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Karnataka's vision 2030: powering industry, fuelling growth

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Introduction

The Karnataka Government notified the Karnataka Industrial Policy 2025-2030 (2025-2030 Policy) on 8 February 2025, with the goal of attracting INR 7500 billion in investments and creating approximately 2 million new jobs in Karnataka by 2030. The policy aims to make Karnataka the top destination in Asia for high technology manufacturing investments through equitable and sustainable development.

The key points of the 2025-2030 Policy are:

- promotion of green industrial areas and sustainability linked incentives;
- balanced and inclusive regional development of Karnataka offering differential incentives based on industrial growth levels across the regions;
- digital enablement through a single window system and improved investor experience (and ease of doing business) through appointment of dedicated nodal officers; and
- employment generation.

The 2025-2030 Policy offers incentives based on the amount of investment inflow and employment opportunities generated. Investments are categorised into 6 groups based on their size, ranging from micro investments (up to INR 10 million) to ultra mega investments (over INR 10 billion). New investors receive incentives based on their investment category, and existing investors can also receive benefits if they invest at least 25% more than their current fixed assets for the purposes of expansion, diversification or modernisation.

Industries in Karnataka have been classified into 3 key categories, i.e. (a) GDP accelerators, (b) employment generators, and (c) innovation drivers. Each industry type has specific policies, and districts are grouped into three zones, offering varying concessions and benefits based on their industrial development.

Key Concessions

Stamp Duty & Registration Charges Concession. The 2025-2030 policy continues the benefit from the previous Karnataka Industrial Policy 2020-2025 (2020-2025 Policy) for MSMEs, and provides stamp duty exemption of up to 100% for Zone 1 and Zone 2 industries[1] in respect of loan agreements, mortgage, hypothecation deeds etc. executed with the state government, commercial banks etc. Additionally, these industries receive a registration charge exemption of INR 1 for every INR 1000.

Financial Incentives. The 2025-2030 Policy provides financial incentives to large, mega and ultra mega enterprises (LMUMEs) in the form of either a capital expenditure subsidy or a production-linked subsidy (collectively, Base Subsidies). Companies can choose the Base Subsidy type that best suits their business

[1] Per Annexure 6 of the 2025-2030 Policy, the 31 districts of Karnataka are divided into 240 taluks and taluks are categorized under Zone1, Zone 2 or Zone 3. We note that Zone 1 has 199 taluks, Zone 2 has 32 taluks and Zone 3 has 9 taluks. Taluks are categorized based on backwardness in industrial development.

model. Capital expenditure subsidy provides subsidies ranging from 10% to 25% of the value of fixed assets, depending on the zone where the company is located. Production-linked subsidies provide incentives based on a company's turnover, ranging from 2.25% to 1.75%, with variations depending on investment amount, employee headcount, and the company's zone.

Sustainability. Sustainable development has found a specific mention in the 2025-2030 Policy. With an eye on rising carbon emissions and global temperatures, the Karnataka government has emphasized the need for industries to adopt eco-friendly practices and reduce their carbon footprint. The 2025-2030 Policy states that any investment which is small[2] and above must mandatorily include a rainwater harvesting system in their building structures, while all investments which are medium[3] and above are required to also mandatorily undertake water body restoration (i.e. water bodies like ponds, lakes etc.) within the industrial area[4]. Financial incentives are also provided for large and Micro, Small, and Medium Enterprises (MSMEs) investments in respect of sustainability initiatives. For example, companies with investments that are large and above[5] and which set up an effluent treatment plant on their premises are entitled to incentives of up to 50% of the cost of the equipment, subject to a maximum limit of INR 25 million.

Logistics and Warehouse. The 2025-2030 Policy has introduced specific capital subsidies for warehouses and logistics parks basis certain minimum thresholds. For example, to receive the subsidies, a warehouse inside an industrial area must have a minimum acreage of 20,000 square feet and minimum investment of INR 30 million, while a warehouse outside an industrial area must have a minimum acreage of 70,000 square feet and minimum investment of INR 100 million. Further, the policy also includes the Karnataka Government's proposition to club both the Shops and Establishment Registration and Trade License for the logistics and warehousing industry, to ease the compliance burden. A separate government order may also introduce rationalisation and standardisation of trade license charges across the state.

