

**MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY**

(Department of Electronics and Information Technology)

**NOTIFICATION**

No. 24(10)/2010-IPHW

New Delhi, the 27<sup>th</sup> July 2012

**Subject: Modified Special Incentive Package Scheme (M - SIPS) to offset disability and attract investments in Electronics Systems Design and Manufacturing (ESDM) Industries**

**1. Background and Objective**

1.1 Manufacturing base of electronic products in the country is grossly inadequate in comparison to demand of such goods. Even in cases where products are manufactured in India, the extent of domestic value addition is low. Semiconductors are at the heart of any electronic systems and constitute a significant part of the total value of the Bill of Material (BOM). The main impediments in the way of attracting investments for manufacture of semiconductors, components and electronic products are disabilities like high cost of power and finance, high transactional costs and poor base of supply chain (components and accessories). Presently, semiconductor wafers, semiconductors and majority of the hi-tech components are being imported. The manufacturing capabilities for semiconductors are highly capital intensive and have to deal with constantly changing technology. Development of supply chain is essential for the manufacture of electronic products with higher domestic value addition. Therefore, Government has decided to offer a package of incentives to attract domestic and global investments into the Electronics Systems Design and Manufacturing (ESDM) sector within Electronics Manufacturing Clusters (EMCs) as a means to minimizing the disabilities.

1.2 As per the report of the Task Force on IT/ITES and Electronics Hardware Manufacturing, the ESDM industry in India lags behind its counterparts in other countries despite having basic capabilities to develop the

sector due to its strength in chip design and embedded software. The proposed incentives will provide a level-playing field and achieve competitiveness in the global market.

1.3 ESDM industry in India faces significant challenges like high transactional costs, complex administrative processes and infrastructural deficiencies. An analysis by the Federation of Indian Export Organization (FIEO) reveals that cost disabilities, including the transaction costs borne by Indian exporters vary and range from 19 to 22%. In contrast exporters in developed economies pay only 2 to 3% of transactional costs. The Modified SIPS proposes to partly offset the difficulties.

## **2. Modified Special Incentive Package:**

2.1 The M-SIPS will be applicable to investments in new ESDM units and expansion of capacity/ modernization and diversification of existing ESDM units. For the purpose of the scheme -

a) ESDM unit shall mean a unit engaged in design and manufacturing of the electronics and nano-electronics products and their accessories listed in **Annexure – 2** and includes all stages of the value-chain involved in the development of these products and accessories starting from raw materials. It includes assembly, testing and packaging. It also includes Electronics Manufacturing Services (EMS) involved in any of the above stages.

b) Expansion of an existing unit would mean increase in the value of fixed capital investment in plant and machinery of an ESDM unit by not less than 25%, for the purposes of expansion of capacity/ modernization and diversification.

2.2 The Modified Special Incentive Package shall be for state-of-the-art technology.

2.3 The investment thresholds applicable for units in different categories under the scheme are indicated in **Annexure - 1**. The thresholds are the same

for new or expansion of capacity/ modernization and diversification of existing units. The incentives available for each category are also indicated along with in Annexure - 1.

3.1 The incentives mentioned in Annexure - 1 will be available for investment made within 10 years of the approval of a new unit. In case of expansion of capacity/ modernization and diversification of existing units, the incentive will be available for investment made within 10 years of the approval of expansion of capacity/ modernization and diversification of existing units

3.2 The incentives, if any, offered by the State Government or any of its agencies or local bodies shall be over and above the incentive amount eligible under M-SIPS.

3.3 The period of 10 years shall be the first 10 years after the approval of the project and not with regard to any subsequent phase/s of the project.

3.4 The capital expenditure will be the total of capital expenditure in land, building, plant and machinery and technology including Research and Development (R&D). The total cost of land exceeding 2% of the capital expenditure shall not be considered for calculation of incentives in this regard.

4.1 The incentive against the capital expenditure shall be released after the end of the financial year in which the total investment exceeds the threshold value. Thereafter, the incentive shall be provided on an annual basis on the value of the investments made during the year and be restricted to the first 10 years from the date of approval of the unit under the scheme.

