Industry could do with some incentives

Tax benefits for new investment, R&D and meeting ESG goals should be a Budget priority

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As anticipation builds up for the upcoming Budget, the spotlight turns to current and potential tax incentives that could invigorate economic growth and support various sectors. The Finance Minister noted in the last Budget Speech that since 2014, India's economy has grown from the 10th to the fifth largest globally.

To continue the growth trajectory, it is imperative to boost the business environment with tax incentives that encourage investment and development. Per Deloitte Pre-Budget Survey 2024, 67 per cent of the respondents believe that government incentives, subsidies and adopting technology will shape India's growth in the next fiscal year.

Here are some suggestions to support the country's ambitious goal of becoming a $5 trillion economy:

Extension of sunset clause in Section 115BAB: Currently there is a 15 per cent tax rate for domestic manufacturing companies starting production by March 31, 2024, to boost import substitution, economic resilience, and self-sufficiency under 'Make in India'. Extending the deadline is crucial for reducing import dependence, encouraging exports, promoting India as a global manufacturing centre, supporting job growth, and fostering economic autonomy.

The Finance Minister may consider extending the sunset date to cover companies commencing manufacturing after April 1, 2024.

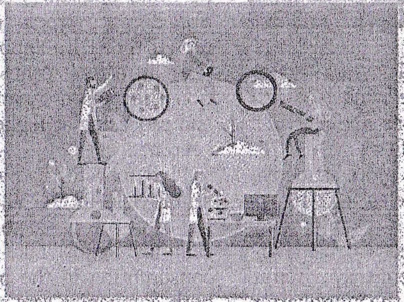
Boost research and development activities: From April 1, 2020, the allowance of scientific research expenditure on in-house R&D facility has been restricted to 100 per cent from the erstwhile 150 per cent.

India's R&D spending as a percentage of GDP is lower than that in the US, Japan, China, and Germany. Sixty-four per cent of respondents in the Deloitte survey advocate R&D support for local companies.

To sustain economic growth, the government may consider reinstating weighted deduction or R&D tax credits, thereby encouraging businesses to undertake strategic R&D activities.

Research and development companies may be made eligible for concessional tax rate of 15 per cent.

Tax benefits for companies setting up Global Capability Centres (GCCs) in India: India currently houses a large number of GCCs, and this number is expected to increase over time. To support the growing GCC ecosystem, the government may consider lower tax rates or tax holiday for Indian companies set up as GCCs by global or Indian MNEs. This would boost industry development and create jobs. Weighted deduction on salary paid to additional employees employed during a year may be considered.



R&D SPENDING. Needs to go up

Focus on sustainability and ESG: According to the survey, business leaders expect the government to incentivise renewable energy (RE) production and consumption and prioritise investment in Environmental, Social and Governance (ESG) strategies and initiatives. Tax incentives for energy storage systems will boost investment, job growth, and economic development.

With the Advanced Chemistry Cell, PLI for batteries and a dedicated PLI scheme for grid-level storage, promoting battery manufacturing in India through tax incentives, are crucial.

The Central Electricity Authority's Draft National Electricity Plan identifies a need for 51 GW of battery energy storage by 2031-32 to support the grid. To achieve this, tax incentives for battery energy storage projects are desirable. A 15 per cent concessional tax rate could be provided for RE and Energy Storage System projects, standalone battery storage using RE, storage with transmission elements, and storage with renewable energy plants.

Alternatively, a 100 per cent income deduction for renewable energy projects could be considered.

By implementing well-crafted tax incentives, the government can alleviate the financial burden on key sectors, stimulate consumer spending and enhance market competitiveness. These measures can balance immediate fiscal needs with long-term economic objectives.

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