



GOVERNMENT OF KERALA

Abstract

Information Technology Department – I.T. Industry Incentive Policy declared by Government – Subsidy Manual – approved - Orders issued.

INFORMATION TECHNOLOGY (A) DEPARTMENT

G.O. (MS) No. 14/2002/ITD.

Dated, Thiruvananthapuram, 04.10.2002

Read:- 1. G.O.(Ms) No. 25/2001/ITD, Dated 01.12.2001.

2. Letter dated 18th July 2002 from the Director, Kerala State IT Mission,

ORDER

The new IT Industry Policy announced in December 2001 had outlined various subsidies and incentives to the new eligible IT units in the State. Government are pleased to approve the Subsidy Manual as appended, based on the new IT Industry Policy 2001. The procedure mentioned in the Subsidy Manual shall be followed with effect from 01.11.2002. The following guidelines are also issued with regard to the disbursement of subsidies to IT Units, whose applications are already pending with various authorities.

1. The subsidy applications of IT units which commenced operations before 01-12-2001, pending with KSIDC, KFC, Technopark and DIC may be processed by the agencies concerned in accordance with the provisions of the existing State Level Subsidy Committee; and the eligible subsidy entitlement may be communicated to IT Department before 01.12.2002, after obtaining the clearance of the existing State Level Subsidy Committee. The amount will be disbursed by Kerala State IT Mission.
2. The subsidy applications of IT units, which commenced operations between 01-12-2001 and 01-11-2002, pending with KSIDC, KFC and DIC, may be processed as per the provisions of the Subsidy Manual appended. The details of the amount found eligible to be disbursed shall be communicated by the agencies concerned to Kerala State IT Mission, before 01.01.2003 after obtaining the clearance of the Centre State Level Subsidy Committee.
3. After 01-11-2002, applications for subsidy in respect of IT units are to be entertained only from companies that have been registered with the Investment Promotion and Management Cell (IPMC) of Kerala State IT Mission and the procedure for receipt and processing of applications, shall be as specified in the Manual appended. Disbursement of subsidy shall be effected as per clause C (6) of the appended Subsidy Manual. Applications for Subsidy shall not be entertained by agencies other than Kerala State IT Mission.
4. Director, Kerala State IT Mission shall immediately empanel region wise, Chartered Accountant firms for verification of subsidy claims as stated in the Manual.

By Order of the Governor

ARUNA SUNDARAJAN
SECRETARY TO GOVERNMENT

To :

The Director, Industries & Commerce, Vikas Bhavan, Thiruvananthapuram.
The Accountant Generaln (A&E)/(Audit), Kerala, Thiruvananthapuram.
The Managing Director, KSIDC, Vellayambalam.
The Managing Director, KFC, Vellayambalam.
All General Managers of District Industries Centres.
The Managing Director, KINFRA, Vellayambalam.
The Chief Executive Officer, Technopark, Thiruvananthapuram.
The Chief Executives of KINFRA IT Parks.
The General Manager, KSIDC Growth Centres.

Copy to:

CA to Principal Secretary (Industries)
CA to Secretary I (Industries)
CA to Secretary II (Industries)
CA to Secretary (IT)
CA to Principal Secretary (Finance)
CA to Secretary (Finance- Expenditure)

FORWARDED/BY ORDER

SECTION OFFICER

MANUAL FOR KERALA IT INDUSTRY INCENTIVE SCHEME 2001-2005

Introduction:

- a. **This scheme is operative effective 1st December , 2001 and shall be the basis for administering the Kerala Industry Incentive Scheme notified in GO(MS) 25/2001/ITD, dated 01.12.2001.**

- b. **Scheme Administration- Role Definitions:**
 1. **IPMC:** Investment Promotion and Management Cell (IPMC) shall be constituted under the Kerala IT Mission, headed by the Director of the IT Mission, for a role similar to that performed by DIC, for industries in general. The IPMC in addition to registration and monitoring of IT Units situated in the State of Kerala shall also administer the incentive schemes for IT units announced by the Government from time to time.
 2. **Administrator:** Director, Kerala IT Mission is designated as the 'administrator' of the scheme.
 3. **Coordinating Officer (CO):** Under the IT incentive scheme, GM DIC; MD, KSIDC and Chief Executives/Operating officers of IT Parks/ KINFRA parks/KSIDC Growth centre shall function as the 'Coordinating officer' (CO). Chief Executives/operating officers of IT Parks / KSIDC growth centers shall have the jurisdiction over units located within the IT park/growth centers and GM DIC shall have the jurisdiction over the SSI units located outside the parks. MD, KSIDC shall have jurisdiction over large and medium units located outside the IT Parks. For units financed by KSIDC the CO shall be MD, KSIDC and for units financed by KFC, the CO shall be MD, KFC.
 4. **Consultant:** A Chartered Accountancy firm of repute and with proven experience in the IT sector, one each in the three regions of the state (Trivandrum, Kochi and Kozhikode) shall be empanelled for an initial period of one year as consultants. The contract shall be renewable subject to satisfactory performance. The consultants shall primarily ensure the accuracy of data provided and assure integrity of certification. It shall be the discretion of the CO to decide whether the consultant needs to be engaged or not for State Investment Subsidy, but the consultant would be engaged invariably in the case of employment generation incentive schemes. (ie. for 2,3&4 of the IT industry employment promotion scheme). The consultant shall also be the authority to certify whether the applicant company is an ITES/SOFTWARE/HARDWARE company after verifying the nature of operations by scrutinizing the books of accounts and the nature of transactions of the applicant company. All applications under the Special investment promotion package shall be necessarily vetted by the consultant (See special investment promotion package under Incentives for Kerala Based IT industries in the Kerala IT Industry incentive scheme appended to the IT Policy).

