



**MM**  
MAKE IN INDIA MITTELSTAND!

Rödl & Partner

# N E W S L E T T E R

A P R I L 2 0 2 3



Investment Support for German  
Mittelstand Enterprises



# IN THIS ISSUE:

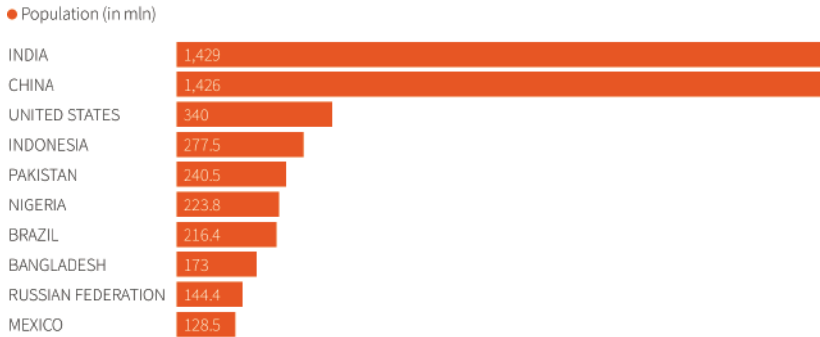
---

- 1 Economic Update
- 2 India Increases Withholding Tax Rates
- 3 Subsidies for Manufacturing in India: Part I (Maharashtra)
- 4 Webinar Recap -  
From Waste to Worth:  
Creating a Circular Economy
- 5 Webinar Recap -  
Expat Guide für Indien: Wie aus  
einem Expat ein Expert wird

# Economic Update

## Top 10 most populated countries by mid-2023

UNFPA estimates India will have 2.9 mln more people than China by middle of this year



Source: UNFPA State of World Population report 2023

In the month of April, one piece of news took center stage in India: the [United Nations Population Fund's](#) announcement that India is poised to surpass China as the world's most populous nation by mid-year. According to the UNFPA's annual report, India is projected to have a population roughly 3 million greater than its

People's Republic of China. With a distinct demographic advantage characterized by a predominantly young population, averaging 28.2 years compared to Germany's nearly 45 years, India is certainly an economic force to be reckoned with. Against this background, the Indian government's ability to steer employment away from agriculture towards sectors that require young and skilled labor will be crucial in harnessing the potential of its rapidly expanding economy.

Taking cognizance of India's growing influence, [German Chancellor Olaf Scholz addressed](#) the European Union parliament in early May, urging increased cooperation with developing nations, including India. Chancellor Scholz called for the establishment of a comprehensive EU Free Trade agenda, emphasizing the consequences of protracted negotiations that leave others to dictate rules with potentially lower environmental and social standards.

Recently, France and Italy have initiated negotiations for an India-EU Free Trade Agreement, too, followed by the inaugural ministerial-level meeting of the India and EU Trade and Technology Council (TTC) took place on May 16th in Brussels. In Brussels, stakeholders representing the EU and India [agreed to expedite the FTA negotiations](#) and committed to finding common ground on topics such as market access, the dispute resolution mechanism, subsidies on agriculture etc. They also emphasized that mutual sensitivities would be duly taken into consideration in order to achieve a balanced outcome benefitting the economies and employment on both sides. In reference to the meeting, Ursula von der Leyen, President of the EU Commission, [tweeted](#) that “The EU is committed to negotiating an ambitious free trade agreement with India”. This concerted effort shows the significance of the Indian market and its potential as a key trading partner for the European Union.

---

In the backdrop of recent collapses of major banks in the United States and Europe, notably Credit Suisse, concerns surrounding the vulnerability of financial systems have come to the forefront in recent weeks. Policy makers, particularly in emerging economies, find themselves grappling with pertinent questions about the resilience of their financial systems.

