

Gujarat IT / ITeS Policy (2022-2027)

An Overview

February 2023

Background

Background

- ❖ On 8 February 2022, the Government of Gujarat unveiled its new “IT / ITeS Policy 2022-27” (‘Policy’), replacing the old IT / ITeS Policy 2016-2021.
- ❖ The Policy intends to transform Gujarat’s IT landscape by acting as a catalyst in the growth of the IT/ITeS ecosystem, enabling to create world-class IT infrastructure, attracting highly skilled IT human resources, and promoting innovation in emerging technologies.
- ❖ The Policy offers both capital (CAPEX) and operational (OPEX) support to IT firms making investments in Gujarat along with special incentives.
- ❖ IT / ITeS policy also provides incentives for Skill Upgradation, setting-up Data Center, Cable Landing Stations for Cloud Ecosystem, R&D Center, development of IT City / Township.
- ❖ **Policy is valid till 31 March 2027 and benefits are available to the eligible units set up on or before 31 March 2027 and commenced operations on or before 31 March 2028.**



Summary of Key Incentives

CAPEX

Upto 25% of Eligible Capital Expenditure

OPEX

Upto 15% of Eligible Annual Operational Expenditure

- Lease rental expenses
- Bandwidth expenditure
- Cloud rental expenditure
- Power tariff expenditure
- Patent expenditure

Special Incentives

- Employment Generation Incentive – upto 50% of one month CTC
- Interest Assistance – upto 7% interest on Term loan
- Reimbursement of Employer's contribution EPF
- Reimbursement of Electricity Duty

Other Incentives

- Reimbursement of Monthly rental payment to co-working IT office spaces
- Skill enhancement/development
- R&D Support
- Support for Cable Landing Station and Data Centers
- IT City/Township

What is IT / ITeS?

Definition of IT / ITeS Industry (1/2)



IT / ITeS industry

- ❖ Development, Production and Services related to:
 - IT Products;
 - IT Software;
 - IT Services



IT Software

- ❖ instructions, data, sound image, including source code and objective recorded in machine readable form; and
- ❖ capable of being manipulated or providing interactivity to use through automatic data processing machines

Definition of IT / ITeS Industry (2/2)

ITeS implies services rendered through application of IT and includes following

- ❖ Call Centers
- ❖ Medical Transcriptions
- ❖ Back Office Operations / Business / Knowledge
- ❖ Process Outsourcing (BPO / KPO)
- ❖ Web / Digital Content Development / ERP /
- ❖ Software and Application Development
- ❖ GIS Enabled Service
- ❖ IT Support Centers
- ❖ Website Services
- ❖ Revenue Accounting and Other Ancillary operations
- ❖ Financial and Accounting Processing

- ❖ HR and Payroll processing
- ❖ Insurance claim processing
- ❖ Bioinformatics
- ❖ IT enabled Banking
- ❖ Non-banking services including insurance, pension, Asset Management and market related services
- ❖ Depository and Security registration and dematerialization services
- ❖ Emerging Technologies such as Cyber Security Big Data, Artificial Intelligence, Blockchain, Machine Learning etc.

It does not include units engaged in manufacturing of Hardware related to IT, Telecom, etc.

What is the eligibility criteria?

Eligibility

Eligible Unit:

- ❖ **‘New Unit’** having a minimum of 10 employees on its payroll; OR
- ❖ **‘Expansion Unit’** having a minimum of 15 employees on its payroll after expansion

Particulars	Expansion Unit (i.e., expansion of existing Unit)	New Unit
Eligible Legal structure	Companies, LLP, Partnership Firm, Proprietorship Firm	Companies, LLP, Partnership Firm, Proprietorship Firm
Eligibility conditions	An existing unit in Gujarat undertaking expansion such that the total headcount of employees on its payroll, increases by • 50% the existing headcount OR • 1,000 employees, whichever is lower	❖ Setting-up or commenced the commercial operations in Gujarat during the operative period of the Policy ❖ An existing unit operating outside Gujarat commences commercial operation in Gujarat by carrying out new investment in the IT/ITeS industry
Frequency of availing benefit	Only once during the operative period of the policy	Twice, i.e. (i) at the time of set-up; and (ii) At the time of undertaking expansion

