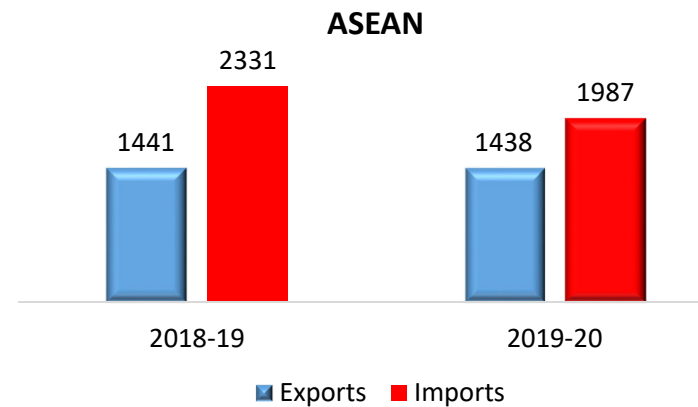
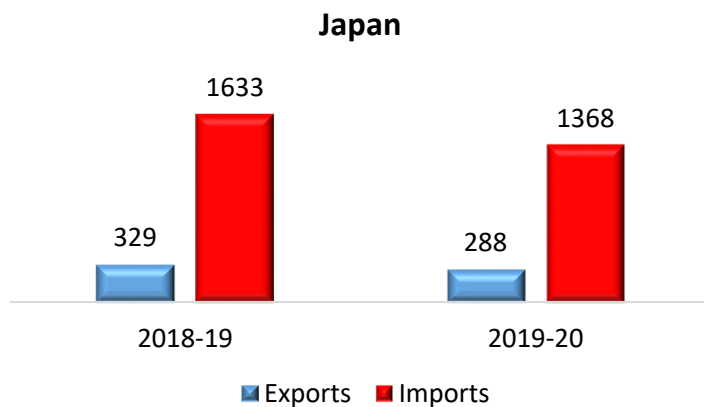
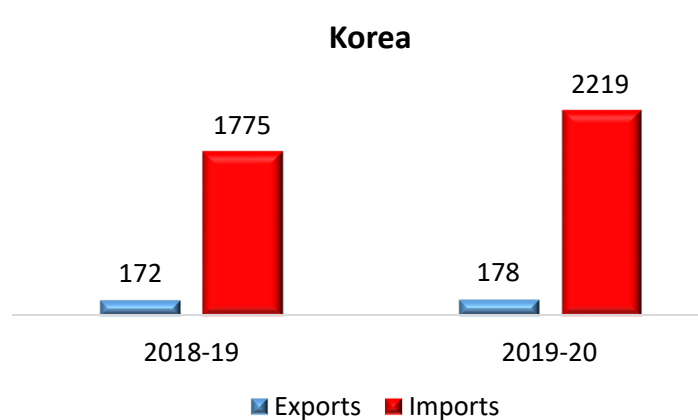
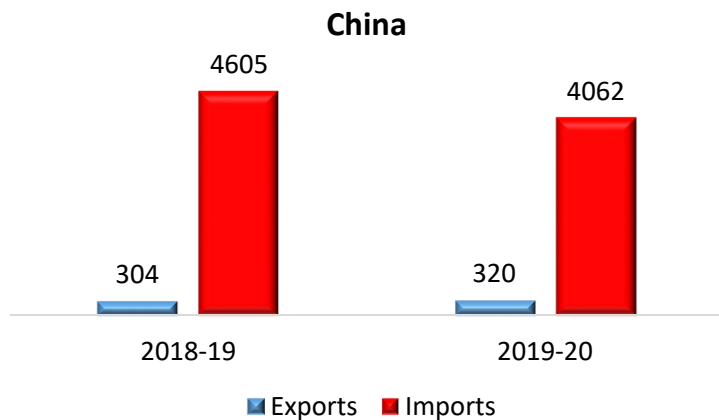


**Region-wise share**



# Increasing Trade Deficit with Partner Countries

Figures in USD Million



## Key Statistics:

- Imports from these 4 countries accounts for 63% of India's total auto components imports
- In 2019-20, India's registered trade deficit of USD 7.4 billion from these countries
- Imports from China is biggest concern
  - Trade deficit- USD 3.7 billion
  - No OEMs presence
  - Price sensitive Aftermarket