4.2 The re-imbursement of Central taxes and duties actually paid, where applicable, shall be released after the end of the financial year in which the unit commences the production. Thereafter, the incentive shall be provided on an annual basis on the value of the taxes and duties actually paid during the year and will be restricted to the first 10 years from the date of approval of the unit.

5.1.1 The overall financial ceiling under the Modified SIPS will initially be limited to Rs 10,000 crores during the 12<sup>th</sup> Five Year Plan. A review of the scheme in the ultimate year of the 12<sup>th</sup> Five Year Plan could make a realistic estimate of the likely demand for the 13<sup>th</sup> Five Year Plan.

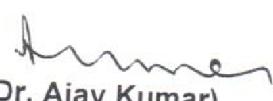
5.1.2 Periodic reviews will be undertaken with respect to changes, if any, to the list of products and thresholds for which incentives are provided.

5.2 The M-SIPS will be open for applications for three years from the date of this notification. The applications received under the scheme will be appraised on an ongoing basis.

5.3 The M-SIPS will be available for units set up within Electronics Manufacturing Clusters to be notified by the Department of Electronics and Information Technology.

6.1 An M-SIPS Appraisal Committee shall be set up by the Department of Electronics and Information Technology and headed by the Additional Secretary, Department of Electronics and Information Technology or in his absence on long leave or the post being vacant any other officer in the Department not below the rank of Additional Secretary, who may be so authorized by the Minister incharge. The Appraisal Committee will consider the applications under M-SIPS and submit its recommendations to the Government. The Government shall consider such recommendations and grant approvals.

6.2 For effective functioning of the M-SIPS Appraisal Committee, a set of guidelines shall be drawn up by Department of Electronics and Information Technology and issued separately.



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Annexure 1

**Investment Thresholds and Financial Incentives for ESDM**

| S.<br>No. | Type   | Investment Threshold<br>(in Rs. Crores) |   |                    | Financial Incentives   |  |
|-----------|--|---|---|--------------------|--|--|
|           |  | Fab                                     | Assembly,<br>Testing,<br>Marking &<br>Packaging<br>(ATMP) | Manufa-<br>cturing | SEZ  | Non-SEZ  |
| 1.        | Electronic Products including Nano-Electronic and Telecom Products as per Annexure 2 | -                                       | -   | 10                 | 20% of Capex   | 25% of Capex + Reimbursement of Excise/CVD on capital equipment  |
| 2.        | Intermediates  |   |   |                    |  |  |
| 2.1       | Nano Electronic Components   | -                                       | -   | 200                | 20% of Capex   | 25% of Capex + Reimbursement of Excise/CVD on capital equipment  |
| 2.2       | Semiconductor Wafering   | -                                       | -   | 1000               | 20% of Capex + Reimburs ement of Central Taxes and Duties (See Note - 1) | 25% of Capex + Reimbursement of Excise/CVD on capital equipment + Reimbursement of Central Taxes and Duties (See Note - 1) |
| 2.3       | <b>Semiconductor Chips (See Note 2):</b>   |   |   |                    |  |  |
| a)        | Logic – Microprocessors,   | 2000                                    | 500   | N.A                | 20% of Capex +   | 25% of Capex + Reimbursement of  |

|     |   |      |     |     |  |   |
|-----|---|------|-----|-----|--|---|
|     | Microcontrollers,<br>Digital Signal<br>Processors (DSP)<br>& Application<br>Specific<br>Integrated<br>Circuits (ASICS). |      |     |     | Reimburs<br>ement of<br>Central<br>Taxes and<br>Duties<br>(See Note<br>- 1)                      | Excise/CVD on<br>capital equipment<br>+ Reimbursement<br>of Central Taxes<br>and Duties (See<br>Note - 1)                                       |
| b)  | Memory  | 5000 | 400 | N.A | 20% of<br>Capex +<br>Reimburs<br>ement of<br>Central<br>Taxes and<br>duties<br>(See Note<br>- 1) | 25% of Capex +<br>Reimbursement of<br>Excise/CVD on<br>capital equipment<br>+ Reimbursement<br>of Central Taxes<br>and Duties (See<br>Note - 1) |
| 2.3 | Chip Components, Discrete Semiconductors and Power Semiconductors:  |      |     |     |  |   |
| a)  | Chip<br>Components  | 200  | 75  | N.A | 20% of<br>Capex  | 25% of Capex +<br>Reimbursement of<br>Excise/CVD on<br>capital equipment  |
| b)  | Discrete<br>Semiconductors<br>like Transistors,<br>Diodes etc.  | 25   | 10  | N.A | 20% of<br>Capex  | 25% of Capex +<br>Reimbursement of<br>Excise/CVD on<br>capital equipment  |
| c)  | Power<br>Semiconductors<br>(including<br>Diffusion) like<br>FETs,<br>MOSFETs,<br>SCRs, GTDs,<br>IGBTs etc.              | 100  | 50  | N.A | 20% of<br>Capex  | 25% of Capex +<br>Reimbursement of<br>Excise/CVD on<br>capital equipment  |

