



Automotive Component Manufacturers Association of India

Pre-Budget Memorandum for 2020-21

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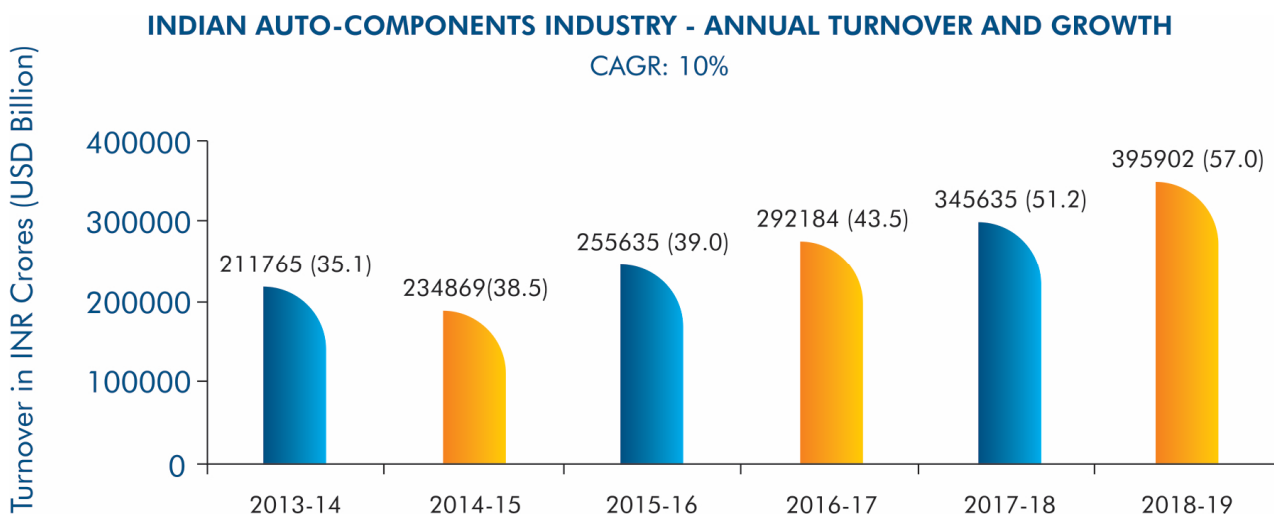
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The Indian Automotive Components sector a brief overview:

2018-19 has been probably one of the most challenging years in the history of the automotive industry in India. Vehicle sales started to witness de-growth onwards of the second-half of the year and the trend continued unabated much into the first half of 2019-20. The situation was made even more difficult as the industry grappled with transitioning from BSIV to BSVI as also becoming complainant with several of safety, emission and environmental norms. Added to this has been the uncertain timelines for migrating to electric mobility, especially for two and three wheelers.

The Indian automotive industry registered healthy growth in the first-half of 2018-19, however, unfortunately, the second half witnessed significant slowdown. According to data released by the Society for Indian Automobile Manufacturing (SIAM), India produced over 30 million vehicles in 2018-19, a growth of 6.3% over the preceding financial year.

The component industry, in tandem, posted a some-what subdued performance with growth of 14.5% over the previous fiscal, registering a turnover of Rs. 3,95,902 crore (USD 57 billion). Auto Component exports grew by 17.1 per cent in FY 2018-19 to Rs.106,048 crore (USD 15.16 billion) with encouraging performance in all geographies; Europe with 33% and US with 29% share of India's component export continued to be our predominant overseas markets. With increasing vehicle parc in the country, the aftermarket in 2018-19 grew by 9.6 per cent to Rs 67,491 crore (USD 10.1 billion).



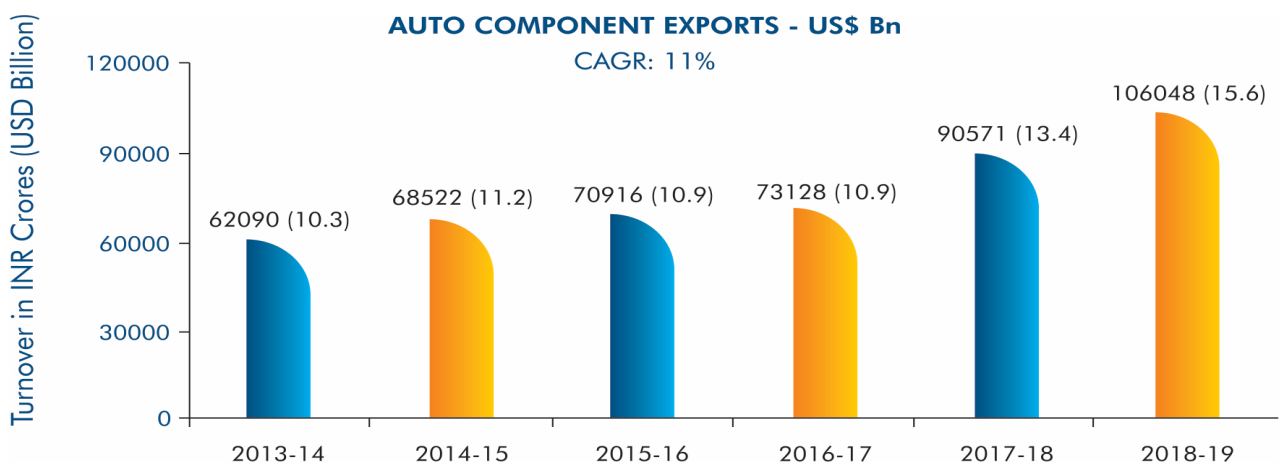
The Indian auto-component industry is a significant contributor to the country's economy. The sector has been at the forefront of the 'Make-in-India' initiative and a prominent showcase of India's frugal engineering and manufacturing capabilities. India's consuming

class is expected to expand to 89 million households by 2025 and this burgeoning consumer class is expected to invest in better vehicles across segments to serve their rising mobility needs. The Automotive Mission Plan (AMP) of the Government of India (GoI) envisages a significant growth for the vehicle industry in the country, to make it the second largest in the world. In line with this growth the component industry is expected to grow five-fold to US\$200 billion, with exports of US\$70 billion and after-market sales of US\$32 billion. However, in order to achieve this long term objective, the industry has to overcome several immediate challenges and 2018-19 has been a watershed year for the industry.

Industry is going through a phase of disruption and transformation in the industry. There are several trends including connected cars, shared mobility and electrification of the power-train that will directly impact the component industry in India. During 2018-19, there was the immediate pressure of continuing to invest in BSVI technologies for the 2020 transition.

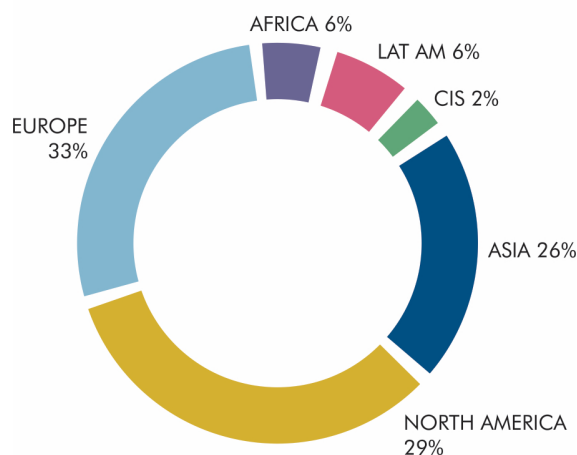
Exports:

Auto-Component Exports continued to do well registering a strong 18% growth to reach Rs. 10,60,048 crore (USD 15.16 billion) in 2018-19 with strong growth across regions-18% to North America, 13% to Asia and 5% to Europe.



Europe continues to be the largest market for Indian auto-component exports with a share of 33% followed by North America at 29%; Asia at 26% Latin America 6%; Africa 6% and CIS 2%. Inter terms of major countries as export destinations-USA with 20% remains the largest partner followed by German at 7% and UK at 5%.

AUTO COMPONENTS EXPORTS - REGION WISE

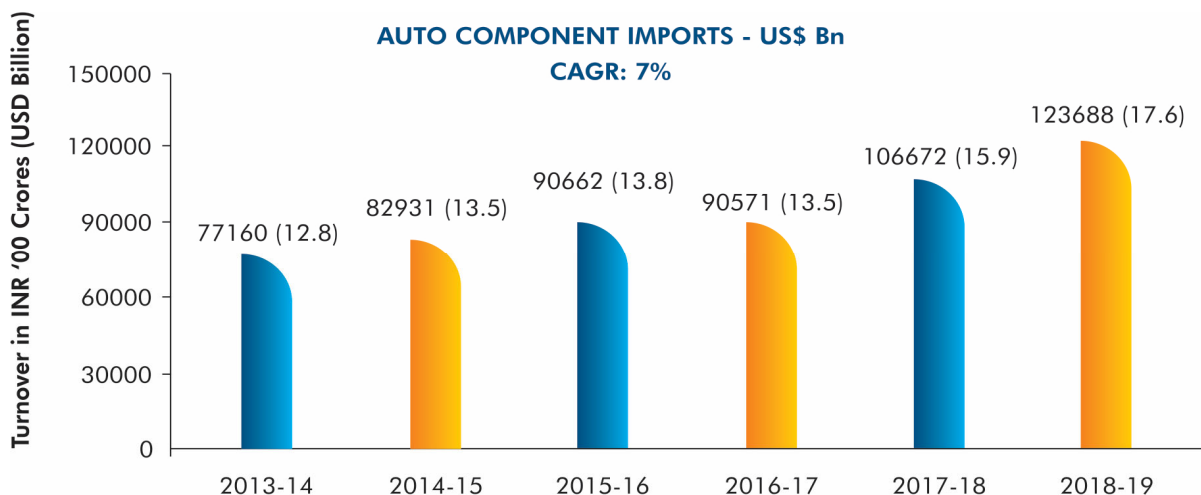


EXPORT DESTINATION: TOP 10 COUNTRIES

USA	25%	TURKEY	4%
GERMANY	7%	BRAZIL	3%
UK	5%	BANGLADESH	3%
THAILAND	4%	UAE	3%
ITALY	4%	MEXICO	3%

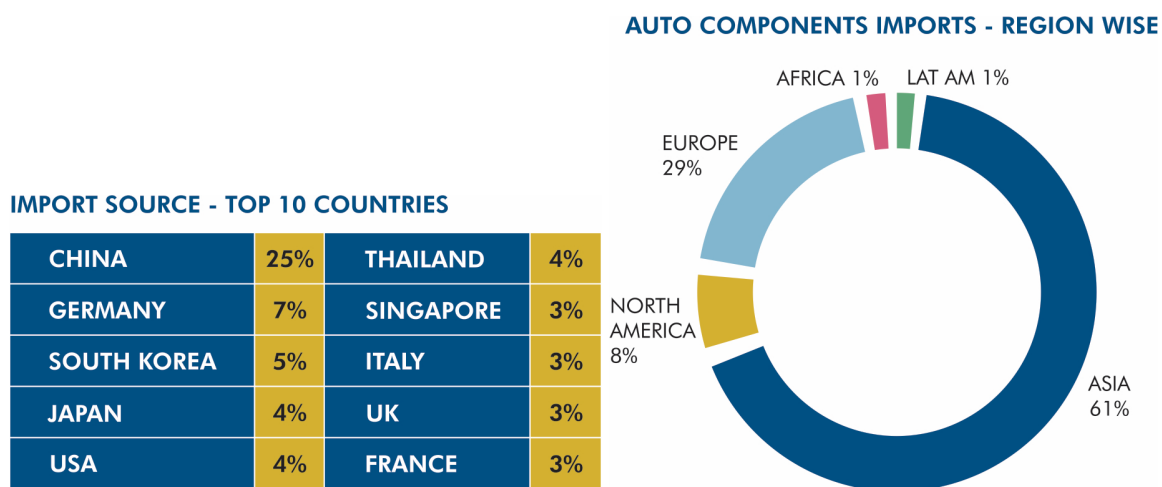
Imports:

Auto-Component imports grew by 14.4% to reach Rs. 1,23,688 crore (USD 17.6 billion) in 2018-2019 with varied growth across regions-8% from Europe; 9% from North America; and 14% from Asia which is the largest source in size.



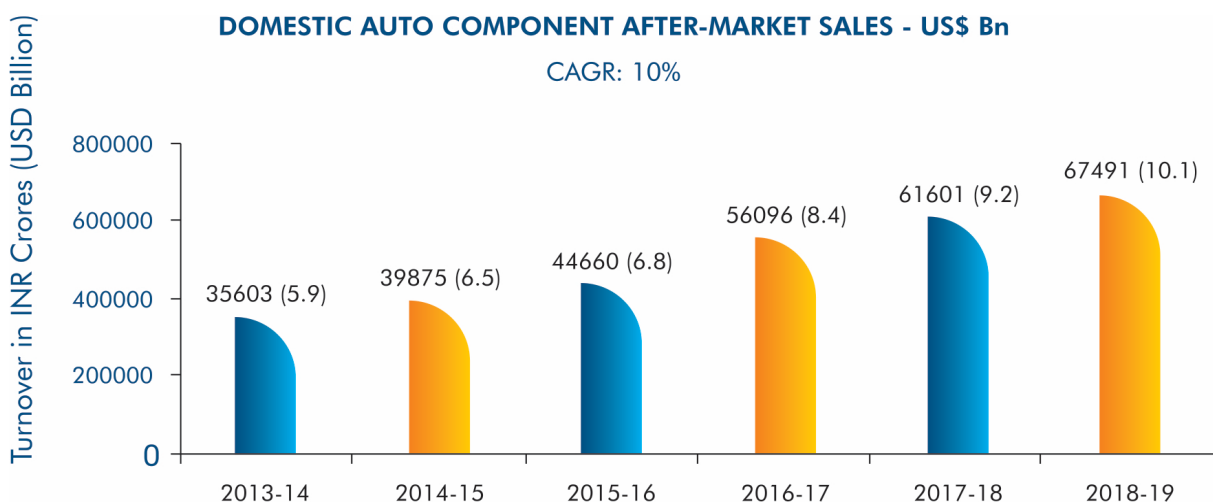
Asia continues to be the largest source of imports for Indian auto-component with a share of 61% followed by Europe at 29%; North America at 8%; Latin America 1% and Africa at 1%.

In terms of Major Countries as source of imports-China with 27% remains the largest partner followed by Germany at 14%; Japan 11%; Korea 10%; USA 7%; Thailand 6%, Italy 3%; and UK, France and Czech 2% each.



Domestic Aftermarket Sales:

Domestic After-market Sales continued to grow although at a lower level compared to 2017-2018. In fact, domestic after-market sales increased by 9.6% to Rs. 67,491 (USD 10.1 billion in 2018-2019 compared to 2017-2018.



Technology Upgradation Fund for the Auto Component Industry

The automotive components sector in India has proudly positioned itself on cost effectiveness and ingenious frugality for years. However, a step-change in growth can be driven by a clear differentiation in products through R&D and innovation. The government on India has drawn ambitious targets for auto components sector - namely an industry size of USD 200 billion couple with exports of \$ 80 billion by 2026. In order to meet and exceed these targets, the components industry needs to focus on rapid development and adoption of new technologies.

