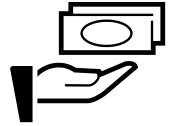


An Introduction to Fiscal Incentives in India

June 2019

Indian economy: a dichotomy

Indian Economy Projections



3rd Largest in the World by
Purchasing Power Parity
10th Largest in the World by
Nominal GDP



Projected to be 3rd Largest
in the World by Nominal
GDP by 2030



Projected to be of similar
size as that of US by 2050

Ease of Doing Business Rankings 2019

- ▶ *Where do we stand among 190 countries*
- ▶ *India Overall Rank: 77 (unchanged from 2018 with ranking of 100 in 2017)*

The Country requires some massive regulatory and tax reforms to be considered as a preferred destination in terms of ease of doing business.

GST is one of such massive tax reform in this direction.

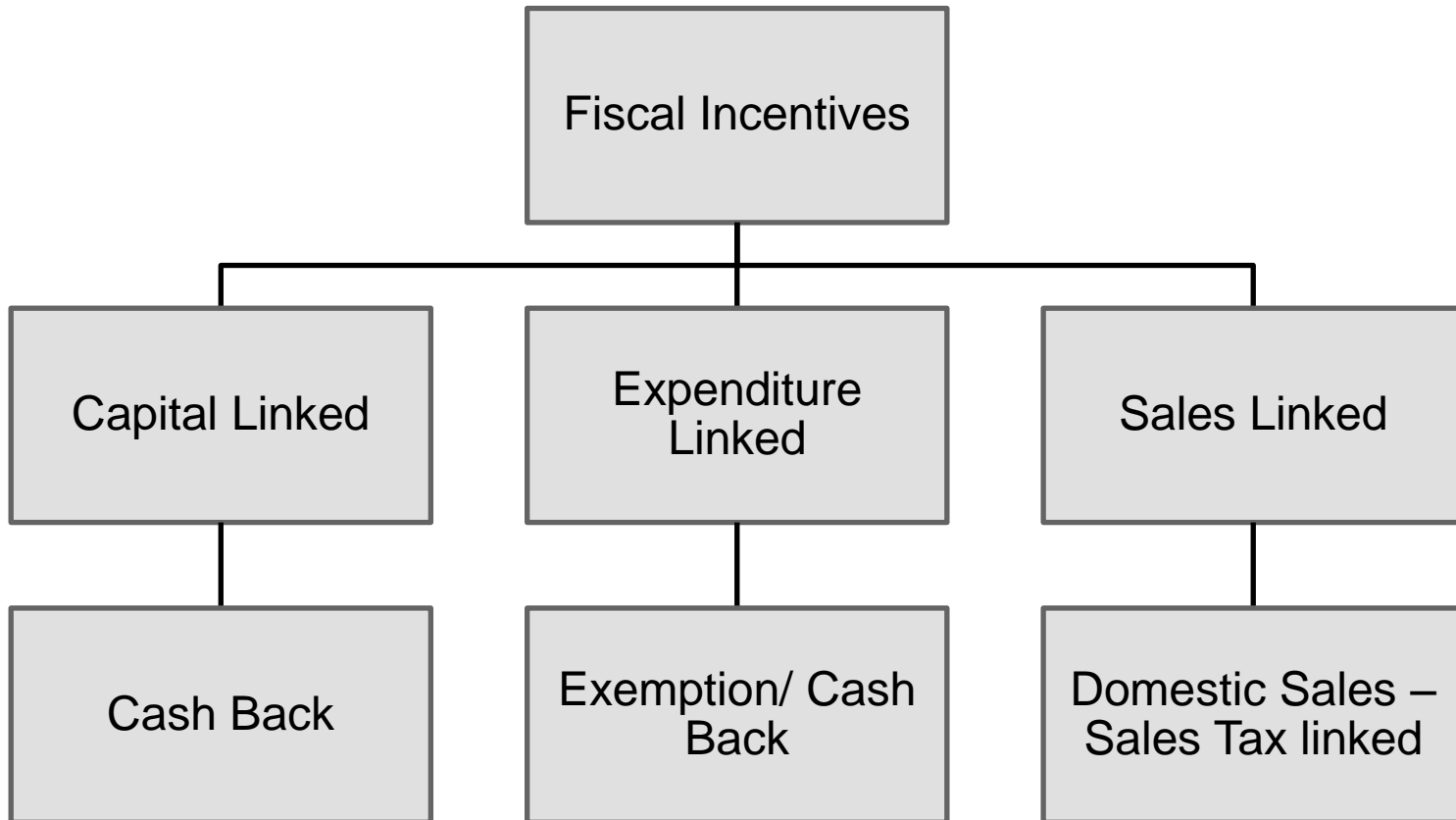
Ease of doing Business and Competitive Federalism

