

**Emerging Production Linked Incentives
Schemes: What's in it for you?**

The Dbriefs Corporate Income Tax series

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Agenda

- Opening remarks and panelist's introduction
- Indian Economy in perspective and context setting
- Production Linked Incentive Schemes – concept and coverage
- Other tax considerations – lower corporate tax rates, structuring, funding
- Deloitte learnings and experience
- Question and answers

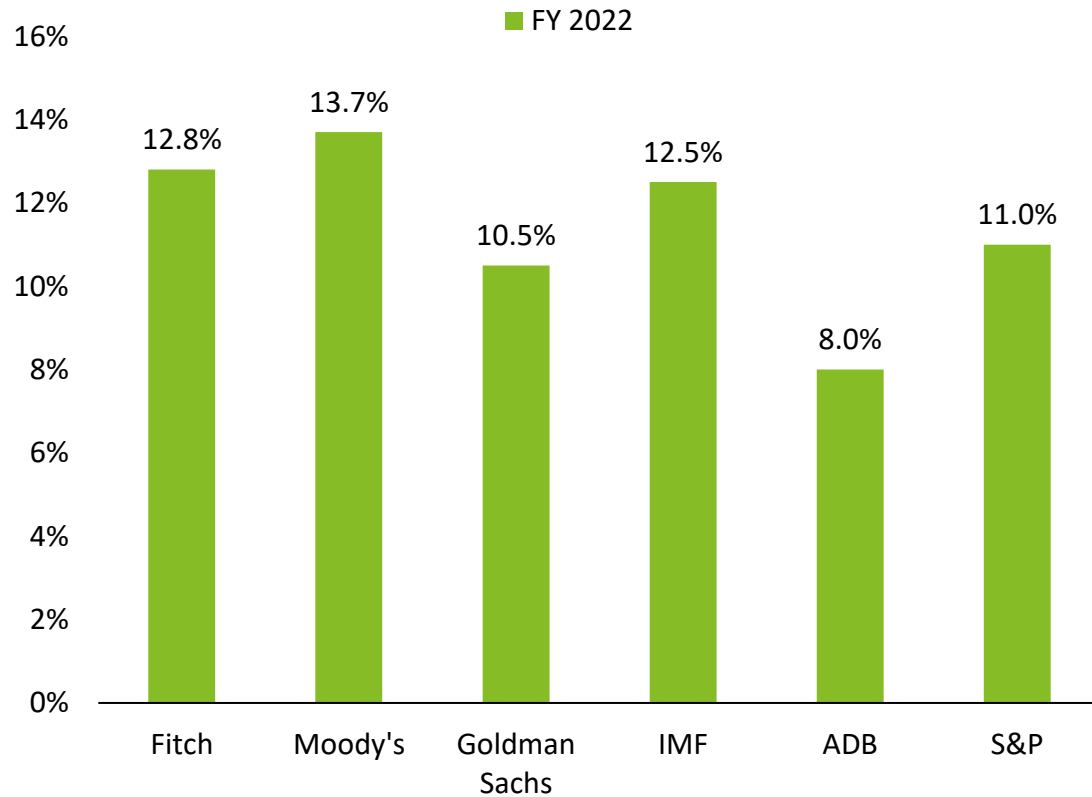
Setting the context

The Indian economy in perspective

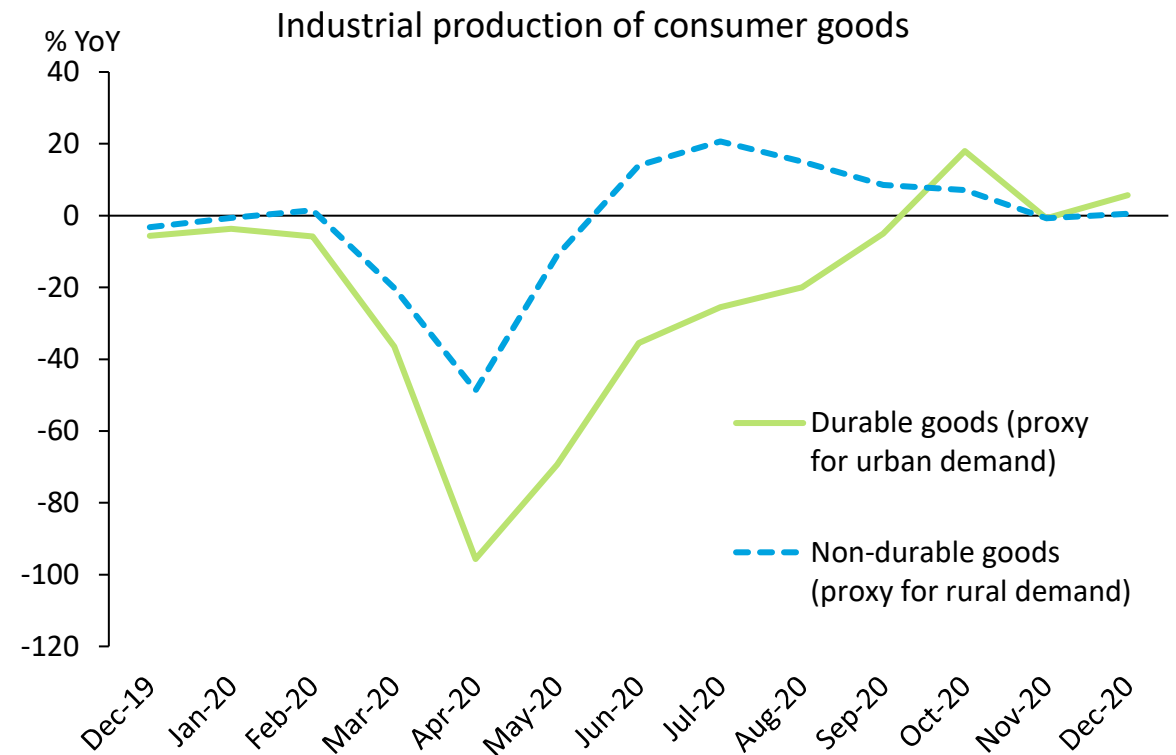
Faster recovery of demand – both rural and urban – provides new opportunities for businesses



GDP growth projection



Consumer demand has recovered fully and beyond pre-COVID-19 levels



India's GDP is expected to grow at over 10% in 2022 by nearly all estimates

A key characteristic of India's recovery has been the policies to encourage manufacturing
Organizations have an opportunity to leverage the benefits associated with reforms to accelerate their global value chain (GVC) participation



Dimensions of significance



USD 1.4 tn investment in infrastructure over the next 5 years under National Infrastructure Pipeline (NIP)



USD 380 bn of special economic package in May'20



15 champion sectors identified for manufacturing



