

India Union Budget 2020

Point of view

Telecommunication, Media and Technology

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Despite high expectations, there have been limited interventions for the technology, media and telecommunication (TMT) sectors in the Union Budget 2020.

Key announcements for the sectors

- Allocation of INR6,000 crore to BharatNet in FY21. Digital connectivity to the FTTH network for 100,000 gram panchayats in FY21
- Allocation of INR8,000 crore over five years for research and development of quantum technology and its applications
- Start-ups to receive early life funding support from the government. Digital platform to facilitate seamless application, and capture and protect Intellectual Property Rights (IPR)
- Proposal to develop five new smart cities in collaboration with states in PPP mode
- New policy to be announced shortly enabling private sector participation in the development of data centre parks throughout the country
- Proposal to be developed to boost domestic manufacturing of mobile phones, electronics and semi-conductor packaging in India. The new policy will aim to make India a part of the global manufacturing chain and boost employment opportunities
- National Forensic Science University proposed in the field of cyber forensics
- The government also announced measures supporting the use of technology in associated industries such as agriculture, governance, education and logistics:
 - Digital refund is proposed for exporters under the NIRVIK scheme
 - Single window e-logistic market, which will make MSMEs more competitive
 - 550 Wi-Fi facilities commissioned by Indian Railways
 - Online education programmes at the degree level for the deprived section and for those who do not have access to higher education
 - Use of technology in ports to increase efficiency by developing a governance framework

— NABARD to map and geotag land available for agri-warehousing

• **Indirect taxes: Technology**

- Change in Basic Customs Duty (BCD) rate on inputs for manufacture of electronic goods, as under:
Exemption discontinued on copper articles imported for the manufacture of electronic integrated circuits;
Rate of BCD on imported charger or power adaptors increased from current applicable rate to 20 per cent;
Exemption discontinued on fingerprint readers and scanners imported for manufacture of mobile phones;
Rate of BCD on PCB Assembly of mobile phones increased from 10 per cent to 20 per cent; Exemption on parts of mobile phones such as vibrator motor, ringer, display assembly, touch panel, cover glass assembly withdrawn with effect from specified dates; Exemption introduced on parts of microphones subject to actual user condition; Headphones, earphones to be taxed at effective rate of 15 per cent on par with headphones for cellular phones
- Social Welfare Surcharge (SWS) exemption withdrawn including the following IT/electronic items:
Subscriber end equipment, attachments for telephones; set top boxes for gaining access to internet;
Populated, loaded or stuffed Printed Circuit Boards and parts of electronic integrated circuits; Line telephone sets and line videophone sets and specified parts of semiconductors; Switching and routing apparatus, and similar machinery as detailed in CTH 851762; Multi-function printers and other printers;
Various parts of automatic data processing machines; Static converters for telecommunication apparatus;
Microphones and loudspeakers of specified frequencies; IT software. Therefore, the above goods would now attract SWS on imports of such IT/ electronic goods
- Verification system introduced for goods imported under Free Trade Agreement on claim of preferential duty rate and onus is now placed on the importer for claiming such benefit to prove origin of goods.

• **Indirect taxes: Media and Entertainment**

- BCD rate increased from 5 per cent to 10 per cent on: Colour positive unexposed cinematographic film in jumbo rolls and colour negative unexposed cinematographic film in rolls of 400 and 1000 feet falling under chapter 37 and Instant print film falling under tariff heading 3701 20 00 or 3702
- BCD rate increased from 0 per cent to 10 per cent on: Cinematographic films exposed but not developed falling under chapter 3704
- BCD reduced from 10 per cent to 5 per cent on: Newsprint falling under chapter 4801 provided the importer at the time of import is an establishment registered with the Registrar of Newspaper, India (RNI); Uncoated paper used in printing of newspaper provided the importer at the time of import is an establishment registered with the Registrar of Newspaper, India (RNI); Lightweight Coated paper falling under heading 4810 weighing up to 70g/m² imported for printing of magazines subject to actual user condition
- Withdrawal of exemption from BCD provided to promotional material (like trailers, making of film, etc.) imported in the form of electronic promotion kits (EPK)/ beta cams, falling under any chapter. Accordingly, these goods will attract applicable tariffs
- Social welfare surcharge made applicable on: Recorded media for reproducing phenomena other than sound or image, of heading 8523, Digital still video cameras of 8525 80 20, Populated PCBs of sub heading 8529 90 for digital still image video cameras and Parts (other than populated PCBs) for digital still image video cameras falling under sub-heading 8529 90