- ▶ India currently stands at rank 77 in World Bank Ease of doing Business ranking, 2019
- ▶ Competitiveness among states
- ▶ Industrial policies by states every five years that lay down the policy framework for incentives offered in the state
- ▶ 340-point action plan released by the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry, to be assessed in 2016
- ▶ Subsequently, a list of 405 parameters released in 2017 — the current basis for the ranking of states according to the ease of doing business
- ▶ The ranking methodology, entitled Business Reforms Action Plan 2017 (BRAP), consolidates values that measure evidence of reform and feedback

Top 10 States (BRAP)*	1. Andhra Pradesh
	2. Telangana
	3. Haryana
	4. Jharkhand
	5. Gujarat
	6. Chhattisgarh
	7. Madhya Pradesh
	8. Karnataka
	9. Rajasthan
	10. West Bengal

*Source: <http://eodb.dipp.gov.in/>

Nature of Fiscal Incentives



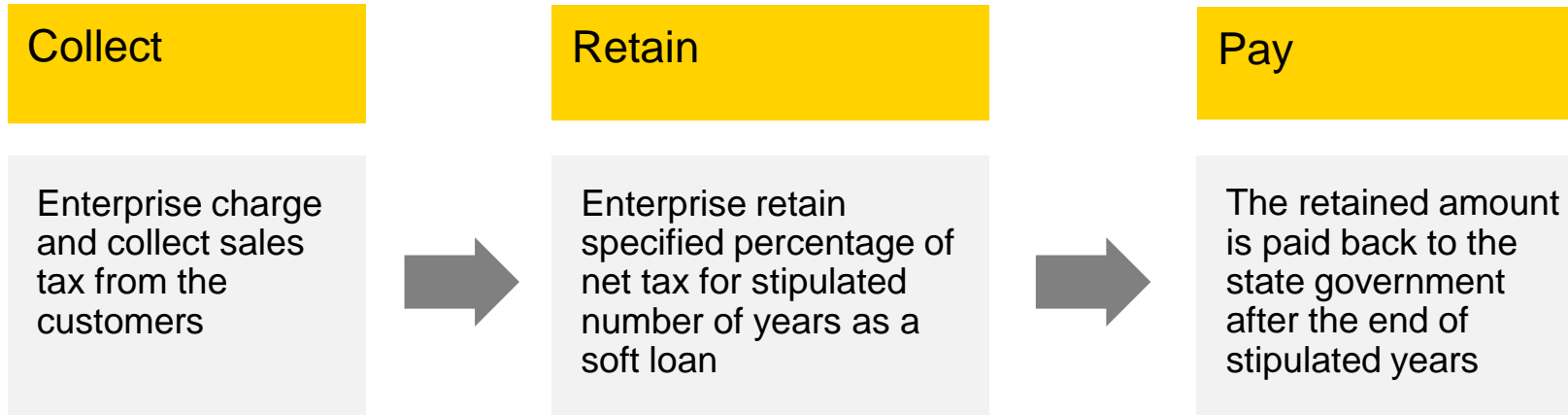
Capital Linked : A percentage of capital investment is received as a capital subsidy

Expenditure Linked : Incentive is available as cash refund/exemption of costs like electricity duty, power tariff, stamp duty

Sales Linked : Specified percentage of sales tax paid (**VAT/CST/GST**) to the state government is given as a subsidy.