Policies: structural reforms in many sectors, labour reforms, incentives and subsidies, tax reforms, and thrust on value addition in India



Impact on India's competitiveness

• **Low external debt to GDP** ratio at 20.6%

• **63rd** in World Bank's **Ease of Doing Business (EoDB)** 2020 among 190 countries, a leap of 79 spots from 2015

Vision for **manufacturing**:
25% of the GDP by 2025

• **9th** largest recipient of FDI in 2019 (UNCTAD) with USD 51 bn

• **USD 40 bn FDI from the USA** already in 2020

• **9th** in the Global Innovation Index (GII) for "**Government's online services**" and **3rd** for **domestic market sale**

• **Focus has been on long term capability and capacity building– infrastructure, technology and demand generation – to realize a vision of USD 5 trillion of GDP by 2025**

The context of Production Linked Incentive (PLI) schemes

- The Production Linked Incentive (PLI) schemes provide financial incentives to boost domestic manufacturing and attract investments
- The schemes extend an incentive of $X\%$ to eligible companies on **incremental sales** (over base year i.e., 2019-20) of manufactured goods for a period of X^* years after the base year



Objectives of the PLI schemes

- Attract shifts of value chains by make Indian manufacturing globally competitive
- Enhance Global Value Chain (GVC) participation and make India an integral part of the global supply chain
- Incentivize value addition in India