However, the Indian Department of Economic Affairs has reassured stakeholders that banking supervision in India remains robust. The Reserve Bank of India (RBI) oversees all institutions, regardless of asset size, through its bi-annual assessment of financial stability. Despite the prevailing global economic uncertainties, the Department of Economic Affairs' [March report](#) maintains an optimistic outlook. It highlights India's projected economic growth rate of 7%, improved current account deficit, easing inflationary pressures, and a stable banking system.

Nevertheless, the report also cautions that risks loom on the horizon and should not be taken lightly. Potential threats, such as the weather phenomenon El Nino and rising global financial instability, could cast a shadow on India's agricultural output and overall economic stability.

As India solidifies its position as the world's most populous nation, the implications for the global economy are profound. Its youthful workforce and economic potential are attracting the attention of international players, prompting calls for enhanced trade cooperation. However, challenges persist, necessitating continued vigilance to navigate potential risks and ensure sustained growth.

- **Maja Yadu, Project Coordinator MIIM, Rödl & Partner**

---



# India Increases Withholding Tax Rates

---

Enterprises raising invoices for services or royalties to Indian customers know that both are subject to withholding tax. The withholding tax rate usually is 10% and applies on the gross invoice amount. As it is difficult to avail a tax credit in Germany enterprises are well advised to treat the taxes as a part of their costs for doing business with India. With effect from 1 April 2023, the tax rates have doubled to 20% under national Indian law. At the same time, the tax compliance requirements have increased.

India is one of the few countries that levy a withholding tax on fees for technical services (FTS) and it is allowed to do so under most of its double taxation avoidance agreements (DTAA) - including the DTAA Germany-India. It should also be understood that the term “technical services” carries a wide definition under Indian national law as well as the DTAA Germany-India. Both define FTS as fees paid for services which are “managerial”, “technological” or “consultancy” in nature. The place where the services are rendered (India / Germany / third country) is not relevant.

However, the DTAA Germany-India caps the maximum rate of tax to be applied to 10.0%, thereby protecting German taxpayers from the tax increase. In order to avail such treaty protection German enterprises must provide documentary proof to the payors that they are indeed German taxpayers.

Such proof is a tax residency certificate (Ansässigkeitsbescheinigung) issued by the German tax administration. For India it must be accompanied by a so called “Form 10F” which is to be filled online (some relaxation exists until 30 September 2023). Note: Proofing their tax residency is difficult for German partnerships because their income is taxed in Germany only at the level of their partners (“tax transparency”). There is a legal dispute in India as to whether the partnership or its partners or none of them will be allowed to claim treaty entitlement.

In addition, all entities (corporations / partnerships) who apply the lower 10% rate need to file a tax return in India. If the payor (the Indian customer) has already duly deposited the withholding taxes, such a tax return is a notification of the taxable transactions and taxes paid, only. The declaration serves as an information to the tax authorities.

---

**Against the current changes, German enterprises may evaluate the following:**

**Offer phase**

- *If possible, increase the price of taxable services and royalties by approx. 11% to cover the tax costs.*

**Registrations and compliance (before raising the invoices)**

- *Register your enterprise for income tax purposes (Permanent Account Number / "PAN").*
- *Obtain a certificate of residence from the German tax authorities. Submit this certificate and file Form 10F online.*
- *Communicate PAN, Residence Certificate and Form 10F to the customer.*

**Tax return filing**

- *Remember to file a tax return in India and claim tax credit in Germany*

Key takeaway: The doubling of tax rates in India does not significantly change the tax burden of German companies in India. For partnerships, however, it increases their tax risk. German enterprises with taxable income from India will need to file their tax returns.

For more details about the Form 10F online filing requirement, please refer to [MIIM Newsletter September 2022](#).

- ***Tillmann Ruppert, Partner, Rödl & Partner***

---

# Subsidies for Manufacturing in India: Part-1

## Maharashtra - Package scheme of Incentives, 2019

In our special series of articles on the subsidies provided by State Governments in India, we start with Maharashtra where the State Government has been issuing incentive schemes for manufacturing companies in the form of “Package Scheme of Incentives” since 1964. The last update in such schemes has been in 2019, when the Government unveiled the PACKAGE SCHEME OF INCENTIVES, 2019 (“PSI, 2019”). PSI, 2019 emphasizes on ensuring sustained industrial growth, improving the conducive industrial climate and providing a global competitive edge to the industries in the State. An overview of PSI, 2019 in terms of applicability, benefits, timelines etc. have been provided below.

