

Package scheme of incentives 2013



Package scheme of incentive 2013

Scheme highlights

I. Eligibility Criteria

- ▶ Coverage - Industries envisaging manufacturing; qualifying as SSI, MSMED, Large Scale Units, SEZ, STPI, Bio Technology units, Cold Storages and specified mechanized and food processing industries
- ▶ Validity period – Application under PSI 2013 can be made between April 2013 to March 2018 provided one of the effective steps is undertaken during the validity period
- ▶ Geographical Groups – Groups have been earmarked in accordance with the development index of the region and benefits have been determined accordingly
- ▶ Capital investment Blocks – Criteria based on investment values have been determined viz. SSI, MSMED, Large Scale units, Mega Project and Ultra Mega Projects

Package scheme of incentive 2013

Scheme highlights

II. Type of incentives

- ▶ Industrial Promotion Subsidy (Capital subsidy) – The Scheme provides with subsidy which is percentage of capital investment in the projects differentiated on the basis of Groups
- ▶ Interest Subsidy – Interest paid on finances obtained for qualified investments is eligible for subsidy at rates specified in the Scheme document
- ▶ Electricity duty exemption – Scheme provides exemption from payment of electricity duty to all eligible units to the extent of eligible period
- ▶ Stamp duty exemption – Waiver of stamp duty on transactions undertaken during the investment period
- ▶ Power Tariff Subsidy – Fixed subsidy is granted per unit consumption basis
- ▶ Other incentives – Investments qualifying for promotion of Quality Competitiveness, Research & Development, Technology Upgradation, Water & Energy Conservation, Cleaner Production Measures and Credit Rating will get specified benefits under the Scheme

PSI benefit matrix

Definitions / concepts

▶ MSMED - Micro, Small and Medium Manufacturing Enterprises

Enterprises	Investment Cap (INR)
Micro Enterprises	Not exceeding 25 Lakhs
Small Enterprises	More than 25 Lakhs but not exceeding 5 Crores
Medium Enterprises	More than 5 Crores but not exceeding 10 Crores

- ▶ Investment period – The Investment period is 3 years, 4 years and 5 years respectively for Micro, LSI and Mega Projects/ Ultra Mega Projects respectively.
- ▶ LSI – Large Scale Units have investment more than medium enterprises but less than mega projects.
- ▶ New Unit – A unit which is set up for the first time by an entity in any Taluka where no existing unit is set up by the said entity.
- ▶ Expansion Project – An investment shall be an expansion project if an existing unit invest additional fixed capital in its existing facilities subject to certain prescribed conditions.

PSI benefit matrix

Definitions / concepts

► Mega / Ultra Mega Units

Rs. In crore			
Enterprises	Area of classification	Min Fixed Capital Investment	Min Direct Employment
Mega Project	A & B	750	1,500
	C	500	1,000
	D & D+	250	500
	No industry district & Naxalite affected area	100	250
Ultra Mega Project	Entire State	1,500	3,000

► Effective Steps

- Effective possession of land.
- Registration of the entity.
- IEM registration certificate and other relevant Government permissions wherever required.

PSI benefit matrix

Definitions / concepts

- ▶ **Operative Period** – It means the minimum period of operations of unit as laid down by the government.
- ▶ **Fixed Assets** – Fixed assets shall include land, building, plant & machinery, cost of development, etc.
- ▶ **Finished Product** – Items manufactured by the eligible units under the project scheme and approved by concerned agency. This shall also include by products or scarp generated in the course of manufacture.
- ▶ **Local Labour** - Every person residing in Maharashtra for the last 15 years and holds necessary documents which proves his stay he will be considered as local labour.
- ▶ **SICOM** – The State Industrial and Investment Corporation of Maharashtra is the premier financial institution located in Mumbai providing financial solutions and advisory to various businesses.
- ▶ **Basket of Incentives** – All benefits / exemptions under the Scheme are collectively considered as basket of Incentives

PSI benefit matrix

Msmmed units (new units)