The following technology intensive disruptions are expected to hit the Indian automotive component industry in the near to medium term horizon:

1. **Step-change in emission norms:** The shift from BSIV to BSVI from 2020 is a probably a greater challenge for Indian manufacturers of components owing to the electronics- and technology intensive nature of BSVI management modules. Most of the technology used in these aspects is still imported and the Indian eco-system is striving hard to compete at the same level as internationally developed & scaled alternatives.
2. **Safety:** The industry welcomes government efforts to make Indian passengers and pedestrians safer. Making ABS and airbag mandatory is a pertinent step in that direction. Owing to the higher % of imported component in these safety related devices, it is important for the Indian manufacturers to develop Indian solutions so as not to tip the trade imbalance for negatively.
3. **Automotive electronics:** By 2020 around 35 % - 40% of the value of a passenger car in India will be contributed by electronics. Hence it is critical for Indian manufactures to find the India-specific cost-to-performance sweet-spot in these typically expensive components.
4. **Electric mobility:** Government of India's vision for electrification of powertrain – when matched with an increase in the industry's preparedness – can potentially set an example for all environment-conscious governments to benchmark against.

5. **Light weighting:** With a view to optimize dependency on fossil fuels, the industry and the government see immense potential in light weighting of vehicles in order to drive greater fuel efficiency.

These changes are bound to impact the entire industry’s ecosystem that is made up of ~10,000 players of all sizes and scales of operation & investment appetite. Hence, it becomes important for the government to consider an effective enablement of research and development culture in this sector.

Analysis

Fund for technology upgradation and incentivizing R&D (research and development)

Several emerging economies have constituted automotive-specific incentives for research & development. Table 1 summarises their comparison vs. Indian initiatives. This shows there are opportunities for the government to further enable the automotive-focused research and development in India.

Note: ‘✓’ -- Indicates that there are certain incentives provided under the respective domains at respective countries.

Table 1 R&D incentives across countries

R&D incentives	India	China	Brazil	Malaysia	Indonesia
Reduced tax rates Incentives/ tax deductions ¹	✓	✓	✓	✓	✓
Accelerated depreciation/ amortization	✓	✓	✓	Very limited	✓
Patents/IP/Trademarks related	Very limited	Very limited	✓	Very limited	Very limited
Cash grants	Very limited	✓	Very limited	✓	Very limited
Expedited government approval process	Very limited	Very limited	Very limited	Very limited	Very limited
Financial support and loans	Very limited	✓	Very limited	✓	Very limited

¹ This category includes all the incentives related to tax, such as tax allowance, income tax rebates etc.

Of the above mentioned initiatives, the ‘**Financial support and loans**’ for automotive components industry has been a critical aide in the growth of automotive components sector in Malaysia and China. Financial support for new technology developments helps in off-setting the inherent risk associated with venturing into a seemingly uncertain market(s).

Table 2 highlights the significant programs undertaken by various government agencies in China for the development of auto sector with special focus on auto components sector and electrification of powertrains.

Table 2 China: Technology development funds for automotive industry

Representative name of the scheme	Amount disbursed/ reserved	Relevant years	Target activity
National High-Technology Research And Development Program	~RMB 4.7 billion (~\$ 700 million)	2002-2010	Funding of the “Electric Vehicle Key Project” to support the industrialization of hybrid and electric vehicle technologies, including powertrain control systems, electric drive motors, and traction batteries
MOST Development Program	~RMB 6 billion (~\$ 1 billion)	Started in 2010	Support innovation in battery technology
2009 Industrial Stimulus Plan	~\$ 1.5 billion	Started in 2009	Development of key automotive parts and technologies, including but not limited to new-energy vehicles

Moreover, the high interest rates on the loans increase the risk of investment even further and add to the financial stress for the company.

Case of MSMEs

MSMEs lack the capital to invest in the technology upgradation. Moreover, if they do not upgrade their processes, they risk obsolescence. Higher interest rates on loans add to the risk for these companies.

MSMEs collectively employ a significantly higher proportion of workforce in the automotive components sector compared to the larger corporations. Thus, a facility of ‘technology upgradation fund’ that provides loans at preferential interest rates for upgradation of facilities would assist the smaller players in the automotive components ecosystem to invest

in the new machines and equipment to stay competitive and improve their overall productivity.

Table 3 and Table 4 show some of the industry-specific development funds disbursed by governments in China and Malaysia respectively.

Table 3 China: Development funds for automotive industry

Representative name of the scheme	Amount disbursed/ reserved	Relevant years	Target activity
Auto Industry Restructuring And Revitalization Plan	~US \$ 1.5 Bn	2009-2011	To support auto industry restructuring
Electric Vehicle Key Project	~RMB 880 Mn (~US \$ 132 Mn)	2002-2006	Support the industrialization of hybrid and electric vehicle technologies, including powertrain control systems, electric drive motors, and traction batteries
Energy-Saving And New-Energy Automotive Industry Plan	~RMB 10 billion (\$1.6 billion)	2011-2020	Support the core automotive components industry

Table 4 Malaysia: Development funds for automotive industry

Nature of the scheme	Amount disbursed/ reserved	Relevant years	Target activity
Provision of soft loans for pre-commercialization	~\$ 1.4 Bn	2014-2020	To assist automotive component industry in the market development initiatives
Provision of soft Loans for process improvement	~ \$ 70 Mn	2014-2020	Assisting in matching global production standards
Soft loan scheme for automotive development	~\$ 30 Mn	Present	Loans offered to improve the competitiveness of auto component manufacturers: List of activities eligible for loans: -Rationalization of parts and

			components -Acquisition of tools for development -Productivity improvement
Provision of soft loans	~\$ 30 Mn	2014-2020	Development of infrastructure of energy efficient vehicles including hybrid and electric vehicles

Conclusion:

In order to help the industry participants contribute to the ambitious targets of AMP 2026, the government of India may consider setting up specific technology upgradation funds targeting upcoming technological changes (like electrification of powertrains). These funds can be in form of soft loans, tax incentives etc.

Indirect Tax Issues & Recommendations

A. Custom Duty:

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

- There are 219 auto component tariff lines from 12 chapters under custom tariff, which covers majority of auto components, used by OEM and after markets. The Association, acknowledge and appreciate Government's efforts w.r.t. increased in duty rates on above auto-components, from tax rate of 7.5% and 10% (as applicable) to 15% in budget 2018 and 2019.
- However, it appears to us that auto-components falling under remaining chapters namely, Chapter 68, Chapter 70, Chapter 83, Chapter 90, Chapter 91 and certain tariff items falling under Chapter 40, Chapter 84, Chapter 85 and Chapter 87, have been overlooked unknowingly by the Government. The detailed 08 digit classification runs into 112 line items (please see **Annexure I**), under these chapter heading. The Chapter Heading (to the extent tariff items are covered under 7.5% and 10% Customs Duty), for which the proposed increase in Basic Customs Duty is sought is as follows:

Chapter	Description	Number of Auto Component Tariff lines which attract 7.5% and 10% Import duty
Chapter 40	Rubber and articles thereof	17
Chapter 68	Brake-Lining and Asbestos	2
Chapter 70	Glass	3
Chapter 83	Miscellaneous articles of base metal	2
Chapter 84	Machinery and mechanical appliances; parts thereof	55
Chapter 85	Electrical Machinery and equipment and part thereof	14
Chapter 87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	11
Chapter 90	Measuring, checking instruments or part thereof	7
Chapter 91	Instrument Panel Clocks and Clocks of a similar type for vehicles, Aircraft, Spacecraft or Vessels	1

With this background, and not limited to the interest of business, but in the larger welfare of the nation and society, we have listed down the reasons, justifying the request of our members, i.e. auto-component manufacturers in the organized sector, to increase Basic Customs Duty on auto-components (*mentioned supra*) from present 7.5% and 10% (as applicable) to 15%.

Proposal and reasons for, seeking increase in Basic Customs Duty from 7.5% and 10% (as applicable) to 15 %

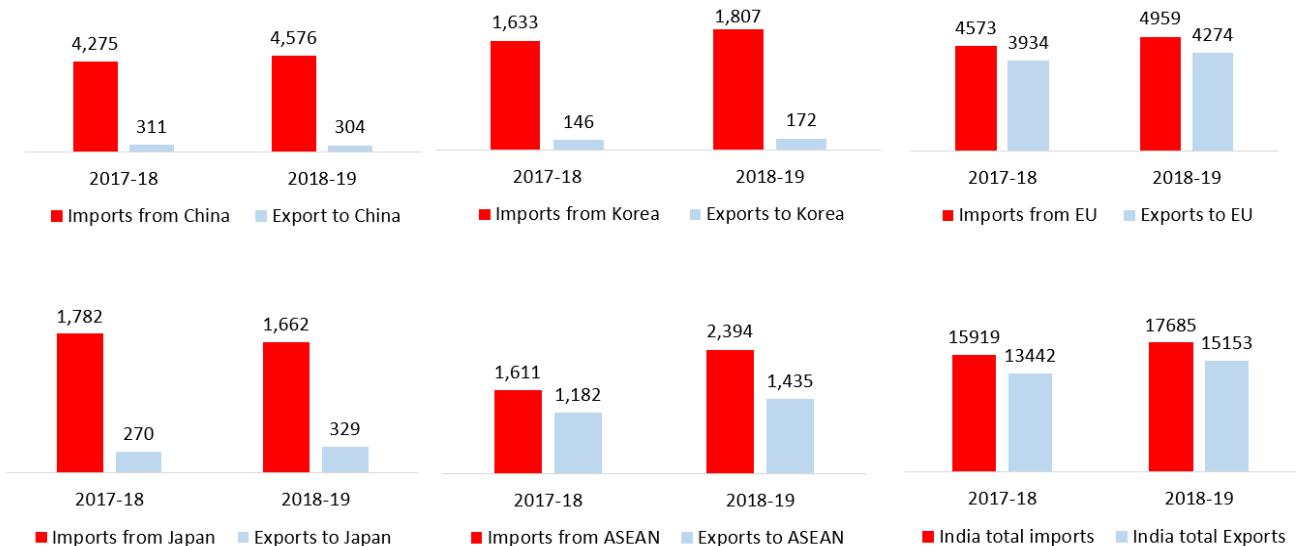
a) Increased import duty will help in minimizing the current trade deficit in auto component sector and will also support Government's proposals of Union Budget 2018 and 2019

Exports of auto component sector currently contribute 25% to the total sector revenue and has grown at 11% since 2011-12. However, the import of auto component still exceed exports, resultantly lead to a trade deficit about USD 2.5 billion in 2018-19. Around 27% of the total imports into India have been from Chinese component suppliers followed by Germany (14%), South Korea (10%) and Japan (9%). India is a large exporter of engine and transmission components whereas imports are dominated by electrical and electronic components and modules.²

On behalf of the Industry, the Association would like bring to your kind notice that India's auto-component **imports from China have surpassed more than 12 times the exports** that India makes to China. Our patrons, have also, observed that at times the landed product cost is substantially low than the cost of manufacturing in India. In Association's opinion, a high Basic Customs Duty would prove detrimental to India's imports of auto-components from China and many other countries and thereby protect indigenous market.

Increasing Trade Deficit is one of the biggest concerns of the Industry

Figures in USD Million



Also, as per Automotive Mission Plan 2016-2026 ('AMP 2026'), Government policies should incentivize domestic capacity creation of imported items which contribute to a large proportion of imports such as electronic component and systems, high end plastics, and moulds and dies. The use of these items (especially automotive electronics) is likely to increase sharply in terms of value per vehicle in the future and, therefore, AMP 2026 stresses the need for stepping up incentives for encouraging local capacity creation.

The Auto Components Industry request of increased customs duty on auto-components is in line with Government's proposal under Union Budget 2018 and 2019. While, the import duty on certain components has already been increased in last two union budgets. In order to support Government's budget proposal, customs duty on remaining auto components should also be increased.

b) Favorable policy measures from Government will help India in technological advancement and meeting global standards

We understand, a section of the auto-motive industry could be advocating that increased Customs Duty will impede technological advancement in India, as imported components have better technology and standards. In this regard, the Association

would like to take note of several policy measures taken by Government of India, specifically focusing on technological and skill upgradation in the auto-component sector. Reduction of imports will surely help in faster and successful implementation of those policies aiming at advance of technology and indigenous production.

c) A boost to core automotive industry will also support a wide range of other business segments and provide impetus to employment generation in India

A boost to the core automotive industry (vehicle and auto component makers) may also support a wide range of other business segments, both upstream (i.e. Mining, Steel, fuel, electronics, rubber, metal industry etc.) and downstream (i.e. Finance and insurance, aftermarket, transport, warehousing etc.), along with adjacent industries, leading to a multiplier effect for growth and economic development. The same will also provide impetus to employment generation.

Furthermore, the AMP 2026', recognizes that the automotive industry has achieved the target of incremental employment creation of 25 million jobs over the past decade. AMP 2026 aims to make the Indian Automotive Industry one of the largest job creation engines in the Indian economy. The policy, further acknowledges that the potential for incremental number of both direct and indirect jobs, that can be created by the Indian Automotive industry over the next decade is nearly 65 million.

While India is still struggling with the unemployment problem, an increase in customs duty on auto components will help in growth and development of domestic industries while parallely solving the problem of increasing unemployment in India.

d) Investments in auto-component industry are rising at a very fast pace as India is endowed with inbuilt competitive advantages. These indigenous advantages should be used to boost the domestic manufacturers, also with an aim to reduce the dependency on imported products. ²

India has a cost-effective manufacturing base which keeps costs lower by 10-25 per cent relative to operations in Europe and Latin America. Furthermore, presence of a large pool of skilled and semi-skilled workforce amidst a strong educational system

² Source: Indian Brand Equity Foundation(IBEf) report on auto components (March 2018)

and being the 3rd largest steel producer globally, serves as major cost advantages for the industry.

FDI Investments in the auto components sector reached US\$ 372.44 million in 2016-17. Auto component sector is expected to invest around US\$ 4.5 billion for upgradation of products & keeping up with the new industry regulations. The Association is of strong belief that as investments in India are rising at a very fast pace, the domestic industry should reduce their reliance on imported components and should focus on building new strategies, increasing R&D facilities and improving product development capabilities. One of the best way to discourage imports is by increasing the import duties on auto-components.

- e) Increase in Basic Customs Duty on auto-components will help in fostering the objectives of 'The Automotive Mission Plan 2016-2026' which, *inter-alia*, includes encouraging the domestic auto-component industry, propelling 'Make in India' programme and saving India's substantial foreign exchange**

The AMP 2026 is the collective vision of the Government of India and the Indian Automobile Industry. The AMP 2026 is aimed at bringing the Indian Automotive Industry among the top **03** of the world in engineering, manufacture and exports of vehicles & components; growing in value to over **12** percent of India GDP and generating an additional **65** million jobs (**Known as vision 3/12/65**). The AMP 2026, recognizes that the Indian Automotive Industry (both vehicles and auto-components) has the **potential to scale up exports** to the extent to **35-40%** of its overall output over the next ten (10) years and become one of the major automotive export hubs of the world.

Increase in rate of Basic Customs Duty will make import of these goods costlier and industry would be forced to explore domestic manufacture of these goods to reduce cost instead of importing these components.