**What are the Incentives for
eligible units?**

Incentives for Eligible Unit

Investment Category	Capital Investment (CAPEX)	Operating Expenses (OPEX)
Category I: Gross Fixed Capital Investment ('GFCI') is less than INR 250 Crores	Upto 25% of Eligible Capital Expenditure subject to maximum of INR 50 crores	Upto 15% of Eligible Annual Operational Expenditure subject to maximum of INR 20 crores per year for 5 years
Category II: - GFCI is more than or equal to INR 250 crores; OR - Project generating direct IT employment for more than 2000 employees	Upto 25% of Eligible Capital Expenditure subject to maximum of INR 200 Crores	Upto 15% of Eligible Annual Operational Expenditure subject to maximum of INR 40 crores per year for 5 years

Key Points

- ❖ **Gross Fixed Capital Investment ('GFCI')** means the expenditure made in
 - construction of the building,
 - computers,
 - software,
 - networking related hardware, and
 - other related fixed assets
 excluding the cost of land and cost of purchase of ready-to-use building

Eligibility Period

Type of Unit	Capital Investment (CAPEX)	Operating Expenses (OPEX)
New Units	From: 1 st investment invoice OR 7 February 2022, whichever is later Upto: <u>2 years</u> from the start of commercial operations	From: 'Month of Eligibility' or In-principle Approval, whichever is later Upto: 5 years
Expansion Units	From: 1 st investment invoice from the month of declaration of expansion OR 7 February 2022, whichever is later Upto: <u>2 years</u> from the month of achievement of 'Eligible Employee Count'	From: 'Month of Eligibility' or In-principle Approval, whichever is later Upto: 5 years

Key Points

- ❖ **'Month of Eligibility'** means the month when a Unit achieves an 'Eligible Employee Count' or starts commercial operation, whichever is later
- ❖ **'Eligible Employee Count'** means the following:
 - A minimum 10 employees on its payroll in the case of a **New Unit**.
 - A minimum 50% additional employee on pay-roll above 'Base Employee Count' or increase of employee count by 1,000 employees, whichever is lower, - for **Expansion Unit** i.e., Eligible Employee Count = 'Base Employee Count' + 50% of 'Base Employee Count' or 1000, whichever is lower

**What CAPEX and OPEX are
eligible for incentives?**

Eligible Capital Investments (CAPEX)

- ❖ **Investments / Expenditure in capital infrastructure i.e., construction of the building, computers, software, networking related hardware and other related fixed assets**
 - Maximum eligible capital investment for construction of building is capped as per the limited prescribed;
 - Expenditure incurred on the purchase of old/ refurbished/ second-hand items will not be eligible;
 - Expenditure incurred on repairing/ refurbishment of any equipment/ machinery will not be considered eligible;
 - Other related fixed assets including furniture and fixtures, HVAC equipment, other machinery etc. shall be eligible, subject to conditions.
- ❖ **Stamp Duty and Registration Fees for lease / sale / transfer of land and office space**
- ❖ **Expenditure incurred on the purchase of equipment for setting up of captive renewable energy plant**



Eligible Operational Expenses (OPEX)

Sr. No.	Nature of expenses	Incentives
1.	Lease rental expenses (paid to third party)	- Actual lease rental expenses; OR - Monthly rental of INR 50 per sq. ft. of built-up area; whichever is <u>less</u>
2.	Bandwidth expenditure	Actual bandwidth expenditure incurred for services of licensed ISP
3.	Cloud rental expenditure	Actual cloud rental expenditure incurred for services of cloud service provider
4.	Power tariff expenditure	Actual expenditure incurred on energy units consumed
5.	Patent expenditure	Patent expenditure incurred on every successful patent subject to a limit of INR 5 Lakhs per patent up to 10 patents per year



Special Incentives

Special Incentives (1/3)

Employment Generation Incentive

Incentive Category	Criteria for the Incentive	Incentives	Incentive Period
Employment Generation Incentive ('EGI')	❖ One-time incentive for every new employment / unique job created in Gujarat and retaining for a minimum period of 1 year ❖ Employee must be local ❖ EGI assistance is tied to each individual IT employee and can only be claimed once for each individual IT employee in their lifetime. ❖ Benefit available for employees availing Work From Home ('WFH'), when such employees operate from within Gujarat	❖ 50% of one month's CTC ❖ Maximum benefit of INR 50,000 for male employee; and INR 60,000 for female employee	❖ 5 years starting from date of incorporation (for New Unit) / date of declaration of expansion (for Expansion Unit); OR ❖ Date of in-principle approval whichever is later up to 31.03.2027