Fiscal incentives - sales tax linked

Deferral



Fiscal incentives - sales tax linked Retention

Collect

Enterprise charge and collect sales tax from the customers



Retain

Enterprise retain specified percentage of net tax which is not to be repaid



Important Parameters to be Considered

- ▶ The nature and quantum of incentives will vary depending on whether the investment is classified as a **new unit or an expansion unit**
- ▶ In case of some states, the state has been divided into **groups/zones/blocks depending on the development index** in that area and the quantum of incentives vary over these groups
- ▶ The definition of **eligible fixed capital investment** vary in each state which determines the eligibility of incentives in that state
- ▶ **Investment period** is the time period within which the investment made is considered for eligibility of incentives
- ▶ **Operative period** is the minimum number of years for which a unit has to be in commercial production
- ▶ The states provide customized incentives package to **mega projects/ thrust sectors**
- ▶ The states prescribe the minimum percentage of **local labour** that should be employed by the unit
- ▶ The incentives schemes are being updated by the state governments to incorporate the changes as per the GST regime. While some states have already done so, the others are expected to follow suit in the near future

Tax incentives

Greenfield Expansion / Brownfield Expansion

1 State Incentives – Possible Incentives

- ▶ SGST reimbursement (Net or Gross)
- ▶ Electricity duty exemption
- ▶ Single Window Clearance

2 Project Import Scheme (PIS)

Reduced basic customs duty on capital goods and spares to 5% and ease of clearance

Procedure to be followed

Require to register import contract by making an application in writing to Custom Authorities

Obtain Project Contract Registration Number (PCRN) number

Importer require to mention the said PCRN in all relating to PI

Concessional rate of BCD 5%

3 Preferential/Free trade agreement

Concessional/ nil rate of basic customs duty on import from preferred trade nations

Import from Countries

Japan
Korea
China
Singapore
Indonesia
Malaysia
Philippines

Concessional rate of BCD 0%-10%

4 Export-Linked Incentives

- ▶ Customs benefit available on procurement of machinery which would be used for manufacturing the exported product
- ▶ Other Foreign Trade Policy incentives to manufacturing and service sector (MEIS, SEIS etc)
- ▶ Comparison of benefits available to SEZ/DTA/EOU units

5 Contract Structuring

Ensuring better credit eligibility and reduction in cost of setting-up the plant

Feasible Options

Review of overall contract

Review of layouts to identify foundation and structural support

Review of civil contract to optimize GST credit

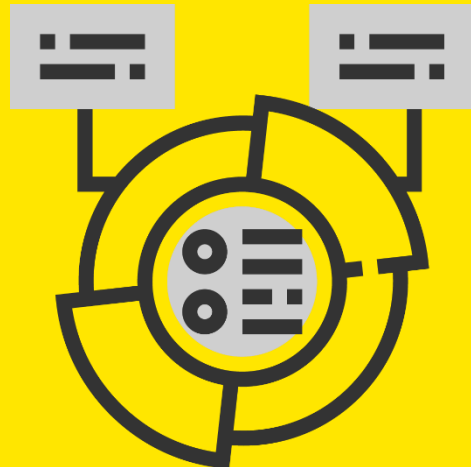
Credit Fungibility

Parameters To Be Considered



Location & Investment:

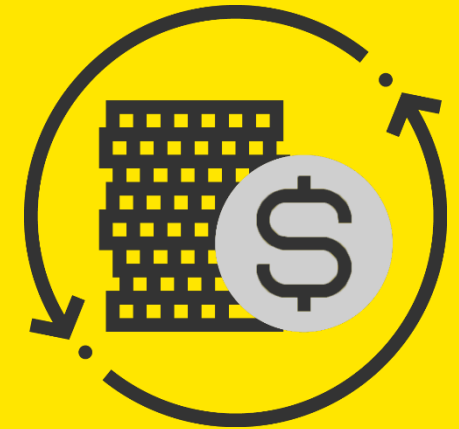
To evaluate the maximum benefits that can be availed



Sector: To identify the incentives by sector specific policies



Sales Pattern: To identify and quantify incentives available under the foreign trade policy and state industrial policy



Expenditure: To quantify the incentives linked to expenditure

Negotiation Parameters

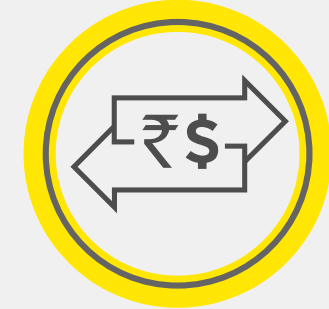


What State Government looks for

1

Priorities for Finance Department

- ▶ Direct revenues through State taxes (VAT, CST)
- ▶ Incentives claimed by investors
- ▶ Net financial impact on State



