Industry position and Key Demands for Budget 2022-2023

The Union Budget 2022-23 is likely to be presented by the GOI on February 1 during the first half of Parliament's Budget session which usually begins in the last week of January every year. As an industry driven association, SIA-India proposes to submit the industry position and key demands to the finance ministry for the budget exercise underway. .

Summary of key issues included in the representation is as follows:

Srl	Area	Description
1.	**Export incentive (Merchant Exports Incentive Scheme – MEIS)**	**<u>Issue:</u>** Exports incentive is withdrawn since it is not WTO-compliant. ESDM industry has a huge potential for exports. With many multinational companies adopting "China Plus" strategy, the opportunity for Electronics Design & Manufacturing, is quite big. **<u>Recommendations:</u>** To promote exports growth further, a new scheme to incentivise the exports in the ESDM Industry (WTO- compliant) can be introduced. This will help the exporters to be competitive internationally against the competition (outside India), who enjoy lower interest and infrastructure cost.
2.	**RoDTEP (Remission of Duties or Taxes on Export Products)**	**<u>Issue:</u>** RoDTEP (Remission of Duties or Taxes on Export Products). Presently the RoDTEP scheme not available for EOU Units. **<u>Recommendation:</u>** RoDTEP scheme should be extended to EOU units.

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3.	**Promoting New employment – First time employees**	**Issue:** Incentivize the employers to increase fresh employment. Similar scheme named PMRPY was there in the past. **Recommendation:** Creation of jobs is important for the growth of the economy. Govt. can reimburse full employers' contribution to PF (both FPF and FPS) for the first-time employee for a period of three years. This will incentivize the employers to increase fresh employment as against hiring laterally from the industry.
4.	**Free Issue of materials by Government customers**	**Issue:** Govt. customers like ISRO, DRDO insist that the vendors should give a Bank guarantee for Free. Issue of Materials (wherever required) that impacts the working capital limits of companies adversely. The companies need to get separate limits with the banks and block funds towards margin money. **Recommendation:** Govt. customers can request for Insurance policies endorsed in their favour towards the Free issue of materials instead of requesting for Bank Guarantees.
5.	**GST Reverse charge u/s 9(3) and 9(4) of the CGST Act and u/s 5(3) and 5(4) of the IGST Act.**	**Issue:** All supplies of goods & services made as imports into India, are treated as an inter-state supply. Hence the recipient of the service needs to pay the GST on reverse charge basis. However, the same amount is allowed as input credit or refunded based on application by the assessee. This results in additional non-productive activities which are revenue neutral in nature. This also results in blocking of funds for the assesse. **Recommendation:** There is a need to simplify the process by clearing this unnecessary non-productive activity that is revenue-neutral for the government while blocking funds of the industry.

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6.	**Levy of IGST on import beyond 31st Mar 2022**	<u>**Issue:**</u> Prior to GST implementation, EOU's were allowed to import materials without payment of duties since they were used in the manufacturing for exports. On implementation of GST, EOU's were exempted from paying IGST on all imports by a notification. However, this notification is valid till 31.03.2022 only. <u>**Recommendation:**</u> It is recommended that the exemption on levy of IGST on imports by EOU's to be continued beyond 31.03.2022.
7.	**Issuance of TDS certificates (Form No.16A) should be dispensed**	<u>**Issue:**</u> Every quarter the tax deductor is required to login into the TDS Reconciliation Analysis and Correction Enabling System (TRACES) website and download TDS certificate for all the deductees and forward the same to each deductee. Since the TDS deductions are already appearing in 26AS of the deductee, separately issuing of TDS certificates may not be required. Also, during Income tax assessments, the ITO refers the TDS appearing in 26AS only. <u>**Recommendation:**</u> It is recommended that the procedural requirement for issuance of or obtaining of TDS certificate (Form 16A) should be dispensed with.
8.	**Pre-payment of deposits for granting stay / disposal of appeals, in case of disputed demand**	<u>**Issue:**</u> In case a liability is disputed, the assessee is required to pay a pre deposit of 20% under Income Tax, 7.5% -10% under GST of the disputed amount before appealing for a stay or disposal. <u>**Recommendation:**</u> It is recommended to replace this pre deposit clause with the indemnity bond. This will help the assessee from blocking funds for longer duration till the appeal is decided by the appropriate authorities.

