Incentives
Snapshot
Structure and Types
India has a 2-tier incentives structure for industries: Central Government incentives and State Government incentives. Central Government incentivizes only a select industries and a few areas for balanced regional development. Different states in India are at different stages of their development journey, providing incentive through state industrial policy and sectoral policies with an aim to reduce cost of manufacturing and enhance ease of doing business.

### Incentive Structures in India

<table>
<thead>
<tr>
<th>Activity/Category</th>
<th>Central Government</th>
<th>State Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing Sector</strong></td>
<td>Income Tax Act 1961</td>
<td>State Industrial Policies and Specific Sectoral Policies</td>
</tr>
<tr>
<td></td>
<td>• 4 year window of lower Corporate Income Tax (17.16%) for new manufacturing units till 31 March 2023</td>
<td>• Drafted by Industries &amp; Commerce Department of States, valid for a period of 5 years</td>
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<tr>
<td></td>
<td>Special Economic Zones</td>
<td>• Incentivises capital expenditure and reduces operating expenditure</td>
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<td></td>
<td>• Deemed foreign territory. Direct Tax, Indirect Tax and non-fiscal benefits</td>
<td>• Quantum varies by investment size, employment generation, location</td>
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<td></td>
<td>• Units must be Net Foreign Exchange earner over a period of 5 years</td>
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<td></td>
<td>Custom-Bonded Manufacturing</td>
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<tr>
<td></td>
<td>• Deferred duty on capital goods and raw materials</td>
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<tr>
<td><strong>Services Sector</strong></td>
<td>Income Tax Act 1961</td>
<td>State Industrial Policies and Specific Sectoral Policies</td>
</tr>
<tr>
<td></td>
<td>• Income tax reduced to 25.17% for new services companies</td>
<td>Incentives for services sector are less than manufacturing.</td>
</tr>
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<td></td>
<td>Special Economic Zones</td>
<td>Some states offer incentives to IT, ITES</td>
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<td></td>
<td>• IT/ITES sector is the biggest beneficiary of SEZ policy in India</td>
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<td><strong>Start-ups</strong></td>
<td>Income Tax Act 1961</td>
<td>State Start-up Policies</td>
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<tr>
<td></td>
<td>• 100% deduction of profits and gains derived from any 3 consecutive years out of 7 years from year of incorporation of ‘eligible start-up’</td>
<td>Almost all states in India have start-up policies.</td>
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<td></td>
<td>• Preference in public procurement</td>
<td>Incentives such as reimbursement of rentals, patent cost reimbursement, seed grant, preferential procurement, support in quality testing, etc.</td>
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<tr>
<td><strong>Foreign Trade</strong></td>
<td>Import Policy is published by Directorate General of Foreign Trade (DGFT)</td>
<td>State Governments</td>
</tr>
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<td></td>
<td>• Imports of finished goods is not incentivised</td>
<td>• Import is a central government subject as per Indian Constitution</td>
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<td></td>
<td>• Import duty for inputs/raw material is adjusted from time-to-time as per industry requirements</td>
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<tr>
<td></td>
<td>Foreign Trade Policy Schemes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Project Import Scheme: Relaxes duties for import of specific capital goods</td>
<td>Export Policy is published by DGFT. Exports of most commodities/goods and services is encouraged.</td>
</tr>
<tr>
<td></td>
<td>• Advanced Authorization Scheme: Exempts duties for import of inputs for export consignments</td>
<td>• Export is a central government subject as per Indian Constitution</td>
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<td></td>
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<td>• Some states incentivise export-oriented units by offering specific subsidies (e.g. Maharashtra, Madhya Pradesh)</td>
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<tr>
<td><strong>Imports</strong></td>
<td></td>
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<tr>
<td><strong>Exports</strong></td>
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</tbody>
</table>
Reduced to 25.17% from 34.94% in September 2019, for existing units not availing incentives under Income Tax Act 1961. Units in SEZ or companies availing incentives (deduction, depreciation, capex-linked incentives) will continue to pay corporate income tax at base rate of 25% & 30%.

A 4-year window for new manufacturing units incorporated after 1 Oct 2019 and operational before 31 March 2023 to avail benefit of 17.16% Corporate Income Tax.

Locations-Specific

Additional deduction @15% on new machinery installed in notified backward areas of Andhra Pradesh, Bihar, Telangana & West Bengal

Activity-Based

150% deduction on in-house Research & Development till 31 March 2020 (100% thereafter)

Industry-Specific

Schemes to promote Capex in a sector by line ministries of central government. Not as elaborate as offered by States.