2

Priorities for Industries Department

- ▶ Employment created
- ▶ Investment amount
- ▶ Impact on local industry
- ▶ Opportunities for ancillarization



3

Priorities for Support Departments

- ▶ Requirement of land
- ▶ Water and power requirement
- ▶ Impact on environment



Important incentive negotiation points

1 Preparation of Proposal

- ▶ **Location and incentives** comparison/ benefits analysis of various states

2 Initiate discussions

- ▶ Initiate discussions with Industries/ line department regarding the project and **desired incentives**.
- ▶ **Sign MoU/ EoI**

3 Stakeholder engagement

- ▶ Will depend on the **size of investment** (like District Industries Center/ Single Window Agency)
- ▶ Company needs to make an application with the State single window agency for **in-principle approval**

4 Negotiations with stakeholders

- ▶ The most important stakeholders from this aspect are:
 - ▶ **Industries Department**
 - ▶ Single Window Agency
 - ▶ Finance department
 - ▶ **Line department**
 - ▶ Cabinet (in case of very high incentives)

5 Application for Incentives

- ▶ Prepare a **compelling proposition** for the government
- ▶ All major incentives are referred to finance department
- ▶ Government have become very particular about the incentives

6 Disbursement of Incentives

- ▶ Various categories of incentives are disbursed by various agencies and through different processes

Compelling Proposition

What are the **benefits to the state** in terms of:

- **Tax revenue**
- **Employment** Generated (local- direct and indirect)
- **Ancillarization opportunities**
- Mfg Value Add (MVA)
- Contribution to **Export** from State
- How important the project is from the **industry value chain point** of view
- **Strategic/ regional Importance** of the project (leading to Branding Advantage)
- Import Substitution
- State of Art Technology
- CSR Activities in the state

Gujarat



Incentives

Taluka Category	% of Eligible FCI entitled for Incentives	% of Net VAT Reimbursement	Incentives Period
1	100%	90%	10
2	80%	80%	10
3	70%	70%	10

- ▶ Electricity Duty is also available under Gujarat Electricity Duty Act
- ▶ Industrial Undertaking is eligible for **Net VAT re-imburement** as a percentage of eligible fixed capital investment
- ▶ Net VAT to be reimbursed to the industrial undertaking is **limited to 1/10th of the eligible incentive in one financial year**
- ▶ **Net VAT** is replaced by **Net SGST** in the GST regime

Uttar Pradesh



Incentives (1/2)

Category of Industries	Annual % of GST reimbursement	Period (years)	Annual Ceiling as % ACI	Minimum Eligibility requirements			
				Bundelkhand & Poorvanchal	Madhyanchal	Paschimanchal	Gautam Budh Nagar & Ghaziabad
SGST (Eligibility for reimbursement of deposited GST will be on quarterly basis)							
Small	90%	5	20%	100%	90%	90%	80%
Medium	60%	5	20%	100%	90%	90%	80%
Large	60%	5	20%	100%	90%	90%	80%
Mega, Mega Plus, Super Mega	70%	10	20%	300%	200%	100%	80%
Stamp Duty							
All				100%	75%	75%	50%
EPF (subject to conditions that direct employment generation is > 100)							
All		5		50% of employer's contribution, after three years form the date of commercial production			

Incentives (2/2)

Incentives	Quantum
Capital Interest subsidy	Actual Interest paid OR 5% per annum for 5 years, subject to annual ceiling of ₹50 Lakhs
Infrastructure Interest subsidy	Actual Interest paid OR 5% per annum for 5 years, subject to overall ceiling of ₹1 Crore
Interest subsidy on loans for industrial research	Actual Interest paid OR 5% per annum for 5 years, subject to overall ceiling of ₹1 Crore
Electricity Duty Exemption	100% for 10 years
Additional EPF Contribution	>200 workers, 10% additional EPF reimbursement of employers contribution
Payroll assistance	₹500 per month for differently abled workers
Disallowed GST ITC on capital goods	Added to the admissible capital investment limit

