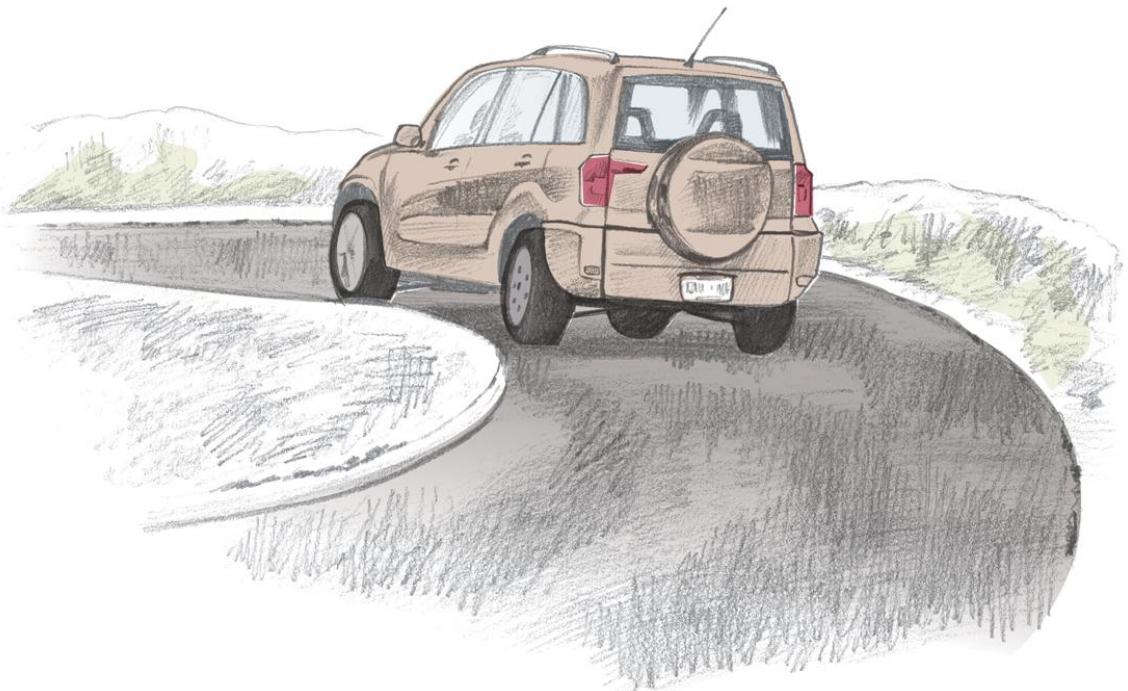


Union Budget 2013-14

Impact on the Automotive sector



Contents

03 | An overview

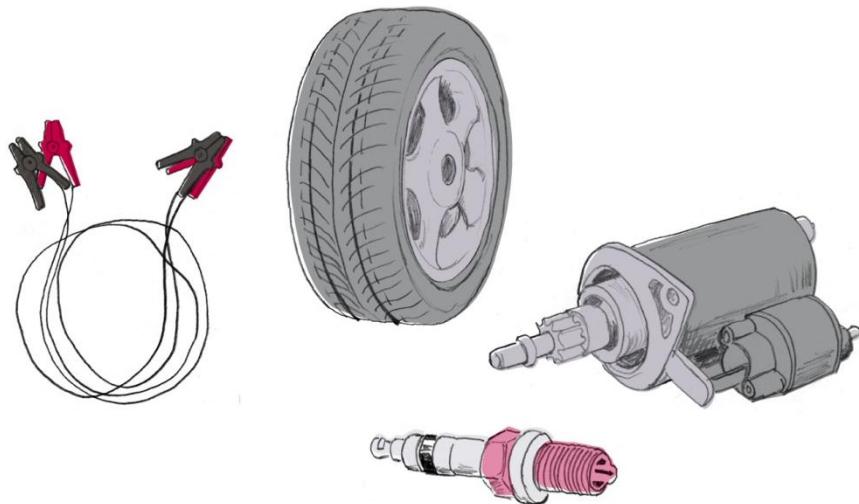
05 | Key expectations

06 | Key policy initiatives

07 | Direct tax proposals

09 | Indirect tax proposals

13 | Our offices



An overview

An overview

The automotive sector plays a catalytic role in the growth of the Indian economy. The sector accounts for 22% of the manufacturing 'Gross Domestic Product' (GDP) as well as 4% of the cumulative 'Foreign Direct Investment' (FDI) inflow in India.

The high growth potential of the Indian automotive sector has positioned it as one of the fastest growing passenger car markets as well as the fifth largest commercial vehicle manufacturers globally. Besides, India is also the largest motorcycle manufacturer and the second largest two wheeler manufacturer in the world. The healthy pace of growth of the sector has also made India, the largest base to export compact cars to Europe.



Growth drivers

Following the de-licensing of the sector in 1991, the Indian automotive sector has registered an impressive growth trajectory. A large number of factors have favoured the growth of the sector, ensuring a wide spectrum of choices for Indian consumers at competitive costs as well as improved productivity and process efficiency.

