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# Union Budget 2021

Key amendments impacting  
Automotive sector

## Focused Tax and Policy amendments augurs well for the Automobile sector



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The Indian automobile sector was facing an unparalleled slowdown despite recent indications of recovery. The industry expected tax and policy level changes from Budget 2021 to strengthen its revival. While there are no significant direct incentives provided for the automotive industry due to limited fiscal leg room, various proposals of the Budget indirectly extend the required support to the industry on many fronts and hence, this Budget bodes well for the automobile sector.

Key highlights for the sector include announcement of Voluntary Vehicle Scrapping Policy. This scheme (details of which are awaited) will not only generate additional demand for new vehicles, but also help in combatting air pollution. Increased capital outlay of 34% for infrastructure spend with commitment to build additional roads, national highways and improve urban infrastructure (including INR 18000 crores allocation to support Public Bus Transport service) will spur demand in the medium to long-term.

In line with the Government's vision of *Atmanirbhar Bharat*, customs duty on certain auto components which were left out in Budget 2020 have been increased from existing rates of 7.5% / 10% to 15%. Combined with the Production-linked Incentive (PLI) scheme, while such increase in duty will encourage domestic manufacturing, it will also have some temporary adverse impact on the industry till India truly becomes self-reliant and competitive for such auto parts and components.

# How does the budget impact Automotive sector?

## Key takeaways for a tax professional


- ▶ Increase in customs duty rate for auto components and decrease in basic customs duty rate for metals used in manufacture auto of components intended to boost domestic manufacturing
- ▶ Clarifications issued on Equalisation Levy provisions remove some of the ambiguities but at the same time appears to have widened the perceived scope of the Levy
- ▶ Proposal to introduce TDS @0.1% with effect from 1 July 2021 on purchase of goods exceeding INR 50 Lakhs during a year

## Key amendments

- ▶ Increase in Basic Customs Duty rate for specified auto components as follows:


| HSN                     | Description                                                                                                                                                                                   | Rate movement (%) |       |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------|
|                         |                                                                                                                                                                                               | From              | To    |
| 7007                    | "Safety glass, consisting of toughened (tempered) or laminated glass used with motor vehicles"                                                                                                | 10                | 15    |
| 7318 16 00              | Nuts                                                                                                                                                                                          | 10                | 25    |
| 7318                    | Crews, Bolts, Nuts, Coach-Screws, Screw Hooks, Rivets, Cotters, Cotter-Pins, Washers (Including Spring Washers) And Similar Articles, Of Iron Or Steel And Similar Articles, Of Iron Or Steel | 10                | 15    |
| 8414 80 11              | Gas compressors of a kind used in air-conditioning equipment                                                                                                                                  | 12.50             | 15    |
| 8431                    | Parts and components for manufacturing of Tunnel boring machines                                                                                                                              | Nil               | 2.50% |
| 84 or any other chapter | Tunnel Boring Machine                                                                                                                                                                         | Nil               | 7.5%  |
| 8512 90 00              | Parts of Electrical lighting and signalling equipment, windscreen wipers, defrosters and demisters, of a kind used for motor vehicles                                                         | 10                | 15    |
| 8544 30 00              | Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships                                                                                                      | 10                | 15    |

## Highlights

  
Increase in BCD rate of certain auto components from 7.5% /10% to 15%

 Announcement of Voluntary Vehicle Scrappage Policy

 Equalisation levy provisions clarified

Reduction in BCD rate of certain metals by  
**2.5%** 

| HSN                     | Description                                                                                                                                                                                                                          | Rate movement (%) |      |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------|
|                         |                                                                                                                                                                                                                                      | From              | To   |
| 85 or any other chapter | Inputs or raw materials [other than Lithium-Ion Cell and PCBA] for use in manufacture of Lithium-ion battery and battery pack; and inputs, parts or sub-parts for use in manufacture of PCBA of Lithium-ion battery and battery pack | Nil               | 2.5% |
| 8714                    | Frames & forks, Wheel rims & spokes, hubs, brakes, saddles, pedals, crank gears and others                                                                                                                                           | 10                | 15   |
| 9104 00 00              | Instrument Panel Clocks and Clocks of a similar type for vehicles, Aircraft, Spacecraft or Vessels                                                                                                                                   | 10                | 15   |

- ▶ **Reduction in Basic Customs Duty rate for ferrous and non-ferrous metal products used by domestic manufacturers for reducing cost of inputs as follows:**

| HSN                                                                                                                                    | Description                                                                                                                                                                                 | Rate movement (%) |                                     |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------|
|                                                                                                                                        |                                                                                                                                                                                             | From              | To                                  |
| 7204                                                                                                                                   | Scrap of iron or steel including stainless steel and alloy steel                                                                                                                            | 15.00%            | Nil<br><i>(up to 31 March 2022)</i> |
| 7404                                                                                                                                   | Copper waste and scrap                                                                                                                                                                      | 5.00%             | 2.50%                               |
| 7206 to 7217, 7221 to 7223, 7227, 7228, 7225 (except 7225 1100, 7225 3090, 7225 4019, 7225 50 or 7225 9900) and 7226 except 7226 1100) | Primary/ Semi- finished products of non-alloy steel, Flat Products of iron or non-alloy steel and alloy steel and Long Products of iron or non-alloy steel, stainless steel and alloy steel | 10.00%/ 12.75%    | 7.50%                               |