Key Points

- ❖ EGI assistance to be available only if:
 - Individual is working outside Gujarat and is recruited by Gujarat based IT/ITeS unit (i.e., first IT/ITeS job in Gujarat of existing IT/ITeS employee);
 - Individual working inside Gujarat and is recruited for the first time in IT/ITeS sector by IT/ITeS unit;
 - Individual is fresh graduate and is hired by IT/ITeS unit.
- ❖ Replacement hiring not to be considered for claim under EGI

Special Incentives (2/3)

Interest Assistance

Incentive Category	Criteria for the Incentive	Incentives	Incentive Period
Interest Assistance	❖ Reimbursement of interest on Term Loan availed from Banks approved by RBI ❖ Only Interest repayments made to Banks approved by RBI (excluding NBFC)	❖ 7% of term loan or actual Interest paid, whichever is less ❖ Maximum up to 1 crores per annum	❖ 5 years starting from the actual interest repayment

Key Points

- ❖ Eligible Unit shall be required to bear a minimum of 2% interest. For example,
 - If interest payment is 9% - Incentive available will be 7%
 - If interest payable is 6.5%- Incentive will only be upto 4.5%, and 2% to be borne by the unit
- ❖ No assistance available for penalty interest or any other bank charges
- ❖ Term Loan shall be sanctioned
 - Within 2 years of commencement of operation of a New Unit;
 - Within 1 year from the month of declaration of expansion in case of Expansion Unit

Special Incentives (3/3)

Incentives for contribution to EPF and Electricity Duty

Incentive Category	Criteria for the Incentive	Incentives	Incentive Period
Atmanirbhar Gujarat Rojgar Sahay ('AGRS') <i>i.e. Employer's contribution provident fund</i>	❖ Employer's contribution to Employee Provident Fund ('EPF') shall be reimbursed for employees working in the offices situated within Gujarat ❖ For Expansion Unit, reimbursement available on incremental employees ❖ Benefit available for employees availing WFH, when such employees operate from within Gujarat	❖ Female employees - 100% of contribution to EPF ❖ Male employees - 75% of contribution to EPF ❖ Maximum ceiling = 12% * (Basic salary + D.A. + Retaining Allowance)	❖ 5 years from the month of eligibility; OR ❖ Date of in-principle approval whichever is later
Electricity Duty Incentive ('EDI')	❖ Payment of electricity duty to Gujarat Government	❖ Entire amount paid towards electricity duty	



Other Incentives

Other incentives (1/4)

Facilitating Infrastructure

Incentive Category	Criteria for the Incentive	Incentives
Facilitating Infrastructure (i.e., Monthly rental payment to co-working IT office spaces)	❖ Government to support IT ecosystem by development of ready to occupy spaces by implementing the following: • Government-facilitated model; • Empanelment model ❖ Eligible unit opting to start their operations in co-working IT office spaces shall be eligible for this benefit	❖ For first 2 years: 50% of monthly rentals <u>subject a maximum of INR 10,000 per seat per month</u> ❖ Form 3rd year till 5th year: 25% of monthly rentals <u>subject a maximum of INR 5,000 per seat per month</u>

Key Points

- ❖ Any eligible unit availing aforesaid benefits shall not be eligible for any other fiscal incentive under the Policy. However, it shall be eligible for assistance under the EGI and AGRS
- ❖ In the event that any IT/ITeS unit seeks to opt out of the co-working space in between the 5 years, they shall be eligible to obtain OPEX incentives along with EGI and AGRS for the remaining period of 5 years

Other incentives (2/4)

Skill enhancement and R&D support

Incentive Category	Criteria for the Incentive	Incentives
Skill enhancement /development	❖ Incentive available upon successful completion of globally recognized courses in Information & Communication Technology ❖ Maximum of 2 courses/certifications per financial year up to a total of 5 courses during the operative period of the Policy ❖ An individual who is a graduate from Govt. recognized educational Institution can apply on the Portal before the beginning of respective course ❖ The course completion certificate must be issued on or before 31 March 2027 ❖ Subsequent recertification of any approved courses will not be eligible for availing any incentive benefit	❖ 50% of the course fees OR INR 50,000 whichever is lower ❖ This incentive shall be directly paid to the individual beneficiary
Research & Development (R&D) support	❖ One-time CAPEX support for the purchase of equipment for setting up of R&D Center/laboratory ❖ R&D institute should be acknowledged by Council of Scientific & Industrial Research (CSIR) / Department of Scientific and Industrial Research (DSIR) for conducting research into the desired field ❖ R&D institute must obtain in-principle approval before undertaking any expenditure on purchase of equipment for setting up of R&D Center/laboratory	❖ 60% of the cost for machinery and equipment, hardware and software required for research for the R&D activities ❖ subject to a maximum of INR 5 crores

