Production Linked Incentive Scheme (PLIS) for Electronics Manufacturing

Background
In line with the vision of making India an electronics manufacturing hub as laid down in the National Policy on Electronics, the Ministry of Electronics and Information Technology, Government of India (‘GoI’) has introduced PLIS for Large Scale Electronics Manufacturing on 1 April 2020.

PLIS aims at providing impetus to the indigenous manufacture of electronic goods/ components under the Make in India program of the GoI.

Objectives of the Scheme and targeted segment
The PLIS proposes a financial incentive to boost domestic manufacturing and attract large investments in the electronics value chain, including electronic components and semiconductor packaging.

Electronics and components eligible under the Scheme are:
1. Mobile Phones
2. Specified Electronic Components:
   a) SMT (i.e. surface mount technology) components
   b) Discrete semiconductor devices including transistors, diodes, thyristors, etc.
   c) Passive components including resistors, capacitors, etc. for electronic applications
   d) Printed Circuit Boards (PCB), PCB laminates, prepregs, photopolymer films, PCB printing
   e) Sensors, transducers, actuators, crystals for electronic applications
   f) System in Package (SIP)
   g) Micro / Nano-electronic components such as Micro Electromechanical Systems (MEMS) and Nano Electromechanical Systems (NEMS)
   h) Assembly, Testing, Marking and Packaging (ATMP) units

Quantum of Incentive
The PLIS shall extend an incentive of 4% to 6% on incremental sales (computed on sales of base year - FY 2019-20) of goods manufactured in India and covered under target segments, to eligible companies (discussed below), for a period of 5 years subsequent to the base year (i.e., FY 2019-20). The incentives shall be subject to ceiling limits as may be decided by the Empowered Committee.

The budgeted outlay for PLIS is INR 40,951 Crore\(^1\) (i.e. approx. USD 5.4 billion).

\(^1\) INR 1 crore is equal to INR 10 million
**Eligibility**

Support under the PLIS shall be provided only to companies engaged in manufacturing of target segments in India (including contract manufacturers).

<table>
<thead>
<tr>
<th>Segment</th>
<th>Proposed Incentive Rate</th>
<th>Incremental Investment over Base Year (FY 2019-20)</th>
<th>Incremental Sales of Manufactured Goods (as distinct from traded goods) over FY 2019-20</th>
<th>Our comments</th>
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<tbody>
<tr>
<td><strong>Mobile Phones (Invoice value of INR 15,000 and above)</strong>&lt;br&gt;Refer Note 1 below</td>
<td>Year 1: 6%&lt;br&gt;Year 2: 6%&lt;br&gt;Year 3: 5%&lt;br&gt;Year 4: 5%&lt;br&gt;Year 5: 4%</td>
<td>INR 1,000 Crore(^2) over 4 Years</td>
<td>Year 1: INR 4,000 Crore;&lt;br&gt;Year 2: INR 8,000 Crore;&lt;br&gt;Year 3: INR 15,000 Crore;&lt;br&gt;Year 4: INR 20,000 Crore;&lt;br&gt;Year 5: INR 25,000 Crore.</td>
<td>This segment seems to target large multi-national corporation (MNC) mobile phone manufacturers</td>
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<td><strong>Mobile Phones (Domestic Companies)</strong>&lt;br&gt;Refer Note 2 below</td>
<td>Year 1: 6%&lt;br&gt;Year 2: 6%&lt;br&gt;Year 3: 5%&lt;br&gt;Year 4: 5%&lt;br&gt;Year 5: 4%</td>
<td>INR 200 Crore over 4 Years</td>
<td>Year 1: INR 500 Crore;&lt;br&gt;Year 2: INR 1,000 Crore;&lt;br&gt;Year 3: INR 2,000 Crore;&lt;br&gt;Year 4: INR 3,500 Crore;&lt;br&gt;Year 5: INR 5,000 Crore.</td>
<td>The targeted segment is domestic manufacturers of mobile phones</td>
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<td><strong>Specified Electronic Components</strong></td>
<td>Year 1: 6%&lt;br&gt;Year 2: 6%&lt;br&gt;Year 3: 5%&lt;br&gt;Year 4: 5%&lt;br&gt;Year 5: 4%</td>
<td>INR 100 Crore over 4 Years</td>
<td>Year 1: INR 100 Crore;&lt;br&gt;Year 2: INR 200 Crore;&lt;br&gt;Year 3: INR 300 Crore;&lt;br&gt;Year 4: INR 450 Crore;&lt;br&gt;Year 5: INR 600 Crore.</td>
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\(^2\) INR 1 Crore is equal to INR 10 million

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**Note 1:** For eligibility, all incremental sales of manufactured goods (covered under target segments) irrespective of invoice value shall be considered.

**Note 2:** Domestic Companies shall be defined as those which are owned by resident Indian citizens as defined in the FDI Policy Circular of 2017. A company is considered as ‘Owned’ by resident Indian citizens if more than 50% of the capital in it is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens.

**Other points**

- PLIS shall be implemented through a Nodal Agency to act as a Project Management Agency.
- The applications to avail the benefit under the scheme will have to be made within a period of 4 months. It appears that the 4 months should be read from the date of the policy and therefore the application can be filed up to 31 July 2020.
- However, the scheme may be reopened for applications anytime during its tenure, based on response from the industry. For applications received post the initial application period, applicants shall only be eligible for incentives for the remainder of the Scheme’s tenure.
- Incentive under the scheme shall be provided for a period of five years subsequent to the base year i.e. FY 2019-20.
• It is also provided that the eligibility under PLIS shall not affect the eligibility under any other scheme and vice versa.

Our comments

Recently, the GoI has taken certain measures to provide impetus to domestic manufacturing in this sector, such as:

a) Reduction in income tax rates (including for new manufacturing companies);
b) Increase of customs duty rate on components of mobile phones; and
c) Providing an exemption from basic customs duty on imports of notified parts/ inputs used for the manufacture of certain electronics.

The incentive under PLIS, along with the recent measures highlighted above, will provide support to domestic manufacturing sector and strengthen the electronics manufacturing ecosystem in the country. The timing of this policy is very apt, considering the current economic scenario where companies are also looking at re-engineering their supply chain. This scheme makes India an attractive investment destination for manufacturing.

As the total outlay under the scheme has been laid down in the policy, it would be prudent to consider that the benefit would be available on first come basis. Therefore, it would be important for business houses to evaluate their business plans in light of the above scheme and SPECS. Amongst others, one may also need to evaluate different business models/structures and the consequent tax implications thereof.

While the scheme provides an outline of the incentives proposed/eligibility conditions etc., one may expect the authorities to shortly lay down the details regarding application process and other procedural requirements. In our view, simplified process and timebound disposal of the applications and disbursement of incentives would be one of the key factors for the success of this policy.

Having said the above, it may be noted that the first round of application under the PLIS needs to be made within a period of four months. Hence, this subject may need immediate attention from interested applicants.

Also, it would be noteworthy that the GoI has separately introduced a Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme that aims to establish EMCs to create infrastructure with common facilities and amenities in EMC Projects and upgrade the infrastructure in Industrial Estates / Parks / Areas as Common Facility Centre for attracting investment in electronics manufacturing.

For a deeper understanding of the PLIS, and any assistance in this regard, please feel free to connect with any of the following:

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3 Please click on the link to understand the SPECS –


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