ACMA

Recommendations for Union Budget: 2019-20

Presentation to
Ministry of Finance, Government of India

22nd May 2019; New Delhi

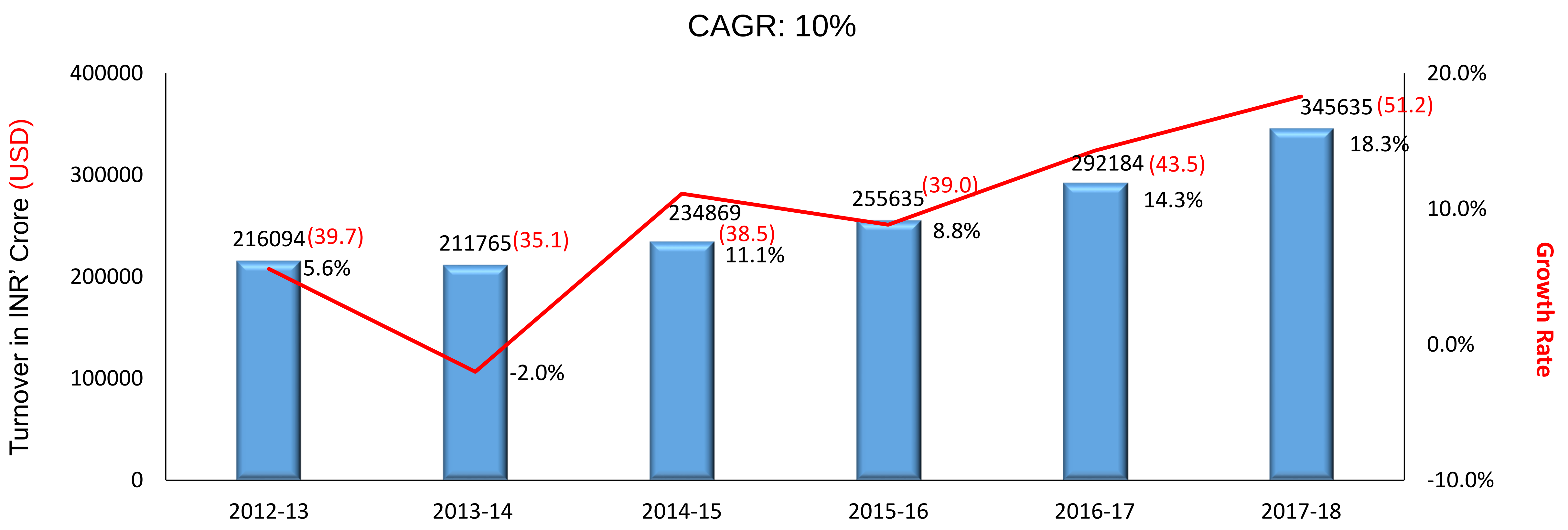
Automotive Component Manufacturers Association of India

Indian Auto Component Industry: 2017-18

Turnover	• Rs. 3,45,635 crore/USD 51.2 billion
Contribution to GDP	• 2.3%
Foreign Exchange Earnings/ Exports	• Rs. 90,571 crore/USD 13.5 billion
Share in India’s Exports	• 4%
Domestic Aftermarket	• Rs 61,601 crore/USD 9.2 billion
Employment*	• Direct: 6 million

Source: NSDC report

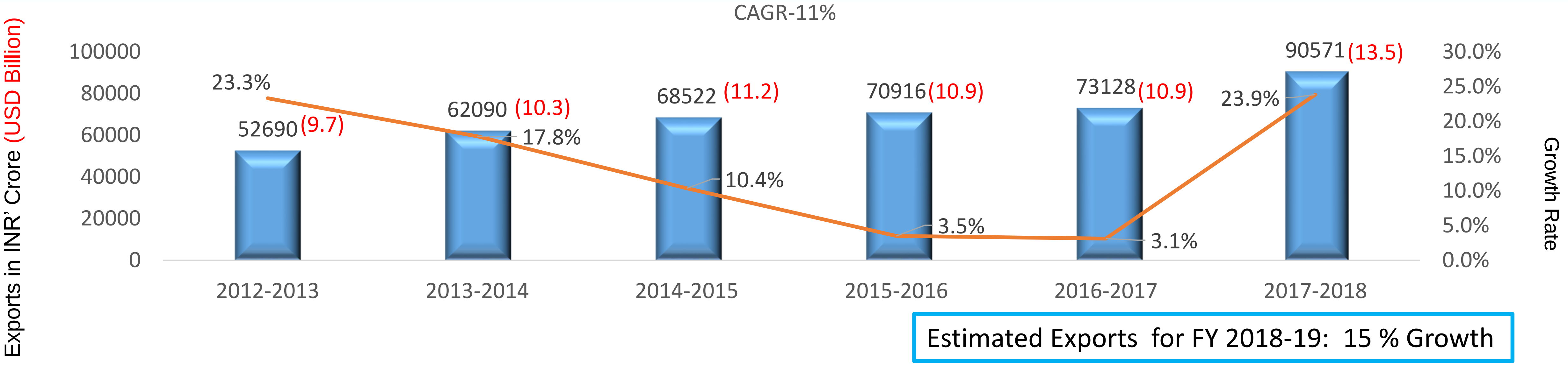
Turnover – Auto Component Industry: 2017-18



