

# TAX FLASH NEWS

25 February 2021



## Production Linked Incentive Scheme to promote domestic manufacturing of telecom and networking products

The Ministry of Communication (Department of Telecommunication) has notified<sup>1</sup> the Production Linked Incentive Scheme ('PLIS') to promote domestic manufacturing of Telecom and Networking Products.

The scheme aims to provide financial impetus to entities engaged in manufacturing of specified telecom and networking products.

### Eligibility

- i. The eligibility under the scheme shall be subject to achievement of a minimum threshold of cumulative incremental investment over a period of four years and incremental sales of manufactured goods net of taxes (other than traded goods) over the base year (i.e. FY 2019-20).
- ii. The cumulative investment can be made at one go.
- iii. The Company/entity can invest in single or multiple eligible products to meet the minimum incremental investment and sales threshold.
- iv. The scheme will also include contract manufacturers as defined in the FDI Policy Circular of 2017.
- v. The minimum investment threshold for MSME shall be INR 10 crore and INR 100 crore for others. Cost of land and building shall not be counted as investment.
- vi. Beneficiary under the PLIS shall not be eligible to take benefit of the same products under any other PLIS of Central Government.
- vii. Total number of beneficiaries will be limited owing to the fixed ceiling of the budgetary outlay

### Tenure of the scheme

- i. The scheme shall be effective from 1 April 2021.
- ii. Investment will be permitted to be made in 4 years.
- iii. The support under the scheme shall be provided for a period of 5 years.

### Incentives

- i. Financial outlay – INR 12,195 crore only
- ii. Applicable incentive percentage shall be as under –

| Type of industry | Year         | Rate of incentive |
|------------------|--------------|-------------------|
| MSME             | Year 1 and 2 | 7%                |
|                  | Year 3       | 6%                |
|                  | Year 4       | 5%                |
|                  | Year 5       | 4%                |
| Other than MSME  | Year 1 and 2 | 6%                |
|                  | Year 3 and 4 | 5%                |
|                  | Year 5       | 4%                |

\*The incentive will be subject to annual investment targets been met.

<sup>1</sup> Notification F. no. 13-01/2020-IC dated 24 February 2021

- iii. The incentive per company will be applicable on sales of manufactured finished goods net of taxes, discounts, commissions, etc. (as distinct from traded goods) and the company meeting the cumulative investment criteria.
- iv. Each beneficiary will have to meet the minimum incremental net sales criteria over the base year as prescribed in 'Annexure-2' to the notification.
- v. Total incentive shall be capped based on total investment committed at the time of application.

## Eligible products

| Sl. No. | Type   | Description of goods  |
|---------|--|---|
| 1       | Core Transmission Equipment  | Dense Wavelength Division Multiplexing (DWDM), Optical Transport Network (OTN), Multi Service Provisioning Platform (MSPP), Synchronous Digital Hierarchy (SDH), Packet Transport Network (PTN)/ Multi-Protocol Label Switching (MPLS), Gigabit Passive Optical Networks (GPON)/ Next Generation- Passive Optical Network (NG-PON) Optical Line Terminal (OLT), Digital Microwave Radio |
| 2       | 4G/5G, Next Generation Radio Access Network and Wireless Equipment   | 4G/ Long Term Evolution (LTE)Radio Access Network (RAN) Base Station & Core Equipment; 5G RAN Base Station & Core Equipment; Edge and Enterprise Equipment; Wireless Telecommunication Equipment in Access and Backhaul   |
| 3       | Access & Customer Premises Equipment (CPE), Internet of Things (IoT) Access Devices and Other Wireless Equipment | Unified Communications Platforms, IP Multimedia Subsystem, Soft Switch, GPON Optical Network Terminal (ONT), Wireless Fidelity (Wi-Fi) Access Point and Controller, LTE CPE, 5G CPE, Short Range Devices and Associated Electronics in new technologies like 4G/5G/Fibre To The Home (FTTH) etc.  |

## Our comments

With 2<sup>nd</sup> largest subscriber base in the world, Telecom sector in India is viewed as one of the most critical sectors for the growth of Indian economy. Pursuant to 'Atmanirbhar Campaign', Government of India (GOI) has notified PLI scheme to position India as a global hub for manufacturing of telecom and networking products.

The eligibility under the scheme is subject to achieving a minimum threshold of the cumulative incremental investment and incremental sales of manufactured goods. The incentive structure ranges between four and seven per cent with higher incentives given to MSME in the initial three years. The provision for higher incentive to the MSME sector is likely to encourage the domestic telecom manufacturers to become part of the global supply chain.

As the total cash outlay is budgeted at INR 12,195 crore, only limited applicants would be approved under the scheme by DOT. In the coming days, the Industry would expect detailed guidelines specifying the eligibility conditions and procedure for filing the application. Meanwhile, companies may choose to review their business strategies in light of the outlines of the scheme released.

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