Other incentives (3/4)

Cable Landing Station & Data Centers

Incentive Category	Incentives criteria and benefits	Incentive Period
Facilitating cloud ecosystem <i>i.e., support for Cable Landing Station (CLS)</i>	❖ CAPEX Support: - One-time CAPEX support of up to 25% of the eligible CAPEX expenditure subject to a maximum ceiling of INR 20 crores. - Expenditure incurred on civil works for construction of building of CLS along with network hardware (excluding expenditure towards cable laying and network cable) shall be eligible ❖ OPEX Support: - Power tariff subsidy of INR 1/unit for a period of 5 years	CAPEX Support: ❖ From: 1st investment invoice OR 7 February 2022, whichever is later ❖ Upto: 2 years from the start of commercial operations (new unit) OR from the month of achievement of 'Eligible Employee Count' (expansion unit)
Data Centers	❖ Incentives will be provided for the setting up of greenfield Tier 3 or above Data Centers in Gujarat with a minimum built-up area of 4,000 sq. ft. and a minimum of 150 racks. ❖ CAPEX Support: - One-time CAPEX support of up to 25% of the eligible CAPEX expenditure subject to a maximum ceiling of INR 150 crores. ❖ OPEX Support: - Power tariff subsidy of INR 1/unit for a period of 5 years	OPEX Support: ❖ 5 years from the 'month of eligibility'; OR ❖ Date of in-principle approval whichever is later

Other incentives (4/4)