The Association also put forth, that with the change market dynamics, demands and responding to regulatory environment there is an immense potential to be tapped, therefore, as a matter of preference the Government should consider protecting the interest of ingenious industry (by increased import duties). Few of the upcoming

prospects, include planned introduction of Bharat Stage VI emission norms, implementation of security norms (airbag) etc., and a high Basic Customs duties on auto-components would mandate the OEM's to have a domestic manufacturing or procurements. We sincerely urge the Government to consider the interest and advancement of domestic manufacturers, to optimize the unutilized resource and potential in the market.

f) Increased Customs Duty will help domestic players to diversify their business in emerging mobility options such as Hybrid Vehicles, Battery Electric Vehicles, Fuel Cell Vehicles

Growing environmental and sustainability consciousness is driving the global Auto Industry towards green mobility technologies. Such a shift in technology is expected to create new markets in the Automobile Industry. An increase in Customs Duty on auto components at this stage, will help in control of imports at an early stage and accordingly, domestic players will be able to leverage on their local capacity for fulfilling the new demands of the industry.

2. MFN Rates of Customs Duty on Alloy Steel, Aluminum Alloy, Secondary Aluminum Alloy, Aluminum Scrap and Copper Wire- Anti-Dumping duty on import of such goods

The auto-component industry uses wide variety of raw materials. This includes HR/CR steel as well as alloy steels. The cost of raw material constitutes approximately 60% of the cost of an auto component. Therefore, any fluctuation in raw material price has a major impact on this industry.

In a situation, where domestic prices are benchmarked to international prices plus Customs Duty, there is no perceived need for Import Duty protection. The Import Duty only provides the steel manufacturers an opportunity to charge higher prices by increasing the benchmark import price with a higher margin of profit.

It is important to note that zero duty on raw materials like steel and aluminum is not likely to substantially increase the quantity of imports as domestic auto-component manufacturers prefer to use domestic raw material. Zero duty on Steel would only help in keeping a check on the domestic pricing of the raw material. Furthermore, it will keep domestic prices closer to the true international prices. This will create a more conducive environment for the component industry to compete in the global market.

It is also to be noted that the vide Notification No 25/2013-Customs dated 8th May 2013 a 2.5% Customs Duty was levied on import of melting scrap of iron or steel (other than stainless steel) falling under HS Code 7204, scrap of stainless steel falling under HS Code 720421 and aluminum scrap falling under HS Code 7602.

This levy of duty is of particular concern to the auto component industry as it will adversely impact the global competitiveness of the Indian auto component industry, which is already working on wafer-thin margins.

Sixty percent of the cost of manufacture for the auto component industry can be attributed to the cost of raw material. Significantly, the global steel price increase has put China in an advantageous position in manufacture of vehicles and components, as compared to India. Chinese auto component manufacturers therefore manufacture lower-priced goods by using low cost steel to manufacture value-added auto-components and then export them all over the world, including India, which is a highly attractive market for the Chinese industry. The Indian auto-component industry is, on the other hand, burdened with high raw material prices which make value added products uncompetitive vis-à-vis Chinese prices. Under these circumstances, this puts the entire auto-component industry in the country at great peril.

In the matter of seamless tubes, pipes and hollow profiles of iron, alloy or non-alloy steel, whether hot finished or cold drawn, falling under heading 7304 of the first schedule to the Custom Tariff Act, 1975, originating in or exported from the People's Republic of China and imported into India, then vide notification number 14/2/2015 dated the 31 March 2016, had recommended imposition of provisional anti-dumping duty on the imports of subject goods, originating in, or exported from the subject country.

Recommendation

Eliminate provisional anti-dumping duty which is currently applicable on subject goods and Customs Duty on all Alloy Steel, Aluminum Alloy and Secondary Aluminum Alloy items including alloys, copper and other scrap falling under HS Code 7208, 7219, 7220, 7222, 7223, 7224, 7225, 7226, 7227, 7228, 7229, 74081190, 7601, 7602, 7603, 7604 and 854411 to nil.

3. Inverted duty structure faced by seat belt manufacturer and air bags manufacturer

Seat belt and air bags are an extremely important safety equipment for vehicle occupants. As per Central Motor Vehicles Rules, all passenger vehicles need to be equipped with seat belts and air bags. Additionally as per G.S.R 291 (E) F.No.RT-11028/06/2011-MVL dated 24th April 2014, seat belts will also be required for children (child restraint system).

With the increase in demand for seat belts and air bags in vehicles, production of these products has a huge potential in India.

Narrow woven fabric is a vital component for manufacture of seat belts and air bags. Custom duty on narrow woven fabric of man-made fibre used in the manufacture of seat belts and air bags (HS Code: 58063200) is made 20% vide custom notification no. 82/2017 dated 27 October 2017.

The Customs duty applicable on the import of safety seat belts (HS code 8708 2100) is currently at 15%. The Customs duty applicable on import of safety airbags with inflater systems (HS code 8708 9500) is currently at 15%.

While increasing customs duty on imported component as a protectionist measure, it has to be considered if there is an availability for procuring these components domestically. The lower rate of customs duty applicable on import of seat belts and safety air bags as compared to the higher rate applicable on the import of raw material (narrow woven fabric) used in making such seat belts and safety air bags puts the domestic manufacturers in a disadvantageous position.

Recommendations

In order to safeguard the interest of the domestic manufacturers and bring the domestically produced safety seat belts and air bags at par with the international prices, it is recommended that the customs duty be reduced on the narrow woven fabric so as to provide a level playing field and eliminate the incidence of inverted duty structure.

The proposed reduction in custom duty rates would encourage manufacturing in India with an aim to emerge as an attractive investment destination for companies looking to diversify manufacturing operations from other countries like China. The move also intends to give some protection to domestic producers.

It thus, seeks to boost Make in India, with benefits provided to manufacturing sector by way of reducing duties on certain inputs and raw materials.

4. Exemption/concession from customs duty be given on parts and materials used in manufacture of Catalytic Convertor

Catalytic convertor is a vehicle emissions control device that converts toxic pollutants in exhaust gas to less toxic pollutants. Legislations mandating use of Catalytic convertor in new passenger cars have been in place since 1995.

Parts/specified raw materials of Catalytic Convertors (not including Stainless Steel Foil, Sintered Metal Fibre Matrix Filter and Brazing Paste) used in its manufacture are subject to a concessional rate of BCD @ 5% under Sr.no.371 of the Notification no. 12/2012-Cus. 17th March 2012.

However, those catalytic convertors which are made of the following parts:

S.No.	Description of Goods	Custom Tariff	Schedule Basic Custom Duty	Effective Rate of BCD
1.	Sintered Metal Fibre Matrix Filter	73269099	15%	10%
2.	Stainless Steel Foil	72209090	15%	7.5%
3.	Brazing Paste	38101010	10%	7.5%

It can be gleaned from the above raw materials used in manufacture of Catalytic convertor attracts higher rate instead of concessional rate of 5% applicable on the parts of catalytic convertor.

Recommendation

Stainless Steel Foil, Sintered Metal Fibre Matrix Filter and Brazing Paste be covered in the list of specified materials under Sr. no. 371(b) so as to be subject to concessional rate of BCD of 5% (at par with Catalytic Convertor i.e. 5%) when imported for use in manufacture of Catalytic convertor.

5. Duty Drawback should be changed back to FOB value basis from weight basis

The bases for computation for Duty draw back rate on most of the items has been amended *vide Notification No.110/2015-Customs (N.T.) dated 16 November 2015, 88/2017- Customs (N.T.) dated 21 September 2017 and Circular No. 13/2014 – Customs dated 18 November 2014*. As per the said notifications and circulars duty drawback is calculated basis the weight of the products instead of FOB value of the same.

This aspect needs to be reconsidered for high technology items, since the focus is on manufacturing light weight and fuel efficient products. For ex:- for engineering and specialised products, the weight can't be right denominator to claim Duty Drawback. Therefore, companies not able to take DBK benefits as the product weight is low.

Recommendation

The weight proviso may therefore be removed from engineering products, which entail research & development. Corresponding amendment should be made.

Further, GOI have raised Customs duty for many of the products, but have not raised corresponding all Industry duty drawback rates, this with accumulation of cases due GST re-organisation, have caused enormous amount of pain on the exporter in working capital management and put the business in stress. It is recommended to re-evaluate all Industry rates with an upward revision as with the increase in customs duty rates leading to higher costs, increase in All Industry duty drawback rates will help to partially offset the cost impact for exporters.

6. Grant of duty drawback on the basis of self-declaration of Credit not availed on the inputs

Duty Drawback scheme provided under Section 74 of the Customs Act, 1962 intends to provide drawback on the import duty paid on the import of goods into India which are re-exported under the following two circumstances:

- Re-exported without being put to use post importation
- Re-exported after being put to use post importation

While granting drawback the Customs authorities ensures that there is no unjust enrichment of the assessee, i.e. the assessee does not get drawback of the import duty paid. To ensure this, an exporter is required to submit before the Customs authorities, a Certificate issued by a Central Excise Officer certifying that the credit on imports has not been taken.

Recommendation

We are in an era of self-certification and control. The entire activity of tax estimation, collection, payment, filing of return is now based on self-assessment basis. Approaching the Central/State/UT GST officer for a certificate is a hassle for the small and medium enterprises. As per Circular No. 21/2017 dated 30 June, 2017, all other extant instructions in respect of drawback claims under section 74 remain unchanged.

Therefore, in order to promote an ease of doing business and to save time involved in the processing of drawback application, it is recommended that the exporters should be allowed to file a self-certification claiming that no input credit has been availed by them.

B. GST related issues:

1. 18% GST for Chapter 84, 85 and Chapter 87 auto components

In the 31st GST council meeting, held on 22nd December 2018, slashed tax rates on auto components which has brought great relief to the industry. Besides, certain auto parts yet have to be reconsidered by the council, as the component industry produces large variety of auto components that fall in various HSN chapters that attracts higher tax rates.

Under GST the Auto Components attract two different rates - 18% and 28%. Majority of auto components are at 18% GST. However, **36% of automotive components under chapters 84, 85 & 87 are still subject to 28% GST.**

Rationale and Justification:

- While the tax paid is cenvatable in the manufacturing supply chain **our concern pertains largely to sales of auto components in the aftermarket.**
- **With respect to B2B**, revenue to the Government will be neutral. 18% GST on auto components will also help in reducing the working capital for component suppliers. **The reduced working capital limit will help in getting higher term loans resulting in higher investments and better growth prospects.**
- The component industry has a very significant aftermarket – INR 67,491 crore (USD 10.1 billion). An estimated 35% of the manufacturers supplying aftermarket products are unorganized/indulge in grey operations.
- The rate of GST applicable on automotive components in India is higher to the tune of up to 2x - 3x the GST rates in these economies.

	India	Malaysia	Indonesia	Japan	Singapore	Canada
Rate of GST applicable for automotive components	18% - 28%	6%	10%	8%	7%	5-15% Incl. Provinc ial taxes

- Currently, the consumer is paying 18% GST for repair services and up to 28% for replacement parts and consumables. The difference in rates between services and parts has put pressure on the unorganized service sector in tracking and compliance aspects.
- While comparing the tax rates between services and components in the countries cited above, it is found that the rate for services and components is the same – and that having a one common tax rate is beneficial for the stakeholders.

GST for parts & Services (India vs. Others)

GST Rates	India		Malaysia		Indonesia		Singapore		Canada	
	GST		GST		GST		GST		GST+ Provincial tax	
	Parts	Services	Parts	Services	Parts	Services	Parts	Services	Parts	Services
	28%	18%	6%	6%	10%	10%	7%	7%	5-15%	5-15%

- Over 70% of the players in the aftermarket are MSMEs. Counterfeit products and spurious parts adversely affect these players. A higher GST rate compels smaller component manufacturers to gravitate towards non-compliance and survive by means of under-invoicing and producing sub-standard/spurious components. **Many of the safety-critical parts are in the higher bracket of 28% and are compromised, thus putting to risk the lives of drivers, passengers and pedestrians.**
- **A reduction in tax rate would incentivize the unorganized sector to undertake GST compliance** and it will also reduce the gap in the price between the standard vis-à-vis the sub-standards.
- Normalization of GST rate can potentially act as an incentive for vehicle owners - especially for the commercial vehicle owners & operators to avoid missing the OEM-prescribed maintenance schedules of their vehicles. **Higher frequency and timely maintenance of the commercial vehicles will help improve their average running condition – thereby having a positive impact on average pollution and vehicular safety on Indian roads.**

Rationalization of GST rate will help Government to generate revenue:

- **Sales to OEMs** – INR 3,46,052 crore / USD 49.5 billion- Input tax credit provision is under GST regime – **Impact will be Neutral**
- **Domestic Aftermarket-** INR 67,491 crore/ USD 10.1 billion- **GST rate of 28% puts higher tax burden on end consumers.**
- As per the AMP, it estimated aftermarket may touch USD 30-32 billion by 2026.
- Based on the assumptions, it is estimated that the Government may not face much revenue loss.
- 35% of Domestic Aftermarket is unorganized/grey market. It is estimated that 90% companies/units do not pay GST in unorganized sector; this translates to revenue loss to the tune of INR 5,000-6,000 crore to the Government.
- **A moderate rate of 18% will help enhance better compliance and expand the tax base which will further increase revenue collection.**
- Rationalizing the GST rate to 18% shall **increase the demand in the aftermarket** by an additional 12 % -15% annually. The current CAGR of the aftermarket is 14%.
- With such growing aftermarket, Government’s revenue collection will increase and neutralize any immediate revenue loss.

Recommendation

The entire component industry should be bracketed under 18 per cent (GST) rate or lower, as a large aftermarket services almost all categories of products. The aftermarket is dominated by smaller players that is adversely affected by counterfeit products and spurious parts. With a higher GST rate it will compel spurious component manufacturers to gravitate towards non-compliance and survive by means of under-invoicing.

Annexure-II: List of Auto Components (Proposing reduction of Goods and Services Tax rate from 28% to 18% on auto-components used by Original Equipment Manufacturer and aftermarket)

2. Harmonize the rate of interest in case of delay/ disputes

In case of any disputes, the assessee is liable to pay interest @ 15%. However, where any claim of refund arises from an order passed by the adjudicating authority or appellate authority or court which has attained finality and the same is not refunded within 60 days from the date of receipt of application filed consequent to such order then, the assessee is eligible to receive interest on delayed refunds not exceeding 9%.

Recommendation

It is recommended that the interest rate payable by the assessee, in case of any dispute and interest rate payable by the Authorities, in case of delayed refunds should be same. There should be parity in the interest rate paid by the assessee and that payable by the authorities.

3. Restoration of deemed export benefits available under Export Promotion Capital Goods (EPCG) Scheme

As per the Foreign Trade Policy, in the pre-GST regime, the goods supplied in India to the EPCG authorization holders were treated as deemed exports and such deemed exports were considered for fulfilment of export obligations under various schemes. However, in the GST regime, if a person imports the goods without payment of BCD as well as IGST under EPCG scheme, then any supplies made by such person to other EPCG authorization holder is not treated as deemed exports and consequently, not considered for fulfilment of export obligation.

Such restriction is causing issues for the exporters since in many cases, the entire value chain for the ultimate exports has multiple vendors who use parts and components imported duty free under same. They fulfil their export obligation by supplying goods to another manufacturer who also holds the authorization and so on, till the time the goods are exported by the ultimate exporter. If the IGST exemption is claimed by any person, his supplies to other authorization holders are not considered towards export obligation, resulting in increased costs for the goods ultimately exported.

Recommendation:

The previous position of considering the supplies made to the EPCG authorization holders towards export obligations under various schemes should be re-instated from retrospective effect.