Corporate Income Tax

- Reduced to 25.17% from 34.94% in September 2019, for existing units not availing incentives under Income Tax Act 1961.
- Units in SEZ or companies availing incentives (deduction, depreciation, capex-linked incentives) will continue to pay corporate income tax at base rate of 25% & 30%.
- A 4-year window for new manufacturing units incorporated after 1 Oct 2019 and operational before 31 March 2023 to avail benefit of 17.16% Corporate Income Tax.

Special Economic Zones (SEZ)

- Governed by SEZ Act 2005 and SEZ Rules
- SEZ could be sector-specific or multi-product
- SEZ must be Net Foreign Exchange Earners. Allowed to sell to domestic market after payment of customs duty (BCD+SWS+IGST)
- Direct Tax Benefits: Corporate Income Tax exemption on export profits (Expires: 31 Mar 2020)
  - 100% for the first 5 years of operations
  - 50% for 5 years thereafter
  - 50% of ploughed back profits for another 5 years
  - Minimum Alternate Tax (MAT) must be paid by SEZ units. In September 2019, MAT reduced to 15% from 18.5% earlier
  - Dividend Distribution Tax abolished in Feb 2020
- Indirect Tax Benefits
  - Exemption from Custom Duty on Capital Goods, Raw Material and other Fixtures
  - Exemption from GST
  - Exemption from Stamp duty and Registration fees on lease of land / mortgage deed.
  - Exemption from Electricity Duty
- Non-Fiscal Benefits
  - Single Window Clearance

Domestic Tariff Area (DTA)

- Industrial zones that are non-SEZ, non-FTWZ or Non-Custom-Bonded are termed as DTA
- Companies targeting domestic market should located units in DTA. Such parks are captured in cluster profiles in the report.
- DTA units can also export and avail benefits under Foreign Trade Policy
- Sale from DTA to SEZ is classified as deemed exports

Free Trade Warehousing Zone (FTWZ)

- Governed by SEZ Act 2005 and SEZ Rules. Predominately for EXIM trade & storage
- Duty deferment on imported goods
- Permits trade transactions in foreign currency
- Trading hub for Indian/Overseas entity without any registration
- Trade compliances post cargo arrivals
- Faster custom clearances
- Storage, Packaging, labelling permitted

Custom-Bonded Manufacturing

- Governed by Section 65 of Customs Act, 1962
- Circular 38/2018 dated 18 October 2018 elucidates manufacturing in a bonded warehouse
- Deferred customs duty on capital goods till clearance
- Deferred customs duty on imported inputs and raw materials
  - On DTA clearance, customs duty to be paid on imported raw materials used for manufacturing
  - No duties if finished goods are exported
- Any property can be converted to bonded warehouse after customs approval
- Unlike SEZ, no requirement to be Net Foreign Exchange Earner
- 100% output can be sold in DTA

Locations-Specific

Additional deduction @15% on new machinery installed in notified backward areas of Andhra Pradesh, Bihar, Telangana & West Bengal

Activity-Based

150% deduction on in-house Research & Development till 31 March 2020 (100% thereafter)

Industry-Specific

Schemes to promote Capex in a sector by line ministries of central government. Not as elaborate as offered by States.
Major States Contributing ~80% of Industry Output

**Industrialization Barometer**

**Top 5 States by GVA (2016-17):**
- Maharashtra, Tamil Nadu, Gujarat, Uttar Pradesh, Karnataka
  - 52% of total GSDP
  - 51% of all factories in India
  - 57% of aggregate GVA
  - Mature policy framework
  - Established manufacturing clusters: strong industrial ecosystem and vendor base

**Emerging Manufacturing Hotspots:**
- Haryana, Uttarakhand, Rajasthan, Telangana, Madhya Pradesh, West Bengal, Andhra Pradesh, Himachal Pradesh, Odisha, Punjab, Jharkhand
  - 36% of total GSDP
  - 37% of all factories in India
  - 33% of aggregate GVA
  - Attracting manufacturing investments through proactive policies and attractive incentives
  - Undertaking industrial infrastructure upgradations

