

IT Hardware & Electronics – Indian Regulatory & Policy Environment

The government recognizes the importance of IT hardware and electronics manufacturing and has taken several measures for development of the sector. A draft National Policy on Electronics and a draft National Policy on Information Technology were released in 2011 that provide a roadmap for development of the sector and creation of globally competitive industry.

Department of Electronics and Information Technology (DEIT) through numerous industry promotion programmes continues to give a fillip to the IT and Electronics Hardware sector. Some of the major promotional activities include:

- Creating the right infrastructure in the country that is conducive to growth, broaden the markets and create a level playing field
- Provide R&D expertise and training programmes, assist in building better business management capacity and strengthening competitiveness of organizations
- Providing latest information on industry trends, management models, market and advanced technologies

Investment measures

The IT hardware and electronics sector is open to 100% FDI under automatic route. However, Indian IT hardware and electronics industry has not been able to attract foreign investments to its true potential on account of various bottlenecks such as inadequate infrastructure, bureaucratic hurdles and inflexible labour laws.

The Draft National Policy on Electronics released in October 2011 aims at increasing investments in the sector and has proposed various initiatives such as setting up of semiconductor wafer fabs, introduction of special incentives package scheme, Electronics Manufacturing Clusters Scheme (for about 200 clusters), preferential market access for domestically manufactured electronic goods and implementation of 10 year stable tax regime.

Tax measures

Over the years, the Government has been taking steps to bring down the total taxation level on electronics Hardware. The general rate of excise duty (CENVAT) has been reduced to 8% and Central Sales Tax (CST) has been reduced from 3% to 2%. VAT on IT products is 4%.

Post the implementation of ITA- 1, there is a zero-import duty structure for IT and electronic goods. This has encouraged imports of finished electronic products, thereby leading to a decline in demand for electronic components and stunted the growth of domestic industry.

Successive union budgets have rationalised the taxes for various electronic goods. The tariff structure on electronics sector introduced in the Union Budget 2012-13 is as below:

Customs Duty	Excise Duty
<ul style="list-style-type: none"> • Peak rate of basic customs duty is 10%. Basic customs duty on 217 tariff lines covered under 	<ul style="list-style-type: none"> • The standard rate of excise duty (CENVAT) is 12%

<p>the Information Technology Agreement (ITA-1) of WTO is 0%.</p>	
<ul style="list-style-type: none"> All goods required in the manufacture of ITA-1 items have been exempted from basic customs duty subject to actual user condition 	<ul style="list-style-type: none"> To promote indigenous manufacturing of mobile handsets; parts, components and accessories for the manufacture of mobile handsets; sub-parts for the manufacture of such parts and components; and parts or components for the manufacture of battery chargers, PC connectivity cable, hands-free head phones and memory cards of such mobile handsets and sub-parts for the manufacture of such parts and components are exempted from basic customs duty and excise duty. They have also been exempted from Special Additional Duty of Customs (SAD) up to 31.3.2013. The unconditional excise duty on mobile handsets is 1%.
<ul style="list-style-type: none"> Basic customs duty on specified raw materials / inputs used for manufacture of electronic components is 0%. 	<ul style="list-style-type: none"> To promote indigenous manufacturing of computers, Microprocessors, Hard Disc Drives, Floppy Disc Drives, CD ROM Drives, DVD Drives/DVD Writers, Flash Memory and Combo- Drives are levied concessional excise duty of 6% and Nil SAD.
<ul style="list-style-type: none"> Basic customs duty on specified capital goods used for manufacture of electronic goods is 0%. 	<ul style="list-style-type: none"> To promote indigenous manufacturing of LED Lamps, excise duty has been reduced to 6% on LED lamps & LEDs required for manufacture of such lamps and SAD has been fully exempted on LEDs used for manufacture of LED Lamps.
<ul style="list-style-type: none"> To promote indigenous manufacturing of LCD TVs, LCD Panels have been exempted from basic customs duty for 20 inches and above Basic customs duty on Set Top Box was raised from 0% to 5% to promote indigenous manufacture of Set Top Box. 	
<ul style="list-style-type: none"> To promote indigenous manufacturing of the computer printers, a concessional import duty structure of 6% additional duty of customs (CVD) and Nil SAD has been prescribed on parts of all computer printers imported by actual users. 	
<ul style="list-style-type: none"> To promote indigenous manufacturing of Blood Pressure Monitors and Gluco-meters, basic customs duty has been reduced to 2.5% with 6% CVD and Nil SAD on parts of Blood Pressure Monitors and Blood glucose monitoring systems (Gluco-meters) on actual user basis. 	

Trade measures

Electronics and IT Hardware manufacturing has been identified as a thrust sector for Special Focus Initiatives in the Foreign Trade Policy, which has enabled expeditious clearance of approvals required from DGFT, and exports assistance through Market Access Initiative (MAI) & Market Development Assistance (MDA) schemes of the Department of Commerce.

Special schemes are available for setting up Export Oriented Units for the Electronics Hardware Sector. Various incentives and concessions are available under these schemes. The salient features of EOU, EHTP, STP and SEZ schemes are provided in the table below.

Benefits	EHTP/STP/EOU Unit	SEZ Unit
Foreign Equity permissible	100% FDI investment permitted through automatic route	100% FDI investment permitted through automatic route
Duty free imports/ domestic procurement permissible	Capital goods, Raw materials, Components and other inputs	All goods for development, operation and maintenance
Income Tax Benefit	Export profits are 100% tax-exempt under Sections 10A/10B of the Income Tax Act (up to 31st March 2011)	100% Income Tax exemption on export profits under Section 10AA of the Income Tax Act for 5 years, 50% for next 5 years and 50% of ploughed back export profit for next 5 years
Export Obligation	Unit shall be a positive Net Foreign Exchange (NFE) Earner. Supplies of ITA-1 items manufactured by these units in the Domestic Tariff Area (DTA) shall be counted towards fulfillment of export obligation	Unit shall be a positive Net Foreign Exchange (NFE) Earner. Supplies of ITA-1 items manufactured by these units in the Domestic Tariff Area (DTA) shall be counted towards fulfillment of export obligation
DTA Sales	DTA sales permissible up to 50% of FOB value of exports, subject to fulfillment of positive NFE, on payment of concessional duties (50% of basic customs duty and full excise duty). DTA sales beyond this entitlement are permissible against payment of full duties provided the unit has achieved positive NFE.	DTA sales permissible on payment of full duties. However, the unit is required to be a positive Net Foreign Exchange (NFE) Earner over the five year period of its operation.
Central Sales Tax	Refundable	Exempted



Supplies from DTA	Deemed Export	Physical Export
--------------------------	---------------	-----------------

Source: Ministry of Information Technology

Research and Development

One of the major challenges faced by the Indian IT hardware and electronics industry is that there is limited research and development in comparison to industries in competing countries like China and Taiwan. Lack of technology is one of the most important factors contributing to low level of competitiveness in Indian electronics and IT hardware industry. Due to low level of technical research and development, Indian industry is dependent on technical know-how of advanced countries like USA, Germany and Japan.

Indian government has taken measures for R&D promotion but these have not been adequate to increase the R&D levels of the industry. Some of the measures available for R&D include: a weighted deduction of 150% of expenditure incurred on in-house R&D, scheme for funding R&D projects, and two more schemes namely Support International Patent Protection in Electronics & IT (SIP-EIT), Multiplier Grants Scheme (MGS).