

# Budget Connect 2019

Tax Alert - Key amendments impacting  
Automotive sector

## Key highlight | Pushing toward Electric|



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A handwritten signature in black ink that reads "Gaurav Karnik".

Given the recent slowdown in the automobile sector, there was widespread expectation that the Government would announce initiatives to improve the prospects of the sector.

The Finance Minister did not disappoint and announced several initiatives which sets a positive tone for the future of automotive industry and at the same time clears the path for environment friendly vehicles and reduction in emissions levels in line with Government's Swachh Bharat initiative.

The Budget announcements not only boost the "Make in India" agenda but also help move the needle toward faster adoption of electric vehicles (EVs). Providing a significant push to rejuvenate the automotive sector, the next few years will tell us how the automotive players will advance to stay relevant.

# How does the budget impact automotive sector?

## Key takeaway for a tax professional

- ▶ Interest deduction of INR1.5 lakh for loan taken to purchase EV
- ▶ Reduction in GST for EV
- ▶ Customs duty reduction specified for EV-related components
- ▶ Hike in customs duty on certain auto parts

## Key amendments

- ▶ **Interest deduction on purchase of EV**
  - ▶ Section 80EEB has been introduced to provide deduction of interest payable on loan taken from any financial institution for purchase of EV subject to maximum of INR1.5 lakh from FY 2019-20.
  - ▶ Deduction can only be claimed if the loan has been sanctioned by the financial institution between 1 April 2019 and 31 March 2023. Also, no deduction under any other provision of the Act is allowed if any deduction is claimed in this section.

Term "EV" has been defined to mean any vehicle which is powered by electric motor satisfying the following conditions:

- ▶ The traction energy is supplied exclusively by traction battery installed in the vehicle.
  - ▶ Vehicle has electric regenerative brake system which during braking provides for conversion of kinetic energy into electric energy.
- ▶ **GST on EV**
  - ▶ The Government has made a recommendation to the GST council to reduce the GST rate on EV from 12% to 5%.

## Highlights



**25% tax rate**  
for companies up to  
INR400 crore turnover



**10%/15%**  
Custom duty on  
certain auto parts



**1.5**  
lakh deduction of  
interest to buy  
EV



**Custom duty**  
exemption on  
certain EV parts

► **Customs duty on auto parts and EV**

► Customs duty has been increased on certain auto parts as follows:

Item	Existing rate	Revised rate
Friction material and articles thereof not mounted for brakes, clutches or the like	10%	15%
Glass mirrors, whether or not framed, including rear-view mirrors	10%	15%
Locks of a kind used in motor vehicles	10%	15%
Oil or petrol filters for internal combustion engines	7.5%	10%
Intake air filters for internal combustion engines	7.5%	10%
Air purifiers or cleaners and other filtering or purifying machinery and apparatus for gases	7.5%	10%
Lighting or visual signaling equipment of a kind used in bicycles or motor vehicles	10%	15%
Other visual or sound signaling equipment for bicycles or motor vehicles	7.5%	15%
Horns for vehicles	10%	15%
Parts of visual or sound signaling equipment for bicycles or motor vehicles	7.5%	10%
Windscreen wipers, defrosters and demisters; sealed beam lamp units and other lamps for automobiles	10%	15%

Item	Existing rate	Revised rate
Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705	10%	15%
Bodies (including cabs), for the motor vehicles of headings 8701 to 8705	10%	15%
Catalytic convertor	5%	10%
Completely Built Unit (CBU) of vehicles	25%	30%

- ▶ Customs duty exempted on following parts of EV:
  - ▶ E-drive assembly
  - ▶ On-board charger
  - ▶ E-compressor
  - ▶ Charging gun
  
- ▶ **Other key measures**
  - ▶ Government to release a scheme which makes India a global manufacturing hub for sunrise and advanced technology areas, such as semiconductor fabrication, solar photo voltaic cells, lithium storage batteries and solar electric charging infrastructure

## Impact analysis

Automotive sector expected that there would be increased incentives for R&D coupled with the reintroduction of deduction for capital asset purchases but the same has not been met in this Budget.

However, the reduction in corporate tax rate and the intention to legislate a scheme for setting up mega manufacturing units for advanced technology areas are welcome measures for the automotive sector. A major push for EV adoption including incentives for purchase as well as production of EV, and the customs duty changes on auto parts and EV parts will also contribute to the growth of the automotive industry, helping the sector be competitive and forward-looking.

Increase in special additional excise duty and the road and infrastructure cess by INR2 per liter, however, will have an undesirable effect on the sector.