### Who can apply for the benefits under PSI, 2019?

An entity commencing a new unit in the state of Maharashtra or undertaking expansion or diversification of an existing unit in the state of Maharashtra falling under the specified categories can apply for the benefits. The categories - Micro, Small and Medium Enterprises (‘MSME’), Large Scale Industries, Mega Projects, and Ultra Mega Projects are based on “Gross Fixed Capital Investment” and “Number of Direct Employment generated”. The quantum to qualify in a category differs from one zone to another within the state of Maharashtra. The categorization under PSI, 2019 can be further understood from the following table:

| Category         | MSME                                   |                     | Large Scale Industries                          |                                       | Mega Projects                                   |                                       | Ultra Mega Projects                             |                                       |
|------------------|--|---------------------|---|---------------------------------------|---|---------------------------------------|---|---------------------------------------|
| Zone             | Fixed Capital investment (INR Billion) | Ceiling as % of FCI | Minimum Fixed Capital investments (INR Billion) | OR Minimum Direct employment (Number) | Minimum Fixed Capital investments (INR Billion) | OR Minimum Direct employment (Number) | Minimum Fixed Capital investments (INR Billion) | OR Minimum Direct employment (Number) |
| A                | 0.5                                    | -                   | 7.5   | 1000                                  | 15  | 2000                                  | -   | -                                     |
| B                | 0.5                                    | 30%                 | 7.5   | 1000                                  | 15  | 2000                                  | -   | -                                     |
| C                | 0.5                                    | 40%                 | 5   | 750                                   | 10  | 1500                                  | -   | -                                     |
| D                | 0.5                                    | 50%                 | 2.5   | 500                                   | 7.5   | 1000                                  | -   | -                                     |
| D+               | 0.5                                    | 60%                 | 1.5   | 400                                   | 5   | 750                                   | -   | -                                     |
| Specified Areas  | 0.5                                    | 80%                 | 1   | 300                                   | 3.5   | 500                                   | -   | -                                     |
| No Industry Area | 0.5                                    | 100%                | 1   | 250                                   | 2   | 350                                   | -   | -                                     |
| Entire State     | -                                      | -                   | -   | -                                     | -   | -                                     | 40  | 4000                                  |

## What are the benefits under PSI, 2019?

As the benefits under PSI, 2019 differ for one category to another, an applicant can evaluate the benefits that are available based on the category, the applicant would fall into. Some of the major benefits under PSI, 2019 are elaborated below

- *Industrial Promotion Subsidy (“IPS”) as a percentage of gross State Goods & Services Tax (“SGST”) payable by the unit on the first sale of eligible products billed and delivered within the state of Maharashtra.*
- *Exemption from payment of Stamp Duty during the investment period for acquiring land (including assignment of lease rights and sale certificate) and for term loan purposes.*
- *Exemption from payment of Electricity Duty during the applicable eligibility period. In addition to electricity duty exemption, MSMEs would be entitled to receive power tariff subsidies as well.*
- *New MSMEs would be eligible for Interest Subsidy in respect of interest actually paid to the Banks and Public Financial Institutions (excluding unsecured loans, private loans / borrowings, loans from NBFCs etc.). The amount of interest subsidy would be calculated at an effective rate of interest, after deducting the interest subsidy receivable from any agency of the State Government or under any Government of India Schemes.*
- *Research and Development units including stand-alone facilities of eligible industrial units would be considered as part of Fixed Capital Investment (‘FCI’) for the purpose of availing fiscal incentives up to 25% of FCI (max. INR 1 billion).*

