Tax alert: Scheme to promote manufacturing of electric passenger cars in India

15 March 2024

The Ministry of Heavy Industries (MHI), vide notification dated 15 March 2024, has introduced a 'scheme to promote India as a manufacturing destination for Electric Vehicles (EVs) and attract investments from global EV manufacturers (Scheme)'. The Scheme is also intended to facilitate employment generation and achieve the goal of 'Make in India'.

In a nutshell

Key provisions covered under the 'scheme to promote manufacturing of electric passenger cars in India' include:

- Eligibility conditions in terms of global turnover and global investment to be met.
- Minimum investment – INR 4150 Cr (US$ 500 Million)
- Investment commitment to be backed by bank guarantee.

- Timeline of 3 years for setting up manufacturing facility
- Minimum domestic value addition – 25% by third year, 50% by fifth year
- Bank guarantee to be invoked in case of non-achievement of domestic value addition and minimum investment criteria.

- Vehicles of CIF value of US$ 35,000 or above eligible for reduced Custom duty of 15% for a period of 5 years.
- Maximum 8000 EVs can be imported each year for a period of 5 years, subject to amount of duty foregone or investment made.

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Some key definitions

- **Group Companies**: Group Company(ies) shall mean two or more enterprises which, directly or indirectly, are in a position to: Exercise 26% percent or more of voting rights in the other enterprise; Or appoint more than 50% of members of Board of Directors in the other enterprise (as defined in the FDI Policy Circular of 2020).
- **Global Net Worth**: It refers to the Gross Net Worth of a company or its Group company(ies) from all operations i.e., domestic as well as foreign, of all assets (Domestic plus Foreign) less all liabilities (Domestic plus Foreign).
- **Domestic Value Addition (DVA):** Shall be as defined in PLI-Auto scheme of MHI, i.e., "Value addition" will be construed as the percentage of manufacturing activity being undertaken in that referred part of the supply chain. Percentage domestic value addition = [(Ex-factory price of the product (net of GST) – Import content i.e., sum of FOB value of all imported components or materials in the final product including import duties) / Ex-factory price of the product (net of GST)] x 100. It will be certified by testing agency of MHI.
- **Semi-Knocked down Unit (SKD):** Semi-Knocked Down (SKD) is a vehicle as a knocked-down kit containing all the necessary parts, sub-assemblies for assembling a complete vehicle with engine, gearbox, transmission in pre-assembled condition but not mounted on a chassis or a body assembly.
- **Manufacturing**: In accordance with Central Goods and Services Tax (CGST) Act, 2017, manufacturing shall mean processing of raw material or inputs in any manner that results in emergence of a new product having a distinct name, character and use and the term "manufacturer" shall be construed accordingly. Further, within the framework of this Scheme, it is specified that manufacturing pertains specifically to the production of electric passenger vehicles within the manufacturing facility(ies) to be established by the applicant and adhering to the specified DVA requirements.
- **Investment**- "Investment" shall mean: Expenditure incurred on new plant, machinery, charging infrastructure, equipment and associated utilities across India. This shall include expenditure on plant, machinery, equipment and associated utilities as well as tools, dies, moulds, jigs, fixtures (including parts, accessories, components and spares thereof) of the same, used in the design, manufacturing, assembly, testing, packaging or processing of any of the eligible products under the Scheme. It shall also include expenditure on setting up of charging infrastructure, equipment and associated utilities across India. Further, it shall also include expenditure on packaging, freight/transport, insurance, and erection and commissioning of the plant, machinery, equipment, and associated utilities. Associated utilities would include captive power and effluent treatment plants, essential equipment required in operations area such as clean rooms, air curtains, temperature and air quality control systems, compressed air, water and power supply, and control systems. Associated utilities would also include IT and ITES infrastructure related to manufacturing including servers, software, and ERP solutions. All non-creditable taxes and duties would also be included in such expenditure. Expenditure made on second hand/ refurbished plant, machinery etc., will not qualify as investment under this Scheme. Further, leasehold assets will also not qualify as investment under this Scheme.

Key provisions

- **Minimum investment required** for manufacturing of EV passenger cars (e-4W) - **INR 4,150 Crore** (US$ 500 million).
- Manufacturing facility to be **operational within 3 years** from date of issuance of MHI approval letter.
- Minimum **Domestic Value Addition (DVA) requirement** - 25% by third year, 50% by the fifth year.
- **Reduced Custom duty of 15%** on import of CBUs of e-4W.
- Vehicle of **CIF** (Cost, Insurance and Freight) **value of US$ 35,000 or above will be permissible** for a period of 5 years at reduced duty of 15%.

- **Capping on maximum number of e-4W** allowed under reduced Custom duty – **8000 nos. per year**. Carry over of unutilised annual import limits permitted.
- Total number of EVs allowed for import would be determined by the **total duty foregone or investment made**, whichever is lower, subject to a maximum of INR 6,484 Cr (equal to incentive under PLI scheme).
- Investment commitment to be **backed by a bank guarantee** equivalent to total duty forgone or INR 4150 Cr whichever is higher.
- Bank guarantee to be invoked in case of non-achievement of DVA and minimum investment criteria defined.
- **No limit on the maximum investment** commitment during the 3-year window
- Eligibility criteria for receive benefits under the Scheme is outlined below:
  - **Global group Revenue** (from automotive manufacturing), based on the latest audited annual financial statements at the time of application – **Minimum INR 10,000 Crore**
  - **Investment** at the time of application - Global Investment of Company or its Group* Company(ies) in fixed assets (gross block) of **INR 3,000 Crore**
- **Applications invited within 120 days** from the date of notification, to be applied through online portal maintained by **Project Management Agency (PMA)** whose role is defined.
- An inter-ministerial **Scheme Sanctioning Committee (SSC)** to be constituted under the chairmanship of Secretary, MHI to monitor implementation of the Scheme.
- Obligations of approved applicants –
  - Submit import applications annually for availing lower Customs duty;
  - Submit quarterly progress report with PMA
- All applicants to furnish undertaking with regard to Integrity compliance duly signed by its authorized signatory.

Key takeaways

The Scheme is a step forward in boosting the 'Make in India' initiative, strengthening the overall EV ecosystem by attracting investments from leading EV players and placing India on the global map for manufacturing of EVs.