|      |   |      |     |     |              |   |
|------|---|------|-----|-----|--------------|---|
| 2.4  | Solar Photovoltaics (SPV) (See Note - 3): |      |     |     |              |   |
| a)   | Polysilicon Technology:                   |      |     |     |              |   |
| i)   | Polysilicon                               | 650  | N.A | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment   |
| ii)  | Ingots and/ or wafers                     | 400  | N.A | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment   |
| iii) | Cells or Cells & Modules                  | 100  | N.A | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment<br><b>(See Note – 3)</b>                                  |
| b)   | Thin Film Technology                      |      |     |     |              |   |
| i)   | Cells or Cells & Modules                  | 300  | N.A | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment   |
| 2.5  | Light Emitting Diodes (LED)               | 250  | 50  | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment   |
| 2.6  | Liquid Crystal Displays (LCD):            |      |     |     |              |   |
| a)   | LCD Fabrication                           | 4000 | 250 | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment +Reimbursement of Central Taxes and Duties (See Note - 1) |
| b)   | LCD Glass Substrate                       | 250  | 100 | N.A | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on   |

|      |  |     |     |     |              |   |
|------|--|-----|-----|-----|--------------|---|
|      |  |     |     |     |              | capital equipment   |
| 2.7. | Passive Components, Electro - Mechanical Components, Mechanicals Parts and Consumables & Accessories:  |     |     |     |              |   |
| a)   | Passive Components such as Resistors, Capacitors, Inductors, Thermistors etc.  | N.A | N.A | 5   | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment |
| b)   | Electromechanical Components and Mechanical Parts such as Multilayer PCBs, Transformers, Coils, Connectors, Switches, Ferrites, Micro Motors, Stepper Motors, Films etc. | N.A | N.A | 5   | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment |
| c)   | Consumables and Accessories such as Mobile Phones and IT accessories - Batteries, Chargers etc., PCBs, Foils, Tapes, Epoxy, Cabinets etc.                                | N.A | N.A | 1   | 20% of Capex | 25% of Capex + Reimbursement of Excise/CVD on capital equipment |
| 3.   | Electronic Manufacturing   | N.A | N.A | 100 | 20% of Capex | 25% of Capex + Reimbursement of                                 |

|  |  |  |  |  |  |                                    |
|--|--|--|--|--|--|------------------------------------|
| <b>Services<br/>(EMS) – (See<br/>Note – 4)</b> |  |  |  |  |  | Excise/CVD on<br>capital equipment |
|--|--|--|--|--|--|------------------------------------|

**Note - 1:** Central Taxes and Duties mean Customs Duty, Service Tax, Excise Duty, on actual from the date of commencement of production.

**Note – 2:** The types of fabs for which incentives are available for setting up of Semiconductor Wafer Fabrication facilities (fabs) will be decided based on the outcome of investment being attracted by the Government to set up two Fabs in a separate exercise.

**Note – 3:** Incentives for investments in additional Solar Photovoltaics shall be decided based on the outcome of proposals received under the Special Incentive package Scheme (SIPS) announced vide Notification No. 3 (1)/ 2007 – IPHW (SIPS) dated 21 March 2007.

**Note – 4: Electronic Manufacturing Services (EMS)** would mean, units engaged in providing services related to manufacture of sub-assemblies and parts including integration services to the Original Equipment Manufacturers (OEMs). However, EMS shall not encompass production of final products under their own brand name.