## Thrust Sectors:

- Electric vehicles (manufacturing, infrastructure and servicing)
- Industry 4.0 (artificial intelligence, 3D printing, internet of things and robotics, nanotechnology, etc.)
- Integrated data centre parks (IDCP)
- Information technology (IT) and IT-enabled services (ITeS)
- Electronic systems design and manufacturing (ESDM) and semiconductor fabrication (FAB)
- Green energy/biofuel production
- Nuclear power plant equipment manufacturing
- Agro and food processing (secondary and tertiary food processing) units
- Aerospace and defence manufacturing
- Textile machinery manufacturing
- Logistics and warehousing
- Sports and gym equipment manufacturing
- Mineral/forest-based industries
- Biotechnology and medical and diagnostic devices manufacturing



- *Apart from the above, other benefits such as subsidy on additional capital equipment acquired for Technology Up-gradation, subsidy on the expenses incurred on quality certification, subsidy on additional capital equipment acquired for cleaner production measures, etc. are also offered in PSI, 2019.*
- *Separate policies have been notified for providing incentives for investments in specified Thrust sectors where location constraints have been eliminated and investment limits have been reduced.*

### **When should an entity apply for the benefits under PSI, 2019?**

**An application under the Scheme can be submitted to the Implementing Agency by an Eligible Unit only after it has taken all the Effective Steps such as acquiring land, fixed assets, obtaining required registration etc. but not later than 31 March 2024. The application is require to be supported by documentary evidence with regard to completion of the Effective Steps.**



**An Eligibility Certificate would be issued by the Implementing agency after ascertaining that the Eligible Unit has complied with the provisions of the Scheme and has commenced its Commercial Production with in the permissible investment period of 3 Years in case of MSME units, 4 years in case of LSI units and 5 years in case of Mega and Ultra Mega Projects.**



**The incentives under the PSI, 2019 (except Stamp Duty Exemption and additional incentives for MSME) cannot be claimed unless an EC has been issued under the PSI, 2019 by the Implementing Agency and the Eligible Unit has complied with the stipulations/conditions of the EC. The period of incentives would vary from 3 years to 10 years as prescribed in the provisions of the scheme.**

## **Why should an entity evaluate subsidies for manufacturing before setting up business in India?**

Being the fastest growing major economy in the world, India is an attractive investment opportunity for the businesses around the world. Understanding this factor and with the vision of “Make in India”, the Central and State governments of India are incentivizing businesses to set up manufacturing units in India.

Apart from the above discussed PSI, 2019, the Maharashtra State government offers various sector specific schemes. Further, the Central Government of India has separate incentives under Foreign Trade Policy and has notified various sector specific policies. Furthermore, other states in India also offer state specific and sector specific schemes of incentives for promotion of manufacturing industry which we would be covering in the future. Please note that several policies are not exclusive, and an eligible entity can claim benefits under 2-3 different policies for the same manufacturing unit.

In case a business entity claims benefits under either of these schemes, it can result in substantial reduction of the capital investment over a period of time and effective management of cash flow for the business. Accordingly, with the wide range of scheme and incentives available to manufacturing units in India, which offer different and substantial benefits and incentives, it becomes relevant to analyze these schemes and policies prior to finalizing the location to set up a manufacturing unit in India.

