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Analysing developments impacting business

INDUSTRIAL DEVELOPMENT OF JAMMU AND KASHMIR – AN ATTRACTIVE, MULTI-PRONGED INCENTIVE SCHEME FOR SMALL TO MEDIUM INVESTMENTS

Introduction

One of the key drivers behind the reorganization of the erstwhile State of Jammu & Kashmir ('J&K') into the Union Territory of J&K ('UT') with effect from 31 October 2019, was to usher in a new era of development based on the two pillars of industry and services.

To this end, on 19 February 2021, the Department for Promotion of Industry and Internal Trade ('DPIIT'), of the Central Government has announced a New Central Sector Scheme for Industrial Development of the UT ('Scheme'). The Scheme envisages a variety of incentives, viz., Capital Investment Incentive, Capital Interest Subvention, Goods and Service Tax ('GST') linked Incentive and Working Capital Interest Subvention.

Salient details of the Scheme

Quantum of incentives and key conditions

1. Capital Investment Incentive

Quantum of incentives	Key Conditions
<p>For units located in Zone A*, 30% of the value of investment (with a maximum incentive limit of Rs 5 crore)</p> <ul style="list-style-type: none"> ➤ made in plant and machinery (for manufacturing sector), or ➤ for construction of building and installation of other durable physical assets (for services sector) <p>(50% of the value of investment with maximum incentive limit of Rs 7.5 crore for Zone B)</p>	<ul style="list-style-type: none"> ➤ Maximum investment of Rs 50 crore in new units or in substantial expansion of existing units ➤ A service sector unit will be eligible for this incentive only if it makes investment of not less than Rs 1 crore in new building and other durable physical assets

* The UT Government will declare and demarcate areas in the UT as 'Zone A' areas and 'Zone B' areas for the implementation of the Scheme.

2. Capital Interest Subvention	
Quantum of incentives	Key Conditions
<p>Capital Interest Subvention at the annual rate of interest of 6% for a maximum of 7 consecutive years after the date of application for registration under this Scheme. However, disbursement of incentive shall begin only after commencement of commercial production.</p> <p>If the annual rate of interest falls below 8%, an eligible unit will still be liable to pay a minimum amount of interest at the annual rate of interest of 2%</p>	<p>Maximum loan amount of Rs 500 crore for investment in new units or in substantial expansion of existing units</p> <p>Applicable on loans availed from Scheduled Commercial Banks or Financial Institutions registered by Reserve Bank of India</p>
3. Goods and Service Tax (GST) linked Incentive	
Quantum of incentives	Key Conditions
<p>Goods & Services Tax Linked Incentive ('GSTLI') equal to 100% of gross payment of GST, i.e., GST paid through cash and input tax credit for a maximum period of 10 years from the date of commencement of commercial production/operation or till the validity of the Scheme whichever is earlier. However, GST paid on goods or services exported will not be counted towards eligible incentive amount under this component.</p> <p>Upper limit of incentive under this component shall be 300% of the eligible value of investment made in plant and machinery (for manufacturing sector) or construction of building and other durable physical assets (for services sector).</p>	<p>New units irrespective of the value of investment in plant and machinery (for manufacturing sector) and construction of building and other durable physical assets (for service sector) and having a GST registration will be eligible for benefit under this incentive.</p> <p>In order to avail benefit under this incentive, a unit will be required to have a new GST registration number. If an applicant has another unit registered within the UT, existing GST number shall not be used for the new unit which has been registered under this Scheme</p>
4. Working Capital Interest Subvention	
Quantum of incentives	Key Conditions
<p>Interest subvention at the rate of 5% on working capital loan for a maximum of 5 consecutive years from the date of grant of registration under this Scheme subject to a maximum benefit for manufacturing as well as service sector units is Rs 1 crore in 5 years.</p> <p>Upper limit of incentive under this component shall be 300% of the eligible value of investment made in plant and machinery (for manufacturing sector) or construction of building and other durable physical assets (for services sector).</p>	<p>All existing units in the UT registered under GST prior to the date of notification of this Scheme will be eligible</p>
Eligible goods and services	
Eligible goods	Eligible services

<p>Manufacture of all goods <u>other than</u> the following (negative list) will be eligible for incentives:</p> <ul style="list-style-type: none"> (i) tobacco and manufactured tobacco substitutes (ii) Pan Masala (iii) Plastic carry bags of less than 20 micron (iv) Petroleum products under chapter 27 of Central Excise Tariff produced by Petroleum or Gas refineries (v) Plantation, Refineries and Power generating Units above 10 MW (vi) Coke (including Calcined Petroleum Coke), Fly Ash (vii) Units not complying with environment standards (viii) Low value addition activities in goods such as preservation during storage, cleaning, operations, packing, repacking etc (ix) Gold and gold dore (x) Molasses (xi) Marble, Travertine & Granite (xii) Revolvers and pistols (xiii) Any other industry/activity placed in negative list later 	<p>Only the following services (positive list) will be eligible for incentives:</p> <ul style="list-style-type: none"> (i) Tourism & Hospitality Services (including health & wellness tourism) (ii) Services promoting Film Tourism (including film cities, studios) (iii) Ropeways, Entertainment Parks and Rides (iv) Heritage Property Restoration Services (v) Healthcare Services (vi) IT & ITeS Services (vii) Maintenance and Repair Services (viii) Freight Terminals, Logistics Parks & Warehousing (including Cold Store Services) (ix) Testing, R&D, Analysis & Certification services (x) Educational & Skill Development Services
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Anti-Abuse provisions

Detailed anti-abuse provisions have been provided under clauses 12 and 13 of the Scheme.

Liability to refund incentives received have also been mandated in case any unit availing incentives under this scheme goes out of production/ operation permanently or changes location of the whole or any part of unit or disposes of a substantial part of its total fixed capital investment within 5 years after the date of commencement of production/ operation.

Governance

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The governance and implementation of the Scheme will be through a three-tier structure – an Apex Committee (which includes the Union Home Minister), a Steering Committee (which includes the Secretary DPIIT along with other relevant Secretaries) and an UT level Committee which will be headed by the Chief Secretary.

The Jammu & Kashmir Development Finance Corporation Ltd. or any other agency authorized in this regard by the Central Government will be the nodal agency for disbursement of incentives under various components of the scheme.

Other Aspects

This Scheme will be effective from 01 April 2021 and will remain in force up to and inclusive of 31 March 2037.

Registration shall commence from 01 April 2021 and will continue till 30 September 2024, subject to the guidelines issued in this regard. Notwithstanding the aforementioned time period, if based upon the registrations already granted, the projected financial liability reaches 115% of the financial outlay allocated under each component of this Scheme ('Approved Funds'), registration process may be paused, either temporarily or permanently. However, registration process may be resumed depending on availability of Approved Funds. News reports suggest that as on date Rs 28,400 crore has been allocated in total for this Scheme.

Concluding thoughts

While detailed guidelines are awaited on the process of application for registration, claiming incentives, approval and disbursement of claims, on the face of it, this appears to be a very attractive scheme of incentives for small-to-medium size investments in the UT.

If implemented effectively, the Scheme will certainly give a fillip to industrial and service sector growth and overall economic stability in the UT.

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