4. Refund of GST paid on capital goods to be available to the exporters

As per section 16 of the IGST Act, the exporters have an option not to pay any IGST on the exports and claim refund of the GST paid on procurement of inputs and input services.

However, no refund is available for GST paid on the capital goods per Section 54(8)(a) of the CGST Act. Since in case of exporters, there is no output GST liability, this results in blockage of credit of GST paid on capital goods, impacting the financial health of the exporters.

Recommendation

The provisions to grant refund of accumulated credits to the exporters should be amended to grant refund of GST paid on procurement of capital goods as well. There is no intention to make a distinction between capital goods and inputs in this regard.

5. Procurement of inputs without payment of tax for exports

In pre-GST regime, under Rule 19(2) of Central Excise Rules, 2004, inputs required for manufacture of goods to be exported could be procured without payment of Central Excise duty under Form CT1. The facility enabled manufacturer-exporters to procure inputs without payment of duty and export the finished goods without blocking their cash flow. This enabled them to carry out business smoothly without requirement of huge working capital. Under GST regime, such facility has not been provided.

As per notification no. 41/2017 – Integrated Tax (Rate) dated 23rd December 2017, goods procured by merchant-exporters have been given a facility of procuring goods at a concessional rate of 0.1% IGST upon fulfilment of certain conditions prescribed therein. However, the manufacturers are still required to procure inputs on payment of full GST which blocks their working capital.

Recommendation

Similar facility as in pre-GST regime may be extended or facility of procurement of inputs on payment of concessional rate may be given to manufacturer-exporters, as allowed to merchant-exporters.

6. Method of valuation of supplies in the case of ocean freight for levy of IGST

The taxability of ocean freight service is quite clear under GST regime, but there may be certain doubts on the method of valuation to be adopted for levying IGST on such ocean freight. Rules 27 to 35 of the CGST Rules, 2017 for determination of value of supply under

GST, are conspicuously silent on the method of valuation to be adopted for levying IGST on such ocean freight services. However, the Notification No. 8/2017-Integrated tax (Rate) dated 28.06.2017 vide F. No. 334/1/2017-TRU dated 30.06.2017 whereby the following has been inserted:

“Where the value of taxable service provided by a person located in non-taxable territory to a person located in non-taxable territory by way of transportation of goods by a vessel from a place outside India up to the customs station of clearance in India is not available with the person liable for paying integrated tax, the same shall be deemed to be 10 % of the CIF value (sum of cost, insurance and freight) of imported goods.”

Further, at the time of importing on CIF basis, the value of freight is included in the assessable value of imports on which IGST is discharged by the importer. Subsequently, as per the abovementioned notification, importer is again required to pay IGST under reverse charge mechanism on the freight component charged by foreign transporter from the foreign supplier. Hence, there is double taxation on the value of freight in case of CF contracts.

Recommendation

There are specific rules for valuation of supplies for the levy of GST. Though the method of valuation of supplies for ocean freight do not find place in the valuation Rules. It is suggested that GST council should include the said valuation method in the CGST Rules, 2017 itself under "Determination of value of supply" in order to avoid any confusion in the trade.

7. Allowing Input credit on Diesel

In GST regime, crude oil, petrol, diesel, etc are not included under GST. Hence, while various goods and services procured by the oil and gas industry are subjected to GST, the sale and supply of oil, and petroleum products continue to attract earlier taxes like excise duty and VAT. Unlike other industries which can take credit for any tax paid towards the furtherance of business, no credits on input GST will be available to the oil and gas industry leading to huge additional indirect tax burden. This is against the basic objective of GST which is to ensure that input taxes are not blocked in the system i.e tax cascading is eliminated.

With international crude prices on the rise, big oil importers like India are feeling the heat. Hence, the petroleum products too should be brought under the ambit of GST. Credit of duty paid on diesel procured for use in the generators/ as fuel in the factories is not allowed. All medium & small scale factories face acute power cut on an average of 35% to 50%. In

order to manage the power shortages, the only option left for such factories is to use diesel generators. Denial of input credit on diesel results in increase in cost of production thereby reducing competitiveness.

Recommendation

It is recommended that manufacturing units should be allowed to avail input credit on diesel procured for use in generating alternate power to run the manufacturing facility.

8. Availment of credit of CVD and SAD paid under GST regime, on non-fulfilment of Export obligation under EPCG

As per the provisions contained in FTP read with HBP, an importer is allowed to import Capital goods on concessional rate of duty after obtaining an EPCG authorization. Basis the authorization, the importer is required to fulfil the Export obligation within subsequent 6 or 8 years as the case may be.

Para 5.23 of HBP provides that in a case where the assessee has an EPCG authorization and due to his inability to fulfil the export obligation during the time period allowed, in such a case, the assessee is required to pay Customs duty saved at the time of import, along with applicable interest.

In a scenario where the EPCG authorizations are issued in the erstwhile regime being valid in the GST regime, however the time limit is getting over in the GST regime and the exporters are unable to fulfil the Export obligation within such time limit, in such a case, the exporters are facing an issue with respect to the availment of credit of the CVD and SAD paid on such non-fulfilment of Export obligation. Currently, there is no provision in the GST law which provides for availment of credit of Customs duty pertaining to erstwhile regime, paid in GST regime on suo-moto basis. Also, there is no provision in the Customs Act, 1962 and the FTP to allow credit of duty paid in GST regime, for Customs duty paid pertaining to erstwhile regime. Section 142(8)(a) of the CGST Act, 2017 expressly states that the credit of such Customs duties is not allowed in the GST regime, as the same is treated as an 'arrear of tax'.

Recommendation

Had the assessee paid such CVD and SAD at the time of importation of the subject capital goods without availment of the benefit under EPCG Scheme and availed cenvat credit thereof, the assessee could have carried forward such cenvat credit in its electronic ledger under GST regime by virtue of Section 140 of the CGST Act.

Such restriction is contrary to the overall scheme of allowing the transition of Cenvat credit relating to the existing laws and is causing undue commercial hardship for the tax compliant corporate citizens.

Therefore, it is recommended that an amendment in Section 142(8)(a) of the CGST Act be made so as to allow the availment of input tax credit under the GST regime, which was admissible under the erstwhile law on payment of taxes/duties pertaining to duty saved on import of Capital goods under EPCG authorization.

Further, due to a slowdown in the Global market, it has become challenging to meet the overall Export obligation and average export obligation within the prescribed time period of 6 or 8 years as the case may be. Hence, it is also recommended to extend the time period within which the importer is required to fulfil the Export obligation.

9. Relaxation in provisions in relation to Input tax credit (ITC) restrictions contained in Section 17(5) of CGST Act, 2017

Section 17(5) of the CGST Act 2017 prescribes certain inward supply of goods and services in respect of which input tax credit is not available to the assessee. In view of the same, we have recommended various supplies in respect of which input tax credit should be allowed to the recipient:

S.No.	Nature of inward supply	Justification	Recommendation
1.	Input credit in respect of supply of Goods and Services received for Corporate Social Responsibility activity (CSR)	The CSR activity has been obligated under Companies Act and expenses made against above activity is from the profit made in the course of business. GST Law is not clear whether input credit is available in respect of expenses made on CSR activity obligated under Companies Act	We recommend that GST credit should be allowed on the same

S.No.	Nature of inward supply	Justification	Recommendation
2.	Input credit on GST paid on services such as repair & maintenance, etc. relating to motor vehicles	<p>The CGST (Amendment) Act, 2018 dated 29 August 2018 made amendments in Section 17 of CGST Act, 2017 and provided that credit shall not be available on services of general insurance, servicing, repair and maintenance services in relation to motor vehicles, vessels or aircraft.</p> <p>It is pertinent to note that Motor vehicles are purchased by the Company and given to employees which are used for Company business purpose. Hence, disallowing credit of GST paid on repair & maintenance services related to motor vehicles is not in line with the spirit of GST Law.</p>	Necessary amendments be made to allow GST credit on repair & maintenance services, general Insurance etc. relating to Motor vehicles used in the course of business
3.	Input credit on GST paid on Canteen and other employee related services	<p>Section 17(5)(b)(i) of CGST Act, 2017 provides that credit shall not be available for food and beverages, outdoor catering, renting or hiring of motor vehicle except when inward supply is used for making an outward taxable supply of the same category or as an element of taxable composite or mixed supply.</p> <p>The transportation and canteen services provided to the employees are for the welfare of the employees and hence, are hence are required for the furtherance of business.</p>	Necessary amendments be made to allow GST credit of the transportation and canteen services provided to the employees in the course of business.

S.No.	Nature of inward supply	Justification	Recommendation
4.	Input credit in respect of works contract services	<p>The Construction/ extension of factory building involves huge capital investments and disallowance of credit on Works Contract service is leading to cascading of taxes and becomes cost to the Company.</p> <p>Section 17(5)(d) of CGST Act, 2017 reads that <i>goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business</i></p> <p>The GST paid on investments undertaken is not eligible for input credit in present GST Law. Ultimately, the GST paid amount becomes cost to the Company leading to cascading of tax which is not the spirit of GST Law as to provide seamless credit.</p>	The restriction of ITC in respect of all works contracts resulting in Immovable property at large should be removed as in large number of contracts qualifying as Works Contracts, the end result would be immovable property.
5.	Input tax credit of GST paid on Rent-a-cab services received	Rent-a-cab today has become a significant mode of transport of employees for business purpose. It is being used for taking part in business meetings, etc. Hence, it is business expenditure.	It is suggested that restriction of availing credit on Rent-a-cab services be dispensed with and credit be allowed for a Rent-a-cab used in course of business.

S.No.	Nature of inward supply	Justification	Recommendation
6.	Non-reversal of credit in case of goods lost, destroyed or stolen	<p>Section 17(5)(h) of CGST Act, 2017 provides that credit shall not be available in case the goods are lost, stolen, destroyed, or written off or disposed of by way of gift or free samples.</p> <p>It is pertinent to note that while storing of goods before their supply, losses are bound to happen due to natural reasons such as evaporation. Further, free samples are required to be given to customers for getting orders and are used for furtherance of business. In such cases the law provides that ITC availed on such goods is required to be reversed.</p>	<p>The provisions should be amended to exclude:</p> <p>a. loss of goods because of natural reasons within a permissible limit expressed based on nature of goods.</p> <p>b. goods sold as free samples.</p>

10. Increase in the validity period of Letter of Undertaking (“LUT”)

As per Section 16(3)(a) of IGST Act, 2017 a registered person making zero rated supply shall be eligible to claim refund under either of the following options, namely:—

(a) he may supply goods or services or both under bond or Letter of Undertaking, subject to such conditions, safeguards and procedure as may be prescribed, without payment of integrated tax and claim refund of unutilized input tax credit;

For renewal of validity of LUT for exporters needs all relevant documentation and other necessary formalities to be completed, which takes lot of productive time of Government officials and the exporters.

Recommendation

To save administrative time of Industry and the Government officials, the validity period of LUT should be increased from one year to five years for Exporters who are exporting goods, above Rs. 100 Cr per annum.

11. Classification of Disc Brake pads for automobiles

Parts and accessories of motor vehicles of headings 8701 to 8705 are classified under heading 8708 and attract 28% GST. However, friction material and articles thereof (for example, sheets, rolls, strips, segments, discs, washers, pads), not mounted, for brakes, for clutches or the like, with a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textiles or other mineral substances or of cellulose, whether or not combined with textiles or other materials are classifiable under heading 6813 and attract 18% GST.

As per TRU Circular No.52/26/2018 of Central Goods and Service tax Act, 2017, CBIC has clarified that as per HSN Explanatory Notes, heading 8708 covers “Brakes (shoe, segment, disc, etc.) and parts thereof (plates, drums, cylinders, mounted linings, oil reservoirs for hydraulic brakes, etc.); servo-brakes and parts thereof, while Chapter 68 covers articles of Stone, Plaster, Cement, Asbestos, Mica or similar materials. Further, HSN Explanatory Notes to the heading 6813 specifically excludes:

- i) Friction materials not containing mineral materials or cellulose fibre (e.g., those of cork);
- ii) Mounted brake linings (including friction material fixed to a metal plate provided with circular cavities, perforated tongues or similar fittings, for disc brakes) which are classified as parts of the machines or vehicles for which they are designed (e.g. heading 8708).

CBIC has therefore clarified that the said goods, namely “Disc Brake pad” for automobiles, are appropriately classifiable under heading 8708 of the Customs Tariff Act, 1975 and would attract 28% GST.

Recommendation

When there is a specific heading in HSN, item to be classified in that Specific Heading. HSN 6813 clearly indicates Brake Pads which is the Chemical powders attached with Steel / Metal Plate forms Friction Material. It should be classified as Friction material under HSN 6813.

It is recommended that it should be inserted in HSN explanatory notes that Brake Pads to be classified under HSN 6813 rather a general heading 8708.

12. Notification of utilization of unutilized balance of Education Cess, Secondary Education Cess Service tax, Krishi Kalyan Cess in the books of Accounts

Pursuant to the Union Budget 2015-16, 'Education Cess' and 'Secondary and Higher Education Cess' were abolished. Section 140 of CGST Act, 2017 specifies that eligible duties for the purposes of GST did not include Education Cess and Secondary Higher Education Cess. In view of the same, the Closing balance of Education Cess and Secondary Higher Education Cess prior to 1st Mar 2015 cannot be carried forward in GST. There are several judicial precedents wherein the accumulated credit of Krishi Kalyan Cess is not admissible as a part of Input tax credit under GST some of which are as below:-

- i. Authority for Advance Ruling ('AAR') vide Order No. GST-ARA-18/2017-18/B-25 (Maharashtra State) dated 5 April 2018 in M/s Cellular Operators Association of India v. Union of India Writ Petition (Civil) No. 7837/2016 dated 15 February 2018.
- ii. Delhi High Court in Cellular Operators Association of India

Further, the government vide Notification No. 02/2019 – Central Tax has notified Section 28 of the CGST Amendment Act, 2018 which disallows the transitional credit of cess (including Education Cess and Secondary Higher Education Cess) retrospectively w.e.f. July 1, 2017.

The Jharkhand High Court in Timken India Limited vs. UOI and Anr. [W.P. (T) No. 1541 of 2019] has issued notice to the Revenue in respect of the writ challenging vires of Section 28 of CGST Amendment Act, 2018.

Recommendation

It is recommended that changes in statutes should not result into foregoing eligible benefits. The dealers should be allowed to utilize the unutilised portion of Education Cess, Secondary Higher Education Cess and Krishi Kalyan Cess, under GST to eliminate the impact to the P&L due to write off of the unutilised Cess balances of the prior years.

iii. Penalty on non-updation of part B of E-Way bills

The E-way Bill System under the Goods and Services Tax (GST) regime replaces manual or paper-based Way Bills (commonly known as road permits) that were required for movement of goods in most states under the erstwhile VAT regime.

Part A of the E-way bill contains the details of the goods transported, the nature of supply, location of consignor/ consignee, the applicable tax thereon, the distance and validity of e-way bill and such other details as are required. Part B of the e-way bill contains the details of the transporter and of the vehicle vide which the goods are transported. Explanation 2 to Rule 138(2)(3) provides that the e-way bill shall not be valid for movement of goods by road unless the information in Part-B of FORM GST EWB-01 has been furnished.

A practical difficulty is being faced by the industry, wherein, during movement of goods where all relevant details are filled in the e-way bill but to due to an apparent clerical error, the vehicle details are not mentioned in Part-B of such E-way bill, due to which the goods are detained by GST Mobile Squad Authorities.