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9.	**Introduce Research Tax Credits**	**Issue:** Promoting Scientific Research Weighted deduction for R&D expenditure under Income Tax Act, is withdrawn. This has a dampening effect on "Make in India" initiative which encourages the Design, Development and Manufacturing in India. **Recommendation:** It is recommended that the practice of allowing weighted deductions should continue to encourage Research and Development. Alternatively, introduce benefits in the form of Research Tax Credits which can be used to offset future tax liability (like those given in developed economies).
10.	**TDS deduction on purchase of goods u/s 194Q of Income Tax Act**	**Issues:** This provision has been introduced under the Finance Bill 2021 effective from 1st July 21. Under this section TDS needs to be deducted on the purchase of goods. **Recommendation:** It is recommended to remove this provision. Though the TDS rate is not significant, the process undergone for this compliance is tedious and voluminous since for any manufacturing companies, the purchase of goods will be significant compared to the services.
11.	**Corporate Social Responsibility (CSR) Expenditure Expenses**	**Issue:** Corporate Social Responsibility (CSR) expenditure Expenses incurred are not deemed to be business expenditure and not allowed as a deduction from the income while computing the income tax liability. **Recommendation:** Business organizations are supporting the Govt. through CSR. Hence CSR expenditure should be considered as business expenditure and allowed as a deduction from the income while computing the tax liability.

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12.	**Export Interest Cost**	**Issue:** Govt. had allowed the Interest Equalization scheme giving benefit of 3% to 5% subvention to exporters availing Rupee Credit. The scheme was operational till 30th Sep 2021 and has not been extended under the current business conditions, impacted by the pandemic. **Recommendation:** It is recommended that the Interest Equalization scheme can be extended to exporters availing rupee export credit.
13.	**Tax Depreciation on Goodwill arising out of business acquisitions & reorganizations.**	**Issue:** Finance Act, 2021 has introduced an amendment, that goodwill is not considered as a depreciable asset with applicability to past transactions also. **Recommendation:** Companies had made decisions based on the position that Goodwill is a depreciable asset under tax provision prior to the introduction of this section. Hence the amendment should consider the grandfathering of allowability of depreciation on goodwill on transactions already consummated before 1st Apr 2021.
14.	**Liquidated Damages clause in contracts with the Govt. customers**	**Issue:** There are huge disruptions in the electronics and satellite communications equipment supply chain due to lockdowns, restrictions due to the pandemic etc. Lead times for procurement of these components have increased significantly across the globe. These factors have resulted in delay in execution of the projects awarded by the customers. **Recommendation:** Govt. customers should waive the liquidated damages for all supplies contracted to be delivered up to 31st Mar 2023.

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15.	**Production Linked Incentive (PLI) for Space Sector Manufacturing**	<u>**Issue:**</u> To promote the growth of various sectors, Govt. has introduced the scheme of PLI for 13 Key Sectors. However, Space / Satellite sector has not been included for availing the PLI scheme.. New satellite-based solutions are being developed through collaborations across various sectors to implement innovative ideas and to cater to the increasing global requirements. New business models are emerging due to changes in the technology of satellite manufacturing, emergence of new system integration techniques and the growing range of new technology enablers. <u>**Recommendation:**</u> Support a Production linked incentive (PLI) scheme for space sector with the objective of 'Make in India' to encourage industrial maturity for Atmanirbhar Bharat' in space for Civil and Defence applications, as such schemes for other sectors have demonstrated success.
16.	**Interest on Tax Refunds**	<u>**Issue:**</u> Normally, the Income Tax authorities charge interest in the case of delays at the rate 12% per annum on the delayed tax amount. However, in case of refunds of income tax, the assesses get only 6% interest per annum on the refund amount. <u>**Recommendation:**</u> To be equitable, it is recommended that Tax authorities can give interest on refunds @ 12% per annum on the refund amount or charge 6% per annum on the delayed payment of taxes.
17.	**USOF contribution & utilization**	<u>**Issue:**</u> The satellite economy contributes to the USOF that has a mandate to ● Provide widespread and non-discriminatory access to quality ICT services at affordable prices to people in rural and remote areas. ● Provide an effective and powerful linkage to the hinterland thereby mainstreaming the population of rural and remote parts of the country.