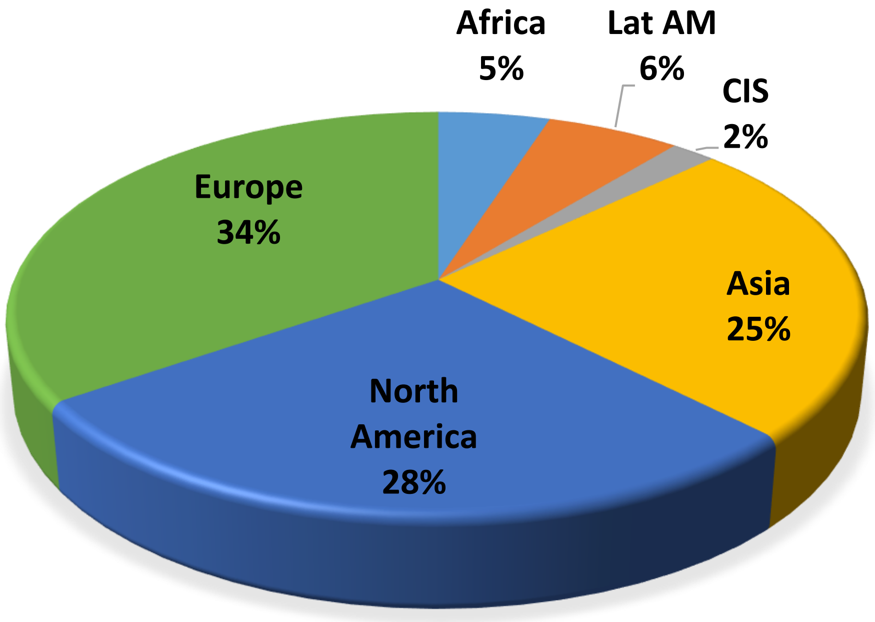
Estimated Turnover for FY 2018-19: 10 % Growth

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

Exports – Auto Component Industry: 2017-18



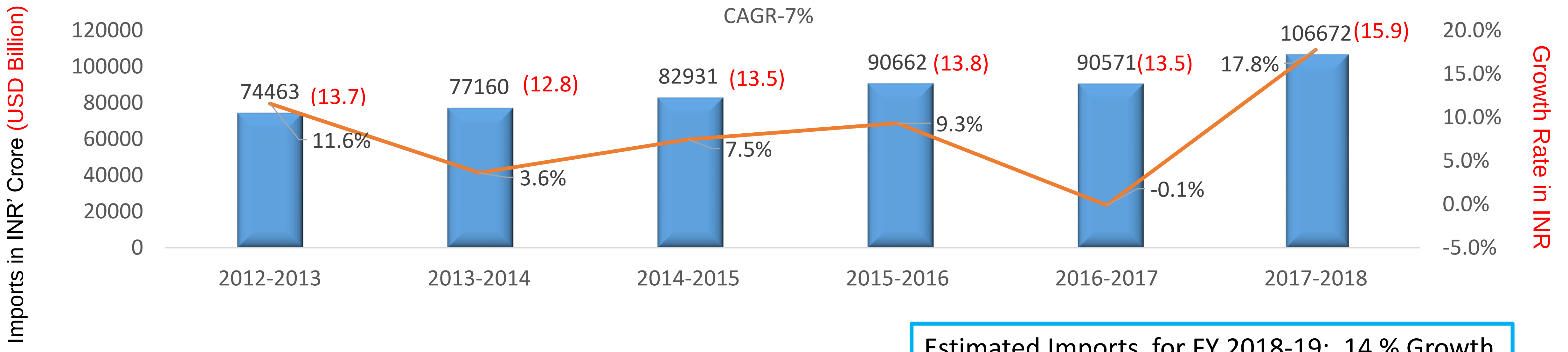
Estimated Exports for FY 2018-19: 15 % Growth