# **Recommendations on Indirect Tax**

## **1. 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

## 2. Issues related CAROTAR 2020 - Customs Administration of Rules of Origin under Trade Agreements Rules, 2020

- CAROTAR rules were introduced vide Notification No. 81/2020-Cus (NT) dated 21.08.2020, effective 21<sup>st</sup> September 2020.
- Industry is finding it difficult to get the required detailed information sought in Form I from their exporters -manufacturing process, cost sheet with value addition, confidential information etc.
- This has led to significant hardship and delays including payment of paying high demurrage charges.

### **Recommendation:**

- Simplify/Reduce the documentation sought
- Give sufficient to time for meeting the compliance requirement - Consider implementation of CAROTAR, 2020 from April 01, 2021



### 3. Faceless customs assessment

- CBIC has introduced 'Turant Customs' - faceless, contactless & paperless Customs clearance including self-registration of goods by importers, automated clearances of BoE, digitisation of Customs documents, etc.
- Rolled out in Bengaluru , Chennai, Delhi and Mumbai Customs; will now be extended to all ports by Dec 31.
- Companies are facing hardships while clearing goods.
  - Delay in Clearance by 7 to 10 days
  - Increase in documentation
  - Increase in demurrage charges, CHA cost, etc

#### Requirement of additional documents such as:

- List of items of Originating country and Non Originating country
- Detailed procurement process
- Detailed Manufacturing process

#### Recommendation:

- Reduce/Simplify documentation
- SOP to be made so that Shipments are cleared in 48 hrs
- Incase not cleared within 72 hours then goods should allowed to be cleared with provisional assessment
- Shipment from the friendly country can be prioritized as per defined SOP
- Assessment should be on sample basis and not of all Bills of Entry (BoE)



# **Recommendations on Direct Tax**

## 1. Extend Relief for Business loss incurred during spread of COVID-19 in FY 2020-21

- COVID-19 pandemic has very adversely impacted the economy and the industry; its impact is expected to continue much beyond FY 2020-21
- Industry has to also brace with globalization & technology upgradation
- It is therefor essential to overcome the business losses incurred during FY 2020-21.

### **Recommendation:**

- Government may consider incentivizing the industry by way of :
  - (a) cash refund of tax loss i.e. equivalent to the applicable tax rate on the entity (e.g. 25.17%) of the business losses computed under Income Tax Act, 1961 or
  - (b) by treating the same amount as payment of advance tax for FY 2021-22.
- Tax provisions allow to carry forward the business losses for 8 (eight) assessment years within the ambit of Section 72 of the Income Tax Act, 1961. Extend said time period from 8 years to 12 years

## 2. 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.*
- However, marginal relief for small manufacturers as their tax rate 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:**

- The concessional tax rate should be extended to all individuals/partnerships/ LLPs in auto business.
- Additionally, Government should consider allowing the concessional tax rate of 15% u/s 115BAB to the MSMEs.

### 3. 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
- This should be enlarged to also 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.

## 4. 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 help in timely accumulation of funds for replacement of assets.

### **Recommendation:**

- Rate of depreciation r should be increased to at least 25%.
- Further, to boost the demand of domestically manufactured plant & machinery, the 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)(ia) should be extended to companies opting for tax regime u/s 115BAA & 115BAB.

## 5. Others: Promote xEV components Manufacturing in India

- The Government of India announced the Faster Adoption and Manufacturing of Electric Vehicles ( FAME 2) in March 2019.
- The policy includes incentives for generation of demand of xEVs in India.
- Additionally, 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.
- However, no incentive has been extended manufacturing of xEV components, although it was announced in the Budget speech of FY 2019-2020.

### **Recommendation:**

- Create corpus of INR 400 crore for incentivising manufacturing of xEV components under FAME-II
- xEV components manufacturers should also be provided some tax deductions/incentives in the form of tax holiday for 5 years



**Thank you!**