Focus on

- Import substitution and enhancing exports by attracting investment in the areas of core competency and cutting-edge technologies
- Sectors that have high employment potential and those that are attractive in the near and medium term and, create economies of scale



WTO compliant

- Compatible with the WTO as the quantum of support is not linked to the export



Incremental GST

- GST on incremental sales could aid offsetting incentives offered



Effective alternative

- Aid organizations in their supply chain resilience modelling



Timelines

- Department for promotion of industry and internal trade is interacting with all ministries
- Cabinet approval to be sought and schemes will be notified and implemented in 3 – 4 months



Commitment to manufacturing

- Reflects the intent to improve the prospects of domestic manufacturing in India

*varies by sectors and intimated in the guidelines

Polling question 1

Does your organization have a manufacturing facility in India or planning to set up one in the near-term?

- Yes, we have an existing manufacturing facility in India and are additionally looking to expand our footprint
- Yes, we have an existing manufacturing facility in India but not looking to expand
- No, we do not have a manufacturing footprint in India but are evaluating it
- No, we do not have a manufacturing footprint in India and are not considering one
- Don't know/not applicable

PLI – concept and coverage

One-time, limited window opportunity for new investments in India (incentives outlay of nearly USD 26.66 bn over a 5-6 year period)



Key benefits

- Incentives in range of 2 to 15% on incremental sales of eligible products over base year
- Pan India domestic sales and exports eligible
- Benefits under other schemes or state industrial policies can be claimed



Ease of doing business





- Investment at multiple locations across India eligible for benefits
- No forex earning condition or minimum export obligations
- No restrictions on disposal of assets or minimum operative period







Potential beneficiaries

- Preference to companies with significant existing global sales
- Businesses intending to shift manufacturing facilities from other countries to India
- Domestic champions

Coverage, benefits, and opportunities (2/3)

 Sector	 Ministry	 Incentives outlay (USD billion)	 Status
Advance Chemistry Cell (ACC) Battery	Department of heavy industry	2.41	Awaiting approval by cabinet
Specialty steel	Ministry of steel	0.84	Awaiting approval by cabinet
Food products	Ministry of food processing industries	1.45	Scheme approved by cabinet; notification awaited
Pharmaceuticals drugs	Department of pharmaceuticals	0.93 (Phase I) + 1.99 (Phase II)	Phase I – applicants approved Phase II – scheme notified
Electronic/technology products	Ministry of electronics and information technology	0.67	Scheme notified
Telecom and networking products	Department of telecommunications	1.63	Scheme notified

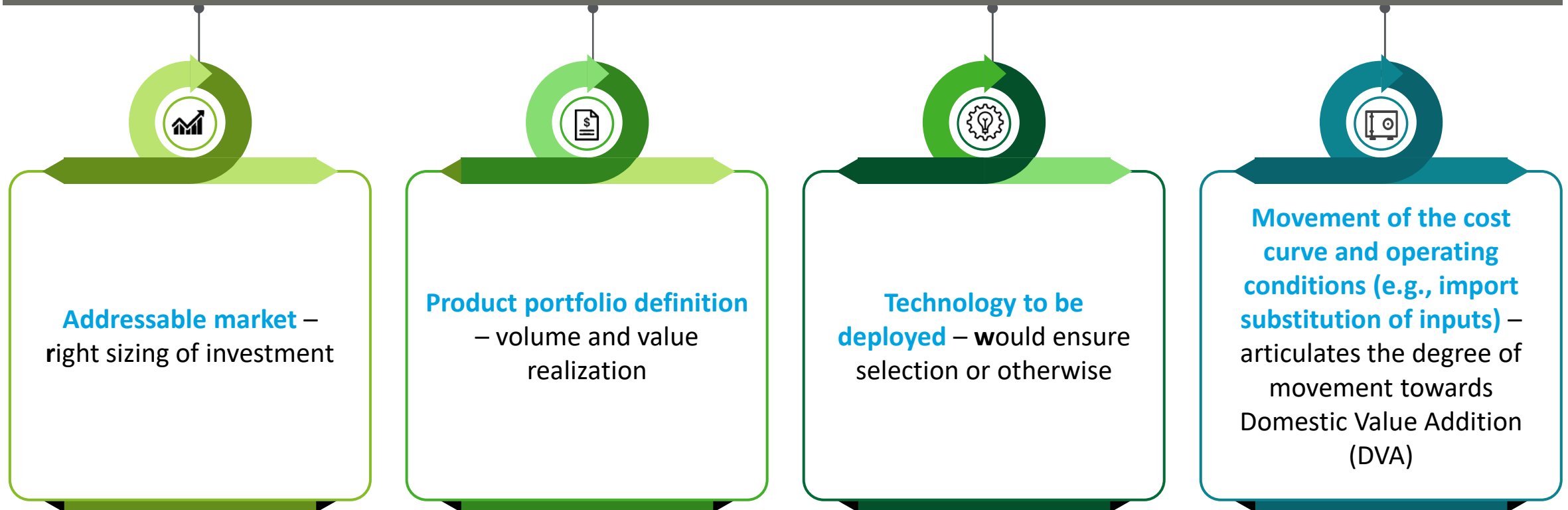
Coverage, benefits, and opportunities (3/3)