Section 122(1)(xiv) of CGST Act, 2017 provides that penalty shall be applicable where any taxable person transports any taxable goods without proper document. The quantum of penalty specified under Section 122(1) of CGST Act, 2017 provides that a taxable person shall be liable to pay a penalty of ten thousand rupees or an amount equivalent to the tax evaded or the tax not deducted under section 51 or short deducted or deducted but not paid to the Government or tax not collected under section 52 or short collected or collected but not paid to the Government or input tax credit availed of or passed on or distributed irregularly, or the refund claimed fraudulently, whichever is higher.

Further, Section 126 of CGST Act, 2017 states the general disciplines related to penalty and provides that no officer under this Act shall impose any penalty for minor breaches of tax regulations or procedural requirements and in particular, any omission or mistake in documentation which is easily rectifiable and made without fraudulent intent or gross negligence.

Accordingly, since the Part A of e-way bill and the supporting invoice contains the tax particulars and the value of invoice, non-updation of Part B of e-way bill can be considered only as a minor procedural lapse.

Recommendation

Consideration of this representation is requested with an expectation to revisit the GST penalty on such clerical errors apparent on the face of record.

Therefore, such detention of goods without considering relevant facts is inappropriate and resistance in ease of doing business. Our suggestion in this regard is that where it is prima facie evident that the mistake is a clerical error, a nominal penalty upto Rs. 5,000/- may be levied and goods shall be released.

Such move would help industry to be aligned with growth part of India leading to successful implementation of GST and making significant contribution to “Make in India” project of Hon’ble Prime minister of India.

iv. Exemption from generation of e-way bill for movement of goods from manufacturer’s one factory premises to other factory premises/ warehouse, both situated within the same State

The requirement of issuance of e-way bill for effecting movement of goods from Plant is contained under Rule 138(1) of CGST Rules, 2017 which provides for issuance of an e-way bill in case of movement for reasons other than by way of supply.

Rule 138(14) of CGST Rules, 2017 specifies the situations under which no e-way bill is required to be generated. Clause (d) of Rule 138(14) provides that e-way bill is not required *in respect of movement of goods within such areas as are notified under clause (d) of sub-rule (14) of rule 138 of the State or Union territory Goods and Services Tax Rules in that particular State or Union territory.*

However, the law does not deal with a scenario wherein the goods are moved from one factory premises to another factory premises/warehouse for intermediate consumption/storage, when both the places are situated within a distance ranging from 100 meters to 50 kilometers within the same State, and the movement takes place frequently because of inter-linking of business operations.

In such a scenario, complying with the generation of e-way bill for each such movement from one factory premises to its other factory premises/warehouse is cumbersome and causes hardship.

Recommendation

While certain States have released Notifications with respect to exemption from movement of goods within State, however, the same are subject to a limit specified therein with respect to the consignment value. Where the consignment value exceeds the limit specified in the said Notification, the e-way bill is required to be generated, even though the movement is taking place from one factory to another for intermediate consumption/ or to its own warehouse for storage. Such a situation delays the movement of goods and slows the operations.

Therefore, it is recommended that necessary amendment be made in the CGST Rules itself, to provide for exemption from issuance of e-way bill in a situation where the goods are sent

within the State, from one factory to its another factory for intermediate consumption/ or to its warehouse for storage.

v. Issuance of notice for Detention, Seizure and Release of Goods in Transit to be issued in English in addition to the vernacular language

Where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

The proper officer detaining or seizing goods or conveyances shall issue a notice specifying the tax and penalty payable and thereafter, pass an order for payment of tax and penalty. With the introduction of E-way bill mechanism for supply of goods across the country, the proper officer of various state jurisdictions might use their local/ vernacular language to correspond/ issue notices to the assessee.

In such a scenario, the assessee located in a particular state may face difficulty in understanding the notice issued by the proper officer in the vernacular language of the other state and accordingly face issues in make any further correspondences.

Recommendation

Therefore, it is recommended that necessary amendment be made in the Act itself, to provide that notices and orders should be issued in English in addition to the vernacular language and hence, the authorities to uniformly correspond in English language with the assessee while issuing Notices and Orders.

Direct Tax

Issues & Recommendations

1. Extending tax rate benefits to existing manufacturers and to Individuals/partnerships

The automotive component industry is facing tough time due to recessionary slowdown in the sector. The Taxation Amendment (Ordinance) Act as promulgated has reduced the effective tax rate on companies to 25.17% (22% tax + 10% surcharge + 4% cess). Further, for companies newly set-up and engaged in manufacture, corporate tax rate has been reduced to 17.16% (15% tax + 10% surcharge + 4% cess).

Although the tax rates have been slashed substantially however, it has resulted only marginal relief for small manufacturers as their tax rates reduced from 26% (25% + 4% Cess) to 25.17%. Further, the preferential tax rates are only available for the corporate assesseees and not to Partnerships/ LLP which constitute major strata in the industry.

Recommendation

- ▶ Government may consider extending the benefit of Section 115BAB (i.e. 17.16% tax rate) to existing automotive component manufacturers as well to reduce the tax burden.
- ▶ The tax rate on individuals and partnership firms/ LLP engaged in manufacturing of automotive components should be reduced to match the tax rate applicable on the companies. Accordingly, the government may consider covering such partnership firms/ LLP in the scope of Section 115BAA & 115BAB of the Act.
- ▶ It would help automotive component industry to enhance India's competing skills in the global market and helps the automotive component manufacturers in improving the margins.

2. Investment Allowance (section 32AC)

As per the subsisting provisions, investment allowance under section 32AC was available @ 15% to manufacturing companies, if investment was more than INR 25 crore in new plant and machinery acquired during any previous year during the period 1.4.2014 to 31.3.2017 and installed on or before 31 March 2017.

Recommendations

- ▶ This provision (or other similar provision) should be reintroduced to boost the capital sector so that the manufacturers are motivated to invest in new technologies/ areas specifically Electric Vehicle (EV) and its components/ ancillaries related plant & machinery.
- ▶ Further, the minimum amount of investment shall be reduced from INR 25 crore to INR 5 crore to provide benefit to small manufacturers.
- ▶ It is suggested that the scope of investment allowance should be enlarged to include the amount invested in the new building as well as it constitutes a major portion of the total investment. In such cases, the benefit should be allowed on completion of building.
- ▶ Also, the key condition of using 'new' plant & machinery should be removed so as to motivate small manufactures who cannot afford brand new plant & machines. This will promote recycle/ re-use of old machines keeping environment degradation into consideration.
- ▶ This benefit should be given in addition to the lower rate of tax allowed under Section 115BAA & 115BAB.

3. Phasing out of in-house Research & Development weighted deduction

While the United States and Japan remain leaders in innovation, there is an increasing shift of R&D to the Asian Growth Markets. The Asian economies, especially countries such as China, Japan, South Korea and India, are likely to drive the growth for years to come. Countries such as China, India, Korea, Brazil and Eastern Europe are now able to compete with the leading countries in R&D for development of the most sophisticated and technologically complex new products.

India is increasingly becoming a top global innovation player in fields involving automotive parts and assembly. In-house research and development facility has become a necessity for keeping up with the pace of innovation efforts being made by the global counterparts of Indian auto component manufacturers. Presently, weighted deduction benefit has been reduced from 200% to 100% from 1st April 2020 under section 35(2AB) of the Act for in-house research and development facility. However, this deduction is not available for expenditure in the nature of cost of any land and building.

Further, weighted deduction under section 35(2AB) is available only while computing taxable income under the normal provisions of the Act and not book profit under section 115JB of the Act, resulting into accumulation of tax paid on book profit to be carried forward.

Recommendation

- ▶ The benefit of weighted deduction of R&D expenses should also be allowed where contribution is given to third party R&D service providing companies to encourage localized designing of products.
- ▶ Since in-house research and development is an integral part of auto industry and a huge amount is incurred on building for setting up research and development facilities, such benefit should also be extended on expenditure incurred on building (or part of building) exclusively used for R&D.
- ▶ Urgent need for spend on R&D by domestic industry due to regulatory changes related to emission and safety. Increase rate of weighted deduction to encourage spend by domestic auto component manufacturers.
- ▶ Further, in order to promote in-house R&D in India, the amount of weighted deduction under Section 35(2AB) may be allowed to be deducted while computing minimum alternate tax under section 115JB. It will also take care of accumulation of MAT credit.
- ▶ At present, there is ambiguity whether roads constructed for test tracks to be regarded as plant & machinery for allowing weighted deduction under section 35(2AB) of the Act. In order to avoid litigation, it should be clarified that such expenses are allowable as deduction under section 35(2AB) of the Act. Further, various essential and integrated R&D expenses, such as expenses on development of prototype, etc. should be allowed as deduction by providing specific guidelines in this regard to avoid unnecessary litigation in future regarding allow ability of such expenses.
- ▶ Additionally, even for expenses incurred outside like testing fee, consultancy fee, weighted deduction under Section 35(2AB) should be allowed.

4. Additional incentive under Direct tax to expand scope of FAME-2 Policy

The government has recently issued a scheme for Faster Adoption and Manufacturing of Electric Vehicles in India Phase II (FAME India Phase II) policy. The policy inter alia includes demand incentives to be given for generation of demand of electric vehicles (“EV”) in India. However, there is no direct incentive given by the government for promotion of manufacture of EV components.

The Finance Minister in her budget speech 2019 has announced that tax incentives will be given for investment in sunrise and advanced technologies.

Recommendation

- ▶ Keeping in view the overall agenda of the Government in moving towards EV, we propose to amend the Act for providing tax holiday for companies engaged in production and development of components for EV basis the technology transfer/development.

5. Permissibility of new claims during assessment proceedings.

Tax officers taking directions from the Supreme Court ruling in the case of Goetze (India) Ltd. reject claims made by taxpayers during assessment proceedings which are omitted to be claimed in the return of income. This causes hardship on the assessee where they have missed to claim certain deductions in the return of income and due date for filing revised return under section 139(5) of the Act has lapsed.

Considering that the Finance Act, 2017 has further limited the time of filing revised return by 1 year, this shall cause severe hardship for assessee who have missed to claim certain deductions in return of income.

Recommendation

To avoid undue hardship to the assessee, we propose that the Act should be suitably modified to provide that tax officer is duty bound to allow legitimate claims of taxpayers made during assessment proceedings.

6. Rationalization of Patent Box Regime under section 115BBF

Finance Act, 2016 introduced new section 115BBF, as per which qualified taxpayers can claim beneficial tax rate of 10% (on gross income basis) in respect of income from

exploitation of patents developed in India. The benefit of concessional rate was restricted to true and first investors only in whose name patent is registered. The Patent Box Regime law introduced in India needs to be rationalized further for its true benefits. Below are some of the issues in existing tax benefit law:

Issues

- ▶ The requirement of patent being registered in India under the Patents Act raises an ambiguity, whether royalty received from overseas in respect of patent developed in India, which is registered both in India and outside India will be denied the benefit on the ground that the royalty is relatable to foreign patent and not Indian patent.
- ▶ There is no provision for continuation of the concessional rate of tax to the successor in case of tax neutral mergers and demergers and/or succession by way of slump sale or death of the inventor which may result in unwarranted denial of benefit and impediment to ease of doing business.
- ▶ Section 115BBF provides the benefit of reduced rate of tax to only 'royalty' income derived from patents. This suggests that companies which hold patents and exploit them commercially by manufacturing and selling goods / articles may not qualify for benefit of reduced rate, since they do not earn 'royalty' income per se. This will necessitate division of businesses into patent holding companies and companies that exploit the patent, which is artificial and serves no commercial purpose.
- ▶ The concessional tax rate is not applicable in respect of royalty received as capital gains. The taxpayer may exploit the patent by outright transfer. There is no reason to exclude amount which is chargeable as capital gains in the hands of the taxpayer

Recommendation

- ▶ It should be clarified that royalty received from overseas for a patent which is registered in India as also in a foreign country also qualifies for concessional rate of tax. The benefit should not be denied on the ground that such royalty is attributable to foreign patent.
- ▶ In case of a business re-organisation in the form of merger, demerger etc., the successor entity and in case of death of the patent owner, its legal heir/inheritor of the patent should be considered as eligible to claim the benefit provided such successor/legal heir satisfies the condition of being a resident of India

- ▶ It is recommended that a concessional rate be extended to companies that exploit their own patents in the manufacture and sale of articles, by imputing a 'royalty' income determined on the basis of the arm's length principle
- ▶ It is recommended that concessional regime should also be extended to capital gains arising in the hands of the taxpayer on account of patent.

7. Tax treatment in normal tax computation of Ind AS adjustments made in financial statements

With Ind AS applying for many companies, the Government has come up with tax treatment under MAT provisions of various Ind AS adjustments done in the financial statements. However, many such adjustments represent notional income or expense for which the tax treatment is neither specified under the Act nor there are any specific judicial precedents to provide clarity to the tax payers.

Recommendation

To avoid unnecessary litigation and interpretational issues regarding the tax treatment of Ind AS adjustments in normal tax computation, it is recommended that Government should come up with specific provisions to address this issue. This is not only promote consistency amongst tax payers but also reduce chances of litigation in future.

8. Abolish Minimum Alternate Tax ("MAT") provisions

The Income tax Act provides for taxation of companies under two provisions i.e. under normal provisions of the Act and under MAT provisions. The objective behind introduction of MAT provision is to tax those companies which have profits in the books of accounts but end up in not paying tax due to computation of income as per the provisions of the Act. After introduction of ICDS, the computation of income as per normal provisions are also in lines with the accounting principles only.

Recommendation

- ▶ To avoid notional taxation on companies, the provisions of computation of tax under MAT should be abolished. Further, the companies shall be allowed to carry forward and set off MAT credit available with them.

9. Abolish Dividend Distribution Tax (DDT)

Currently, DDT is levied at the rate of 15 percent plus cess and surcharge on all the dividend distributed by any company. DDT in addition to Income Tax increases the effective cost of doing business in India for foreign investors. Further, the provisions of section 115 -O of the Act, dividend distribution tax (DDT) tax would be paid after grossing up of dividend distributed by the company.

Recommendation

It is suggested that additional levy of DDT on the profits distributed by the company should be abolished. It would help in releasing funds for growth of industry and also encourage foreign investors to set-up operations in India.

10. Depreciation Rate

Auto Industry is a capital-intensive industry and the cost of plant and machinery generally utilized in this industry is very high. The need of the hour for the industry is investments and capacity addition and the rate increase will provide a substantial incentive to component manufacturers to invest in capacity.

We are competing with countries like China, Thailand, Brazil, who have a significant infrastructural advantage. Also, the current depreciation rate of 15% does not assist auto companies in meeting the objective of timely accumulation of funds for replacement of assets.

Further, in certain cases plant and machineries that are generally used for double/ triple shift basis. However, the current depreciation provisions do not distinguish such case to provide a higher rate of depreciation.

Recommendation

- ▶ Current depreciation rate of 15 percent, being very low, should be increased to at least 25 percent and to 40 percent for domestically manufactured capital goods to encourage local manufacturing. The same will help in arriving at more realistic taxable revenue for auto players and at the same time assist in leaving adequate funds for replacement of assets.
- ▶ Further, the capital goods industry in India is struggling. In order to boost the demand of domestically manufactured capital goods, it will be helpful if the Government can

notify higher depreciation rates for capital goods procured domestically as against the goods imported. Such proposal will not have any impact on the revenue flows to the government, as the same will only have a timing impact and at the same time the taxpayer can get benefitted by increased cash flows in the initial years. Further, this may also put a deterrent to the practice of importing goods where the same quality capital goods are available domestically.