Some of the key drivers of this remarkable growth are:

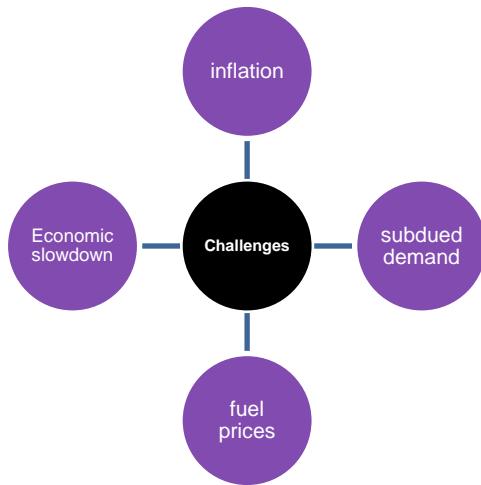
- rapid urbanisation
- growth of the Indian middle class
- rising disposable incomes in rural agricultural sector
- easy finance schemes
- increasing purchasing power
- favourable demographic distribution
- strong macro-economic fundamentals
- market linked exchange rate
- well established financial market
- stable policy governance framework
- availability of trained manpower



An overview

Challenges

The recent deceleration in the Indian economy has a cascading impact on performance of the automotive sector in India. The sector is going through one of the worst phases over the last decade with a 12.5% decline in sales of passenger cars in January 2013. As per Society of Indian Automobile Manufacturers (SIAM), the passenger car segment of the country will grow by a mere 1-2% during the financial year (FY) 12 in case the government fails to introduce any fresh sops in the upcoming Budget. The overall automobile exports moderated to 2.92% during April-December 2012.



Regulatory initiatives

With a view to make the sector competitive globally, the government has taken a slew of reformatory initiatives including the following:

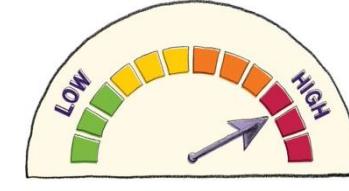
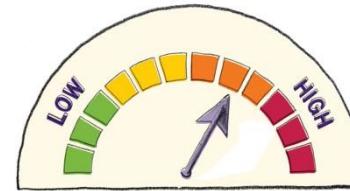
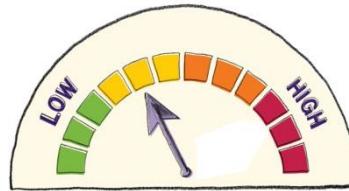
- 100% FDI is permitted under automatic route in the sector including the passenger car segment
- the Union Ministry for Petroleum and Natural Gas is contemplating to introduce fuel-efficiency ratings for automobiles
- the government is planning to shore-up the supply of vehicles powered by electricity by 2020
- excise duty on specified parts of hybrid vehicles has been decreased from 10% to 6% in the new tax laws



Key expectations

Industry expectations

- renewed focus on eco-friendly vehicles especially hybrid and electric vehicles possibly in the form of investment linked incentives
- reduction in tax on CNG/ LPG/ hybrid or other alternative fuel vehicles
- additional taxes on diesel cars and higher duty on utility vehicles



Indirect tax measures

- concrete steps for implementation of Goods and Services Tax (GST)
- measures to make the auto industry more competitive in the international markets
- reduction of excise duty on passenger cars and two wheelers
- reduction of excise duty on three wheeler automobiles
- clarity on diesel pricing which will help Original Equipment Manufacturers (OEM's) to plan future investments in diesel technology

Key policy initiatives

New investments in plant and machinery

Additional investment allowance @ 15% is available to company investing Rs 100 Crores or more in new assets (plant and machinery) between 1 April 2013 to 31 March 2015. This investment allowance is in addition to the current rates of depreciation.

Cabinet Committee Investment (CCI)

The CCI has been set up for revival of investment especially in the manufacturing sector. The CCI would monitor investment proposals as well as projects under implementation, including stalled projects, and guide decision-making in order to remove bottlenecks and quicken the pace of implementation.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Under the JNNURM, a significant allocation has been made for contribution to the streamlining of urban transport. Allocation would be used to purchase up to 10,000 buses (71.50% of the existing number of buses); a majority of which would ply in the hilly states.



Direct tax proposals

Surcharge

- existing surcharge @ 5% for domestic companies and 2% for foreign companies to continue if total income exceeds Rs 1 Crore but does not exceed Rs 10 Crores
- higher surcharge @ 10% for domestic companies and 5% for foreign companies if total income exceeds Rs 10 Crores

Incentive for substantial investment in plant or machinery for manufacturing entity

- additional deduction @ 15% on investments of more than Rs 100 Crores, made in new assets (plant and machinery) between 1 April 2013 to 31 March 2015
- this deduction is in addition to current depreciation rates
- the above deduction is available to companies engaged in the business of manufacture of an article or thing
- transfer of new assets restricted for a period of 5 years. However this restriction does not apply to amalgamation and demerger
- the amendment is proposed to take effect from FY 2013-14.

