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Budget Connect 2020

Tax Alert – Key amendments impacting Automotive sector

Key highlight | Thrust on Automotive

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Given that the automotive sector is going through challenging times, there was a widespread expectation that the Government would propose initiatives to boost growth of the sector. Given the limited fiscal room, while the expectations of tax/duty rate cuts have not been met, the FM has tried to roll out future-oriented initiatives which will benefit the sector in the long-run.

Increased focus on infrastructure (including focus on construction of highways and proposed National Logistics Policy) are positive for the industry. This will make way for a strong infrastructure and ecosystem in which the auto sector can prosper. In line with the Government's "Make in India" initiative, custom duty rates on import of vehicles and auto-parts have been increased to bolster domestic manufacturing. Also, the Scheme to boost mobile, electronic manufacturing and semi-conductor packaging will help Electric Vehicle manufacturing and encourage newer technologies for Connected Cars.

Impact of steps taken to increase disposable income in the hands of individuals by the proposed optional reduction of personal income-tax rates needs to be seen in coming days.

How does the budget impact Automotive sector?

Key takeaways for a tax professional

- Higher customs duty on certain parts
- Higher customs duty on Electric Vehicles
- Higher customs duty on CBU commercial vehicles with exemption of Social Welfare Surcharge

- TCS on sale of goods of more than INR 50 Lakhs

Key amendments

- **Customs duty on auto parts, electric vehicles and commercial vehicles**
  - In line with Government's 'Make-in India agenda', Customs duty on various imported products will be increased as follows:

Item	Existing rate	Revised rate
Completely knocked down forms of Electric Vehicles – Passenger vehicles, Bus and Trucks, Three wheelers and Two wheelers[1]	10%	15%
Semi Knocked down forms of electric vehicles – Bus, Trucks and two-wheelers[1]	15%	25%
Semi knocked down forms of electric passenger vehicles, three-wheeler[1]	15%	30%
Completely Built units of commercial electric vehicles[1]	25%	40%
Completely Built units of commercial vehicles other than electric vehicles[1]	30%	40%
Electric motors and Generators	7.5%	10%
MP3 or MP4 or MPEG4 players	5%	10%
Parts of Catalytic convertors	5%	7.5%

- **Social Welfare Surcharge exempted on import of Completely Built Unit of all CBU Commercial Vehicles**
- **TCS on sale of goods of more than INR50 Lakhs**

[1] with effect from 01 April 2020

- To widen the tax base, sellers receiving consideration for sale of goods of more than INR 50 Lakhs in a year will be liable to collect 0.1% TCS from the buyer
- In cases where the buyer does not have PAN/Aadhar, rate of 0.1% shall be substituted by 1%
- Sellers whose gross annual turnover/receipts from business exceed INR 10 Crores are covered
- Motor Vehicles covered under section 206C(1F) are specifically excluded from applicability of above provision
- However, interpretational issues exist such as:
  - Whether the threshold of INR50 Lakh shall be computed qua each buyer as the Memorandum suggests; and
  - Whether sale of Motor Vehicle by OEMs to dealers exempted from applicability of section 206C(1F), will be covered.
- Central Government has been given power to notify category of persons to be excluded from applicability of this provision. It needs to be seen whether similar to clarifications in the past, the provision will be restricted only to retail sale or even B2B transactions and sale by manufacturers will be covered

- **Other Key measures**
  - Checks for imports under Free Trade Agreements strengthened. It would benefit auto component sector including tyre makers. through all important curbs, controls and regulations of FTA misuse
  - Anti-dumping measures and government commitment to fast reaction if surge in specific import categories is seen, should support domestic industry
  - Government to release scheme to encourage manufacturing of ‘Network Products’ such as mobile, electronic manufacturing and semi-conductor packaging which will help Electric Vehicle manufacturing and encourage newer technologies for Connected Cars
  - Proposal for commercialization of highways to monetize at least twelve lots of highway bundles of over 6000 kms before 2024
  - EXIM Bank together with SIDBI to anchor a scheme of INR 1,000 crore to extend handholding support, technology upgradations, R&D, business strategy etc for MSMEs engaged in auto components with an aim to increase exports
  - National Infrastructure Pipeline launched few months ago likely to benefit commercial vehicle and construction equipment makers
  - A National Logistics Policy will be released soon. It will create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.

Highlights

BCD ⇧ on EV, CV, auto parts

Increased investment in infrastructure

Scheme for electronic manufacturing to help auto industry

Impact analysis

Automotive sector expected that there would be increased incentives for R&D coupled with an indication to reduce GST rates to compensate the likely increase in the prices of vehicles due to BS VI norms. But these expectations have not been met in this Budget. Further, the Budget does not provide plan for introduction of incentive based Scrappage Policy which could have provided much needed impetus to automotive industry by increasing the demands.

However, the recent reduction in corporate tax rates and removal of DDT are welcome measures from direct tax perspective to support the industry. Income-tax exemption provided for income of specified sovereign wealth funds for their investment in infrastructure sector likely to spur investments in infrastructural projects. The optional personal tax slab rate reduction should increase disposable income for some end consumers which the industry would hope leads to increased demand for automobiles. The increased customs duty on Electronic Vehicles and auto parts is in line with 'Make-in India' policy of the Government and will be welcomed by the domestic industry.

The steps announced in the Budget to boost manufacturing of electric vehicles and electronic parts are welcome measures for the auto sector. Two key areas of the Budget, increased thrust on infrastructure and focus on rural and agriculture development, will catalyse the revival of the auto sector from a long term structural perspective.

Glossary

B2B - Business to Business

CBU – Completely Built Units

DDT – Dividend Distribution Tax

FM - Finance Minister

GST – Goods and Services Tax

MSME – Micro, Small and Medium Enterprises

SIDBI – Small Industries Development Bank of India

TCS - Tax Collected at Source

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