POTPOURRI BUDGET

Dear Readers,

At the end of his budget speech on February 29, 2016, Finance Minister Arun Jaitley left most of us with some sort of a mixed feeling. For a year now, the automotive industry had been building up a lot of expectations, primarily on the basis of the government's assurance to ease out doing business in the country, and secondly to push the Prime Minister's pet project – the Make in India campaign.

The industry for the last few years has been consistent in its demand to rationalise the excise duty rates. We saw no proposal from the FM on that, but an additional infrastructure cess was introduced for different fuel and vehicle types – 1 % for petrol vehicles, 2.5 % for diesel and 4 % for SUVs. Plus, a luxury tax of 1 % has been added to vehicles that cost over ₹ 10 lakh. As an immediate fallout, most major vehicle makers have passed on the cost to the end consumer.

The government's decision to rollout Bharat Stage VI emission norms by April 2020, and scheduled introductions of regulations related to safety have already put a lot of pressure on manufacturers in terms of investments on R&D. And additional taxes aren't happy news for many. Considering the recent developments around the subjects of pollution and environment, we were also expecting the FM to bring in a scheme to scrap older vehicles.

Talking of R&D, the FM's proposed cap on weighted tax deduction on R&D expenses at 150 % from April 2017 and further at 100 % from April 2020 from the current 200 % is being seen by many as a regressive step. On the other hand, there is a proposal to introduce a royalty tax, which effectively would lower the tax on income earned from patents. That should encourage research and innovation work in the country, viewed a few experts we spoke to.

The allocation of ₹ 97,000 cr to build roads and highways is good news for the industry. But how that pans out for the auto sector in the long run would depend on a multiplicity of factors. While that gives hopes the two-wheeler and CV manufacturers, the industry continues to wait for clarity on the Goods and Services Tax (GST) rollout. We hope that bill gets passed this budget session.

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