Improved Single Window System. To enhance the existing single window clearance system for investors, the Karnataka state government has (a) constituted the ease of doing business coordination committee to review and ensure a time bound action plan for ease of doing business initiatives in the state; and (b) constituted two investment proposal monitoring committees tasked with monitoring investment proposals approved by the state high level clearance committee and facilitating on-ground monitoring and inter-department coordination. Other additional measures include accelerated timelines through an affidavit-based clearance for initial approvals to begin construction and other preparatory activities, incentive calculators for informed decision making by investors and elimination of information duplication/simplification of forms at the application stage.

Employment Generation. The 2025-2030 Policy has introduced a minimum direct employment[6] threshold for establishments to avail the Base Subsidies. Large enterprises (with investments ranging from INR 50 to INR 300 crore) and mega enterprises (with investments of INR 300 – INR 1000 crore) enterprises must employ workforce of 50% of their total investment amount (in INR crore) received. The ultra-mega enterprises (with investments above INR 1000 crore) need to create a minimum of 500+ jobs.

Industries that generate employment beyond the minimum thresholds and/or have a high number of women in the workforce can receive additional incentives apart from the Base Subsidies. Large and above enterprises can get: (a) 7.5% incentive for achieving 3 to 4 times the minimum employment threshold; (b) 10% incentive for achieving 4 to 5 times the minimum employment threshold; and (c) 15% incentive for achieving more than 5 times the minimum employment threshold. Additionally, if the workforce is comprised of: (i) 50% or more women, the incentive is 7.5%; (ii) 60% or more women, the incentive is 10%; and (iii) 70% or more women, the incentive is 15%.

The 2025-2030 Policy also provides higher benefits for MSMEs who employ individuals from the special category (i.e. SC/ST, women, minorities, physically challenged individuals and ex-servicemen). These subsidies have an upper cap of INR 35 lakh, an increase from the previous cap of INR 30 lakh provided in the 2020-2025 policy.

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[2] A small investment is an investment amount in plant and machinery which is more than INR 1 Crore and less than INR 10 Crore.
[3] A medium investment is an investment amount in plant and machinery which more than INR 10 Crore and less than INR 50 Crore.
[4] Per the Karnataka Industrial Areas Development Act, 1966, an industrial area is any notified by the Karnataka state government where industries are accommodated, and industrial infrastructure and amenities are provided.
[5] A large investment is an investment amount ranging from INR 50 million to INR 3 billion, a mega investment ranges from INR 3 billion to INR 10 billion and an ultra-mega investment is an investment above INR 10 billion.
[6] Direct employment shall mean engagement of employees (excluding casual labour) on the payroll of the said entity and will include contract labour engaged in the production line.

Notably, the 2025-2030 Policy does not do away with the criteria mentioned in the 2020-2025 Policy that to avail the Base Subsidies, all new industrial investment projects shall ensure minimum employment of 70% Kannadigas on an overall basis and 100% in case of Group D (non-managerial) employees. In 2024, the Karnataka Government introduced the Karnataka State Employment of Local Candidates Bill, 2024 which proposed 50% reservation for local candidates (*i.e. an individual born in Karnataka, residing in the state for at least 15 years, and fluent in Kannada*) in management and 70% in non-management categories, across all sectors in the state. Owing to intense backlash from the private sector, the bill was put on hold with the assurance that further discussions will be undertaken before making a final decision. Haryana and Andhra Pradesh attempted similar laws, with the Punjab and Haryana High Court striking down the Haryana law by holding it as unconstitutional.

The 2025-2030 policy also mandates that to avail the Base Subsidies, the percentage of contract labour engaged shall not exceed 40% of the total labour force. Such condition is not prescribed in extant labour laws governing the engagement of contract labour.

Conclusion

The 2025-2030 Policy is a step in the right direction for investors in Karnataka. The policy incentivizes companies to adopt sustainable measures on their premises and has also sought to simplify the ease of doing business in Karnataka by revamping the existing single window system. The 2025-2030 policy has set a new benchmark in the industrial development policies across states, and it is to be seen whether the latest set of incentives and reforms results in Karnataka achieving its objectives by 2030.

- *Anshul Prakash (Partner), Vinay Joy (Partner), Kruthi Murthy (Principal Associate), Pranav Pramod (Associate) and Ananya Gandhi (Associate)*

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