11. Rationalising the margins under Safe Harbour rules for EV auto component manufacturers in India

The safe harbour rules provides standard rates of operating profit margin for manufacturing and export of auto components.

In March 2019, Government of India has introduced FAME-II policy to promote Electric Vehicles in India. Huge subsidies given under FAME-II policy that will certainly encourage EV sales in India and also attract investments in India from global/domestic players. On the other hand to support Electric vehicle supply chain, Government has not incentivized EV Auto Components Manufacturing in India. Foreign Investment in India in this area can play a bigger role in order to support supply chain. Foreign Investment in this space can help for creating viable ecosystem for boost Electric Vehicles sales in India.

Recommendation

- It is recommended, the definition of core Electric auto components should be widened by including the specific provisions with respect to manufacturing of electric vehicle components so as to boost the overall agenda of the government under the FAME India Phase II policy.
- Standard rate of 5% can be recommended under Safe Harbour Rules
- This recommendation will help India to attract investment and make India as export hub for EV auto components export to the world

Illustrative list of key EV auto Components that can be included in the provision:

- (i) Battery Pack
- (ii) Battery Charger;
- (iii) AC or DC Motor;
- (iv) AC or DC Motor Controller
- (v) Power Control unit (inverter, AC/DC converter, condenser);

- (vi) Energy monitor;
- (vii) Contactor;
- (viii) Brake system for recovering;
- (ix) *Electric Compressor*

12. Expenditure incurred on power from renewable sources

As part of the Union Budget 2015, the finance minister emphasized on achieving the 1,75,000-megawatt target set for clean energy installations by 2022. In this regard, emphasis has been given on the installation and increasing the capacities from renewable sources of energy. However, no incentive or emphasis has been given to the corporate end users for using clean energy sources as against conventional sources of energy. Considering installation of renewable energy technology involves huge investment, tax incentives on the same may be provided.

Recommendation

Tax benefits should be made available to the users of green technologies to incentivize and popularize clean energy sources in the following forms:

- ▶ Weighted deduction/ accelerated depreciation should be made available to users on technological spend of capital nature incurred on implementation of clean energy.
- ▶ Weighted deduction on technological spend of revenue nature should be made available to its users

13. Allowance of Corporate Social Responsibility Expenses

Section 135 of Companies Act, 2013 (Cos Act 2013) provides that companies having net worth of INR 500 crores or more, or turnover of INR 1,000 crores or more, or a net profit of INR 5 crores or more need to spend 2 percent of their average profits for CSR purposes (Applicable w.e.f. 1 April 2014). Activities specified in Schedule VII of Cos Act 2013 alone qualify as CSR.

Finance Act 2014 has clarified that expenditure incurred u/s 135 of Cos Act 2013 shall not be deemed to be an expenditure for purposes of business under section 37 of the Act. Accordingly, CSR expenditure shall be disallowed if it's not of the nature described under section 30 to 36 of the Act.

Currently companies incur large expenditure towards its corporate social responsibilities [‘CSR’] such as development of infrastructure facilities for educational institutions, hospitals, etc., which are run as ‘non-profit making organizations’. These expenses are essential for the companies to establish their reputation and brand in the market. However, due to clarification given in Finance Act, 2014, such expenses shall not be considered as business expense and thus shall not be allowed as tax deductible expense to the assessee unless specifically allowed under any provisions of the Act.

Recommendation

As the Companies Act 2013 mandatorily requires to spend on CSR activities, specific provisions to allow 100 per cent tax benefit should be provided to avoid hardship on assessee. Alternatively at least 50 percent expenditure should be allowed as deduction applying same principal as applicable to "Donation" which is allowed to the extent of 100% or 50% under section 80G.

14. Disallowance of Expenditure incurred in relation to income not includible in total income under section 14A of the Act

As per the existing provisions of section 14A of the Act, no deduction shall be allowed in respect of expenditure incurred by a taxpayer in relation to income which does not form part of the total income under the Act.

In this regard, a method has been prescribed under Rule 8D of Income Tax Rules, to calculate the amount of disallowance for the purpose of section 14A of the Act. Rule 8D has created severe genuine hardships for taxpayer, as the calculation basis under Rule 8D is totally arbitrary. In many cases the disallowance calculated as per Rule 8D method exceeds the amount of total exempt income earned during the year.

The method under Rule 8D also does not demarcate between investments which have generated or not generated income during the year. Further, no distinction has been made for companies earning “dividend income” due to holding strategic investments in group companies and very little expenditure is attributable to earn such dividend income.

Recommendation

- ▶ The scope of section should be limited to cases of tax avoidance and not in cases where income is exempt as the due provisions of the Act. Further, it should be clarified that only those expenses which are directly related to earning of exempt income be disallowed.
- ▶ Further in general where investment in shares are made out of accumulated profits and Dividend Distribution Tax has already been paid by the investee company on dividend paid on such shares, section 14 A should not be invoked. Alternatively, a nominal % of dividend income, should only be considered (such as 1 percent - 2 percent) as expenditure in relation to such income.
- ▶ Further, for “dividend income” earned from holding strategic investments in group companies and very little expenditure is attributable to earn such dividend income, overall maximum limit of expense to be disallowed should be capped
- ▶ Further, the overall maximum limit of expense to be disallowed should not exceed to the tax payable on exempted Income earned.

15. Withholding tax on reimbursement of expenses

Due to lack of clarity, companies are deducting TDS on inter-company transactions, which is not in the nature of income, on which TDS is already deducted. This is adding unnecessary paper work and resulting in double TDS on same transactions. Further, there are transaction transactions which represents cost-to-cost reimbursement of expenses on which TDS is deducted in the absence of specific provisions under the Act. This is causing difficulty due to double deduction of TDS on same transaction and increases unnecessary documentation. Moreover, deduction of taxes on cost-to-cost transaction causes difficulties in cross border transactions wherein a foreign company is liable to undertake compliances in India due to deduction of tax at source.

Recommendation

It is recommended to add explanation or clarification in the TDS provisions for non-deduction of tax in cases where the tax has already been deducted in principle transaction or when the transaction represents cost-to-cost reimbursement of expenses.

16. Limit for deduction of tax at source (TDS) from rent

As per the existing provisions of the Act, tax is required to be deducted at source if the amount of rent credited/paid during the financial year exceeds INR 180,000.

Recommendation

Considering the existing inflation and the increase in rental value, it is suggested that the basic exemption limit for deduction of TDS be increased from INR 180,000 per annum to INR 240,000 as this will help in avoiding unnecessary hardship to assessee for claiming refund of TDS from Income Tax Department.

17. Deduction of tax at source on payment to contractors

As per the existing provisions of the Act, the “work” for the purpose of deduction of tax at source on payment to contractors has been defined to include “manufacturing or supplying a product according to the requirement or specification of customer by using material purchased from such customer”.

The above provision has resulted in deduction of tax by companies wherein even a small component is supplied on free of cost basis or otherwise to the supplier and supplier in turn supplies the final product along with the component supplied by the customer.

Further, there’s an ambiguity on the nature of contracts to be covered under section 194C of the Act and section 194J of the Act which eventually leads to short/excess deduction of TDS.

Also, as per the existing provisions of section 194C of the Act, the ‘work’ for the purpose of deduction of tax at source on payment to contractors has been defined to include “manufacturing or supplying a product according to the requirement or specification of customer by using material purchased from such customer”.

This has resulted in deduction of tax by companies wherein even a small component is supplied on free of cost basis or otherwise to the supplier and supplier in turn supplies the final product along with the component supplied to the customer.

Recommendation

- ▶ It is suggested that the definition in the above clause should be modified as “manufacturing or supplying a product according to the requirement or specification of a customer by using all / significant material purchased from that customer” as will avoid unnecessary hardship to assessee for claiming refund of TDS from Income Tax Department.
- ▶ Further, it is suggested that clarity should be provided on the nature of contract that should be covered under section 194C of the Act and section 194J of the Act.
- ▶ In order to avoid genuine and avoidable hardship to job workers, it is suggested that the definition of “work” under section 194C in the appropriate clause may be modified as “manufacturing or supplying a product according to the requirement or specification of a customer by using all/ significant material purchased from that customer”

18. Enhancement of limits for TDS for payment to contractors

As per the existing provisions, any payment for contract services rendered which exceeds INR 30,000 for a single payment or INR 100,000 (for aggregate payments in a financial year) requires the persons responsible for making such payments to deduct tax at source.

Recommendation

Considering the existing inflation, it is recommended that the threshold limit be increased to INR 50,000 for single payment and to INR 150,000 for aggregate annual limit.

19. Enhancement of limits for TDS on payment of interest

As per the existing provisions, tax is required to be deducted at source if the amount of interest credited/paid during the financial year exceed Rs. 10,000.

Recommendation

This limit was fixed in 2007 (w.e.f 01.06.2007). Considering the inflation, it is suggested that the basic exemption limit for deduction of TDS be increased from Rs.10,000 p.a to Rs. 20,000 p.a.

20. Deduction of tax at source on the value of the transfer of immovable properties

As per the subsisting provisions, TDS at the rate of 1 per cent is applicable on the value of the transfer of immovable properties (other than Agricultural land) where consideration exceeds INR 5,000,000.

Recommendation

Reason given for introduction of this provision was that as per the records of registrars many transactions in properties having value at INR. 3,000,000 or above was registered without PAN. Thus, issue is with certain transactions only. However, due to certain wrong doers, genuine small purchasers have been posed to severe hardships. Thus, this provision should be deleted.

Alternatively, the threshold limit for the applicability of the above provision should be increased from INR 5,000,000 to INR 10,000,000 as considering the existing inflation condition, when a small building cost exceeds INR 10,000,000.

21. Double taxation of employer's contribution to approved superannuation fund

At present, employer's contribution in excess of INR 150,000 per annum is taxable in the hand of employees in the year of payment. In addition, when pension is paid on the basis of accumulated balance as per scheme, this is taxed once again, leading to double taxation- once at the time of payment of contribution in excess of INR 150,000 and other in the form of pension / refund to assessee.

Recommendation

It is suggested that the limit of INR 150,000 be removed to avoid double taxation to the individual.

22. Employee Contribution to Provident Fund (PF)

As per the existing provisions of the Act, the deduction is provided for any sum received by the assessee from any of his employees, if such sum is credited by the assessee to the employee's account in the relevant fund or funds on or before the due date.

Recommendation

It is suggested that the provisions should be made clear and aligned with other provisions of the Act to provide that the employee contribution will be allowed as a deduction if it is paid by the due date of filing the return of income for the previous year and in case it is paid thereafter, it will be allowed as a deduction in the year in which it is paid.

23. Revision of limit of advance tax

As per the subsisting provisions, advance tax is payable during a financial year where the amount of such tax payable by the assessee during that year is INR 10,000 or more. Such limit of advance tax of INR 10,000 was set by the Finance Act, 2009. Further, in cases where the tax deducted by employer on salary is less requiring the employee to pay advance tax and interest liability causing hardship on the employees.

Recommendation

Considering the inflationary conditions prevailing in India, the advance tax limit needs to be revised upward appropriately. Further, where the advance tax payable by an assessee for a particular financial year is less than a particular specified limit, the flexible payment of advance tax should be allowed on or before 31 March of the respective financial year, instead of mandatory advance tax deposit for each instalment.

Further, a clarification shall be brought to exclude the persons earning income only from salaries from the purview of advance tax provisions.

24. Limit for deduction of TDS on rent (section 194 I)

As per the subsisting provisions, tax is required to be deducted at source if the amount of rent credited/ paid during the financial year exceed INR 1,80,000. Increasing this limit to 2,40,000 p.a. will avoid unnecessary hardship to assessee for claiming refund of TDS from Income Tax Department.

Recommendation

It is suggested that the basic exemption limit for deduction of TDS be increased from INR 1,80,000 p.a to INR 2,40,000 p.a.

25. Section 201(1A); Interest on delay in deposit of TDS

In case of late deposition of tax deducted by the deductor. The deductor is required to pay simple interest @1.5% for every month or part of a month from the date of deduction to the date of actual payment.

Recommendation

Interest should be calculated for the period from the date of TDS deduction to date of actual payment and not be rounded off to month as is presently being computed by TRACES System.

26. Suggestions to rationalize Personal tax rate

A salaried tax payer has hardly any deductions to claim from his taxable income which leads to huge outflow of taxes and leaves very little cash flow in the hands of the individual. It is needless to say that any tax relief to the tax payer will increase the purchasing power and will fuel the industry growth be it auto or retail or service sector

Recommendation

- ▶ Interest received from bank deposits in any form should be included within the ambit of section 80TTA apart from savings account with banks, post offices and co-operative societies carrying on business of banking.
- ▶ Appropriate provisions should be introduced to allow deduction of the amount paid to ex-employer for not serving the notice period against the amount received from the current employer for joining the company early by not serving the notice period of ex-employer.
- ▶ Deduction under section 10(32) of the Act, providing for deduction of INR 1,500 where the income of minor is clubbed in the hands of parent should at least be raised to INR 10,000 per minor child.
- ▶ The value of car perquisite based on cubic capacity of engine may be reviewed. The basic models may be exempt from car perquisite valuation.
- ▶ Leave Travel Allowance should be allowed annually instead of two journeys performed in a block of four calendar years. Further, the provisions for leave travel allowance should provide exemption for travel through any mode as well as should

provide exemption for amount paid to hotels not above 3 star hotels in order to boost travel in India.

- ▶ The exemption limit of Leave Encashment should be increased to INR 500,000 and the same should be fully exempt if received at the time of retirement.
- ▶ Long term Inflation Indexed interest Bonds should be issued specifically for Senior Citizens, to offset the negative effects of inflation.
- ▶ Children education allowance should also be increased to INR 2,000 per month, as the current limit of INR 100 per month, is too less and does not reflect the high expenses involved in the current education system. Similarly, Children hostel allowance should be increased to INR 6,000 per month from the current limit of INR 300.
- ▶ An independent deduction separate from the deduction under section 80C of the Act, in respect of housing loan repayments should be provided. This will help motivating people to repay the housing loans at a time when inflation is very high.
- ▶ Deduction under section 80C should be raised from Rs. 1.50 Lakhs to Rs. 2 Lakhs.

Facilitate Ease of Doing Business in India- Procedural Issues

1. Method of Accounting

As per existing provisions, inventories are valued at lower of actual cost or net realisable value as computed in accordance with ICDS issued by CBDT. Such valuation is to be further adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods to the place of its location and condition as on date of valuation. Including the value of cenvatable tax, duty, cess, etc. in the cost of inventories does not have any impact on the profit and loss account and is tax neutral. Besides it leads to huge amount of time and working for tax computation.

Recommendation

It is suggested that the above mentioned provision be amended by deleting the clause (ii) of section 145A and adopt the basis of valuation of inventory as regularly followed by assessee in the books of account.

2. Time limit for speedy settlement of old cases

Currently, the Act prescribes time limit for completion of assessments and for preferring appeals against the orders. Further, the Act provides directory time limits for disposing of appeals against the orders of the assessing officers and appellate authorities and Courts. However, multiple provisions of re-assessments, revisions of assessment orders etc., results into prolonged litigation. In view of such prolonged litigations, a lot of old cases are pending at various forums and need to be resolved/ reach final conclusion.

