

## Centre drops phone-makers' GST call

### *Mobile manufacturers are concerned that the new tax regime will remove incentives for domestic production*

With less than a month left for the roll-out of the Goods and Services Tax (GST) regime — touted as the biggest indirect tax reform in the country's history — mobile handset manufacturers are a worried lot. Their main concern is that the duty differential, which incentivises domestic production as opposed to importing products, will no longer exist as GST will subsume all indirect Central and States taxes into a single tax rate.

The GST Council, at its meeting held in Srinagar last month, decided that 12% GST will be charged on mobile phones against 5% as sought by the industry.

“The government should ensure that the existing differential duty regime on mobile handsets and components continues once the GST regime is rolled out,” said Pankaj Mohindroo, national president, Indian Cellular Association (ICA).

Mr. Mohindroo said that in 2016, a differential duty regime was introduced on three components of handsets — chargers/ adapters, battery packs and wired headsets — whereby a tariff protection of 10.5% was provided to domestic manufacturers vis-a-vis import of same components for manufacturing.

### **‘Significant progress’**

Following this, “significant manufacturing progress has been witnessed during the past 10-12 months with over 30 new mobile component plants being set up and addition of about 30,000 direct employment,” he said.

Besides, in the past two years, 40 new units that manufacture and assemble mobile handsets have also come up, due to various financial advantages given to local manufacturers.

“Enhancing tariff protection for domestic manufacturers to 11.5% vide Budget 2015 from the earlier 5% (instituted through a differential duty regime vide Budget 2014) has played a key role in this transformation,” he pointed out.

A ministry official said the government and industry are in discussions to impose Basic Customs Duty on imported products to give an impetus to local manufacturing of electronics.

However, some experts feel that these worries are unnecessary as GST will bring in efficiency in the tax system, eliminating cascading of taxes. Asked if GST will discourage manufacturing of mobile phone in India, Santosh Dalvi, Partner (Indirect Tax) at KPMG in India said, “Not really... GST will support Make in India.”

“While duty differential will not be there, manufacturing in India will always be better because of the cascading taxes going away under GST... It should reduce the cost of manufacturing unless

you are importing from somewhere in the world where cost of manufacturing is much lower than in India,” he said.

### **Price increase**

Mr. Dalvi, however, pointed out that a 12% GST rate might lead to an increase in prices of mobile phones across almost all states.

“[For] mobile phones that are currently manufactured in India, the excise duty is 2% plus VAT 5% [excluding Maharashtra and Delhi where the rate is 12%]. So the effective rate, right now, is 7% which will go up to 12% under GST. So mobile[s] will become costlier,” he said.

S.S. Gupta, senior consultant, Taxmann.com said, “As of now, basic customs duty on mobile is nil. It only attracts CVD. Therefore, import of mobiles will be beneficial. The basic customs duty shall be imposed to encourage local manufacturers. It appears that there is no duty protection to mobile manufactures.”

The Hindu tried to reach various handset manufacturers to understand the impact of GST on their manufacturing plans in the country. However, none of them wanted to comment on the subject. An official of a domestic handset maker said the industry, via ICA, was engaging with the government for some kind of tariff protection.

A representative of another company said that there has been a lot of confusion in the run-up to the implementation of GST. For example, what happens to the inventory that a distributor or a retailer has, but which remains unsold post July 1, the likely date of GST implementation. The handset makers, the company representative added, may offer heavy discounts on mobile phones to consumers in a bid to exhaust existing inventory.

Mr. Gupta, however, added, “There is no confusion. The GST will be payable on all supply of mobile after July 1. The company will be entitled to credit of duty paid (CVD or SAD) on inputs as such in work-in-progress and finished goods.”

As a part of the government’s flagship ‘Make In India’ initiative, indigenous production of mobile handsets went up from 11 crore units valued at Rs. 54,000 crore in 2015-16 to 17.5 crore units valued at Rs. 90,000 crore in 2016-17, according to official data.

“As a result of increase in domestic production of mobile handsets, the share of imported mobile handsets in total domestic demand is gradually coming down,” the Ministry of Electronics and IT has said, adding that the import of mobile handsets decreased from Rs. 56,000 crore in 2015-16 to Rs. 40,000 crore in 2016-17.

The government, last month, also notified the Phased Manufacturing Policy (PMP) to push the level of domestic value addition in mobile handsets made in the country. The policy, welcomed by the all handset makers intends to reduce dependency on imports by the way of tax relief and other financial incentives. However, how the policy will work once GST is rolled out is not yet clear.

## **Policy push**

The government had said PMP is expected to generate 2 million jobs in the country by creating a \$500 billion industry in the next 5-7 years.

“Presently, the contribution of domestically manufactured mobile phone components stands at 10%. The supply for the remaining parts is met by imports. Most of the components of the mobile devices are sourced from China,” Sanjeev Agarwal, chief manufacturing officer, Lava International said.

The phase-wise programme covers mechanics, die cut parts, microphone and receiver, key pad and USB cable in the current financial year. It also aims to promote the indigenous manufacturing of populated printed circuit boards, camera modules and connectors in 2018-19, and display assembly, touch panels, vibrator motor and ringer in 2019-20. With the implementation of PMP, the value addition or share of indigenously procured components in manufacturing of feature phones will go up from about 15% to 37% and the same for smart phones will move up from about 10% to 26%.

The government is also in process of formulating the second phase of PMP which, it expects, will enhance value addition to 58.3% in feature phones and 39.6% in smartphones. Ashok Agarwal, general manager, manufacturing (Operations) at Intex Technologies, said the next step in PMP was critical as it needed development in areas such as Mobile Design and IDH that would primarily drive the ecosystem for Fabrication and PCB design.

“The biggest immediate challenge would be to develop design and R&D capabilities,” he said.

“Forecasting the trends and their implications on consumer preferences, manufacturing costs, obsolescence and its cost would all be areas requiring specialised focus. Perhaps, special hand-holding measures will be required to ensure that India catches up with the U.S., Japan, South Korea, China and Taiwan in these areas., Mr. Agarwal added.

*(The Hindu)*