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		● Ensure that universal services are provided in an economically efficient manner. ● Ensure that by developing hitherto unconnected areas, the benefits of inclusive growth are reaped by our nation, bringing in its wake rapid socio-economic development and improved standards of living. **Recommendation:** By its very nature, the satellite industry enables all of these to fill the connectivity gaps of terrestrial methods and should be allowed a claim on the USOF for enabling the desired coverage.
18.	**Inclusion of Space sector in discharge of defense offset obligations**	**Issue:** There is a tremendous opportunity for Space and Defense companies to collaborate with the global companies to work together leading to greater market outreach under offset policy. This would help in establishing long term opportunities and offset partnerships and capitalizing the synergies in both defence and space sectors. **Recommendation:** The game changer here can be if space capabilities are brought under the offset policy. The qualification of indigenous space capabilities towards discharge of offset obligations can change the whole picture. Currently out of the USD 12 Bn offset obligations, only $5 Bn has been discharged. Leveraging the synergies between defence and space industries could help foreign OEMs in discharging their obligations by opening up a new avenue for discharge. This could potentially open up the export market and help India meet the export target of USD 1 Tn by 2025.

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19.	**Space Infrastructure Testing Scheme**	**Issue:** Space ecosystem has the potential to expand and play a major role globally. We request consideration of a scheme similar to the Defence Testing Infrastructure Scheme (DTIS) for the space industry. **Recommendation:** Create state-of-the-art testing infrastructure in partnership with ISRO, HAL, DRDO and the private industry. This shall enable key investment to drive the growth required for the decade to come. This can also reduce the pressure on ISRO's own facilities considering the internal utilization requirement
20.	**Relaxation in procurement rules**	**Issue:** Startups are best known for their innovative approaches to application and processes. Their funding dynamics may not allow them to participate in government procurement opportunities due to some standard procurement mechanism. **Recommendation:** The government as an anchor buyer could create a list of special procurements especially for space startups where the rules regarding Performance Bank Guarantee and qualification criteria should be relaxed.
21.	**Financial support for Start-up Certification**	**Issue:** A deeptech area like space requires the players to comply with certification requirements with regard to information security & enterprise systems (SOC 2, Common Criteria, ISO etc). In most cases these are pre-requisites for goods and services suppliers to Indian and global clients. **Recommendation:** To encourage the startups to attain these certifications a rrocess of financial support for getting these expensive certifications is recommended.

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22.	**Institutional funding**	<u>Issue</u>: While the government has instituted a lot of incentives and schemes for startups, the evaluation criteria for all kind of start-ups is the same irrespective of whether its a fintech SaaS or a deeptech company. The value of innovation that deep-tech startups bring needs support that qualifies differently than for a e-commerce startup **<u>Recommendation:</u>** A dedicated pool to be created within the various schemes of government that cater to the deeptech industries, especially startups. This could be in line of what BIRAC does for the bio-technology sector.
23.	**Withdrawal of GST Credits**	**Issue:** Space Industry, as any deep-tech vertical, involves years of research and development to prove technology before actual sales are generated. Throughout the R&D process, Startups accumulate a hefty GST input credit in the initial years. **<u>Recommendation:</u>** A mechanism to withdraw GST credits, if made feasible for the startups with limited revenues, can help in ease/optimizing the financial flow of businesses. Alternatively availability of Interest free Mid-term/long term loans equivalent to GST paid in the last 4 quarters as per the returns filed to be promoted.
24.	**Startup Validity extension beyond 10 years.**	**<u>Issue:</u>** Regulatory clearances are key to a flourishing ecosystem. The Space Bill has been awaited since 2017, and the several policy decisions taken proactively in the last 2 years still await ratification/implementation structures. **<u>Recommendation:</u>** In consideration of this, the startup validity consideration of 10 years should be extended for additional 5 years for the Space/Deeptech industry. It shall benefit further growth of the ecosystem.

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25.	**Outer Space Liability Insurance**	**<u>Issue:</u>** The Convention on International Liability for Damage caused by Space Object, 1972 (The Liability Convention) holds the launching state liable in case of any damage caused by space object, creating an undue burden on private entities especially start-ups with limited financial capacity and resources **<u>Recommendation:</u>** Government should create a framework based on the best practices of International economies that have created mechanism for: a. Limiting liability for private entities; b. State guarantee for excess liability claims; c. Limiting liability of private entities to the extent of their responsibility; d. Waiver of liability and insurance for space activities in public or government interest; and e. The Limitation period for liability claims.
26.	**Government Industry Collaboration**	**<u>Issue:</u>** The lack of long-term capital and potential long-term liabilities keep private entrepreneurs at bay and therefore, co-sharing of space infrastructure and public private partnerships between ISRO and start-ups will go a long way in promoting the space sector. **<u>Recommendation:</u>** The Government should explore the possibility of joint space initiatives involving ISRO and private sector in equal capacity. This can also be augmented by a better licensing and spectrum allocation framework that expedites the approval process (which currently takes too long) and will assist in successfully building a private sector space ecosystem.