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Tax Alert - Key announcements of  
Union Budget 2024



# Union Budget 2024-25

## Indian chemical sector continues to benefit from policy announcements



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The Indian economy has shown resilience in the recent years despite the global geopolitical and economic challenges and has emerged as the fastest growing G20 economy. It has been supported by the chemical industry which has emerged as one of the sunrise sectors and is expected to reach US\$300b by FY2025. As India continues to emerge as one of the key chemical producers in the world, the chemical industry awaited Budget 2024 with an expectant eye.

In this backdrop, in its pursuit of Viksit Bharat, the Budget 2024 has announced a slew of policies aimed at bolstering the manufacturing sector and specifically focussing on MSME, employment generation and skilling, infrastructure and research and development. This will generate a higher demand for chemicals, thereby opening opportunities for the Indian chemical industry and encourage innovation.

Having said the above, the Indian chemical industry, which has been facing significant headwinds globally and pricing pressures in the Indian market, would have certainly benefitted from the introduction of the much-awaited PLI scheme, which remains an unfinished agenda.

# How does the budget impact the chemical sector?

## Growth Drivers

- ▶ Capital investment outlay is being increased by 11% to INR11.1 lakh crore which is 3.4% of GDP. Further, states to support infrastructure development through INR1.5 lakh crore long-term interest free loan. This will induce further demand for construction chemicals and other allied chemicals
- ▶ With the aim to support industrial development in the pursuit of *Viksit Bharat*, following announcements made to boost the manufacturing sector which in-turn will provide an impetus to basic chemicals and speciality chemicals, including construction chemicals, paint and adhesives, etc:
  - ▶ 12 industrial parks to be sanctioned under the National Industrial Corridor Development Programme and facilitate investment-ready “plug and play” industrial parks
  - ▶ Focus on infrastructure development in various states including Bihar and Andhra Pradesh
  - ▶ Three crore additional houses will be developed, with focus on the needs of one crore urban poor and middle-class families, with an investment of INR10 lakh crore
- ▶ Further encouragement for PM Surya Ghar Muft Bijli Yojana to install solar rooftop panels which is likely to boost the demand of chemicals such as silicon used in manufacturing solar panels

## Research and Development

- ▶ Operationalization of the Anusandhan National Research Fund for basic research and prototype development, and set-up of mechanism for spurring private sector-driven research and innovation with a financing pool of INR1 lakh crore, which will boost innovation and research and development in chemical industry

## Employment and Skilling

- ▶ Three schemes have been announced for employment linked incentives which will include:
  - ▶ One-month wage upto INR15,000 to new entrants with salary up to INR1 lakh in all formal sectors
  - ▶ Incentive to be provided at specified scale to first time employees and employer towards EPFO contribution in first four years in the manufacturing sector
  - ▶ Employer focus scheme reimbursing INR3,000 per month for two years towards EPFO contribution for each employee within a salary of INR1 lakh per month
  - ▶ Comprehensive scheme for providing internship opportunities in 500 top companies to 1 crore youth in 5 years. Companies to bear the training cost and 10% of the internship cost from their Corporate Social Responsibility funds

## Highlights



Capital investment increased by 11% to INR11.1 lakh crore



12 industrial parks sanctioned



Financing pool of INR1 lakh crore towards research and development



Three schemes developed under 'Employment Linked Incentive'



Comprehensive internship scheme

## MSME

- ▶ To support MSMEs, several financial policies announced:
  - ▶ Credit Guarantee Scheme for MSMEs in the Manufacturing Sector
  - ▶ New credit assessment model for MSME credit
  - ▶ Credit Support to MSMEs during stress period
  - ▶ Limit for Mudra loans enhanced to INR20 lakhs from INR10 lakhs
  - ▶ Enhanced scope for mandatory onboarding in TReDS
  - ▶ SIDBI branches in MSME clusters
  - ▶ E-commerce export hubs

## Key tax proposals

### Direct Tax

- ▶ No change in the corporate tax rates for domestic companies. Corporate tax rate for foreign companies reduced to 35% (plus applicable surcharge and cess)
- ▶ No specific announcement for chemical sector

### Indirect Tax

- ▶ **Chemicals and Plastics**
  - ▶ BCD rate for Ammonium Nitrate increased to 5% from 2.5%
  - ▶ BCD rate for PVC Flex films increased to 25% from 10%
- ▶ **Laboratory Chemicals**
  - ▶ BCD rate increased to 150% from 10% falling under Chapter 98020000
- ▶ **Critical Minerals**
  - ▶ 25 Critical Minerals has been exempted from BCD to boost sector
- ▶ **Others**
  - ▶ Effective BCD on MDI for use in the manufacture of Spandex Yarn is reduced to 5% from 7.5% subject to IGCR
  - ▶ Effective BCD on specified parts falling under Chapter 28, 29 or 38 for use in manufacture of connectors is reduced to NIL from 5%/7.5%

## Highlights



Focus on financial support to MSME



BCD rate increased for chemical and plastics and laboratory chemicals



BCD rate reduced on MDI to promote export competitiveness and reduce input costs

## Impact analysis

Budget 2024 is a roadmap to *Viksit Bharat* focusing on manufacturing, infrastructure, MSME, rural development and employment linked schemes, aiming to stimulate economic growth, promoting employment, social welfare, while continuing to ensure careful fiscal management.

The Indian chemical industry which has been contributing positively to the GDP and gaining prominence globally, shall be further stimulated with various announcements to boost the manufacturing and infrastructure sector, which in turn will provide an impetus to basic chemicals and speciality chemicals, including construction chemicals, paint and adhesives, etc.

The Budget has taken significant steps to strengthen the MSME segment by increasing the availability of credit at competitive rates, introduction of specific schemes to facilitate easier loan processes and the extension of credit guarantees. This will augment formalization of smaller manufacturers, alleviating supply chain bottlenecks, facilitating market access and foster industrialization.

Budget 2024 has also given a special focus to employment generation within the formal sectors and skilling of new workforce partnering with the private industries through an internship programme. Such schemes are part of the broader economic strategy to reduce unemployment and create a more skilled workforce which is crucial for maintaining a competitive edge in the global market, thereby fostering the goal of becoming a global manufacturing hub.

Given that the Indian chemical industry is facing headwinds presently from global economic and geopolitical pressures, environmental and sustainability concerns and exports from China at low prices, the industry was seeking sector-specific measures such as introduction of PLI scheme and development of Petroleum, Chemicals and Petrochemicals Investment Region(s), to become competitive in these challenging times through policy intervention from the Budget 2024.

Having said the above, by strategically prioritizing the manufacturing sector, infrastructure, employment and skilling with sustainable and inclusive development, the Budget has fostered an attractive climate for investment, innovation, and industry scaling which will give an impetus to the Indian chemical industry.

# Glossary

BCD - Basic Customs Duty

EPFO - Employees' Provident Fund Organisation

FY - Financial year

GDP - Gross Domestic Produce

ICGR - Import of Goods at Concessional Rate of Duty

MDI - Methylene Diphenyl Di-isocyanate

MSME - Micro, Small and Medium Enterprise

PVC - Poly Vinyl Chloride

TReDS - Trade Receivables Discounting System



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