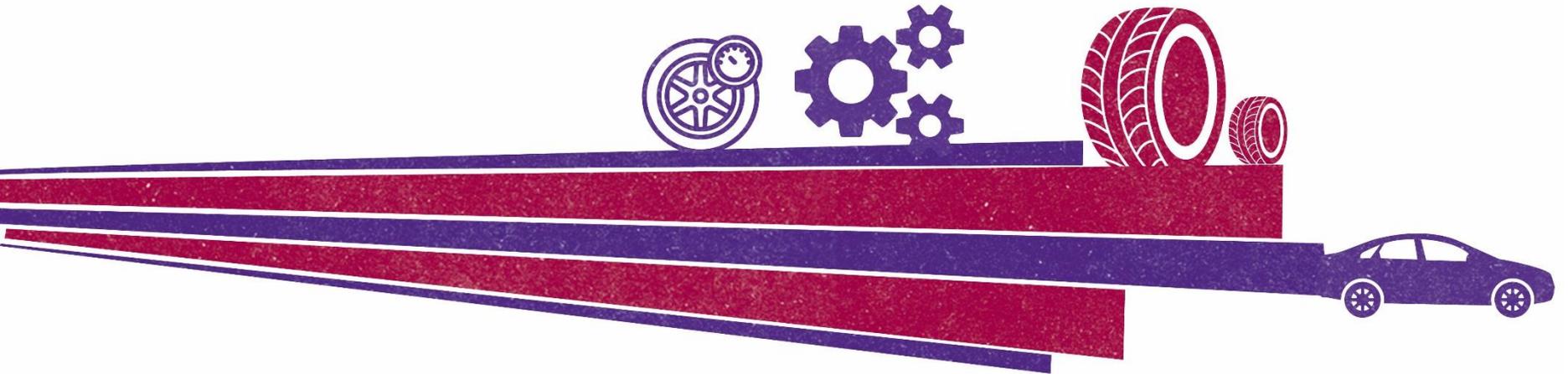


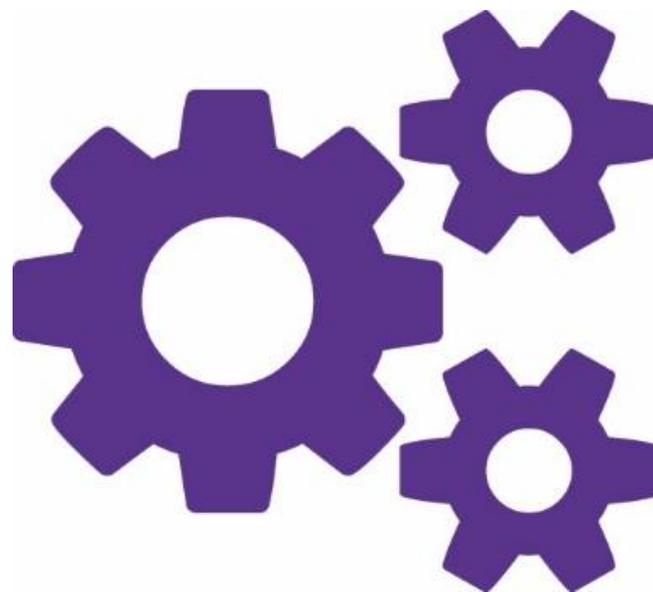
Union Budget 2016-17

Impact on the Automotive sector



Contents

01	Foreword
02	An overview
03	Key challenges
04	Growth drivers
05	Key policy initiatives
06	Direct tax proposals
07	Indirect tax proposals





Foreword



**Sridhar
Venkatachari**

Partner, Grant Thornton India LLP

Continuing with the measures laid down by the Railway Budget, the Union Budget addresses the needs of the sector. Priority to infrastructure with significant outlay to establish a railway auto hub, rationalisation of rail tariff rates, expanding road network, committing to complete 2 lakh Km of rural roads by 2019, approving another 10,000 Km of national highway in 2017, upgrading 50,000 Km of state highway to national highway, will have a multiplier effect on the economy. However, measures such as tax collection at source of 1% on purchase of luxury cars and a infrastructure cess ranging from 1% to 4% of the assessable value of different categories of cars will have a short to medium term impact on the growth of this sector. While the first mentioned will be an additional cost of ownership to non-tax payers/non tax assesses, it may not impact the tax assesses. Provisions of Nil BCD and Lower CVD for parts of electric and hybrid vehicles, is expected to improve the demand for green vehicles.



