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# Union Budget 2022

Tax Alert - Chemical sector

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## Resilient Indian chemical sector to benefit from policy announcements



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During the last two fiscal years, the Honourable Finance Minister has announced various policies around strengthening infrastructure, Atmanirbhar Bharat Scheme (making India self-reliant), Production Linked Incentive Schemes ("PLI") for various sectors, etc to give an impetus to the Indian economy.

During this phase, India's chemical sector has shown great resilience and has been instrumental in putting the Indian economy on a recovery path. India ranks sixth in the world in chemical sales and contributes 3% to the global chemical industry. Accordingly, it was expected that Budget 2022 would announce specific policies/ benefits for chemical sector as the sector has an immense potential to become a global manufacturing hub.

Budget 2022 is forward-looking, containing various reforms and outlays to provide a growth impetus to various sectors such as infrastructure, agriculture, urban development, solar power, E-Vehicles, etc, which should generate demand for various specialty chemicals, construction chemicals, silicon, etc. Further the changes in the BCD rates for certain products like sodium cyanide, methyl alcohol, acetic acid, etc would provide impetus to increase domestic demand for these products/ boost Make in India policy.

The announcement of SEZ Act to be replaced by a new legislation will be closely watched by the Indian chemical industry as it could support the Indian chemical industry to become more competitive in the global market.

However, the Indian chemical sector would certainly continue to expect the extension of PLI to chemical sector and incentives for undertaking research and development, given its immense potential in the Indian and the global economy.

# How does the budget impact Chemical sector?

Proposals in budget	Positive impact on chemical subsegments
<ul style="list-style-type: none"> <li>▶ Continued focus on various infrastructure projects under PM GatiShakti Master plan, PM's Development Initiative for North-East Region and announcement of Vibrant Villages Programme for development of villages in border areas, urban development projects</li> </ul>	<ul style="list-style-type: none"> <li>▶ Positive impact on varied specialty chemicals including construction chemicals</li> </ul>
<ul style="list-style-type: none"> <li>▶ Implementation of PM GatiShakti framework to result in speedier implementation of various infrastructure projects i.e. road, railways, airports, ports, mass transport, waterways and logistic infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▶ This would positively address the logistic issues faced by the Chemical sector</li> </ul>
<ul style="list-style-type: none"> <li>▶ INR195 billion to be additionally allocated towards solar PLI for manufacturing of high efficiency polysilicon and photovoltaic modules</li> </ul>	<ul style="list-style-type: none"> <li>▶ Positive impact on chemicals, such as silicon used in manufacturing solar panels</li> </ul>
<ul style="list-style-type: none"> <li>▶ Battery Swapping Policy to be introduced and inter-operability standards to be formulated, providing an impetus to Electric Vehicles ecosystem in India</li> </ul>	<ul style="list-style-type: none"> <li>▶ Positive impact on lithium-ion used for manufacturing electric vehicle batteries</li> </ul>
<ul style="list-style-type: none"> <li>▶ Contracts for laying optical fibre net in rural areas under the Bharat Net project under PPP model to be completed by 2025</li> </ul>	<ul style="list-style-type: none"> <li>▶ Positive impact on chemicals used for manufacturing optical fibre</li> </ul>
<ul style="list-style-type: none"> <li>▶ The SEZ Act will be replaced with a new legislation with an objective of optimally utilizing available infrastructure and enhancing competitiveness of exports</li> </ul>	<ul style="list-style-type: none"> <li>▶ With several chemical companies evaluating expanding manufacturing capacity in India this new scheme could support the Indian chemical industry to become more competitive in the global market</li> </ul>

## Highlights



Battery Swapping Policy to provide boost to the Electric Vehicle market

Optical fibre network to be laid in rural areas

**POSITIVE IMPACT**  
on chemical sub-segments

SEZ Act to be replaced by a new legislation - Indian chemical industry will look forward to the new legislation

## Key tax proposals

### Direct tax

- ▶ No change in personal and corporate tax rates.
- ▶ Extension in sunset date for incorporation of start-ups from 31 March 2022 to 31 March 2023, for availing 100% deduction of profits and gains from business for 3 consecutive years out of 10 years.
- ▶ Last date for commencement of operations by new manufacturing companies for availing concessional tax rate of 15% to be extended by 1 year from 31 March 2023 to 31 March 2024. The same will give an impetus to fresh investment in manufacturing of chemicals.

### Indirect tax

- ▶ No change in the Goods and Services Tax rates .
- ▶ Customs Tariff structure is being simplified by moving unconditional concessional rates from existing exemption notifications.
- ▶ Certain tariff lines and rates have also been rationalized. As a result, applicable BCD rates on chemical sector will operate almost entirely through tariff, which shall support the domestic manufacturers from a Make In India perspective.
- ▶ Following key changes proposed in BCD rates with effect from 2 February 2022:

Chapter heading	Nature of goods	Existing BCD Rate	Proposed BCD Rate
271019	Fuel oil, Straight run fuel oil, Low Sulphur wax residue, Vacuum residue, slurry and Vacuum gas oil	5%	2.5%
28371100	Sodium Cyanide	7.5%	10%
29051100	Methyl Alcohol	5%	2.5%
29152100	Acetic Acid	7.5%	5%
32019020	Myrobalan fruit extract	2.5%	7.5%
32065000	Triband Phosphor	NIL	7.5%
32071040	Ceramic colors	5%	7.5%
32074000	Glass frit and other glass, in the form of powder, granules or flakes	5%	7.5%
34042000	Vinyl Polyethylene Glycol for use in manufacture of Poly Carboxylate Ether	7.5%	10%

- ▶ Blending of fuel is a priority of this Government. To encourage the efforts for blending of fuel, unblended fuel shall attract an additional differential excise duty of INR2 per liter from 1 October 2022.

## Impact analysis

The Budget 2022 was expected to provide a booster shot to the Indian Chemical sector which has shown resilience and contributed to the growth of the Indian GDP through challenging times due to the COVID-19 pandemic. Various policy measures announced in the Budget 2022 should certainly shore-up demand for and consequently investments for various specialty chemicals such as construction chemicals, silicon, lithium-ion, etc and give an impetus to domestic manufacturing. Customs duty on certain critical chemicals namely methanol, acetic acid and heavy feed stocks for petroleum refining are being reduced, while customs duty has been increased on sodium cyanide for which adequate domestic capacity exists. These changes will support domestic manufacturers under the Government of India's "Atmanirbhar Bharat" initiative. Comprehensive review of Customs exemptions will simplify the Customs rate and tariff structure. Removal of exemption on items which are or can be manufactured in India and providing concessional duties on raw material that go into manufacturing of intermediate products will support the Government's objective of "Make in India". Extension of 15% concessional tax rate by one year will give a boost to the proposed greenfield investments. However, for the Chemical sector to further contribute to the Indian economy and make India a global manufacturing hub for chemicals, the industry was expecting specific measures such as extending the PLI benefit to the chemical sector, providing incentives to fuel research and development in green chemistry, accelerated depreciation on capex in building high-tech plants with world class safety norms, and developing world class Petroleum, Chemicals and Petrochemicals Investment Region(s). For now, the industry will await further details on the announcement of replacement of the SEZ Act with a new legislation as the new scheme could support the Indian chemical industry to become more competitive in the global market.

## Glossary

**BCD** - Basic Customs Duty

**GDP** - Gross Domestic Produce

**SEZ** - Special Economic Zone

**PPP** - Public Private Partnership



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