

Government of India announced Industrial development scheme for Himachal Pradesh and Uttarakhand

Commencement date: From 01.04.2017 to 31.03.2022

Eligibility: All **new** industrial units and **existing** industrial units undertaking substantial expansion in manufacturing sector and services sector including Bio-technology and Hydel Power Generation Units up to 10 MW located in the states of Himachal Pradesh. & Uttarakhand will be eligible for incentives under the scheme. (Exception for Industry Listed in Annexure-I)

Plant and Machinery for the service sector industrial unit shall include **cost of construction of building** and all other **durable physical assets** basic to the running of that Particular service industry but **exclude** cost of land and consumables, disposables or any other item charged to revenue.

Condition to fulfil shall be eligible under the scheme:

- It is not formed by splitting up, or reconstruction of a business already in existence.
- It is not formed by transfer to the new unit of plant or machinery previously used for any other purpose.
- It has not relocated from elsewhere and/or is not an existing unit reopened under a new name and style.

Effective steps means one or more of the following steps:-

- that 10% or more of the capital issued for the industrial unit has been paid up.
- that any part of the factory building has been constructed.
- that a firm order has been placed for any plant and machinery required for the industrial unit.

Definition of Important terms:

- **Commencement of Commercial Production** means starting of manufacture of finished products on commercial scale which is preceded by trial production and installation of complete plant and machinery and on

that day the plant must be ready in all respects for manufacture of finished products in commercial quantity and all raw materials, consumables, etc. required for manufacture are available and as per date of registration with Central Excise/Goods and Services Tax (GST) authorities.

- **Finished Goods** means the goods Actually produced by an industrial unit and for which it is registered.
- **Industrial Unit** means any industrial undertaking or eligible service sector unit, other than that run departmentally by Government, which is a registered business enterprise under Goods & Services Tax.
- **Manufacturing Activity** means an activity which brings about a change in non-living physical object or article or thing
 - (i) resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use; or
 - (ii) bringing into existence of a new and distinct object, article or thing with a different chemical composition or integral structure’.
- **Eligible Service Sector Unit** is an enterprise in the services sector that requires significant capital expenditure and has significant employment generation potential.
- **New industrial unit** means an industrial unit which registers itself on DIPP portal on or after the first day of April, 2017 but not later than 31st day of March, 2022. Such units have to commence commercial production/operation within 18 months of registration.
- **Existing Industrial unit** means an industrial unit which commences commercial production/operation before 01.04.2017.
- **Substantial expansion** means increase by not less than 25% in the value of fixed capital investment in Plant & Machinery of an industrial unit for the purpose of expansion of capacity /modernization and diversification.
- **Physical Working Capital** is defined to include all physical inventories owned, held or controlled by the factory as on the closing day of the accounting year such as the materials, fuels & lubricants, stores etc., that enter into products manufactured by the factory itself or supplied by the factory to other for processing. Physical working capital also includes the stock of materials, fuels & stores etc., purchased expressly for re-sale, semi-finished goods and work in progress on account of others and goods made by the factory which are ready for sale at the end of the accounting year. However, it does not include the stock of the materials, fuels, stores etc. supplied by others to the factory for processing. Finished goods processed by others from raw materials supplied by the factory and held

by them are included and finished goods processed by the factory from raw materials supplied by others are excluded.

- **Raw Material** means any raw materials actually required and used by an industrial unit in manufacturing of the finished goods for which it is requested.
- **Working Capital** is the sum total of the physical working capital as defined in above Para and the cash deposits in hand and at bank and the net balance of amounts receivable over amounts payable at the end of the accounting year. Working capital, however, excludes unused overdraft facility, fixed deposits irrespective of duration, advances for acquisition of fixed assets, loans and advances by proprietors and partners irrespective of their purpose and duration, long term loans including interest thereon and investments.
- **Plant and Machinery** shall cover the cost of newly purchased industrial plant and machinery as erected at site. Relocated / Recycled / Refurbished plant and machinery is not eligible for assistance under the Scheme. Components to be included / excluded for the purpose of scheme and for a manufacturing unit is at **Annexure II**. The purchase of machinery should be from open market at normal market price. It will be ascertained whether the purchase has been made from a Related Party without following an arms-length price discovery.

The following incentives will be provided to eligible industrial units on reimbursement basis:

1. Central Capital Investment Incentive for access to credit (CCIIAC)
2. Central Comprehensive Insurance Incentive (CCII)

Central Capital Investment Incentive for access to credit (CCIIAC)

- (a) All eligible new industrial units and existing industrial units on their substantial expansion in the manufacturing and service sector located anywhere in the States of H.P. and Uttarakhand will be provided Central Capital Investment Incentive for access to credit (CCIIAC) @ 30% of the investment in plant and machinery with an upper limit of Rs.5.00 crore.
- (b) The project cost will need to be appraised by a Scheduled Commercial Bank or Financial Institution before the proposal of assistance is approved by the Empowered Committee of DIPP. Full assistance will be released on the basis of certificate issued by Competent Authority of the bank that the capex on the project report and sanction thereof is in place and Plant & Machinery has been put to use.

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- (c) The government does not commit itself to increase in the scale of assistance in case of cost escalation. In case the project is foreclosed or abandoned midway the entire assistance released by government will be refunded to DIPP.

