

Industry Demands Reduction in GST on Mobile Phones to 12% & on Parts & Components to 5%: ICEA

- *Need of rationalisation in GST sphere*
- *Adversely impact retail sector and consumer confidence*
- *Increased GST to be a deterrent to the 'Digital India' initiative*

New Delhi, 16th November 2021: India Cellular & Electronics Association (ICEA) and EY are happy to release the report 'A consequential GST step: Boon or Bane for Mobile Handset Industry?'. The report underlines the importance of mobile phones in the current economic environment, taxation laws applicable on mobile phones. It emphasises the requirement of the right policy impetus coupled with an appropriate tax structure for the growth of the mobile phone industry in India.

Today, a mobile phone is the core device that is an integral part of today's lifestyle and affects an individual/business in every way possible. The Indian mobile phone industry has witnessed a rapid stride in the past few years. Mobile phone subscribers have crossed the one billion mark, and the monthly sales of mobile phones have consistently been between 20-27 million in numbers.

Rational indirect taxation, i.e. VAT and Excise duty which cumulatively was between 6-8% for over a decade and a half, was one of the reasons that the mobile industry flourished. In most products and commodities, India's share of global markets is around 2-3% which is in sync with our share of Global GDP, i.e. 3.2%, but in mobile phones, our value share is over 5%. Rational taxation was one of the reasons for the same.

The Government offered incentives under several schemes that attracted global and domestic manufacturers, which resulted in the increase in production of mobile phones from 6 crore units valued at INR 19,000 crore in 2014-15 to 33 crore units valued at INR 2,20,000 crore in 2020-21.

The 12% GST rate on mobile handsets increased tax by almost 50% in this sector from a prevailing national average rate of ~8.2% (pre-GST era). The industry was emerging from GST with a tax increase, and the Government once more increased the rate by another 50% (i.e. from 12% to 18%). This increase in the GST rate has a trickle-down effect leading to the rise in prices for the consumer, which in turn is decreasing the demand for mobile phones. Further, this move by the Government is also proving to be a deterrent to the 'Digital India' initiative, as the existing high cost of smartphones amplifies more due to the increase in GST rate.

ICEA, in its letter to various state chief ministers, has requested them to reduce the GST rates on Mobile Phones to 12% & on Parts and Components to 5%.

Mr. Pankaj Mohindroo, Chairman, India Cellular & Electronics Association (ICEA), states that *"This report captures all the focal points for policymakers that highlight the increase in GST rates of mobile handsets and its parts & components. I am confident that this study will be insightful on the importance of mobile phones, and it will give the Government adequate information to rescind the increase in the GST for mobile phones. Affordability will be key to India reaching an 80 billion USD size in the domestic market by 2026, and GST rates will play an important role".*

Mr. Bipin Sapra, Partner Ernst & Young (EY), states that *"The Government has realised the importance of mobile phones in developing the Digital Agenda. The rates for mobile phones and parts must be rationalised, and as highlighted in this report, brought back to 12% on the mobile phones and simultaneously removing the inverted duty structure".*

The report accentuates the conflict between the Government's policies that incentivise mobile handset manufacturing and high GST rates of 18% on mobile handsets. In addition to the detrimental effect of the high GST rate due to a flawed understanding of taxation structure on mobile phones in the pre-GST tax regime, the report also highlights other GST related issues currently being faced by the industry, followed by suitable recommendations.

About ICEA: ICEA is the apex industry body for the mobile and electronics industry comprising manufacturers, brand owners, technology providers, VAS application & solution providers, distributors, and retail chains of mobile handsets and electronics. ICEA is committed to carrying forward its vision of building Indian manufacturing and design in verticals other than mobile handsets while consolidating the gains made in the mobile handset and components industry. ICEA is entirely devoted to improving the competitiveness and growth of the industry by closely working with the Government's ministries to create a robust, legal, and ethical electronics industry, thereby creating an innovative market environment in the country.

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