Groups	Industrial Promotion Subsidy [Note 1]		Interest Subsidy [Note 2]	Electricity Duty Exemption [Note 3]	Stamp Duty Exemption [Note 4]	Power Tariff Subsidy [Note 5]
	Percentage	Eligibility in years				
A	No Subsidy	7	No Subsidy	No Exemption	No Exemption	No Subsidy
B	20%	7	5%	No Exemption	No Exemption	Re. 0.50 / Re. 1.00 per unit
C	40%	7	5%	100%	100%	Re. 0.50 / Re. 1.00 per unit
D	70%	10	5%	100%	100%	Re. 0.50 / Re. 1.00 per unit
D+	80%	10	5%	100%	100%	Re. 0.50 / Re. 1.00 per unit
No Industry District	90%	10	5%	100%	100%	Re. 0.50 / Re. 1.00 per unit
Naxalism Affected Areas	100%	10	5%	100%	100%	Re. 0.50 / Re. 1.00 per unit

PSI benefit matrix

Large scale units (new units)

Groups	Industrial Promotion Subsidy ^[Note 1]	Interest Subsidy ^[Note 2]	Electricity Duty Exemption ^[Note 3]	Stamp Duty Exemption ^[Note 4]	Power Tariff Subsidy ^[Note 5]
A	No Subsidy	No Subsidy	No Exemption	No Exemption	No Subsidy
B	No Subsidy	No Subsidy	No Exemption	No Exemption	No Subsidy
C	30%	No Subsidy	100%	100%	No Subsidy
D	40%	No Subsidy	100%	100%	No Subsidy
D+	50%	No Subsidy	100%	100%	No Subsidy
No Industry District	70%	No Subsidy	100%	100%	No Subsidy
Naxalism Affected Areas	80%	No Subsidy	100%	100%	No Subsidy

PSI benefit matrix

mmed units (expansion)

Groups	Industrial Promotion Subsidy [Note 1]		Interest Subsidy	Electricity Duty Exemption	Stamp Duty Exemption [Note 4]	Power Tariff Subsidy
	Percentage	Eligibility in years				
A	No Subsidy	6	No Subsidy	No Exemption	No Exemption	No Subsidy
B	15%	6	No Subsidy	No Exemption	No Exemption	No Subsidy
C	30%	6	No Subsidy	No Exemption	100%	No Subsidy
D	52.5%	9	No Subsidy	No Exemption	100%	No Subsidy
D+	60%	9	No Subsidy	No Exemption	100%	No Subsidy
No Industry District	67.5%	9	No Subsidy	No Exemption	100%	No Subsidy
Naxalism Affected Areas	75%	9	No Subsidy	No Exemption	100%	No Subsidy

PSI benefits

Large scale units (expansion)

Groups	Industrial Promotion Subsidy ^[Note 1]	Interest Subsidy	Electricity Duty Exemption	Stamp Duty Exemption ^[Note 4]	Power Tariff Subsidy
A	No Subsidy	No Subsidy	No Exemption	No Exemption	No Subsidy
B	No Subsidy	No Subsidy	No Exemption	No Exemption	No Subsidy
C	22.5%	No Subsidy	No Exemption	100%	No Subsidy
D	30%	No Subsidy	No Exemption	100%	No Subsidy
D+	37.5%	No Subsidy	No Exemption	100%	No Subsidy
No Industry District	52.5%	No Subsidy	No Exemption	100%	No Subsidy
Naxalism Affected Areas	60%	No Subsidy	No Exemption	100%	No Subsidy

PSI benefit matrix

notes

▶ **Industrial Promotion Subsidy**

- ▶ This is computed as a percentage of eligible fixed capital investment.
- ▶ In case of food and agro processing units, the benefits of 10% on percentage of subsidy will be granted.
- ▶ Additional 1 year will be granted on eligibility period as specified for food and agro processing units
- ▶ For Large Scale Units, the period of eligibility is uniform at 7 years irrespective of the Group for new units and 6 years for expansion units
- ▶ Basket of Incentives does not include Electricity Duty Exemption and Stamp Duty Exemption
- ▶ **Interest Subsidy** – Percentage of interest actually paid to banks for term loans for acquisition of fixed assets
- ▶ **Electricity Duty Exemption** – Information Technology Manufacturing Units and Bio-technology Manufacturing Units falling under Group A & B will be granted exemption for 7 years
- ▶ **Stamp Duty Exemption** - Information Technology and Bio-technology Manufacturing Units falling under Group A & B having established in Public Parks will be granted exemption at 100% vis-à-vis 75% for Units in Private Parks.
- ▶ **Power Tariff Subsidy** – Re. 0.50 or Re. 1.00 per unit is granted based on location as specified in the scheme