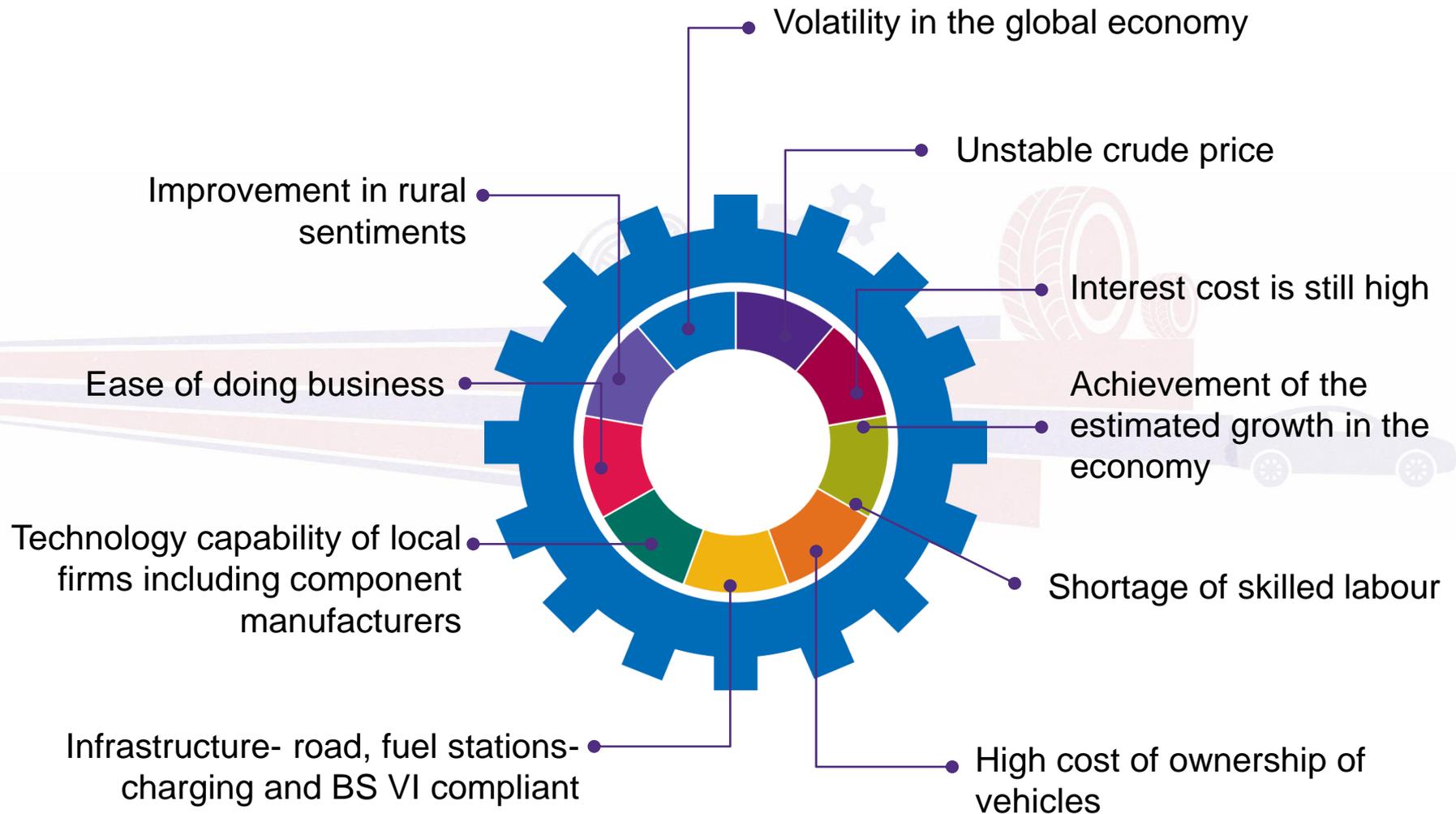
An overview

The US\$ 74 bn industry that contributes 7-8% of the GDP and 23-25% of the manufacturing GDP in India has shown signs of revival in vehicle sales, though not consistently both across the vehicle segments and the period.