• **Indirect taxes: Telecom**

- Social welfare surcharge made applicable on: Line telephone sets and line videophones of heading 8517, 8519 50 00, all prepared unrecorded media for sound recording of similar recording of other Phenomena, other than products of chapter 37 (excluding cards incorporating magnetic stripe) of heading 8523; All goods of heading – 8517 69 50 – Subscriber end equipment, 8517 69 60 – STBs for accessing internet and

8517 69 70 – attachments for telephones and others; Facsimile Machines and teleprinters of heading 8443; Line telephone handsets, falling under sub-heading – 8518 30, Printed circuit assemblies falling under sub heading 8518 90 for line telephone handsets; Printed circuit assemblies of sub heading 8522 90 for telephone answering machines; Aerials and antennae of a kind used with apparatus for radiotelephony and radiotelegraphy of tariff item 8517 70 90; Populated PCBs of sub heading 8529 90 for transmission apparatus incorporating reception apparatus

- **Direct taxes: TMT**

- For the purpose of enabling corporate tax deduction to start-ups, eligibility threshold increased from INR25 crore to INR100 crore and window to avail tax holiday increased from seven years to 10 years
- To provide skilled talent pool to start-ups, taxation of ESOP in the hands of employees deferred to maximum of 5 years as against present taxation at the time of exercise
- Period of concessional rate of tax withholding of 5 per cent on interest paid to non-residents on specified borrowings extended to 1 July 2023 from 1 July 2020
- Introduces new levy of TDS @ 1 per cent on e-commerce operator for sale of goods or provision of services facilitated through its digital or electronic facility or platform.
- Finance Act 2018 expanded the scope of business connection to enable taxation of non-residents having 'significant economic presence' ('SEP') in India. The applicability of the said provisions is deferred till Financial Year 2021-2022.
- Dividend distribution tax to be abolished and dividends to be taxed in the hands of shareholders.
- Definition of royalty under the domestic law amended to include "consideration for sale, distribution or exhibition of cinematographic films", which was earlier excluded.
- Non-residents not required to file tax return in India on Royalty / Fees for Technical Services income sourced from India where appropriate withholding tax paid in India.
- Introduces Direct Tax dispute resolution scheme 'Vivaad se Vishwaas' similar to indirect tax scheme to bring down pending litigation. Proposes waiver of interest and penalty provided disputed tax paid by 31 March 2020 and scheme to remain open up to June 2020.

Implications for the sectors

Budget 2020 laid a strong emphasis on technology as an enabler to transform the digital fabric of the nation and focused on the power of new age technologies like AI, IoT and data analytics to shape the way we live and work. The government is looking to the future and the next generation of quantum technologies with the announcement of INR8,000 crore over five years for further R&D in this field. Start-ups are receiving due attention with measures announced to not just provide early life funding from the government to support ideation and development, but also ensure that innovation and associated IP can be protected. Also, any increase in the BCD rate and withdrawal of exemptions for the BCD rate as well as the Social Welfare surcharge will increase the cost of procurement for the importers and provide a level playing field to domestic manufacturers.

Telecom, and more broadly digital communications infrastructure, support all these applications and in this regard, the budgetary allocation of INR6,000 crore in FY21 towards the implementation of BharatNet is a welcome step to bridge the rural-urban divide. However, the sector has been left wanting for more. Given the financial stress in the telecom sector, the industry had expectations for significant reliefs in the form of reduction in taxes and other government levies. The Finance Minister also proposed a scheme to promote the manufacturing of mobile phones, electronics and semi-conductor packaging in India. This is a welcome

announcement as local manufacturing will not only create self-sustenance in the industry to create more job opportunities, benefitting the youth and contributing towards the overall growth of the economy.

On balance, the budget has been muted on the industry's expectations, and one hopes that post budget policy reliefs will be considered to provide the much-needed support to the sectors.

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