**Hilly States – Tax Exemptions Till 2027:**
- North Eastern States (Assam, Sikkim, Arunachal Pradesh, Mizoram, Manipur, Meghalaya, Nagaland)
- Himalayan States (Uttarakhand, Himachal Pradesh, Jammu & Kashmir)
  - Boosting industrialization in hilly regions
  - Cheaper credit access and interest incentives, among other benefits, which are over and above existing incentives
  - Central Government initiative

**Schemes:**
- North East Industrial Development Scheme 2017
- Industrial Development Scheme for Himachal Pradesh and Uttarakhand 2017
- Industrial Development Scheme for Jammu & Kashmir 2017

**Incentives Snapshot**

**FOOD PRODUCTS & BEVERAGES**
- Others 17%
- UP, 12%
- MH, 12%
- GJ, 12%
- TN, 8%
- AP, 4%
- PB, 4%
- KN, 4%
- RJ, 2%
- MP, 2%
- Others 22%

**TEXTILES, APPAREL & LEATHER**
- TN, 23%
- GJ, 13%
- MH, 8%
- AP, 7%
- WA, 6%
- HR, 5%
- PB, 7%
- UP, 4%
- KN, 4%
- RJ, 2%
- Others 18%
- GJ, 26%
- MH, 17%
- TN, 7%
- Others 16%
- UP, 5%
- RJ, 5%
- WA, 3%
- UK, 5%
- Others 22%

**CHEMICALS, RUBBER & PLASTIC PRODUCTS**
- GJ, 26%
- MH, 17%
- TN, 7%
- Others 16%
- UP, 5%
- RJ, 5%
- WA, 3%
- UK, 5%
- Others 22%

**PHARMACEUTICALS, MEDICINAL CHEMICALS**
- GJ, 14%
- MH, 14%
- TS, 14%
- TN, 14%
- HK, 13%
- GA, 5%
- GA, 5%
- Others 18%
- AP, 7%
- SP, 5%
- SK, 5%
- Others 20%

**COMPUTERS, ELECTRONIC & OPTICAL PROD.**
- TN, 13%
- Others 18%
- GJ, 8%
- MH, 8%
- KN, 7%
- UK, 6%
- Others 20%

**ELECTRICAL EQUIPMENTS**
- GJ, 22%
- MH, 22%
- TN, 25%
- Others 16%
- GJ, 14%
- TN, 20%
- TN, 13%
- Others 20%

**MACHINERY & EQUIPMENT**
- GJ, 14%
- TN, 20%
- KN, 11%
- Others 16%
- GJ, 14%
- TN, 25%
- Others 20%

**MOTOR VEHICLES & TRANSPORT EQUIPMENT**
- MH, 20%
- TN, 6%
- UK, 7%
- Others 20%

Source: ASI for Factory Sector 2016-17

MH: Maharashtra
UP: Uttar Pradesh
GJ: Gujarat
KN: Karnataka
UK: Uttarakhand
TN: Tamil Nadu
AP: Andhra Pradesh
GA: Goa
SK: Sikkim
WB: West Bengal
HP: Himachal Pradesh
TN: Tamil Nadu
DD: Daman & Diu

Table: Source: ASI for Factory Sector 2016-17
### State Incentives Snapshot

State Grid for a manufacturing investment of INR 100 million and above – Top 15 States by GSDP 2016-17

<table>
<thead>
<tr>
<th>Nature of Incentives</th>
<th>Maharashtra</th>
<th>Tamil Nadu</th>
<th>Gujarat</th>
<th>Uttar Pradesh</th>
<th>Karnataka</th>
<th>West Bengal</th>
<th>Rajasthan</th>
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</thead>
<tbody>
<tr>
<td>Stamp Duty Concession</td>
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<tr>
<td>Land Benefits*</td>
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<tr>
<td>Power Tariff Subsidy</td>
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<td>Electricity Duty Benefit</td>
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<td>Capital Subsidy</td>
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<td>Interest Subsidy</td>
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<td>SGST related</td>
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</tbody>
</table>