PSI benefits

Computation of industrial promotion subsidy

Groups	MSMED	LSI
B	VAT on local sales minus ITC or zero whichever is more + CST payable + 20% of ITC	--
C	VAT on local sales minus ITC or zero whichever is more + CST payable + 30% of ITC	60% of (VAT on local sales minus ITC or zero whichever is more)+ CST payable
D	VAT on local sales minus ITC or zero whichever is more + CST payable + 40% of ITC	70% of (VAT on local sales minus ITC or zero whichever is more) + CST payable
D+	VAT on local sales minus ITC or zero whichever is more + CST payable + 50% of ITC	80% of (VAT on local sales minus ITC or zero whichever is more)+ CST payable
No Industry District	VAT on local sales minus ITC or zero whichever is more + CST payable + 75% of ITC	90% of (VAT on local sales minus ITC or zero whichever is more)+ CST payable
No Industry District (Vidharbha & Marathwada)	VAT on local sales minus ITC or zero whichever is more + CST payable + 65% of ITC	90% of (VAT on local sales minus ITC or zero whichever is more)+ CST payable
Naxalism Affected Areas	VAT on local sales minus Input Tax Credit (ITC) or zero whichever is more + CST payable + 100% of ITC	100% VAT on local sales minus Input Tax Credit (ITC) or zero whichever is more + CST payable

PSI benefits

Points to remember

- ▶ **Geographical overlapping** – Certain Talukas have split within Groups, as specified in the Scheme. Areas within the Metropolitan region and area outside the same have separate implication from benefit perspective. This needs to be considered before finalising the investment decision.
- ▶ **Local Labour** – In cases where benefits are based on employment of labour criteria it is necessary that the same has to be local labour as per the percentage specified in the scheme.
- ▶ **Plant & Machinery - MSMED Act** - Plant and Machinery is separately defined under MSMED which is different than the definition under Accounting / Tax Laws.
- ▶ *Example: Material Handling Equipments do not qualify as Plant & Machinery under MSMED Act.*
- ▶ **Capital or Labour criteria** – For a project to qualify as Mega or Ultra Mega Project, amongst all States only Maharashtra imposes any one criteria to be fulfilled viz. either the capital investment criteria or the labour criteria.
- ▶ **Direct Employment** - The employee has to be on the payroll of the company covered under the provisions of the Provident Fund Act 1952. Indirectly Contract labour will not be counted for the labour criteria.

PSI benefits

Points to remember

▶ **Fixed Assets –**

- ▶ The fixed assets like Computers, Furniture and fixtures, Office Equipments, Vehicles and other assets of similar nature not an eligible investment
- ▶ Second hand indigenous assets do not qualify as eligible investment
- ▶ The fixed assets which are acquired at the site and payment made to creditors will be considered as eligible investment

▶ **Appraisal Report** – CA Certificate and Bank Certified Appraisal Report is necessary. In case of self finance Units, Appraisal Report to be certified by SICOM or Scheduled Commercial Banks.

▶ **Captive Units (Ancillary Units) –**

- ▶ Mega Units bringing in ancillary units as new / expansion can consider aggregate investment (inclusive of ancillary units) for the PSI eligibility.
- ▶ Such ancillary units cannot claim any benefits under this Scheme

▶ **Basket of Incentives** – The maximum percentage of benefit under the Scheme is restricted to the percentage provided under Industrial Promotion Subsidy. Electricity and Stamp Duty Exemptions are excluded from basket of incentives.