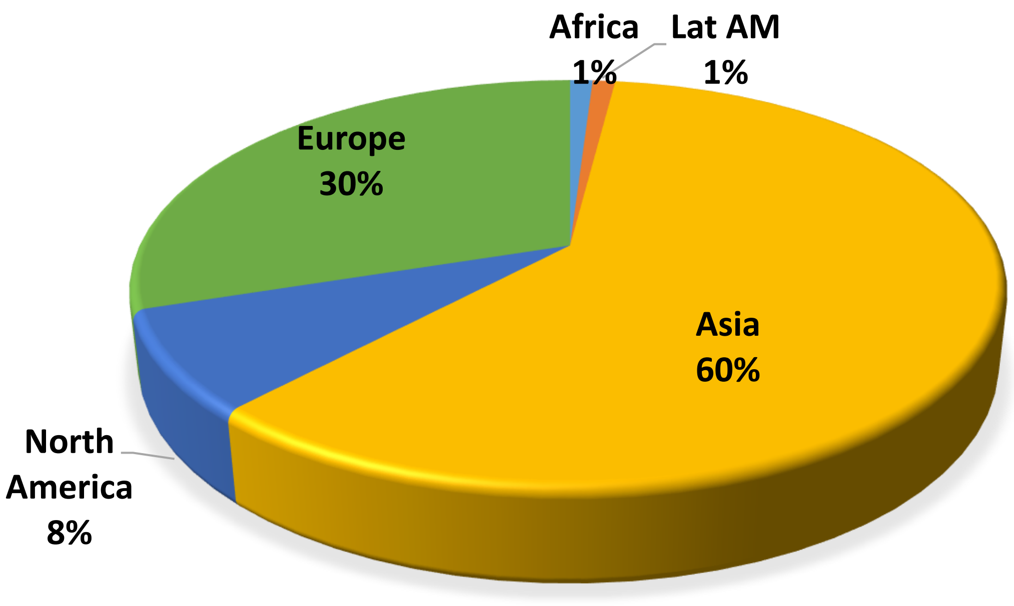
Export Destinations: Top 10 Countries in %

USA	23%	Brazil	4%
Germany	7%	Thailand	3%
Turkey	5%	France	3%
UK	5%	Bangladesh	3%
Italy	4%	Mexico	3%

Imports – Auto Component Industry: 2017-18



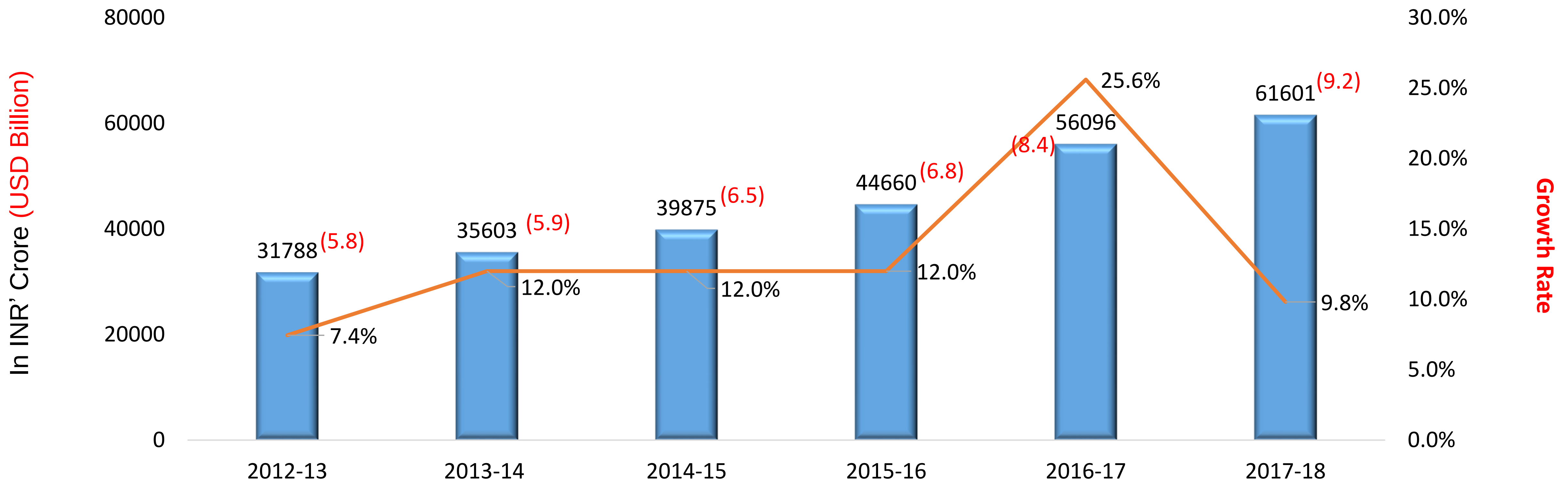
Estimated Imports for FY 2018-19: 14 % Growth