#### Some Sector (Manufacturing, IT-related) Specific Policies

- **Aerospace & Defence**
- **Cloud computing**
- **Fintech**
- **EV**
- **Textiles**
- **Electronics**
- **IT**
- **Aerospace & Defence**
- **ICT**
- **Food Processing**
- **Textiles**
- **Solar Energy**
- **Auto & Auto Parts**
- **Biotechnology**
- **Specific sectors in textile value chain**
- **Wind**
- **IT**
- **EV**
- **Civil Aviation**
- **Electronics**
- **IT**
- **Solar**
- **Handloom, Powerloom Silk Textile Garmenting**
- **Food Processing**
- **Bio Energy**
- **Defence**
- **ESDM**
- **Aerospace**
- **EV & Energy Storage**
- **AVGC**
- **Biotechnology**
- **IT (4 policy)**
- **Agribusiness & Food Processing**
- **Solar**
- **Handloom, Powerloom Silk Textile Garmenting**
- **Food Processing**
- **Bio Energy**
- **Defence**
- **ESDM**
- **Aerospace**
- **EV & Energy Storage**
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- **Agribusiness & Food Processing**
- **Solar**
- **Handloom, Powerloom Silk Textile Garmenting**
- **Food Processing**
- **Bio Energy**
- **Defence**

#### Industrial Policy Link

- **Industrial Policy 2019, Maharashtra**
- **Industrial Policy 2014, Tamil Nadu**
- **Industrial Policy 2015, Gujarat**
- **Industrial Investment and Employment Promotion Policy 2017, Uttar Pradesh**
- **Industrial Policy 2014, Karnataka**
- **Investment and Industrial Policy 2013, West Bengal**
- **Rajasthan Investment Promotion Scheme 2019**

Scan QR code to download state industrial and incentive policies.
## State Incentives Snapshot

### State Grid for a manufacturing investment of INR 100 million and above – Top 15 States by GSDP 2016-17

<table>
<thead>
<tr>
<th>Nature of Incentives</th>
<th>Andhra Pradesh</th>
<th>Telangana State</th>
<th>Kerala</th>
<th>Madhya Pradesh</th>
<th>Haryana</th>
<th>Punjab</th>
<th>Odisha</th>
<th>Bihar</th>
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<td>Stamp Duty Concession</td>
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<td>Land Benefits*</td>
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<tr>
<td>Capital Subsidy</td>
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<td>Specific clean sectors</td>
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</tbody>
</table>

### Some Sector (Manufacturing, IT-related) Specific Policies

- Solar
- Textiles
- Petro
- Wind
- Electronics
- Aerospace & Defence
- Auto & auto components
- Biotechnology
- Food Processing
- IT
- EV
- Solar
- ICT, IoT, Electronics
- Data Centres
- Textiles
- Food Processing
- iMAGE (Gaming, Animation)
- Data Analytics
- Cyber Security
- e-Waste Management
- IT
- EVD, Solar
- Food Processing
- Defence Production
- Pharmaceuticals
- IT and ESDM
- Solar Power
- Agri business and FP
- Cyber Security
- E-vehicle, NRGE Equipment, Energy Storage
- Devices, Medical Equipment, Industry 4.0
- based manufacturing enterprises
- Textiles, Footwear and Accessories,
- Agri & Food Processing
- Industries, Electronics,
- Aerospace and Defence,
- Biotechnology, Pharmaceutical,
- Biomass / Agro-waste processing,
- Bicycle and Bicycle component/parts
- Alloy Steel, IT and ITES,
- Life Sciences Media and Entertainment, Logistics
- Apparel
- Renewable Energy
- Aerospace & Defence
- Pharmaceuticals
- Food Processing
- ICT
- Biotechnology
- IT
- ESDM
- Food Processing
- Textile, Apparel and Leather
- Renewable Energy
- IT
- ESDM
- Food Processing
- Textile, Apparel and Leather
- Renewable Energy
- IT
- ESDM
- Food Processing
- Textile, Apparel and Leather
- Renewable Energy
- IT
- ESDM
- Food Processing
- Textile, Apparel and Leather
- Renewable Energy

### Industrial Policy Link

- Industrial Development Policy 2015, Andhra Pradesh
- Industrial and Commercial Policy 2018, Telangana State
- Industrial and Commercial Policy 2018, Kerala
- Industrial Promotion Policy 2014 (amended 2018), Madhya Pradesh
- Industrial Promotion Policy 2014 (amended 2018), Andhra Pradesh
- Industrial Promotion Policy 2015, Telangana
- Industrial Promotion Policy 2015, Haryana
- Industrial and Business Development Policy 2017, Punjab
- Industrial Policy 2015, Odisha
- Industrial Investment Promotion Policy 2016, Bihar

*This is an indicative snapshot of the industrial policy of the State only. It is recommended to study the detailed industrial policy and sectoral policies to gain a comprehensive understanding of all incentives.

*Does not include incentives specific to the Indian demographics. For instance, incentives for SC/ST/OBC.

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