PSI benefits

Points to remember

- ▶ **Application Date** - Application for incentives should be filed before the commencement of production. In case of delay, even one day is considered as a month.
- ▶ **Maximum Annual Benefit Cap** – Incentives under Industrial Promotion Subsidy are subject to maximum of the total quantum of incentives divided by the number of years.
- ▶ **No refund of Stamp duty** – Stamp Duty benefit is only available as exemption. Refund cannot be claimed once the same is paid.
- ▶ **Expansion Units to maintain proper records** –
 - ▶ ***Expansion within same premise*** – As separate records of sale / purchase is not feasible in many cases, incentives are computed in the ratio of fresh investment to the total investment.
 - ▶ ***Expansion within same taluka*** – Computation of incentives is similar to that of New Units if separate records of sale / purchase is maintained

PSI benefits

Special incentives for SC/ST entrepreneurs

- ▶ Incentives of C Zone will be applicable to industries in A and B Zone
- ▶ Incentives of D+ Zone will be applicable to industries in C and D Zone
- ▶ Incentives of Naxalism affected areas will be applicable to industries in D+ and No Industries Zone
- ▶ Capital subsidy to MSME Units of 15% to 30% limited to INR 15 lakhs to INR 30 lakhs
- ▶ Power tariff subsidy of INR 2 in specified area and INR 1 in other areas for 5 years for MSME Units
- ▶ 5% interest subsidy on term loan for MSME Units

Case study



PSI benefits

Case study

Assumptions

Region	Zone C [Bhiwandi]
Eligible Investment Amount (MSMED)	Rs. 5 Crores
Commencement of Production	10 March 2014
Application for Incentives	15 March 2014
Eligibility period	7 Years
MVAT liability on Sale of Goods (Estimated)	Rs. 2.35 Crores
Input Tax Credit (Estimated)	Rs. 1.10 Crores
Net Tax Paid (Estimated)	Rs. 1.25 Crores
Central Sales Tax Paid	Rs. 0.50 Crores
Power Tariff Subsidy Claimed	Rs. 0.20 Crores
Interest Subsidy	Rs. 0.15 Crores
Electricity Duty Exemption	Rs. 0.20 Crores

PSI benefits

Case study

Computation

Incentive available is lower of the following:	
Step ONE- Master Percentage	
Gross Capital Investment	Rs. 5 Crores
Applicable percentage of incentive	40%
Maximum Incentive available	Rs. 2 Crores
Step TWO- Application Date	
Date of Commencement of Commercial Production	10 March 2014
Date of application	15 March 2014
Curtailment	1 month
Revised Maximum Incentive available	$2 \text{ crores} * 83 \text{ month} / 84 \text{ months} = \text{Rs } 1.98 \text{ crores approx.}$

PSI benefits

Case study

Computation

Step THREE- Relevant Taxes Paid

	Normally Incentive available for 7 Years	Pro-rata reduction in Incentives; 6 Years 11 Months
MVAT liability on Sale of Goods (Estimated)	Rs. 2.35 Crores	Rs. 2.32 Crores
Input Tax Credit (Estimated)	Rs. 1.10 Crores	Rs. 1.08 Crores
Net Tax Paid (Estimated)	Rs. 1.25 Crores	Rs. 1.24 Crores
Central Sales Tax Paid	Rs. 0.50 Crores	Rs. 0.49
Formula		
VAT on local sales minus ITC or zero whichever is more + CST payable + 30% of ITC	2.08 [1.25 + 0.50 + 0.33 (30% of 1.10)]	2.05 [1.24 + 0.49 + 0.32 (30% of 1.08)]

PSI benefits

Case study

Computation

Step FOUR – Annual Cap of Incentives

Total Eligibility (Refer Step ONE)	Rs. 2.00 Crores	
Years of Eligibility	7 Years	
Maximum Eligibility per annum	Rs. 0.29 Crores	
	Year 1	Year 2
Computed Incentive	Rs. 0.20 Crores	Rs. 0.25 Crores
Actual Eligible Incentive	Rs. 0.20 Crores	Rs. 0.29 Crores
Carry Forward	Rs. 0.09 Crores [0.29 – 0.20]	Rs. 0.05 Crores [0.25 + 0.09 = 0.34] – [0.29]

Note:

- ▶ It is important to understand that inspite of annual eligibility of Rs. 0.29 Crores, the carry forwards, if any, may accumulate and the balance at the end of Year 7 may get lapsed.
- ▶ Assuming from the above, Rs. 0.05 Crores gets lapsed, the effective benefit received is Rs. 1.95 Crores against eligibility of Rs. 2.00 Crores.