 Sector	 Ministry	 Incentives outlay (USD billion)	 Status
High efficiency solar PV modules	Ministry of new and renewable energy	0.59	Scheme approved by cabinet; notification awaited
Automobiles and auto components	Department of heavy industry	7.60	Awaiting approval by cabinet
Textiles	Ministry of textiles	1.42	Awaiting approval by cabinet
White goods (ACs and LED)	Department for promotion of industry and internal trade	0.83	Scheme notified
Mobile phones and electronic components	Ministry of electronics and information technology	5.46	Scheme notified and applicants approved; round II in progress
Medical devices	Department of pharmaceuticals	0.46	Scheme notified and applicants approved

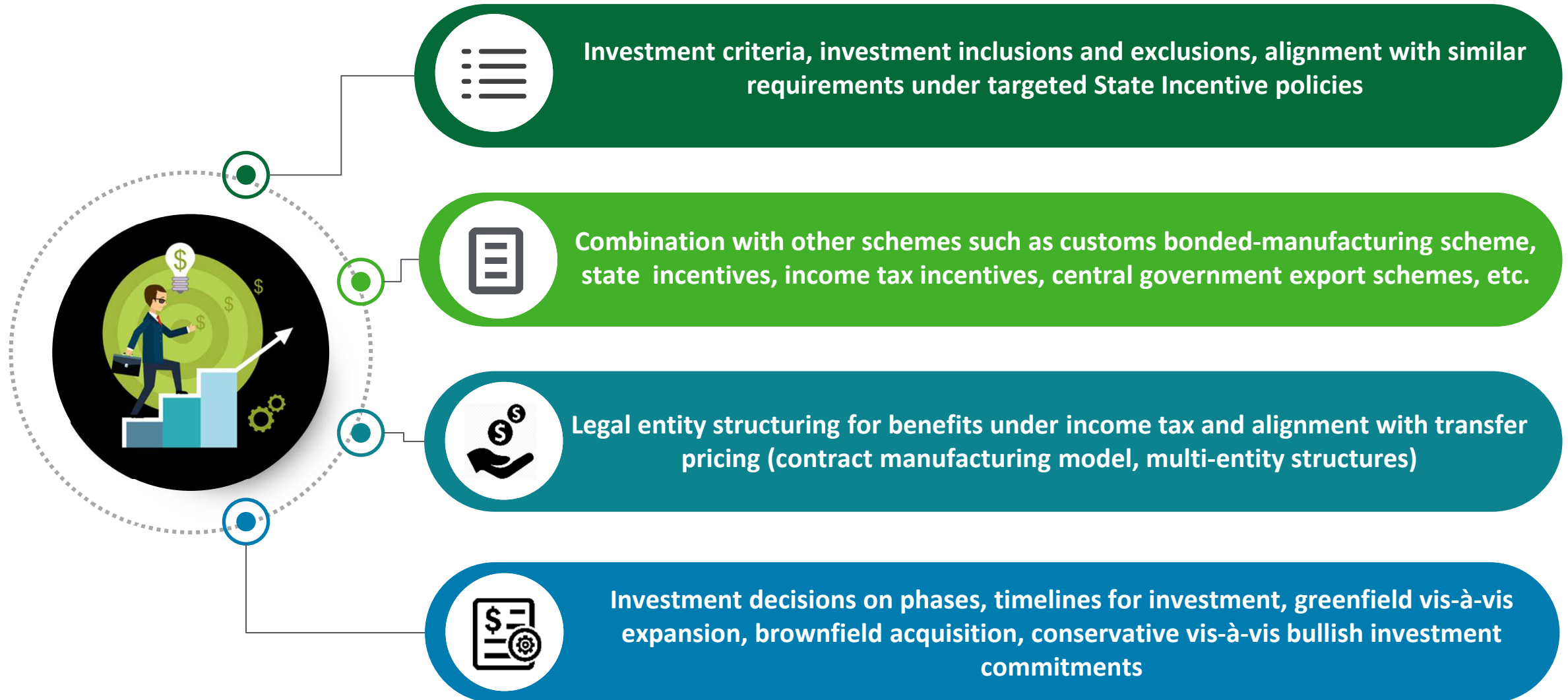
Business considerations for organizations as they evaluate the PLI schemes