Central Comprehensive Insurance Incentive (CCII)

- (a) All eligible new industrial units and existing industrial units on their substantial expansion located anywhere in the states of H.P & Uttarakhand will be eligible for reimbursement of 100% insurance premium on insurance of building and Plant & Machinery for a maximum period of 5 years from the date of commencement of commercial production/ operation.
- (b) For the purpose of insurance incentive, 'industrial unit' shall mean any industry which is included in Fire Policy 'C' as per All India Fire Tariffs. The policy shall be issued by the Insurance Company on market valuation to be declared by the proposer.

General instructions which are required to follow:

- Register under the Scheme with Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Govt. of India, through the DIPP portal prior to being eligible for any benefit under this scheme. In this regard, an online application process shall be developed under which the applicants have to submit applications along with the DPR.
- The final grant of registration/in-principle approval will be decided by the Committee, which will, inter-alia, consider the prima-facie eligibility of the industrial unit, availability of budget and decide the eligibility for registration under the Scheme. No Industrial unit will have the right to register under Industrial Development Scheme for H.P & Uttarakhand or claim the benefits unless it is specifically approved by the Central Government. No interest on account of delay in payment of incentive can be claimed by the unit. The beneficiary of this scheme has to furnish an undertaking to abide by the terms and conditions of the scheme.
- Units should start commercial production within 18 months of approval.
- Units which have commenced production on or after 1.4.2017 will be allowed to register with DIPP up to 30.9.2018.

Process of Scrutiny of claims

- Incentive claims under Capital Investment Incentive received in DIPP will be pre-scrutinized by a recognized independent audit agency. HPSIDC and

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SIDCUL will conduct post-audit of 10% of claims released every time. The Chief Controller of Accounts of DIPP will also conduct post-audit of 20% of incentive claims released in each financial year.

- Government reserves the right to modify any part of the Scheme in public interest.
- All concerned Ministries/Department of Government of India are required to amend their respective Acts/ Rules/ Notification etc. and issue necessary instructions for giving effect to these decisions.

Notes: All eligible industrial units will be entitled to benefits under one or more components of this scheme, even if such units are getting benefits under other schemes of the Government of India.

Annexure-I (Negative List):

The following industries will not be eligible for benefits under Industrial Development Scheme, for H.P & Uttarakhand 2017:

- All goods falling under Chapter 24 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986) which pertains to tobacco and manufactured tobacco substitutes.
- Pan Masala as covered under Chapter 21 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986).
- Plastic carry bags of less than 20 micron as specified by Ministry of Environment and Forests Notification No. S.O. 705 (E) dated 02.09.1999 and S.O. 698 (E) dated 17.6.2003.
- Goods falling under Chapter 27 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986) produced by Petroleum or Gas refineries.
- Plantation, Refineries and Power generating Units above 10 MW.
- Coke (including Calcined Petroleum Coke), Fly Ash, Cement, Steel Rolling Mills
- Units not complying with environment standards or not having applicable Environmental Clearance from M/o Environment & Forests and Climate Change or State Environmental Impact Assessments Authority (SEIAA) or not having requisite consent to establish and operate from the concerned Central Pollution Control Board/State Pollution Control Board also will not be eligible for incentive under the scheme.

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- Low value addition activities like preservation during storage, cleaning, operations, packing, repacking or re-labelling, sorting, alteration of retail sale price etc. take place excluding high value packaging and processing.
- Any other industry/activity placed in negative list through a separate notification as and when considered necessary by the Government. It will be effective from the date of such notification.
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Annexure-II

(A) Components to be included for computing the value of Plant and Machinery under CCIIAC in the manufacturing sector:

- Cost of Industrial Plant & Machinery including taxes and duties i.e. cost of mother production equipment used for carrying out manufacturing activities.
- Cost of Productive equipment such as tools, jigs, dyes and mould, insurance premium etc. including taxes and duties.
- Electrical components necessary for plant operation on the plant side from where meter is installed up to the point where finished goods is to be produced/ dispatched (i.e. H.T. Motors, L.T. Motors, Switch Boards, Panels, Capacitors, Relay, Circuit Breakers, Panel Boards, Switchgears).
- Freight charges paid for bringing Plant & Machinery and equipment from the supplier's premises to the location of the unit.
- Transit Insurance premium paid.
- The amount invested in goods carriers to the extent they are actually utilized for transport of raw materials and marketing of the finished products.

(B) Components which will not be considered for computing the value of Plant & Machinery under CCIIAC in the manufacturing sector:

- Loading and unloading charges
- Sheds/ buildings for Plant & Machinery
- Miscellaneous fixed assets such as DG sets, Excavation/Mining equipment, handling equipment, electrical components other than those mentioned at A above.
- Working Capital including Raw Material and other consumable stores.
- Commissioning cost
- Captive Power Plants
- Storage equipment

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- Weigh bridge, Laboratory testing equipment.

(C) Admissibility of erection and installation charges in the manufacturing sector:

Erection and installation charges will be payable on actual basis and will be restricted to the cost indicated in the Appraisal Note of the Financial Institutions which provided loan to the industrial unit.

CA Rupesh Agarwal

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