**- Anand Khetan, Partner, Roedl & Partner**  
**- Atish Laddha, Associate Partner, Roedl & Partner**

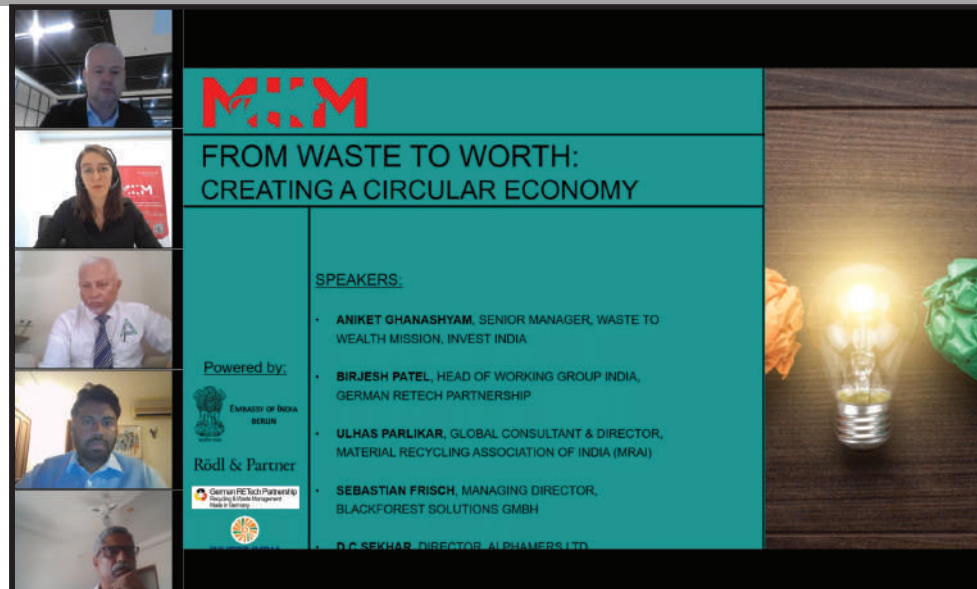
---

# Webinar-Recap:

## From Waste to Worth:

### Creating a Circular Economy

On 25th of April 2023, the Make in India Mittelstand Team conducted the webinar “From Waste to Worth: Creating a Circular Economy” with speakers from Invest India, German RETech Partnership, the Material Recycling Association of India (MRAI), BlackForest Solutions GmbH as well as AlphaMERS Ltd.



Recycling and establishing a circular economy in India is an important factor when it comes to reducing waste, conserving resources, and mitigating the negative impacts of climate change, while also creating new job opportunities and stimulating economic growth.

India, as one of the world’s fastest-growing economies with a large population and increasing demand for sustainable solutions, offers significant opportunities for German SMEs in the recycling sector in India. These include the development of innovative and sustainable technologies, the provision of technical expertise, and the establishment of partnerships with Indian companies. India, hence, is an undeniably promising market for recycling technologies and services. It is in the light of this potential that the webinar introduced the Indian recycling market and the opportunities within.

Not only have a lot of important facts and figures and the existing policies been shared in this webinar, but the webinar has also given the audience an opportunity to learn from two companies that are successfully operating in the Indian circular economy sector, namely BlackForest Solutions GmbH and AlphaMERS Ltd., a start-up.

Would you like to know more about the Indian circular economy? Do you have remaining questions? Watch the recording of the webinar [here](#), reach out to us for the slides that have been presented or simply contact the MIIM Team for more information – we’re happy to help.

# Webinar-Recap:

## Expatriate Guide für Indien: Wie aus einem Expatriate ein Experte wird

On 26th of April 2023, the Make in India Mittelstand Team conducted the webinar “Expatriate Guide für Indien: Wie aus einem Expatriate ein Experte wird” with speakers from the Indo-German Chamber of Commerce, CT Executive Search and Rödl & Partner.



The webinar was conducted in German language and provided valuable insights into the topic of employing expatriates and of the specifics of India as a work destination. The expert speakers covered, among other things, the question of how to find the right employee – and whether or not an expatriate or local workforce should be employed – tax and social security related topics, as well as current developments in the Indian market in general.

The speakers, all of which have a long-standing experience with India as a work destination, also shared advice on questions such as visa matters, contract design, payroll specifications and many others. The Q&A allowed participants to address their questions to the expert panel.

Would you like to know more about the India as a work destination for expatriates? Do you have remaining questions? Watch the recording of the webinar [here](#), reach out to us for the slides that have been presented or simply contact the MIIM Team for more information – we’re happy to help.

# Upcoming Webinars

---

## **1. Exploring Customised Financing Options for Businesses in India: GIFT City and TReDS Platform**

**31.05.23**

**11:00 – 12:00 CET (14:30 – 15:30 IST)**

Register [here](#) for the webinar.