Though there is a provision under the Act which entitles the assessee to obtain the refund if any with interest in case of delay in passing the effect order, but the assessees are put to hardship in terms of cash flow.

Recommendation

Further, for speedy settlement of old cases, the following is recommended:

- ▶ Instructions to be issued for settlement of old cases on priority.
- ▶ Providing mandatory time limits for disposing of cases at the appellate forums.

- ▶ Increasing the number of benches of Authority for Advance Rulings to decide contentious issues before-hand and to avoid future litigation.

3. Grant of all pending income tax refunds

At present, the refunds for a particular assessment year are not issued if that particular year is chosen for further scrutiny by the Income Tax Authorities. Such prolonged litigation, adjustment of refunds against demand for other years etc. makes it almost impossible to obtain refund. Even in situations where refunds are due basis the orders of higher appellate authorities, the tax authorities delay in issuing refund cheques/warrants, after the passing of order is giving effect to appellate orders.

Though there is a provision under the Act which entitles the assessee to obtain the refund if any with interest in case of delay in processing of refund. However such refund is calculated only upto the date when the refund is granted. Given the same, the assessee is put to hardship in terms of cash flow and is deprived of interest on the delayed returns and also assessee does not earn any interest on the 'interest on refunds' for the period of such delay of issuing of refund warrants by the assessing officers.

Recommendation

- ▶ Provision should be made for granting of refund within a specified time frame.
- ▶ There should be clear guidelines for adjustment of refund from past year's tax demand.
- ▶ Interest on refunds should be calculated up to the date of actual issuing of "refund warrants" and not only up to the date of granting the refund/date of order.
- ▶ Rate of interest on income-tax refund should also be increased from 0.5% to 1%.

4. Time limit for TDS Assessments of payments made to non-residents

Currently there is no time limit specified by the Act for initiating and completion of TDS proceedings under section 201 of the Act in respect of payments made to non-residents. Thus the TDS returns are scrutinized by the assessing officers for past years without any limit, which has resulted into enormous difficulty for the assessee, as it becomes practically difficult for storage and retrieval of data beyond four years of filing of the TDS Returns.

Certain judicial precedents exist wherein which the time-limit has been laid down by the Courts for initiation of proceedings under section 201 of the Act in respect of payments made to non-residents.

Recommendation

A specific time limit should be fixed to initiate and complete the TDS proceedings under section 201 of the Act in respect of payments made to non-residents which should not be more than four years from the relevant financial year.

5. Mandatory time limit to pass rectification order/ dispose rectification applications

Though the current provisions of the Act prescribe for a six month time period for the tax officer (AO) to pass a rectification order yet it has been observed that it takes years to obtain such rectification done after rigorous follow-ups. This at times causes genuine hardship for the taxpayers to obtain necessary certainty of tax calculations and increase unnecessary burden on the assessee to simultaneously file appeal so as to not lose chance of getting relief.

Recommendation

A specific time limit should be fixed to pass rectification order by the AO and if such time-limit is expired the application of the taxpayer should be deemed accepted.

6. Time limit for disposal of appeal by CIT(A)

The current provisions of the Act does not prescribe any time limit for CIT(A) to dispose pending appeals. This at times causes genuine hardship for the taxpayers to obtain justice specially when there is jurisprudence for the favourable outcome.

Recommendation

A specific time limit should be fixed to initiate and complete the appellate proceedings under section 250 of the Act. Further, such provisions should also provide for time limit within which the assessing officer has to dispose any request for matter remanded back to him.

7. Insertion of clarification to avoid multiple deduction of tax in relation to same transaction

The current provisions of the Act requires for withholding of tax on specified payments made to residents and non-residents at rates specified.

There can be cases when an intermediary collects such income only for and on behalf of another person, in whose right the income arises and is taxed. In such a scenario, no tax should be required to be withheld for payment to intermediary, who only acts as a facilitator to pass on such income to the person in whose right in actually arises.

However, applying the bare meaning of the current provisions, the tax authorities apply withholding tax provisions at each payment occasion and even in cost to cost reimbursement arrangement entered due to commercial difficulties. This results into multiple deduction of taxes on the same transaction and thus have resulted increased cash outflow, which negatively impacts genuine transactions.

Recommendation

The stream of payment routed through an intermediary should suffer withholding only once. Hence a clarification may be provided in the Act or by way of circular to provide for non-deduction of tax in case of payments to be made to intermediaries.

Similar circular already exists in case of payments made to shipping agents of non-resident ship owners, wherein it is clarified that TDS provisions shall not be applied on shipping agents, as they only act as an intermediary i.e. for and on behalf of non-resident ship owners.

8. Prosecution proceedings for delay in remittance of tax to the credit of the Central Government under section 276B of the Act.

Notices are being issued for initiation of prosecution proceedings under section 276B even in cases where tax deductors have deposited the tax deducted by them along with interest voluntarily after the stipulated time period but before any notice has been served upon them. It is causing undue hardships to genuine tax deductors as voluntary remittance of TDS before issue of notice clearly indicates the absence of any malafide intention on their part. It is a settled law that prosecution proceedings are appropriate only in cases where deductors deliberately do not deposit TDS, since mens rea or a presence of guilty mind is a sine qua non for attracting prosecution provisions.

Section 276B of the Income-tax Act, 1961 neither prescribes any threshold limit beyond which the prosecution provisions would be attracted nor does it prescribe any retention period, after the expiry of which, prosecution proceedings would be initiated. Thus, absence of threshold limit and retention period under this provision of the Income-tax Act, 1961 causes undue hardship even to genuine tax deductors.

Recommendation

It is suggested that the matter may be looked into and appropriate measures may be taken so that prosecution proceedings under section 276B are not initiated against genuine tax deductors, who have deposited the TDS voluntarily after the prescribed time limit but before service of any notice by the department.

Certain threshold limits may be prescribed to avoid prosecution on immaterial values and to avoid genuine errors in estimations.

9. Income Computation and Disclosure Standard [ICDS]

The Central Government, with the objective to bring increased consistency in computation and reporting of taxable income, ease of doing business in India, reduced litigation, notified 10 “Income computation and disclosure standards” (ICDS), which are effective from 1st April, 2016. The ICDS prescribes computation and disclosure requirements for computing “income from business and profession” and “income from other sources”.

It has been clarified that the ICDS are not meant for maintenance of books of account but are to be followed for computation of total income. However, the present version of ICDS has been drafted without considering the concerns and practical challenges faced by the taxpayers.

Given the same, effectively such ICDS will have a direct bearing on the maintenance of books of account or separate records/ documents to keep track of changes due to ICDS implementation.

Recommendation

The ICDS so far issued should be redrafted to provide more clarifications and examples considering the practical challenges and difficulties posed by the taxpayers / Industry.

10. Intimation of estimated income, tax liability and payment of taxes (New Rule 39A)

Under the current provisions of the ITL, a taxpayer is required to voluntarily discharge part of its tax liability by way of advance tax in four instalments on an estimated basis for the relevant tax year. The taxpayer is entitled to revise its advance tax instalments based on any variation in its estimate of income during the tax year. In case of any shortfall in such instalments as compared to the actual tax liability, the taxpayer is liable to pay interest at a specified rate on such shortfalls.

On 19th September 2017, CBDT has issued a draft notification for insertion of a new rule 39A to impose a compliance requirement on company taxpayers and persons governed by the tax audit provisions to furnish certain details/ information, such as income under different heads of income, various deductions, tax liability, advance tax, gross turnover/ receipt etc, for the relevant period of the tax year and the corresponding period of the immediately preceding tax year.

The Rule is similar to the compliance requirement in vogue in the pre-1988 ITL regime, before it was omitted with effect from 1 April 1988, to save the taxpayer and the Tax Authority from enormous paperwork.

Recommendation

- The provision was earlier omitted to escape enormous paperwork. Accordingly, its re-introduction after 30 years will defeat the purpose of earlier omission.
- The taxpayers are already paying interest on late or short payment of advance tax. Accordingly, Rule 39A will result in an additional and unnecessary compliance burden on the assessee which would act as a barrier to the Government's policy of facilitating ease of doing business.

11. Mechanism to avail customs duty concession/ exemption on goods imported under trade agreements

Customs duty exemption/ concessions are available on goods imported from various countries wherein India has signed an FTA/CEPA/PTA with such countries. However, in order to avail the customs duty benefits on imports from these countries, the importer is required to present a Certificate of Origin (COO) to the customs at the time of clearance of imported goods.

It is pertinent to note that the overseas suppliers many a times are not able to provide the Certificate of Origin as and when the goods are imported and there might be a delay of 7 to 10 days. However, importers are forced to get the shipments cleared without availing the benefit due to urgency and/ or to avoid demurrage charges etc. In such a case, importer has to forego the benefit though the shipments are eligible for duty exemption.

Recommendations

The submission of Certificate of Origin to the Customs authorities at the time of import is a procedural requirement. It is therefore suggested that the importers may be allowed to claim the duty benefit as follows:

- Exemption ab initio be granted to the importer on submission of an indemnity bond with a condition of filing the Certificate of Origin within a set timeline
- Alternatively, the duty benefit may be granted post clearance by way of refund in case the Certificate of Origin is delayed. The above practice is followed in other countries as well.

12. Insufficient time for demurrage free customs clearance at airports

The goods imported at various airports throughout the country are required to be cleared within 3 days. In case the goods are not cleared within 3 days, the importer is required to pay demurrage charges.

It is pertinent to note that the goods cannot, in the normal course of business, be cleared within 3 days due to a plethora of procedural requirements and accordingly demurrage charges levied lead to increase in the cost of import.

Recommendations

The time for demurrage free customs clearance at airports be increased from 3 to 5 days to provide importer at least a reasonable time for carrying out customs clearance procedure.

13. Timeline for submission of Bill of entry and penalty for late filling of Bill of entry

Authorized person has to submit Bill of Entry before the end of the next day following the day (excluding holidays) on which the aircraft or vessel or vehicle carrying the goods

arrives at a customs station at which such goods are to be cleared for home consumption or warehousing.

Where the bill of entry is not filed within the time specified in sub-regulation (1) and the proper officer of Customs is satisfied that there was no sufficient cause for such delay, the importer shall be liable to pay charges for late presentation of the bill of entry at the rate of rupees five thousand per day for the initial three days of default and at the rate of rupees ten thousand per day for each day of default thereafter.

Considering the delay in filing of Bill of Entry may be on account of system failure, shortage of officers or some other issue which may not be in hands of importer which unnecessarily increases the cost of transaction. Most of the times the delay is due to ICE-Gate (internet portal).

Recommendation

Considering the above issue request you to increase the timeline for submission of Bill of entry to 3 days from the current 1 day following the arrival of goods at the port of import. If the filing of B/E is delayed due to system error then penalty should be waived off.

14. Simplification of AEO registration

The AEO scheme is a trade facilitation scheme for ease of doing business in light of international development, holder of this certificate is entitled for privilege, benefits, exemption and relaxation on account of import and export. This certificate is issued for particular period after that to be renewed.

This scheme is based on principle of sharing role and responsibility of customs with trade and industry and objective is to delink payment and clearance, to accept paperless declaration, increases efficiency, self-certification, earliest refund and drawback, request based examination/inspection etc.

The Ministry of Finance vide Circular No. 26/2018 – Customs dated 10th August 2018 has prescribed various measures for simplification and rationalization of processing of AEO-T1 application including development of web-based application for AEO-T1 wherein an online AEO website has been developed under the aegis of DIC for online filing and processing of AEO-T1 applications.

In terms of direction of the Chairman (CBIC), legal compliance verification in respect of all AEO-T1 certified entities as on 17th May 2019, is being sought as a one-time measure.

Recommendation

For registering a firm under AEO, lot of documents being asked by the department which are available on Custom's portal. Hence, to facilitate the importers, same data can be used and current AEO registration process can be simplified.

Further, where due to unavoidable reasons, sometimes where there is a delay in filling of BOE for clearance of goods (i.e. IGM amendment, incorrect documents, delay in arrival information of shipments etc.), in such bona-fide cases, Customs department should not impose fine due to late filing of BOE to the organizations which are eligible for AEO.

Annexures

Annexure-1 of ACMA PBM 2019-2020
List of Auto Components (112 tariff items), where duty rates are sought to be increased
from 7.5% and 10% (as applicable) to 15%

Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
1	40081190	Other: Plates, Sheets, Strip, Roads and Profile Shapes of vulcanised Rubber	Rubber Components	10.0%	15.0%
2	40081990	Other: Plates, Sheets, Strip, Roads and Profile Shapes of vulcanised Rubber	Rubber Components	10.0%	15.0%
3	40082990	Other: Plates, Sheets, Strip, Roads and Profile Shapes of vulcanised Rubber	Rubber Components	10.0%	15.0%
4	40092100	Reinforced or otherwise combined only with metal: without fittings	Engine Components	10.0%	15.0%
5	40093100	Tubes, Pipes and hoses of vulcnised rubber other than hard rubber: Without fitting	Engine Components	10.0%	15.0%
6	40094100	Reinforced or otherwise combined with other materials : without fittings	Engine Components	10.0%	15.0%
7	40094200	Reinforced or otherwise combined with other materials : With fittings	Engine Components	10.0%	15.0%
8	40103290	Other	Engine Components	10.0%	15.0%
9	40103490	Other	Engine Components	10.0%	15.0%
10	40129041	Tyre flaps of a kind used in two-wheeled and three- kg. 10% - wheeled motor vehicles	Consumables & Misc.	10.0%	15.0%
11	40129049	Other: Retreaded or used pneumatic tyres of Rubber, solid or cushion tyres, tyre Treads and tyre flaps, of rubber	Consumables & Misc.	10.0%	15.0%
12	40161000	Of cellular rubber	Rubber	10.0%	15.0%
13	40169320	Rubber rings (O-ring)	Rubber	10.0%	15.0%
14	40169330	Rubber seals (Oil seals and the like)	Rubber Components	10.0%	15.0%
15	40169340	Gaskets	Rubber	10.0%	15.0%
16	40169350	Washers	Rubber	10.0%	15.0%
17	40169990	Others : Arcticles of Vulcanized Rubber other than hard rubber	Rubber Components	10.0%	15.0%
18	68129921	Asbestos packing joints and gaskets - Packing joints	Engine Components	10.0%	15.0%
19	68129922	Asbestos packing joints and gaskets -Gaskets	Engine Components	10.0%	15.0%