- Of this, commercial vehicles segment has shown an overall healthy double digit sales growth followed by passenger vehicles segment that has shown single digit growth.
- Two wheeler segment and LCV's have shown negligible growth primarily due to lack of rural demand, drought and lag effect, respectively. This resulted in a meagre 1.04% growth overall in the vehicles segment in 2015-16 (YTD) over 2014-15.
- For major part of the year the high interest rates was a dampener. However, with low fuel cost and interest rate deduction in the second half of the year, and with introduction of a slew of new models, the sector is now witnessing a reversal.
- Economic survey 2015-16 estimates a 3.1% growth in the IIP for 2015-16 indicating stability substantiating a positive trend for the automotive sector.

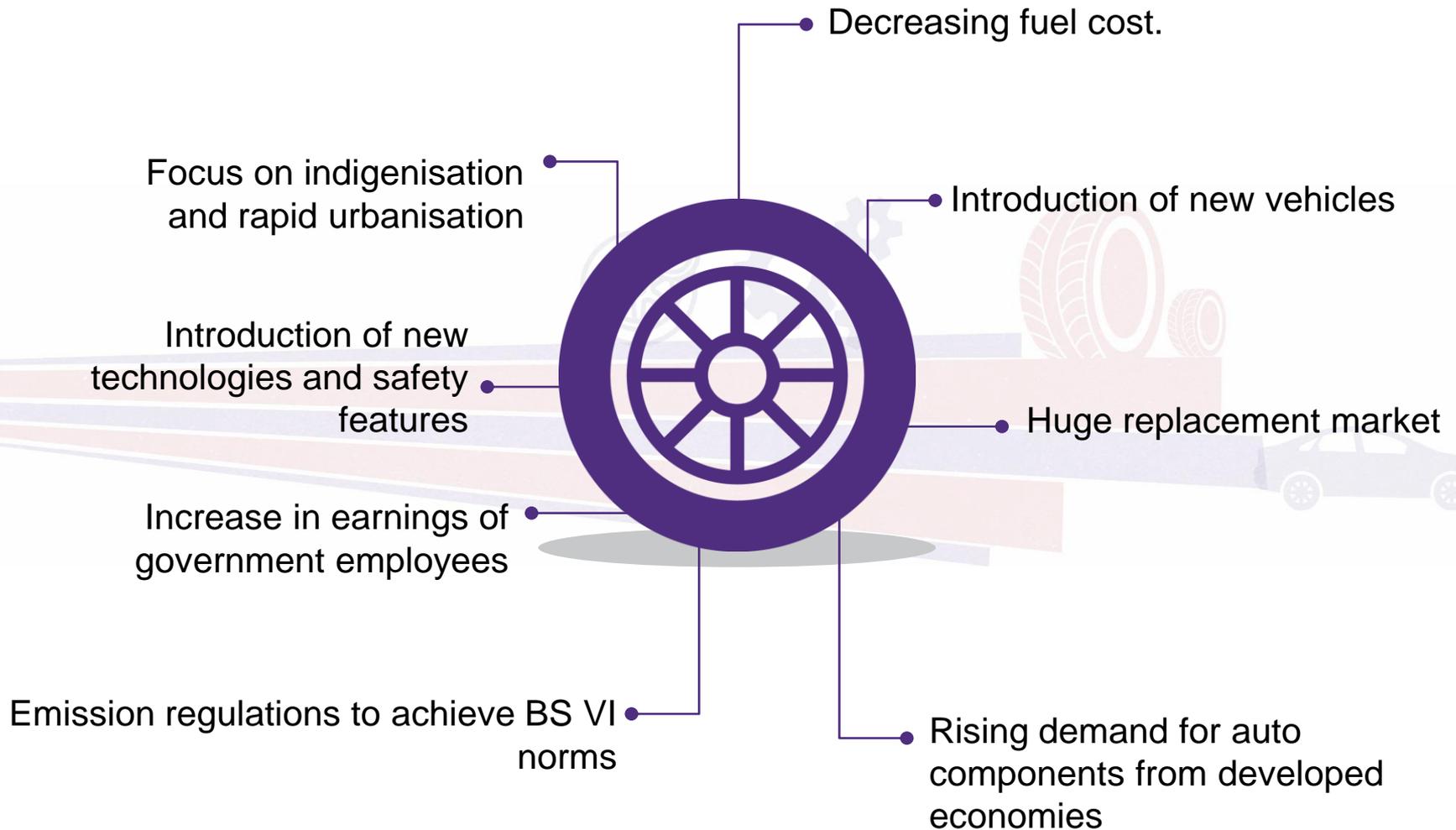


Key challenges





Growth drivers





Key policy initiatives

Automotive Mission Plan (AMP) 2016-26

The Plan aims to put India among the top three automotive manufacturing hubs in the world.

- A revenue target of US\$ 300 bn is estimated.
- It is expected to create 70 -100 mn jobs with about US\$ 80 bn capex investment.
- This plan also envisages 'end of life' policy for vehicles & components and taking emission standards to comply with Euro VI norms. Auto component industry to grow to USD 90 – 110 billion.

Faster Adoption and Manufacturing of Electric Vehicles (FAME-April 2015)

Based on the National Electric Mobility Plan (NEMMP) 2020, the government introduced FAME India scheme with a INR 795 crore outlay laid out an aspirational target of 6-7 mn electric and hybrid vehicle each year by 2020. Cover all forms of vehicles, the incentive will result in demand and supply creation, technology and R&D projects, creation of public charging infrastructure and other pilot projects.

National Automotive Testing and R&D Infrastructure Projects (NATRiPs)

Under Department of Heavy Industries and Public Enterprises 9 R&D centres with focus on low cost manufacturing a product development solutions have been created

Changes to FDI and related policies

To promote Make in India foreign investors will be accorded Residency status subject to conditions.



Direct tax proposals

Incentives for employment generation

- The benefit of deduction in respect of Wage Bill incurred through fresh employment is proposed to be further extended
- 30% of the additional employee cost incurred in the course of business shall be allowed for three assessment year relevant to the previous year in which such employment is provided, subject to the fulfillment of certain conditions