Origin of Imports: Top 10 Countries in %

China	27%	Thailand	6%
Germany	14%	Italy	3%
Japan	11%	UK	2%
S Korea	10%	Czech Republic	2%
USA	7%	France	2%

Indian Automotive Aftermarket (Domestic): 2017-18

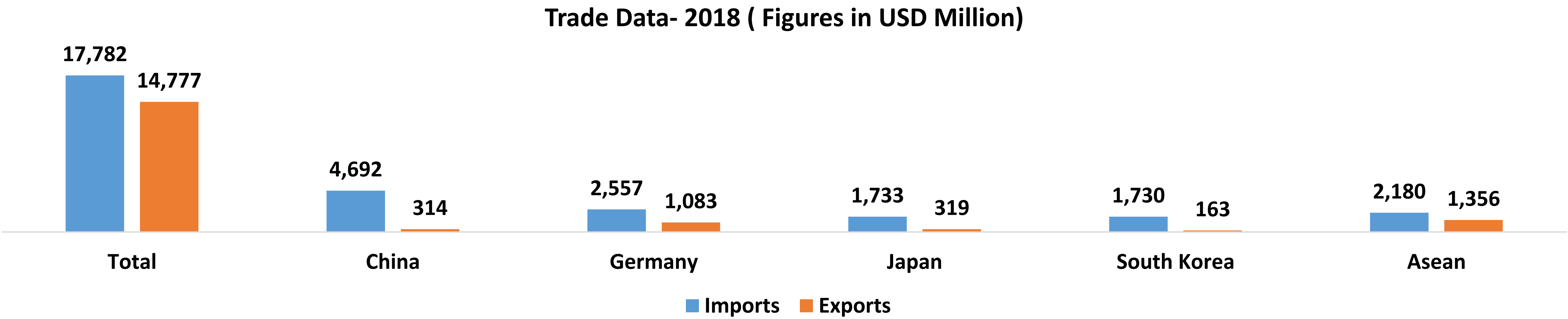


Estimated Aftermarket for FY 2018-19: 12% Growth

Recommendations on Indirect Tax

1. Increase import duty on Components: 7.5%/10% to 15%

- In Union Budget 2018, Government increased duty on 55 auto component tariff lines out of 219
  - Industry appreciated this measure
- Most tariff lines continue to attract lower rate of 7.5% and 10%
- Increasing import / trade deficit is one of the biggest concerns for the Industry



- Over 70% of Auto Components are imported from above countries, 25% from China
- USD 9.6 billion trade deficit registered in 2018 from these 5 countries

Recommendation:

- Increase import duty on auto components to 15%- will help attract investments, technology inflow and employment generation

2. Resolve Inverted Duty Structure

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%		

Recommendation:

- Seeking correction of Inverted Duty Structure

3. 18% GST for Chapter 84, 85 and Chapter 87 auto components and 12% 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%
- Adverse impact on aftermarket- encourages Grey market
- Challenge of compliance in SMEs/Unorganized sector
- All critical and safety items falls under chapter 84, 85 and 87
- GST rate on Electric Vehicles are at 12% whereas xEV components are 18% and 28%

Recommendations:

- Uniform GST rate of 18% across all product categories in the auto component sector
- Auto component industry is an intermediary one, has a significant aftermarket that suffers from grey operations, a moderate rate of 18% will help enhance better compliance and expand the tax base
- 12% GST rate for xEV components to encourage industry and avoid unnecessary credit over flow at the end of value chain