Key choices for organizations as they evaluate the impact and implications from PLI schemes

Planning the size of investments: organizations need to start with a rapid review of eligibility of proposed products under the scheme and determination of target segments/number of applications to be filed



Strategic decisions and cross-linkages with other incentives schemes



Polling question 2

Are you aware of the various incentives schemes available in India for setting up manufacturing?

- Yes, and we are already availing benefits under the applicable schemes for our existing projects
- No, but we are reviewing the schemes to check applicability for our existing/planned operations in India
- So far not aware of any incentives schemes prevalent in India
- Don't know/not applicable

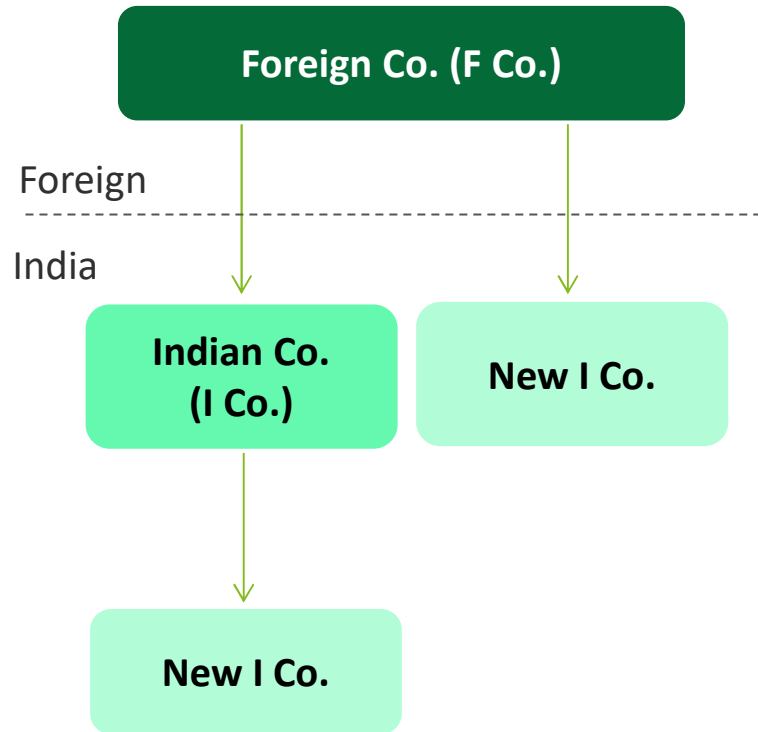
Other tax considerations

Corporate tax rates

Type of company*	Income up to INR 10 million (~ USD 0.13 million)		Income above INR 10 million up to INR 100 million (~ USD 0.13 million up to USD 1.33 million)		Income above INR 100 million (~ USD 1.33 million)	
	Normal provisions	MAT	Normal provisions	MAT	Normal provisions	MAT
Domestic company: normal rate	31.2%	15.6%	33.38%	16.69%	34.94%	17.47%
Domestic company: turnover up to INR 4 billion (~ USD 53.33 million in FY19-20)	26%	15.6%	27.82%	16.69%	29.12%	17.47%
Domestic company: does not avail tax incentives or exemptions	25.17%	Not applicable	25.17%	Not applicable	25.17%	Not applicable
Domestic company: new manufacturing company (set up on or after 1 March 2016)	26%	15.6%	27.82%	16.69%	29.12%	17.47%