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Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
20	70071100	Toughened (tempered) safety glass :Of size and shape suitable for incorporation in vehicles, aircraft, spacecraft or vessels	Interiors (non-electronic)	10.0%	15.0%
21	70072110	Bullet proof glass	Interiors (non-electronic)	10.0%	15.0%
22	70072190	Safety glass for vehicles- others	Consumables & Misc.	10.0%	15.0%
23	70072900	Other	Interiors (non-electronic)	10.0%	15.0%
24	70099200	Other : Framed	Interiors (non-electronic)	10.0%	15.0%
25	83023010	Curve drive stakes	Body / Chassis / BiW	10.0%	15.0%
26	83023090	Other	Body / Chassis / BiW	10.0%	15.0%
27	84133010	Injection pumps for diesel engines	Engine Components	7.50%	15.0%
28	84133020	Oil pump	Engine Components	7.50%	15.0%
29	84133030	Water pump	Engine Components	7.50%	15.0%
30	84133090	Other	Engine Components	7.50%	15.0%
31	84138120	Hydraulic Ram (Power Steering Pump Assembly)	Engine Components	7.50%	15.0%
32	84139190	Others (Parts of Steering Pump Assembly)	Engine Components	7.50%	15.0%
33	84148011	Of a kind used in air-conditioning equipment	Cooling System	7.50%	15.0%
34	84148030	Gas compressors:Turbo charger	Engine Components	7.50%	15.0%
35	84149011	Of Gas Compressors of a kind used in refrigerating and air conditioning appliances and machinery	Cooling System	7.50%	15.0%
36	84152010	For buses	Engine Components	10.0%	15.0%
37	84152090	Other	Engine Components	10.0%	15.0%
38	84159000	Parts-air conditioning machines	Cooling System	10.0%	15.0%
39	84212300	Oil or petrol-filters for internal combustion engines	Engine Components	10.0%	15.0%
40	84213100	Intake air filters for internal combustion engines	Engine Components	10.0%	15.0%
41	84213920	Air Purifiers or Cleaners	Interiors (non-electronic)	10.0%	15.0%
42	84213990	Other	Interiors (non-electronic)	10.0%	15.0%
43	84219900	Other: Parts of Machinery and apparatus for filtering	Interiors (non-electronic)	7.50%	15.0%

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Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
44	84314990	Other : Wheels and Components for Construction and Earthmoving Equipments	Suspension & Braking	7.50%	15.0%
45	84821011	Adapter ball bearings (radial type) : Not exceeding 50mm of bore diameter	Drive Transmission & Steering	7.50%	15.0%
46	84821012	Adapter ball bearings (radial type) : Of bore diameter exceeding 50 mm but not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
47	84821013	Adapter ball bearings (radial type) : Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
48	84821020	Adapter ball bearings (radial type) :Other ball bearing (radial type) of bore diameter not exceeding 50 mm	Drive Transmission & Steering	7.50%	15.0%
49	84821030	Adapter ball bearings (radial type) :Other ball bearing (radial type) of bore diameter exceeding 50 mm but not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
50	84821040	Adapter ball bearings (radial type) :Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
51	84821051	Thrust ball bearings : Of bore diameter not exceeding 50 mm	Drive Transmission & Steering	7.50%	15.0%
52	84821052	Thrust ball bearings : Of bore diameter exceeding 50 mm but not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
53	84821053	Thrust ball bearings : Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
54	84821090	Thrust ball bearings : Other	Drive Transmission & Steering	7.50%	15.0%
55	84822011	Tapered roller bearings (radial type) :Of bore diameter not exceeding 50 mm	Drive Transmission & Steering	7.50%	15.0%
56	84822012	Tapered roller bearings (radial type) :Of bore diameter exceeding 50 mm but not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
57	84822013	Tapered roller bearings (radial type) :Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
58	84822090	Tapered roller bearings (radial type) :Other	Drive Transmission & Steering	7.50%	15.0%

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Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
59	84823000	Spherical roller bearings	Drive Transmission & Steering	7.50%	15.0%
60	84824000	Needle roller bearings	Drive Transmission & Steering	7.50%	15.0%
61	84825011	Radial type :Of bore diameter not exceeding 50 mm	Drive Transmission & Steering	7.50%	15.0%
62	84825012	Radial type :Of bore diameter exceeding 50 mm not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
63	84825013	Radial type :Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
64	84825021	Thrust roller bearings :Of bore diameter not exceeding 50 mm	Drive Transmission & Steering	7.50%	15.0%
65	84825022	Thrust roller bearings :Of bore diameter exceeding 50 mm but not exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
66	84825023	Thrust roller bearings :Of bore diameter exceeding 100 mm	Drive Transmission & Steering	7.50%	15.0%
67	84829900	Other: Part of balls and roller bearings	Drive Transmission & Steering	7.50%	15.0%
68	84831099	Other	Engine Components	7.50%	15.0%
69	84832000	Bearing housings, incorporating ball or roller bearings	Drive Transmission & Steering	7.50%	15.0%
70	84833000	Bearing housings, not incorporating ball or roller bearings plain shaft bearings	Drive Transmission & Steering	7.50%	15.0%
71	84834000	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changers, including torque converters	Drive Transmission & Steering	7.50%	15.0%
72	84835010	Pulleys, power transmission	Drive Transmission & Steering	7.50%	15.0%
73	84835090	Other	Drive Transmission & Steering	7.50%	15.0%
74	84836010	Flexible coupling	Drive Transmission & Steering	7.50%	15.0%
75	84836020	Fluid coupling	Drive Transmission & Steering	7.50%	15.0%
76	84836090	Other: Clutches and Shaft couplings, including Universal joints	Drive Transmission & Steering	7.50%	15.0%

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Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
77	84839000	Toothed wheels, chain sprockets and other transmission elements presented separately; parts	Drive Transmission & Steering	7.50%	15.0%
78	84841010	Asbestos metallic packings and gaskets (excluding gaskets of asbestos board reinforced with metal gauze or wire)	Drive Transmission & Steering	7.50%	15.0%
79	84841090	Other	Drive Transmission & Steering	7.50%	15.0%
80	84842000	Mechanical seals	Consumables & Misc.	7.50%	15.0%
81	84849000	Other	Consumables & Misc.	7.50%	15.0%
82	85011011	DC motor :Micro motor	Electricals & Electronics	10.0%	15.0%
83	85011012	DC motor :Stepper motor	Electricals & Electronics	10.0%	15.0%
84	85011013	DC motor :Wiper motor	Electricals & Electronics	10.0%	15.0%
85	85011019	DC motor :Other	Electricals & Electronics	10.0%	15.0%
86	85011020	DC motor :AC motor	Electricals & Electronics	10.0%	15.0%
87	85013111	DC motors :Micro motor	Electricals & Electronics	10.0%	15.0%
88	85013112	DC motors :Stepper motor	Electricals & Electronics	10.0%	15.0%
89	85013113	DC motors :Wiper motor	Electricals & Electronics	10.0%	15.0%
90	85013119	DC motors :Other	Electricals & Electronics	10.0%	15.0%
91	85013120	DC motors :DC generators	Electricals & Electronics	10.0%	15.0%
92	85013210	DC motor	Electricals & Electronics	10.0%	15.0%
93	85030090	Other	Electricals & Electronics	7.50%	15.0%
94	85129000	Parts	Electricals & Electronics	10.0%	15.0%
95	85443000	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	Electricals & Electronics	10.0%	15.0%
96	87099000	Parts	Drive Transmission & Steering	10.0%	15.0%

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Sr. No.	HS Codes	Items	ACMA Description	BCD In India	ACMA Recommendation
97	87142010	Others: Parts and Accessories of Vehicles of Headings 8711 to 8713-Mechanically propelled	Drive Transmission & Steering	10.0%	15.0%
98	87142090	Others: Parts and Accessories of Vehicles of Headings 8711 to 8713	Drive Transmission & Steering	10.0%	15.0%
99	87149100	Other :Frames and forks, and parts thereof	Body / Chassis / BiW	10.0%	15.0%
100	87149290	Other	Body / Chassis / BiW	10.0%	15.0%
101	87149390	Other	Body / Chassis / BiW	10.0%	15.0%
102	87149400	Brakes, including coaster braking hubs and hub brakes, and parts thereof	Suspension & Braking	10.0%	15.0%
103	87149600	Pedals and crank-gear, and parts thereof	Drive Transmission & Steering	10.0%	15.0%
104	87149990	Other	Suspension & Braking	10.0%	15.0%
105	87169010	Parts and accessories of trailers	Body / Chassis / BiW	10.0%	15.0%
106	87169090	Other	Body / Chassis / BiW	10.0%	15.0%
107	90158030	Geophysical instruments	Electricals & Electronics	7.50%	15.0%
108	90291010	Taximeters	Electricals & Electronics	10.0%	15.0%
109	90291090	Other	Electricals & Electronics	7.50%	15.0%
110	90292010	Tachometers, non-electrical	Interiors (non-electronic)	7.50%	15.0%
111	90292020	Speedometers, non-electrical	Interiors (non-electronic)	7.50%	15.0%
112	90319000	Other optical instruments and appliances :Parts and accessories (Measuring & Checking Instrumrnts Sensors)	Consumables & Misc.	7.50%	15.0%
113	90328990	Other	Electricals & Electronics	10.0%	15.0%
114	91040000	Instrument Panel Clocks and Clocks of a similar type for vehicles, Aircraft, Spacecraft or Vessels	Consumables & Misc.	10.0%	15.0%

Annexure-II of ACMA PBM 2020-2021

Proposing reduction of Goods and Services Tax rate from 28% to 18% on auto-components used by Original Equipment Manufacturer and aftermarket

Sr. No.	HS Code	HSN 4	Items	Current GST rate	ACMA Recommendation
1	84073110	8407	For motor cycles-(Spark	28%	18%
2	84073210	8407	For motor cycles	28%	18%
3	84073290	8407	Other	28%	18%
4	84073310	8407	For motor cars	28%	18%
5	84073320	8407	For motor cycles	28%	18%
6	84073390	8407	Other	28%	18%
7	84073410	8407	Spark Ignition Reciprocating Piston Engine of a Cylinder for	28%	18%
8	84073490	8407	Other	28%	18%
9	84082010	8408	Of cylinder capacity not exceeding 250 cc	28%	18%
10	84082020	8408	Engines of cylinder capacity exceeding 250 cc	28%	18%
11	84099111	8409	Valves, inlet and exhaust	28%	18%
12	84099112	8409	Pistons	28%	18%
13	84099113	8409	Piston rings	28%	18%
14	84099114	8409	Piston assemblies	28%	18%
15	84099120	8409	Fuel injection equipment excluding injection pumps	28%	18%
16	84099191	8409	Other :Of petrol engines for motor vehicles	28%	18%
17	84099194	8409	Other :Of gas engines	28%	18%
18	84099199	8409	Others (Parts of petrol and gas engines+Guide and	28%	18%
19	84099911	8409	Valve, inlet and exhaust	28%	18%
20	84099912	8409	Pistons	28%	18%
21	84099913	8409	Piston rings	28%	18%
22	84099914	8409	Piston assemblies	28%	18%
23	84099920	8409	Fuel nozzles	28%	18%
24	84099930	8409	Fuel injection equipment excluding injection pumps	28%	18%
25	84099941	8409	Other parts of diesel engine:Of diesel engines for	28%	18%
26	84099949	8409	Other (Parts of diesel	28%	18%
27	84099990	8409	Other parts of diesel engine:	28%	18%

Annexure-II of ACMA PBM 2020-2021

Proposing reduction of Goods and Services Tax rate from 28% to 18% on auto-components used by Original Equipment Manufacturer and aftermarket

Sr. No.	HS Code	HSN 4	Items	Current GST rate	ACMA Recommendation
28	84133010	8413	Injection pumps for diesel	28%	18%
29	84133020	8413	Oil pump	28%	18%
30	84133030	8413	Water pump	28%	18%
31	84133090	8413	Other	28%	18%
32	84138120	8413	Hydraulic Ram (Power Steering Pump Assembly)	28%	18%
33	84139190	8413	Others (Parts of Steering Pump Assembly)	28%	18%
34	84152010	8415	For buses	28%	18%
35	84152090	8415	Other	28%	18%
36	84159000	8415	Parts-air conditioning	28%	18%
37	85111000	8511	Sparking plugs	28%	18%
38	85112010	8511	Electronic ignition magnetos	28%	18%
39	85112090	8511	Other	28%	18%
40	85113010	8511	Distributors	28%	18%
41	85113020	8511	Ignition coils	28%	18%
42	85114000	8511	Starter motors and dual purpose starter-generators	28%	18%
43	85115000	8511	Other generators	28%	18%
44	85118000	8511	Other equipment	28%	18%
45	85119000	8511	Parts	28%	18%
46	87060011	8706	For the tractors of heading 8701 :Of engine capacity not exceeding 1,800 cc	28%	18%
47	87060019	8706	For the tractors of heading 8701 :Other	28%	18%
48	87060021	8706	For the vehicles of heading 8702: For transport of not more than thirteen persons, including the driver	28%	18%
49	87060029	8706	For the vehicles of heading 8702: Other	28%	18%
50	87060031	8706	For the motor vehicles of heading 8703:For three-	28%	18%

Annexure-II of ACMA PBM 2020-2021

Proposing reduction of Goods and Services Tax rate from 28% to 18% on auto-components used by Original Equipment Manufacturer and aftermarket

Sr. No.	HS Code	HSN 4	Items	Current GST rate	ACMA Recommendation
51	87060039	8706	For the motor vehicles of heading 8703:Other	28%	18%
52	87060041	8706	For the motor vehicles of heading 8704:For three-wheeled motor vehicle	28%	18%
53	87060042	8706	For the motor vehicles of heading 8704:For vehicles, other than petrol driven	28%	18%
54	87060043	8706	For the motor vehicles of heading 8704:For dumpers covered in the heading 8704	28%	18%
55	87060049	8706	For the motor vehicles of heading 8704:Other	28%	18%
56	87060050	8706	For the motor vehicles of heading 8704:For the motor vehicles of heading 8705	28%	18%
57	87071000	8707	For the vehicles of heading 8703 (Bodies for passenger carrying vehicles	28%	18%
58	87079000	8707	Other	28%	18%
59	87081090	8708	Other	28%	18%
60	87082100	8708	Other parts and accessories of bodies (including cabs) :Safety seat belts	28%	18%
61	87082900	8708	Other parts and accessories of bodies (including cabs) :Other	28%	18%
62	87083000*	8708	Brakes and servo-brakes; parts thereof	28%	18%
63	87084000*	8708	Gear boxes and parts thereof	28%	18%
64	87085000*	8708	Drive-axles with differential, whether or not provided with other transmission components, non-driving axles; parts thereof	28%	18%

Annexure-II of ACMA PBM 2020-2021

Proposing reduction of Goods and Services Tax rate from 28% to 18% on auto-components used by Original Equipment Manufacturer and aftermarket

Sr. No.	HS Code	HSN 4	Items	Current GST rate	ACMA Recommendation
65	87087000*	8708	Road wheels and parts and accessories thereof	28%	18%
66	87088000	8708	Suspension systems and parts thereof (including shock absorbers) for motor vehicles	28%	18%
67	87089100*	8708	Radiators and parts thereof	28%	18%
68	87089200*	8708	Silencers (mufflers) and exhaust pipes; parts thereof	28%	18%
69	87089300*	8708	Clutches and parts thereof (Sintered Friction materials-	28%	18%
70	87089400*	8708	Steering wheels, steering columns and steering boxes;	28%	18%
71	87089500	8708	Safety airbags with inflater system; parts thereof	28%	18%
72	87089900*	8708	Other: Motor vehicle parts (Reservoir for Hydraulic Power Steering Systems+Steering Gear Systems and Parts)	28%	18%
73	87141010	8714	Saddles	28%	18%
74	87141090	8714	Other	28%	18%
75	87149100	8714	Other :Frames and forks, and parts thereof	28%	18%
76	87149290	8714	Other	28%	18%
77	87149390	8714	Other	28%	18%
78	87149400	8714	Brakes, including coaster braking hubs and hub brakes, and parts thereof	28%	18%
79	87149990	8714	Other	28%	18%

*Rate on part of tractors reduced to 18%