Haryana



Incentives

Large Scale Units

Groups	Investment Subsidy on VAT		Employment generation Subsidy	Electricity Duty Exemption	Stamp Duty Refund	EDC Charges Exemption
	Percentage	Years				
A	Nil		Nil	Nil	Nil	Nil
B	Nil		Nil	Nil	Nil	50%
C	50%	1 – 5	INR 36,000 per year for women/SC or INR 30,000 per year for General category for 5 years or 20% of VAT/SGST deposited, whichever is less	100% for 5 years	75%	50%
	25%	6 – 8				
D	75%	1 – 5		100% for 7 years	100%	50%
	35%	6 – 8				

Telangana



Incentives

Incentives	Micro and Small	Medium	Large	Mega
Reimbursement of net VAT/CST/SGST	100% for 5 years	75% for 7 years	50% for 7 years	Government will extend tailor-made benefits to Mega Projects on a case to case basis
Fixed power cost reimbursement	Re. 1 for 5 years	Re. 1 for 5 years	Re. 1 for 5 years	
Re-imburement of stamp duty	100%	100%	100%	
Re-imburement of land cost limited in industrial estates/ parks	25% subject to INR 10 lacs	25% subject to INR 10 lacs	25% subject to INR 10 lacs	
Re-imburement of land conversion charges	25% subject to INR 10 lacs	25% subject to INR 10 lacs	NA	
Re-imburement of interest subsidy	Re-imburement of interest in excess of 3% subject to 9% p.a.	NA	NA	
Investment subsidy on fixed capital investment	15% subject to a INR 20 lacs	NA	NA	

Andhra Pradesh



Incentives (1/2)

Incentives	Micro and Small	Medium	Large	Mega
Reimbursement of net VAT/CST/SGST	100% for 5 years	75% for 7 years	50% for 7 years	Government will extend tailor-made benefits to Mega Projects on a case to case basis
Fixed power cost reimbursement	INR 1 per unit for 5 years	INR 1 per unit for 5 years	INR 1 per unit for 5 years	
Reimbursement of stamp duty	100%	100%	100%	
Reimbursement of land cost limited in industrial estates/ parks	25% subject to INR 10 lakh	25% subject to INR 10 lakh	25% subject to INR 10 lakh	
Reimbursement of land conversion charges	25% subject to INR 10 lakh	25% subject to INR 10 lakh	-	
Reimbursement of interest subsidy	Re-imburement of interest in excess of 3% subject to 9% p.a.	-	-	
Investment subsidy on fixed capital investment	15% subject to a INR 20 lakh	-	-	