- Norms have been relaxed for minimum number of days of employment in a financial year from 300 days to 240 days. Further the conditions relating to the 10 % increase in the number of employees every year has also been relaxed so that any increase in the number of employees will be eligible for a deduction

Ceiling on Accelerated Depreciation

- Rule 5 of Income-tax Rules, 1962 has been proposed to be amended to restrict the highest rate of depreciation under the Income-tax Act to 40% for all the assets (whether old or new) falling in the relevant block of assets with effect from 01.4.2017



Direct tax proposals

Investment allowance

- The existing provision of sub-section (1A) in section 32AC of the Act has been amended to provide that the acquisition and installation of the plant & machinery of the specified value has to be made by 31.03.2017 in order to avail the benefit of investment allowance of 15%.
- It is further proposed to provide that where the installation of the new asset is in a year other than the year of acquisition, the deduction under this sub-section shall be allowed in the year in which the new asset is installed.

Tax collection at source on sale of vehicles

- It is proposed to include the sale of vehicles within the purview of tax collection at source. It has been proposed that the seller shall collect the tax at the rate of 1% from the purchaser on sale of motor vehicles of the value exceeding Rs. 10 Lakhs with an exemption to certain class of buyers who fulfil certain prescribed conditions. (effective from June 1, 2016)

Introduction of Patent box regime

- Royalty income earned in respect of patent developed and registered in India by a resident of India proposed to be taxed at a concessional gross rate of 10%
- MAT not applicable to income from patents developed and registered in India subject to prescribed conditions



Direct tax proposals

Deferral of Place of Effective Management (PoEM) Rules by one year

- Applicability of PoEM based residence test to be deferred by one year to FY2016-17 in absence of implementation guidelines
- The government to notify rules providing for the transition mechanism for a company which becomes tax resident of India on account of its PoEM covering aspects such as computation of its taxable income, treatment of unabsorbed depreciation, setoff or carry forward of losses, withholding tax provisions