## **2. Gateway to Growth: Exploring India's Lucrative Medical Device Industry**

**06.06.23**

**11:00 – 12:00 CET (14:30 – 15:30 IST)**

Register [here](#) for the webinar.

Please note that all webinars under the MIIM Programme are free of cost.

*Stay tuned for many more events!*

---



# About MIIM

MIIM' is a market-entry support programme for German Mittelstand and family-owned enterprises launched by Embassy of India Berlin, Germany in 2015; driven by Government of India's national programme, 'MAKE IN INDIA'.

The objective of MIIM programme is to facilitate investments by German Mittelstand and family-owned companies in India and to provide market entry related services.

The MIIM program has enrolled more than 171 companies which represent a cumulative declared investment of 1.5 bn EUR to India.

As a part of MIIM program members are exposed to a wide range of business support services under a single platform. The program is being implemented with the support of its Knowledge Partner – Rödl & Partner, Facilitation Partners including Central and State Government Ministries in India and also key industry partners who can support the companies in various aspects of market entry into India. Offered services includes Strategy consulting, M&A, operational market entry support, tax & legal support, financial services and other services





MAKE IN INDIA MITTELSTAND!

Rödl & Partner - Exclusive Knowledge Partner

# Investment support for German Mittelstand Enterprises

## MIIM Team

**MRS. RACHITA BHANDARI**

*Head MIIM Project Team*

*Deputy Chief of Mission*

*Embassy of India, Berlin*

**MR. SAKETA MUSINIPALLY**

*Deputy Head - MIIM Project Team*

*First Secretary*

*Embassy of India, Berlin*

**MR. MARTIN WOERLEIN**

*MIIM Project Team*

*Head of India Practice*

*Rödl & Partner*

**MIIM Hotline:**

**Email: [miim@indianembassy.de](mailto:miim@indianembassy.de) | Phone: +49 30-25795514 | Fax: +49-30-25795520**

## MIIM Team

 [www.makeinindiamittelstand.de](http://www.makeinindiamittelstand.de)

 [www.facebook.com/IndiaInGermany](http://www.facebook.com/IndiaInGermany)

 [www.twitter.com/eoiberlin](http://www.twitter.com/eoiberlin)

 [www.linkedin.com/in/miim-make-in-india-mittelstand](http://www.linkedin.com/in/miim-make-in-india-mittelstand)

**This Newsletter offers non-binding information and is intended for general information purposes only. It is not intended as legal, tax or business administration advice and cannot be relied upon as individual advice. When compiling this Newsletter and the information included herein, Rödl & Partner used every endeavour to observe due diligence as best as possible, nevertheless Rödl & Partner cannot be held liable for the correctness, up-to-date content or completeness of the presented information. The information included herein does not relate to any specific case of an individual or a legal entity, therefore, it is advised that professional advice on individual cases is always sought. Rödl & Partner assumes no responsibility for decisions made by the reader based on this Newsletter. Should you have further questions please contact Rödl & Partner contact persons.**

**The entire content of the newsletter and the technical information on the Internet is the intellectual property of Rödl & Partner and is protected by copyright. Users may load, print or copy the contents of the newsletter only for their own use. Any changes, duplication, distribution or public reproduction of the content or parts thereof, whether online or offline, require the prior written consent of Rödl & Partner**

**Herausgeber/Editors:  
Rödl & Partner, Embassy of India**

**Rödl Rechtsanwaltsgesellschaft  
Steuerberatungsgesellschaft  
Äußere Sulzbacher Straße 100  
90491 Nürnberg  
Deutschland/Germany  
www.roedl.com**

**Embassy of India  
Tiergartenstraße 17  
10785 Berlin  
Deutschland/Germany  
<https://indianembassyberlin.gov.in/>**

**Verantwortlich für Inhalt, Layout, Satz  
/ Responsible for content and layout**

**MAJA YADU  
maja.yadu@roedl.com  
Roedl & Partner Consulting Pvt Ltd.  
Lunkad Sky Cruise  
Wing-B, Survey No 210/3,  
Viman Nagar  
Pune 411014  
India**