Domestic company: new manufacturing company (set up on or after 1 October 2019)	17.16%	Not applicable	17.16%	Not applicable	17.16%	Not applicable
Foreign company	41.6%	15.6%	42.43%	15.91%	43.68%	16.38%

*Tax rates are subject to prescribed conditions to be met by the company

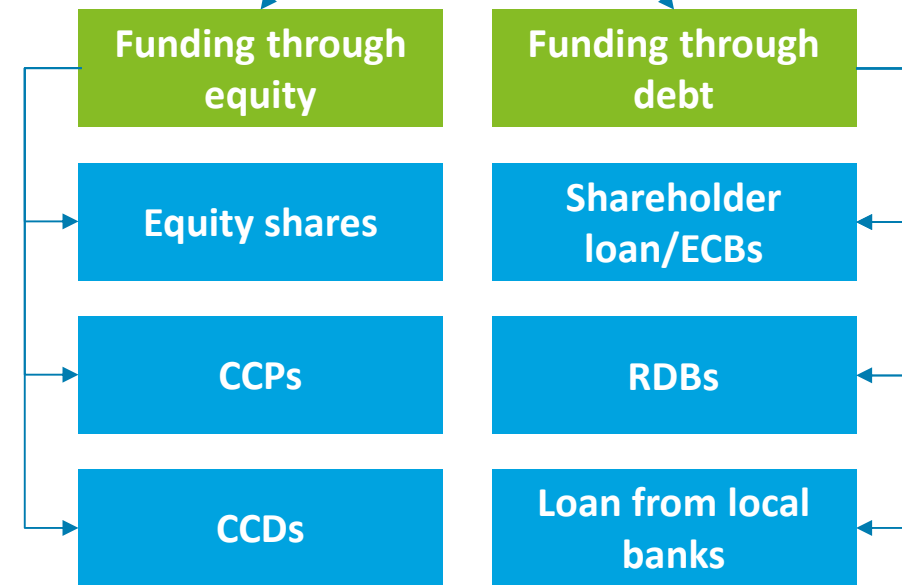
Legal entity structure and funding options



Entity structure

Planning to set-up a new manufacturing company to avail lower rate of tax of 15 per cent without MAT

Funding options in India



Funding options

Key choices for organizations to evaluate funding options

Employment generation incentives



Deduction under section 80JJAA of the ITA

- Deduction available @ 30% of additional employee cost for 3 years (including the year in which employment is provided)
- Additional employee means an employee:
 - Whose total emoluments are not more than INR 25,000 (~ USD 333.33) per month;
 - Employed for at least 150 days (for apparel, footwear and leather industry)/ 240 days during the previous year; and
 - Participates in a recognized provident fund
- Deduction also available to an Indian company opting for lower income tax rate



Atmanirbhar Bharat Rojgar Yojana*

- Subsidy for two years in respect of new employees joining employment in EPFO registered establishments on monthly wages < INR 15,000 (~ USD 200) on or after 1 October 2020
- Quantum of subsidy:
 - Establishments employing up to 1,000 employees – 12% each of **employer's and employee's** contribution
 - Establishments employing more than 1,000 employees – 12% of **employee's** contribution
- Scheme operational till 30 June 2021