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Annexure 2

**List of verticals of ESDM for which incentives are available under M-SIPS**

| <b>(A) Electronics Products including Nano-Electronics Products and Telecom Products (SI no. 1 of Annexure 1):</b> |  |
|--|--|
| 1.   | <b>Telecom products</b> including Optical Fiber Equipment; Terrestrial Communication Equipment; Satellite Communication Equipment; IP based new generation soft-switches/routers including L2 and L3 switches, data networking equipment – copper/optical – consumer and carrier grades, for public and private networks; Transport systems – DWDM, SDH, PON, Cross-connects, RF over optical fibre, Carrier Ethernet, Packet Optical Transport Platform (P-OTP); Wireless technology – GSM (2G & 2.5G), CDMA, 3G, LTE & LTE Advance, Wi-Fi, WiMAX & WiMAX Advance; Microwave Radio systems 2-70 GHz, Software defined radio, Cognitive radio, Distributed antenna systems; Equipment related to security and surveillance, processing of speech, data, image, video; Customer Premises Equipment (CPE) – PBX systems, eadends, 3G Routers, VoIP gateways, Residential gateways, Access points, Routers, Broadband CPEs, Mobile phones/ Mobile handsets/ Smart Mobile phones, Set-top boxes, HModems, dongles, data card; Short Range Devices (SRD), Sensors; VSAT based systems – Broadband, Disaster management; Non-conventional energy sources, portable mechanical chargers for handsets, computers; NMS/OSS/BSS systems for all above – SNMP/Openview/CORBA; Customer care & Billing systems; Electronics products for energy management, Advanced storage batteries such as Li-thium, Video Conferencing Equipment etc. |
| 2.   | <b>IT Hardware</b> products including computers, (tablets, desktops etc.) servers, peripherals like printers, faxes, storage devices monitors, etc.  |
| 3.   | <b>Consumer Electronics</b> like Televisions, Digital Cameras, Camcorders etc.   |
| 4.   | Health and Medical Electronics   |
| 5.   | Strategic electronics  |
| 6.   | Solar Photo Voltaic including thin film, polysilicon etc.  |
| 7.   | Light Emitting Diodes (LEDs)   |
| 8.   | Liquid Crystal Displays (LCDs)   |
| 9.   | Avionics   |

|     |   |
|-----|---|
| 10. | <b>Industrial Electronic</b> products including measuring and control equipment, energy meters etc.   |
| 11. | Nano electronic products  |
| 12. | e-waste processing/ recycling   |
| 13. | <b>Automotive Electronics</b> like Anti-lock braking system, Electronic Brake Distribution, Traction Control, etc.  |
| 14. | Agri-electronics  |
| 15. | Energy conservation electronics   |
| 16. | Opto-electronics  |
| 17. | Bio-metric and identity devices/ RFID   |
| 18. | Power supplies for ESDM products  |
| (B) | <b>Intermediates: (SI no. 2 of Annexure 1)</b>  |
| 1.  | Nano-electronic components  |
| 2.  | Semiconductor wafering  |
| 3.  | Semiconductor chips including logic, memory and analog  |
| 4.  | All Assembly, Testing,.. Marking and Packaging of ESDM Units  |
| 5.  | Chip components   |
| 6.  | Discrete Semiconductors like Transistors, Diodes  |
| 7.  | Power semiconductors (including diffusion) like FETs, MOSFETs, SCRs, GTDs, IGBT etc.  |
| 8.  | Electromechanical Components and Mechanical Parts such as Multilayer PCBs, Transformers, Coils, Connectors, Switches, Ferrites, Micro Motors, Stepper Motors, Films etc., |
| 9.  | Consumables and Accessories such as Mobile Phones and IT accessories - Batteries, Chargers etc., PCBs, Foils, Tapes, Epoxy, Cabinets etc.                                 |
| 10. | All Fabrication Manufacturing facilities (fabs) for ESDM products   |
|     | Note: Any intermediates not covered above shall be decided and permitted under the scheme by the Competent Authority.   |
| C.  | <b>Electronics Manufacturing Services (EMS) (SI no. 3 of Annexure 1)</b>  |

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