The consultant's service charges for this purpose shall be as fixed by the State Level Committee from time to time. The service charge shall be to the account of the Applicant Unit, and the scheme administrator shall pay the consultant by deducting it from the incentive amount to be disbursed. The consultant shall assist the IT Mission in administering the incentive schemes including maintenance of records centrally.

c. Operation of the scheme:

1. **Registration:** All IT units (both EOU and non-EOU) shall register with the IPMC. The IPMC will provide a simple web based performa through which the units can register with the IPMC. Existing IT Units in the State that have earlier registered with designated State level authorities such as the DIC shall reregister with the IPMC within 31/12/2002. The (unique) registration number assigned by the IPMC shall be quoted in all correspondence/applications subsequent to allotment. The registration no. assigned by IPMC will have the status of provisional registration given by Industries Dept. of Government of Kerala. The permanent registration for the IT Unit will be issued by the corresponding DIC of the district where the IT Unit is located, on application in the prescribed format. (The permanent registration is optional)
2. **Declaration:** Companies are to file a self-declaration as to whether they are IT Software/IT products/ITES companies and whether they are applying for the employment incentive.
3. **Application:** Application of incentive scheme shall be filled up by the applicant units and submitted to the CO.
4. **Verification Step 1:** CO shall forward the application for incentive received from the firm to the consultant within two days of receipt of the application, if the application requires verification by the consultant as per clause b(4) above.
5. **Verification Step 2:** CO shall verify the application based on site visit and perusal of relevant documents. The consultant's report shall be checked and countersigned by the CO, under whose jurisdiction the unit falls. The verifying and countersigning authorities as defined above shall be answerable to audit.
6. **Sanction:** The verified and countersigned application shall be sent to the administrator by the CO. A State Level Committee consisting of the -
Secretary-IT, the Secretary - Finance Expenditure, Director, Kerala State IT Mission, DIC and MD, KSIDC shall review claims that exceed Rs.10 lakhs under any one single claim. For claims less than Rs.10 lakhs, the administrator shall be authorized to process the claim

without referring it to the State Level Committee. The units to which the subsidy is allotted would be informed from KSITM.

7. **Disbursement:** The disbursement may be effected from KSITM through the Commercial Bank/Financial Institution that has funded the Applicant Unit, in response to a formal request by the Applicant unit.
- d. **Response time:** The response standard for administration of the Standard Investment Subsidy (SIS), that shall be attempted to be achieved as far as possible, is as under:
1. Handing over of initial application by CO to consultant shall be within two days of receipt of application from Unit.
 2. Verification of application for completeness of information and verification at site by consultant, within two weeks of receipt of application.
 3. Submission of report by consultant to CO latest within three weeks of receipt of application by consultant.
 4. Forwarding of application to the State Level Committee after verification by countersigning authority (CO) within one week of receipt of report from consultant.
 5. Final decision to be effected within two weeks of receipt of application from verifying and countersigning authority, as far as possible, and in no case later than four weeks from receipt of application.

The response levels shall be tracked by the Director, Kerala State IT Mission with every application being assigned a unique tracking number. Each of the agencies involved in the process shall maintain a log book to track each application received. Each agency shall issue a receipt when the application reaches them.

In case, if there is a delay at any stage of processing of the incentive application due to either incomplete or inaccurate information provided, the response standard for that stage shall not be applied. The consultant shall be responsible to ensure that only applications complete in all respects are forwarded to the verifying and countersigning authorities. The Administrator as well as the Applicant Unit shall be informed in writing of the delay by the consultant, with the suggested corrective action.

e. Appeals: The State Level Committee shall dispose off appeals, if any received in the prescribed format (attached as Annexure III), against recommendations made by the consultant and countersigning authority. The State Level Committee is also competent to issue clarifications wherever necessary in respect of any of the incentive schemes.