*New scheme launched to incentivize creation of new employment opportunities during COVID recovery phase

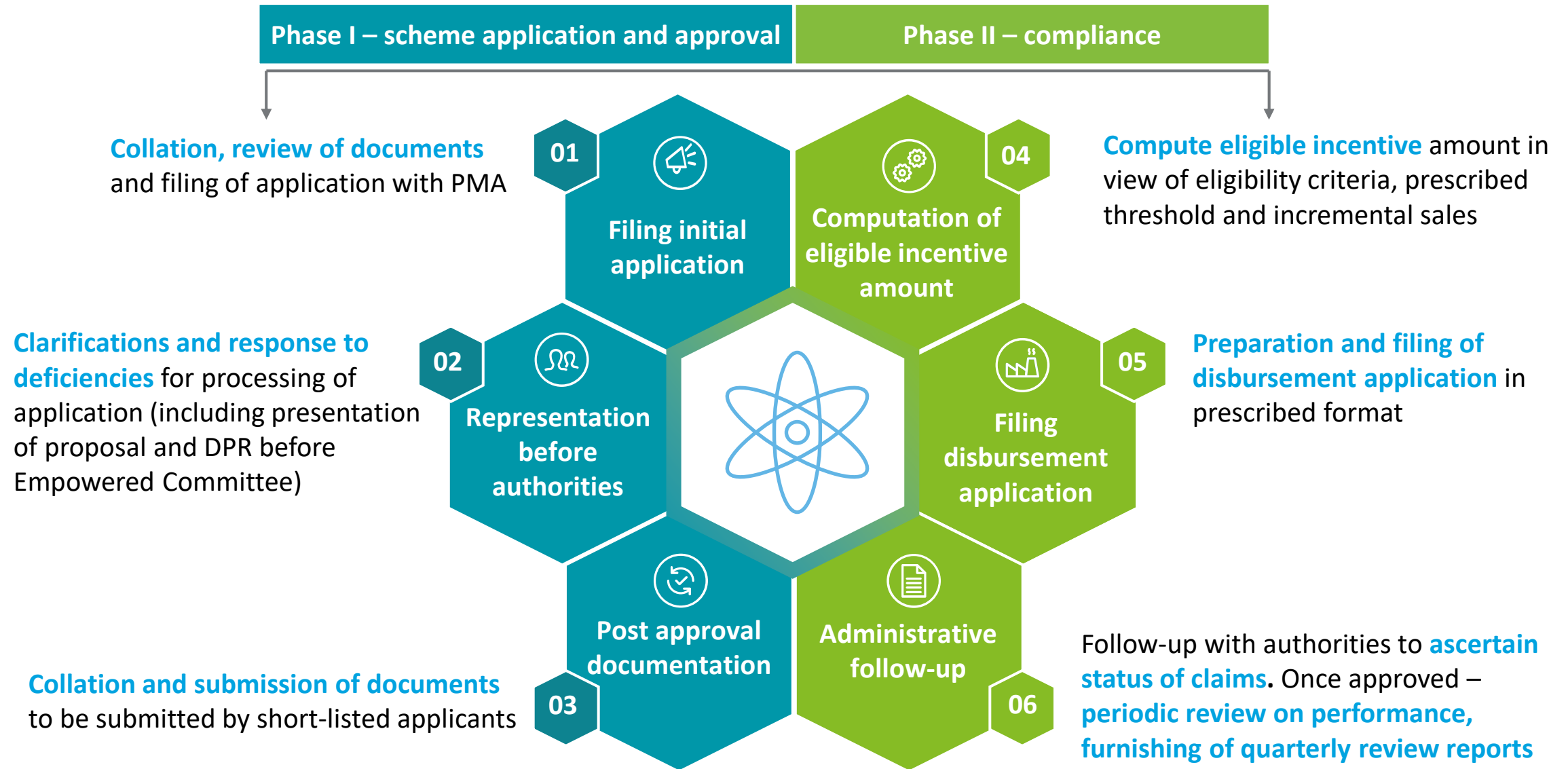
Polling question 3

What is the current effective corporate tax rate that you are paying in India?