Lower rate of tax on dividend received from foreign companies

Reduced rate of taxation @ 15% on dividend received by an Indian company from specified foreign companies extended till 31 March 2014.

Removal of cascading effect of dividend distribution tax (DDT)

DDT would not be applicable on dividends declared by the Indian company if all the following conditions are satisfied:

- dividends declared are from the dividends received by the Indian company from the specified foreign company (the Indian company to hold more than 50% in nominal value of the equity share capital of the foreign company)
- dividends are declared by the Indian company in the same year in which it receives dividend from the specified foreign company
- the Indian company has paid tax @ 15% on receipt of dividend from the foreign company

This amendment will take effect from 1 June 2013.



Direct tax proposals

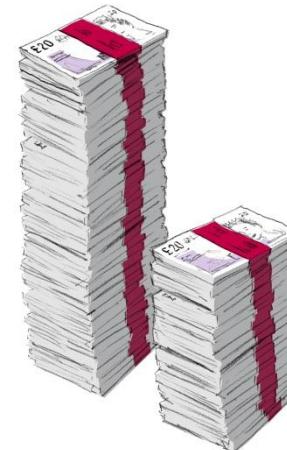
Increase in rate of withholding tax for payments of royalty or fees for technical services (FTS)

Tax rate for a non-resident taxpayer with respect to income by way of royalty or FTS proposed to be increased from 10% to 25%.

Currently, India has tax treaties with 84 countries, majority of which provide for withholding tax on royalty or FTS at rates ranging from 10% to 25%, whereas the tax rate under the IT Act is 10%. This resulted in taxation at a lower rate of 10% in some cases, even where the tax treaty provided for a higher rate.

The proposed increase in tax rate for royalty or FTS is expected to correct this irregularity in the IT Act. This would result in additional withholding of 5% to 10% in cases where the existing tax treaties provide for rates higher than 10% (e.g. USA, UK, Denmark, Australia, Canada etc.).

This amendment attains significance in relation to automotive companies. Further, technical services availed by such companies will also be subject to the higher withholding tax.



Indirect tax proposals

Customs duty

- increase in 'Basic Customs Duty' (BCD) on imported luxury goods such as high end motor vehicles, yachts and similar vessels

Particulars	Pre-budget rate	Post-budget rate
Specified new passenger cars *	75%	100%
Imported used cars	100%	125%
Motorcycles #	60%	75%
Yachts & motor boats	10%	25%

* CIF value more than US\$40,000 and/or Engine capacity exceeding 3,000 cc for petrol or exceeding 2,500 cc for diesel run vehicles

Motor cycle with engine capacity of 800 cc or more

Customs duty (cont...)

- exemption from BCD to lithium ion automotive battery for manufacture of lithium ion battery packs used in the manufacturers of hybrid and electric vehicles
- extension of two years (up to 31 March 2015) for the exemption from BCD and SAD along with concessional CVD for specified parts of electric and hybrid vehicles
- concessional BCD of 5% is extended to certain specified goods for manufacture of catalytic converters and their parts
- customs advance ruling provisions now available to imports/ exports for new businesses by importer/ exporter
- if importer/ exporter does not pay duties, customs officer empowered to recover such dues from any other person who is required to pay monies to such defaulter (including post offices, banks and insurance companies)

Central excise

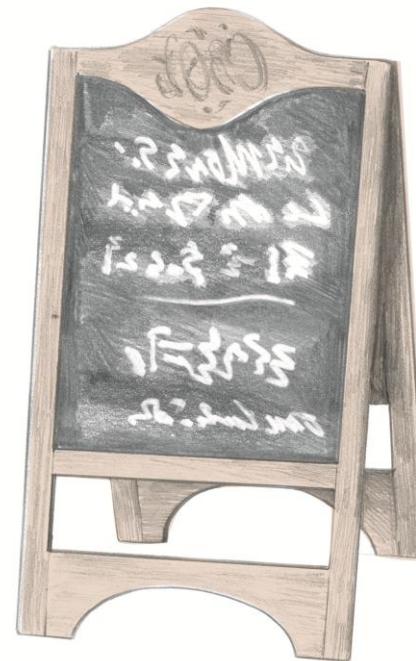
- validity period of concessional excise duty of 6% granted to specific specified parts of hybrid and electric vehicles extended by two more years up to 31 March 2015



Indirect tax proposals

Central excise (cont...)

- increase on excise duty on sports utility vehicles (non tourist vehicles) from 27% to 30%
- decrease in excise duty on the chassis of specified diesel motor vehicles from 14% to 13%
- assessing authority empowered to recover excise duties unpaid by defaulter-assessee from any other person who is required to pay monies to such defaulter (including post offices, banks and insurance companies)
- advance ruling provisions expanded – existing manufacturer can seek advance ruling for proposed manufacture/ production of new products



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