4. Eligibility of Input Credit on various services

- Input Credit is not available on some of the services availed by the Industry
- Seeking eligibility of input credit in respect to the following cases:

  a) Supply of Goods and Services received for Corporate Social Responsibility activity

  b) GST paid on services such as repair & maintenance, general insurance, etc relating to motor vehicles

  c) Credit in respect of works contract services

  d) Credit of GST paid on Rent-a-cab Services received.

  e) Non Reversal of credit in case of goods lost, destroyed or stolen

Recommendation:

- Seeking relaxation in provisions contained in section 17(5) of CGST Act, 2017, inclusion of above for availing input credit

5. Exemption from generation of E-way bill for movement of Goods from one factory to other factory/warehouse situated within same state

- Movement of goods (within the same state) from one factory premises to another factory premises/ warehouse for intermediate consumption/storage, is normal practice in manufacturing businesses
- Movement of goods take place frequently because of inter-linking of business operations
- In such scenario, complying with generation of e-way bill for such movement is cumbersome and causes hardship
- Certain states give exemption with respect to the consignment value limit
- This delays movement of goods and slows operations

Recommendation

- Necessary amendment be made in the rule 138 (1) of CGST Rules, 2017, to provide exemption from issuance of e-way bill in such situation

Recommendations on Direct Tax

1. Investment Allowance

- Investment Allowance under section 32AC was available at 15% to manufacturing companies whose investment in plant and machinery was more than INR 25 crores, if acquired and installed on or before 31.3.2017.

Recommendation:

- Re-introduction of provision will encourage capital goods sector
- Scope of investment allowance should be enlarged to include investments in new building also, 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 at INR 5 crore for MSMEs

2. Encourage Research and Development

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

  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 2020

Recommendation:

- Rate of weighted deduction needs to be increased to 200% to encourage R&D spend
- Weighted Deduction should be extended for R&D outsourced to Third-Party Service Providers/Other Institutions.
- Amount of Weighted deduction under Section 35(2AB) maybe allowed when computing tax under 115JB. Will alleviate accumulation of MAT credit
- Spend on roads constructed for test tracks and prototype development should also qualify for R&D benefits

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

- The Government of India has recently issued a scheme for Faster Adoption and Manufacturing of Electric Vehicles (FAME) in India Phase II policy.
- The policy includes demand incentives to be given for generation of demand of electric vehicles in India.
- There is no incentive given by the government for promotion of manufacture of EV components
- As per the aspiration of Government of India - By 2030, 25% of vehicles will be electric
- MSMEs sector is one of the biggest challenges in order to support supply chain for EVs
- Investment in this area is vital for the industry to fill the gaps

Recommendation:

- We propose to amend the Act for extending investment linked tax incentive for the manufacturers of EV components
- Such incentives will make the supply chain robust and foster usage of EV in India.

4. Rationalizing the margins under Safe Harbour rules for EV Auto Components Manufacturers in India

- The Safe Harbour rules provides standard rates of operating profit margins for manufacturing and export of auto components
- Subsidies given under FAME-II policy that will certainly encourage Electric Vehicles (EV) sales in India and Investments
- Government has not incentivized EV auto Components Manufacturing in India
- Domestic & Foreign Investment can play bigger role in order to support supply chain

Recommendation:

- The definition of core auto components should be widened by including the specific provisions with respect to manufacturing of key EV components such as battery pack, battery charger, AC or DC motor & controller, power control unit, energy monitor, contractor, electric compressor, Brake system for recovering
- Standard rate of 5% can be recommended under Safe Harbour Rules

5. Expenditure incurred on power from renewable sources

- Government of India emphasized on achieving the 1,75,000 megawatt target set for clean energy installations by 2020
- No incentive has been given to corporate end user for using of clean energy sources as against conventional sources of energy.
- Considering installation of renewable energy technology involves huge investment, tax benefit should be made available to users of green technologies to incentivize and popularize clean energy.

Recommendation:

- Additional 20% depreciation should be made available to users on technological spend of capital nature incurred on implementation of clean energy.
- Further, the Straight Line method of depreciation shall be used for depreciating such asset in lines with the benefit accorded by the Income-tax Act to power generating companies.
- 150% weighted deduction on technological spend of revenue nature incurred on clean energy should be made available to its users.

Thank you!