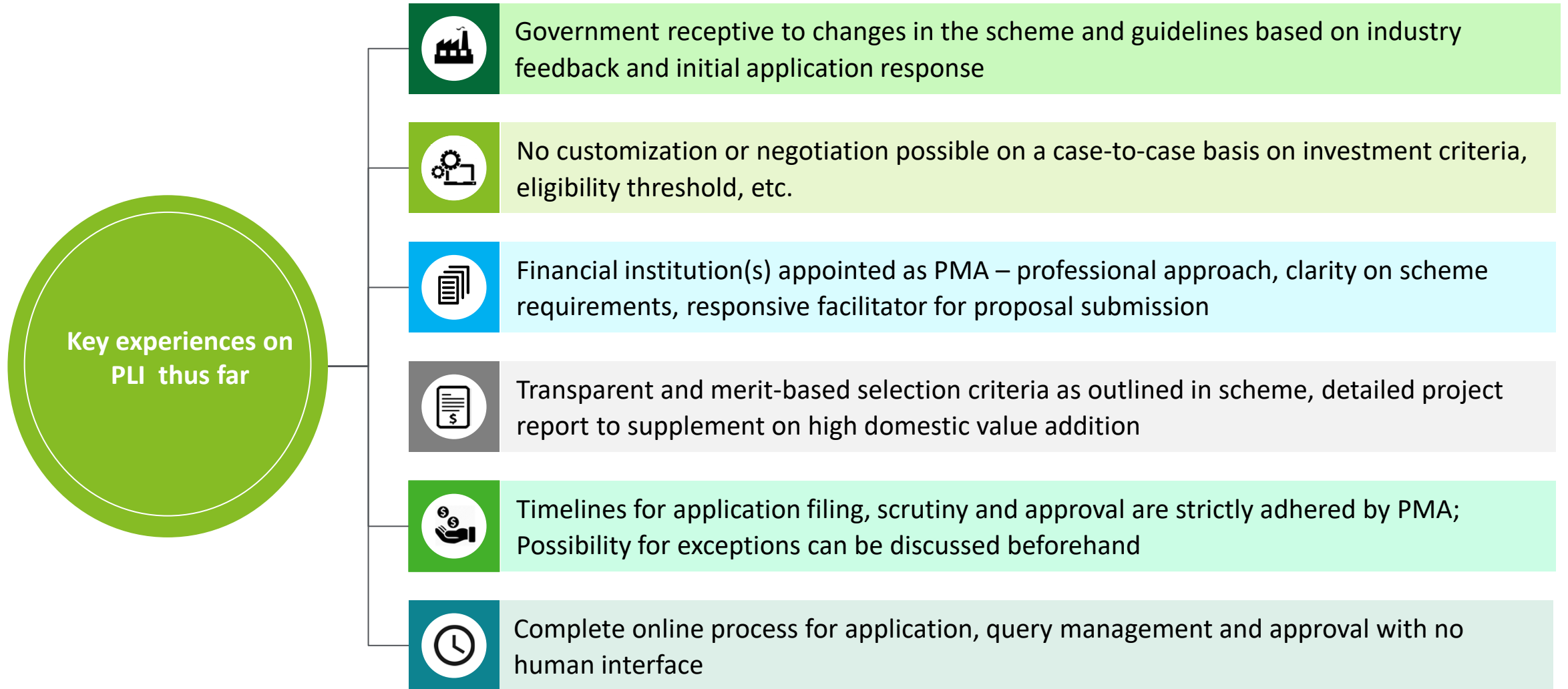
- Less than 20 percent
- 20 percent to 30 percent
- Above 30 percent
- Not taxable in India
- Don't know/not applicable

Our learnings and experience

Process cycle for PLI schemes



Our learnings and experience from previous PLI schemes



Question and answers

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