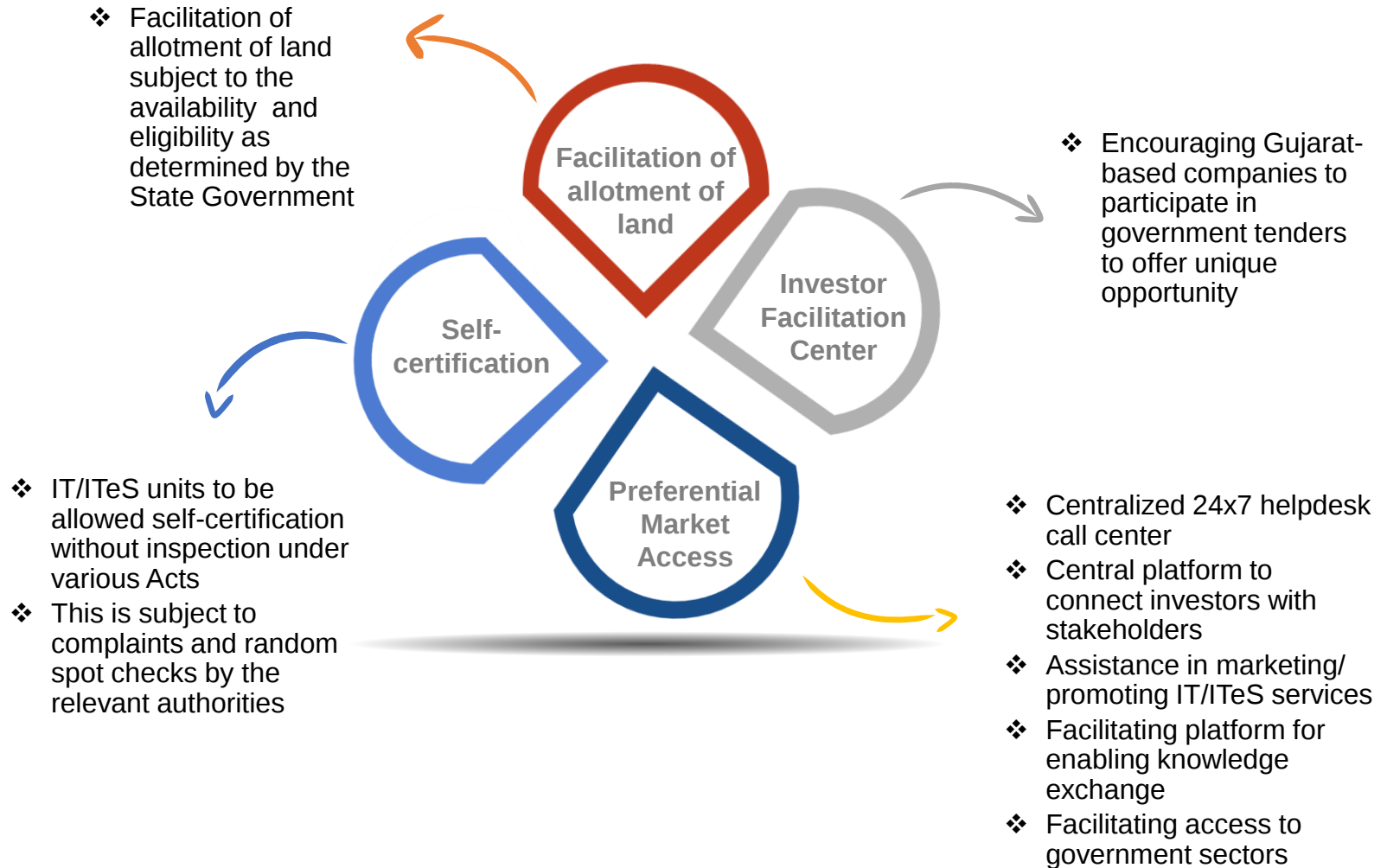
IT City/Township

Incentive Category	Criteria for the Incentive	Incentives
IT City/Township	❖ Development of state-of-the-art infrastructure in Gujarat by developer or consortium of developers to support direct IT/ITeS employment by way of dedicated IT office space in the form of IT parks, co-working spaces, etc. and promote the 'walk-to-work' culture. ❖ It should be spread over a minimum area of 10 acres to 50 acres for IT Township and more than 50 acres for IT City ❖ IT City/Township shall be eligible for fiscal incentives only if minimum 50% of the built-up area is developed as IT office space	Fiscal Incentives: ❖ One-time CAPEX support of 25% of eligible expense subject to max. limit of INR 100 crores. Non-Fiscal Incentives: ❖ Relaxation of zoning laws and land use laws ❖ Assistance in obtaining necessary statutory approvals ❖ Relaxation in Floor Space Index ('FSI') norms for IT office space ❖ Utilities / infrastructure support upto the doorstep

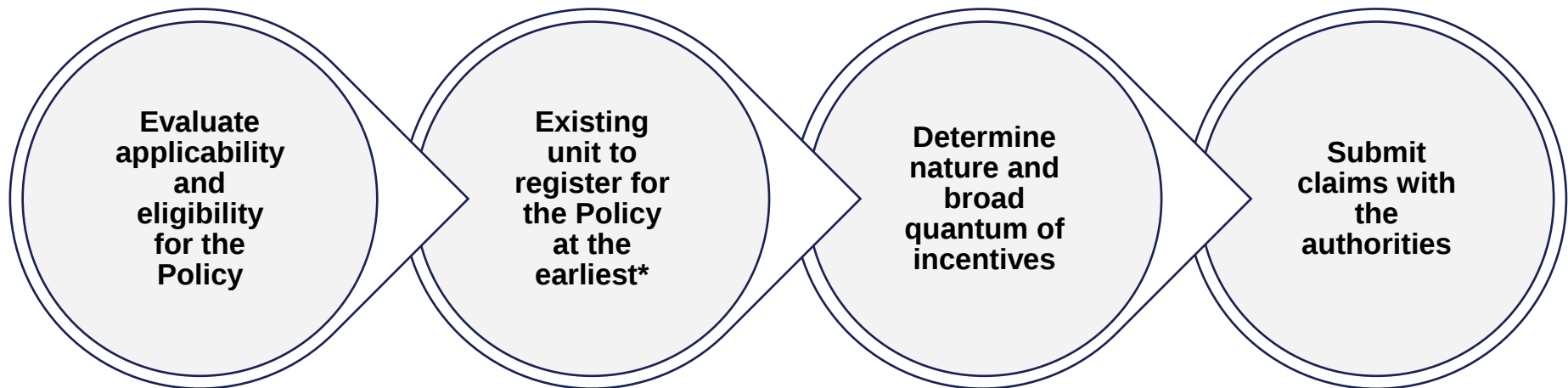


Other Non-Fiscal Incentives

Other Non-Fiscal Incentives



Next Steps...





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