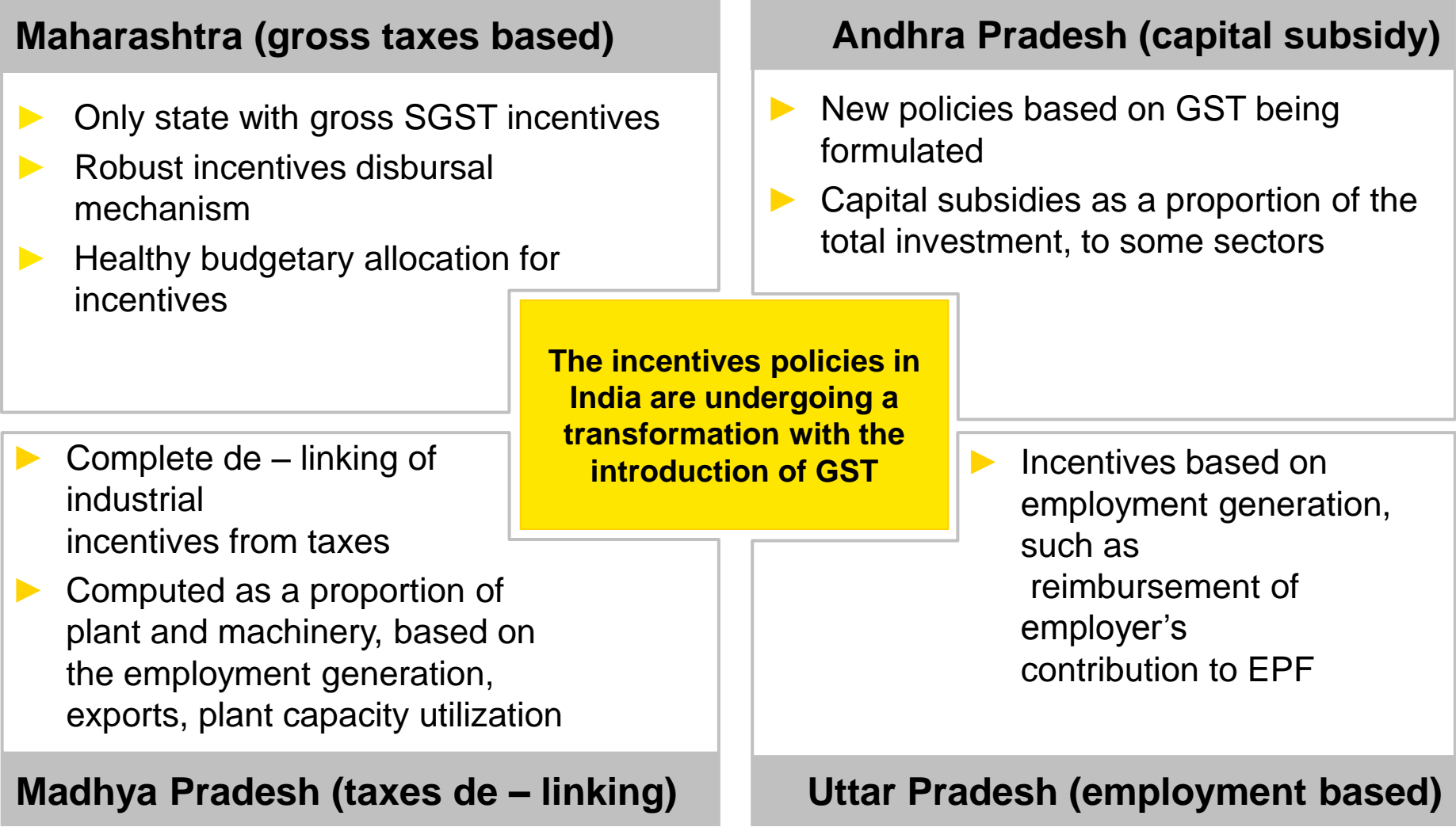
Incentives (2/2)

Incentives	Micro and Small	Medium	Large	Mega
Subsidy on cleaner production measures	35% of cost of plant and machinery for cleaner production measures, up to INR 35 lakh		10% of cost of plant and machinery for cleaner production measures, up to INR 35 lakh	Government will extend tailor-made benefits to Mega Projects on a case to case basis
Additional subsidy on cleaner production measures*	25% of fixed capital investment, up to INR 50 crore			
Reimbursement of skill development and training costs	50% of expenses incurred, up to INR 5,000 per person, for up to 10/20 persons, depending on investment		-	
Reimbursement of quality certification and patent registration costs	75% on registration, up to INR 5 lakh 50% on trademarks, up to INR 25,000		-	

***Available for investments in;**

- ▶ Waste water treatment
- ▶ Green Buildings
- ▶ Use of renewable source of power for captive consumption
- ▶ Installing continuous emission monitoring system
- ▶ Adopting rain water harvesting
- ▶ Any other environment management project approved by Empowered Committee of Secretaries

Incentives mechanisms prevalent in India





v/s



A close-up photograph of a person's hand reaching into a filing cabinet drawer. The drawer is filled with several folders of different colors (white, light blue, light orange). The hand is positioned as if about to pull one of the folders out. The background is a neutral, light-colored wall.

Thank you

© 2018 Ernst & Young. All Rights Reserved.

Ernst & Young is a registered trademark.

www.ey.com/india

For more information, please follow us on

[EY GST webpage](#)

“This Presentation provides certain general information existing as at the time of production. This Presentation does not purport to identify all the issues or developments pursuant to the transaction. Accordingly, this presentation should neither be regarded as comprehensive nor sufficient for the purposes of decision-making. Ernst & Young does not undertake any legal liability for any of the contents in this presentation. The information provided is not, nor is it intended to be an advice on any matter and should not be relied on as such. Professional advice should be sought before taking action on any of the information contained in it. Without prior permission of Ernst & Young, this document may not be quoted in whole or in part or otherwise referred to in any documents.”