- ▶ **Agriculture Infrastructure and Development Cess imposed on Petrol and Diesel with a consequent reduction in other duties and cess to ensure no additional burden on the consumer**
- ▶ **Temporary revocation of various other duties on imports**
  - ▶ Anti-dumping duty on
    - ▶ Straight Length Bars and Rods of alloy-steel originating in or exported from People's Republic of China
    - ▶ High-speed steel of Non-Cobalt Grade originating in or exported from Brazil, People's Republic of China and Germany

- ▶ Flat rolled product of steel, plated or coated with alloy of Aluminum or Zinc originating in or exported from People's Republic of China, Vietnam and Korea RP
- ▶ Countervailing duty on Certain Hot Rolled and Cold Rolled Stainless Steel Flat Products originating in or exported from People's Republic of China
- ▶ **Revocation of Provisional Countervailing duty on Flat Products of Stainless Steel originating in or exported from Indonesia**
- ▶ **Discontinuation of Anti-Dumping duty on Cold-Rolled Flat products of Stainless Steel of width 60 mm to 1250 mm and above 1250 mm of non-bonafide usage originating in or exported from People's Republic of China, Korea RP, European Union, South Africa, Taiwan, Thailand and United States of America**
- ▶ **Social Welfare Surcharge on Petrol and High-speed Diesel revived from reduced rate of 3% to 10%**
- ▶ **Clarifications on Equalisation Levy provisions**
  - ▶ Royalty and Fees of Technical services taxable in India as per Income-tax Act read with double taxation avoidance agreement proposed to be excluded from Equalisation Levy provisions
  - ▶ However, if such payments are subject to exemption under double taxation avoidance agreement, Equalisation Levy may continue to apply
  - ▶ Terms 'online sale of goods' and 'online provision of services' clarified to include even one or more of specified activities in the transaction life-cycle taking place online
- ▶ Thus, the above proposal appears to widen the scope of Equalisation Levy as compared to the current interpretation of the industry that maximum steps in the transactions should be done online
- ▶ **Proposal to introduce new TDS provision on purchase of goods**
  - ▶ Proposed TDS @0.1% on purchase of goods exceeding INR 50 lakh during a year
  - ▶ Applicable only to buyers with turnover exceeding Rs 10 crore in preceding FY
  - ▶ These provisions are not applicable to transactions covered under existing TDS/TCS provisions other than section 206C(1H). Thus,
    - ▶ Sale of motor vehicles covered under section 206C(1F) will continue to be governed by TCS provisions
    - ▶ However, provision under section 206C(1H) for TCS on sale of goods recently introduced in Finance Act 2020 shall not apply in case new TDS provisions are applicable
  - ▶ Where PAN is not available, it is proposed that TDS shall be at 5% on purchase of goods

These provisions will apply with effect from 1 July 2021

## Impact analysis

Budget 2021 was expected to lay a roadmap to bring the Indian economy back on a high growth trajectory from the abyss caused by COVID-19. Keeping this in mind, the Honourable FM has not increased corporate tax and personal tax rates and has instead gone with higher Fiscal Deficit numbers. Further, much to the relief of industry, no COVID surcharge or other additional levy is introduced.

On the tax administration front, the Government has acknowledged the need for reduction in income-tax litigation (through introduction of a dispute resolution mechanism for small taxpayers and overhaul of Authority for Advance Rulings) and further slashing of timelines for direct tax assessment/reassessment proceedings. Government's intention for more robust and transparent form of direct tax assessments is also clear by extending faceless proceedings before Income-tax Appellate Tribunal which was earlier introduced only to tax assessment and appellate commissioner levels. The FM has also announced launch of data analytics, artificial intelligence, machine learning driven MCA21 Version 3.0 portal. These steps will further improve ease of doing business in India.

These measures, along with PLI scheme and other indirect tax incentive announced in last one year such as MOOWR scheme, RodTep, increase in customs duty on imported auto parts will nurture domestic manufacturing. The Voluntary Vehicle Scrapping Policy (with the requirement of personal vehicles older than 20 years and commercial vehicles older than 15 years being mandated to undergo fitness tests in automated fitness centres) will result in spurring additional demand especially for commercial vehicles. Further, with the overall focus of the Government on investing in infrastructure, roads and public transportation, Budget 2021 is a step in the right direction to accelerate growth in India's automobile story.



## Glossary

**APA** - Advance Pricing Agreement

**FM** - Finance Minister

**GST** - Goods and Services Tax

**MOOWR** - Manufacture & Other Operations in Warehouse Regulations

**PLI** - Production-linked Incentive

**RoDTEP** - Remission of Duties or Taxes on Export Products

**TCS** - Tax Collection at Source

**TDS** - Tax Deducted at Source



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