Equalisation levy on non-residents

- It is proposed to levy a new "Equalisation levy" of 6% on online advertisement revenue received by non-resident service providers from resident taxpayers carrying on business and non-resident payers having Permanent Establishment (PE) in India
- The income of a non-resident subject to the equalisation levy would thereafter be exempt under the Income Tax Act
- Non-resident service providers having a PE in India would not be subject to this levy. Further, payments from a single payer not exceeding Rs 1 lakh in an year in aggregate are also exempt from this levy
- Remitters are required to withhold the levy while making remittance. Failure to withhold would attract disallowance under Income Tax Act and expose the payer to interest and penalty



Indirect tax proposals

Central Excise

- No change in base rate of excise duty
- **Infrastructure cess** introduced from Nil to 4% as specified on motor vehicles
 - 4% on specified motor vehicles falling under Chapter 8703
 - 1% on Motor vehicles of length not exceeding 4000 mm, namely petrol, LPG or CNG driven vehicles of engine capacity not exceeding 1200 cc
 - 2.5% on Motor vehicles of length not exceeding 4000 mm, namely diesel driven vehicles of engine capacity not exceeding 1500 cc
 - Motor vehicles such as ambulance/ taxi/ electrically operated vehicles/ hybrid motor vehicles etc. exempted,
- CENVAT Credit cannot be utilized for payment of Infrastructure cess.
- Scope of "deemed manufacture" for Retail Sale Price (RSP) based assessments extended to accessories of motor vehicles; abatement of 30%
- Concessional Excise duty of 6% on specified goods for use in manufacture of Electrically operated vehicles/ hybrid vehicles extended indefinitely

Cenvat Credit

- CENVAT credit of inputs transferred from warehouse of Manufacturer can be taken on invoice raised by such warehouse
- Input Service Distributor (ISD) allowed to distribute CENVAT credit to an outsourced manufacturing unit
- CENVAT credit allowed to principal manufacturer even if goods are directly sent by vendor/ supplier to premises of job worker; for specified goods



Indirect tax proposals

Customs

- No change in base rate of customs duty
- Exemption from BCD for use in manufacture of hybrid motor vehicles
- Increase in duty rate from 10% to 60% for Golf Car

Service Tax

- Krishi Kalyan Cess (KKC) at 0.5% of value introduced on all taxable services; effective service tax thus proposed to increase to 15% (inclusive of SBC and KKC)

Goods and Service Tax

- No specific announcement on Goods & Service Tax (GST)

Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI

National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110 001

AHMEDABAD

BSQUARE Managed Offices, 7th
Floor, Shree Krishna Center,
Above Crossword, Nr. Mithakali
Six Roads,
Navrangpura,
Ahmedabad 380009

BENGALURU

“Wings”, 1st floor
16/1 Cambridge Road
Ulsoor
Bengaluru 560 00

CHANDIGARH

B-406A, 4th Floor,
L&T Elante office
Industrial area, Phase-I
Chandigarh – 160002

CHENNAI

Arihant Nitco Park, 6th floor
No.90, Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004

GURGAON

21st floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122 002

HYDERABAD

7th floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500 016

KOCHI

7th Floor, Modayil Centre
point,
Warriam road junction,
M.G.Road,
Kochi 682016

KOLKATA

10C Hungerford Street
5th floor
Kolkata 700 017

MUMBAI

16th floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400 013

MUMBAI

9th Floor, Classic Pentagon,
Nr Bisleri, Western Express
Highway, Andheri (E)
Mumbai 400 099

NOIDA

Plot No. 19A, 7th Floor
Sector – 16A,
Noida – 201301

PUNE

401 Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001

For more information or for any queries, write to us at contact@in.gt.com



Follow us @GrantThorntonIN

© 2016 Grant Thornton India LLP. All rights reserved.

“Grant Thornton India LLP (formerly Grant Thornton India) is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001.

References to Grant Thornton are to Grant Thornton International Ltd (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.