PSI benefits

Case study

Computation

Step FIVE – Basket of Incentives

Total Eligibility (Refer Step FOUR)	Rs. 1.95 Crores	Being least of the above steps
Less :- Power Subsidy & Interest Subsidy claimed	Rs 0.35 Crores	Part of Basket of Incentives
Final Maximum Incentive available	Rs. 1.60 Crores	

Package scheme of incentive 2013

Scheme highlights

Monitoring factors

- ▶ Operative period – Manufacturing operations are expected to continue entirely for the period aggregating of eligibility period and operative period as defined in the scheme
- ▶ Modification in business structure – Change of organization structure, shareholding pattern, addition or deletion of business locations, etc. to be pre-intimated to avoid penalties
- ▶ Modification in declared scheme conditions – Minimum eligibility for Labour / investment should be monitored and strict adherence is required to avoid any disqualification
- ▶ Scheme compliances – Compliance in respect of filing of periodic follow-up reports, as specified, to be adhered

Application for claiming incentives

- ▶ Application to be filed annually with Form 704 and refund claim within 11 months from end of the Financial Year.
- ▶ Failure in timely filing of application may result in reduction in benefits.
- ▶ 85% of incentives claimed is granted on preliminary assessment
- ▶ Balance on completion of sales tax assessment for the relevant year.

Role of CA



Role of chartered accountant

SWOT analysis to be done by a CA

- We are mostly involved in Compliance based practice. One of the few fields wherein we can provide direct monetary benefit to the clients. So more value and more fees. Also it is difficult to justify increase in fees every year in Compliance based practice.
- The benefits in this scheme are in the range of 20 to 100% of the investments. So there would always be red carpet welcome from the clients.
- This scheme is more technical in nature and many calculations are involved. Due to professional training and our methodic approach, CA would always have an upper hand in easily explaining this to the clients. Also the trust factor of the client is very high with a CA for the financial field. So CA will have a cutting edge over others.
- The investments certificates and refund applications are to be certified by CA's only.
- Benefit percentage goes up as we move towards smaller cities. This can be a good launching pad for CA's in Kolhapur, Solapur etc.
- The competition is primarily restricted to non CA's and other retired officers. They have their own limitations.
- Multiplier Effect

Strengths

Role of chartered accountant

SWOT analysis to be done by a CA

- ▶ If a CA is already into practice then compliance work has gone up so high in recent times that no time has been left for this. So as institute always promotes form a partnership or a network and then one of the partner can concentrate only on this area.
- ▶ Continuous follow up with the Department officials can become frustrating at times. Also sometimes it becomes difficult to give any timelines to the client.
- ▶ The implementing authority changes on basis of the monetary limit. As a result many bigger cases are processed in Mumbai. So suppose a CA is based in Nagpur then it would be difficult for him to travel to Mumbai regularly. To tie up with a professional brother in Mumbai is a good option.
- ▶ Many clients in these kind of projects expect the fees to be success based and percentage based. This becomes difficult due to ICAI guidelines.

Weaknesses

Role of chartered accountant

SWOT analysis to be done by a CA

- ▶ After general elections and formation of stable government and infrastructure development projects like DMIC in place huge revenue will flow in India.
- ▶ We can also study schemes of other states and then suggest a company/ multinational for set up of their factory.
- ▶ The New Industrial Policy of Maharashtra talks of time bound reply to be given to the applications. This is a welcome step.

Opportunities

- ▶ The deliverables cycle is long so the pipeline from introduction to the client to the fee recovery may be longer.
- ▶ There is no due date so even the clients take the same lightly. Sometimes even personnel in the company changes and it becomes difficult to follow up.
- ▶ The subsidy has been linked to VAT payments. The scenario needs to be clarified when GST will be implemented.

Threats



Questions please ?





Thank you !!!