Exporters push for fixed inverted duty structure, lower tax on new mfg units

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CURRENTLY, NON-CORPORATE MANUFACTURING MSMEs PAY NEARLY 33 PER CENT TAX, WHICH CREATES AN 8–9 PERCENTAGE POINT DISADVANTAGE COMPARED WITH CORPORATES

Exporters have appealed to the government to urgently address the issue of inverted Customs duty structures, reduce income tax for all non-corporate manufacturing MSMEs and provide policy and fiscal support for the development of Indian global-scale shipping lines in the upcoming Union Budget for 2026-27. The budget will be presented on February 1 by Finance Minister Nirmala Sitharaman.

Federation of Indian Export Organisations (FIEO), the apex body for exporters, has recommended rationalisation and reduction of import duties on key inputs used by export-oriented industries so that input costs are aligned with finished product duties.

"For instance, synthetic yarns and fibres attract higher customs duties than finished fabrics and garments, adversely impacting the textile and apparel value chain. Similarly, electronic components… face higher duties compared to imported finished electronic products, discouraging domestic value addition… Correcting these anomalies by lowering or restructuring duties on raw materials will reduce production costs, ease working capital pressures, encourage domestic manufacturing, and strengthen India's export competitiveness," FIEO said on Thursday.

Engineering Export Promotion Council of India (EEPC) has called for reducing income tax for all non-corporate manufacturing MSMEs to 25 per cent and release 90 per cent of GST refunds immediately as part of its recommendations for the Union Budget.

At present, non-corporate manufacturing MSMEs pay nearly 33 per cent tax, which creates an 8-9 percentage point disadvantage compared with corporates.

It has also proposed to allow 100 per cent depreciation on rooftop solar investments by manufacturing MSMEs, instead of the current 20 per cent.

EEPC Chairman Pankaj Chadha said that targeted tax reforms and policy actions would support engineering goods sector which is one of the largest labour-intensive industries and key forex earner.

FIEO also called for restoring the 200-250 per cent weighted tax deduction for in-house research and development expenditure under Section 35(2AB) of the Income Tax Act and broadening its applicability beyond companies to include LLPs, partnership firms, and proprietorships, especially MSMEs.

The budget should provide a 200 per cent tax deduction for expenditure incurred on overseas marketing, branding, trade fairs, buyer meets, and promotional activities, particularly benefiting MSME exporters. It also proposed extending the 15 per cent concessional corporate tax rate under Section 115BAB for new domestic manufacturing units for at least another five years.