Appeals shall be sent to the Member Secretary of the State Level Committee (Director, Kerala State IT Mission), who shall place the matter before the committee with additional inputs and recommendations of

the consultant and the countersigning authority. The appeal shall be disposed off as far as possible within six weeks from date of receipt of appeal. The decision of the committee shall be final and binding upon the Applicant.

f. Other Conditions:

- 1) The IT Department reserves the right to adjust the amount sanctioned as incentive to an Applicant Unit against their dues if any to Government.
- 2) The Units financed by the KVIC/KVIB shall not be eligible for standard investment subsidy as provided for under this incentive scheme.
- 3) In case of proprietary / partnership firms, if the proprietor / partners has / have 60% or more profit share in any other firm in the IT Industry that has already claimed / applied for SIS under separate application, then such multiple applications shall not be permitted. A Certificate in this regard should be submitted by the Applicant unit.
- 4) In case of companies, if the company has minimum 51% shareholding in any other company or controlling interest in a proprietary/partnership firm, in the IT Industry that has already claimed/applied for SIS under separate application, then such multiple applications shall not be permitted. A Board resolution in this regard should be submitted by the Applicant unit.
- 5) The Unit shall offer a Bond of Indemnity along with personal guarantees given by the Directors of the Company to the Government of Kerala to the extent of Incentive/SIS received. The guarantee shall be invoked in the following cases whereby the incentive received shall be returned to the Government with the interest @ 14% p.a. if:
 - i. The Unit ceases operations within a period of **three years** of receiving the Incentives/SIS.
 - ii. There exist reasonable grounds to believe that the Applicant Unit has indulged in misrepresentation, forgery, or deception.
- b. Further, all amounts due to Government shall, in case of default, be recoverable as if they are arrears of land revenue under the provisions of the Revenue Recovery Act. Sufficient opportunity to show cause shall however, be granted to the defaulting Unit before a demand is raised against it.

Admissible incentive elements

The items eligible under Fixed Capital Investment shall be as defined in the Kerala Industry Incentive Scheme notified under G.O.(MS) 25/2001/ITD dated 01.12.2001. The principal elements of Fixed Capital Investment such as land, building plant and machinery, electrification costs, testing equipment, generator and pollution control equipments shall be admitted to investment subsidy on the following basis:

Land-

- **Land or land and building allotted in Government developed plots**

In the case of land/land and building allotted in hire purchase/lease/outright sale in Government developed plots (inclusive of all IT Parks) /Small Industries Development Corporation/District Mini Industrial Estate Co-operative Societies- owned Industrial Estate/Development Area/Development Plot/Mini Industrial Estate; the hire purchase/lease value as declared by the Co-coordinating Officer (CO) shall be taken as value of the land or land and building for the purpose of investment subsidy, subjects to upper limits mentioned below. The CO shall be empowered to issue possession certificate, valuation certificate etc for this purpose.

- **Other Land/land and building**

Land in the name of the Unit, evidenced by title deeds and possession certificate from the village officer of the village where the land is situated and considered essential to the running of the Unit shall be admitted to investment subsidy. A valuation certificate from the Tahsildar of the taluk where the land is situated for the purposes of financing the Units shall be produced in all cases in addition to the copy of the purchase deed. The lowest of purchase costs (including stamp duty and registration charges) as per the deed and cost as per Tahsildhar's certificate or cost admitted by the financial institution shall be taken as the value of land. From this amount the corresponding amount for the land required for the Unit as assessed by the verification authority shall be considered as the investment in land for the purpose. In case of land as a gift or bequest, only the actual cash out go from the Unit will be considered for investment subsidy. Land development costs such as filling charges and leveling shall also be eligible for investment subsidy, if certified by a Chartered Engineer/ Asst. Executive engineer of PWD.

The subsidy element, with respect to investment in land shall be restricted to 0.30 acres of land (30cents) for every 100 people employed by the Unit and any land in excess of this ratio shall not qualify for SIS. Further, the Subsidy for Land shall not exceed 25% of the eligible Standard Investment Subsidy (SIS).

Building:

Building actually required and utilized by the IT Industry Unit and situated in free hold land in the name of the Unit or land on registered hire purchase or on lease to the Unit for at least twenty years shall be eligible for investment subsidy subject to a cost ceiling of Rs.5000/- per square meter of plinth area. If the building is purchased or taken on lease for 10 years or more from state owned undertakings, TECHNOPARK or Government developed plots etc., the actual amount paid by the Unit for the building to such undertakings towards the cost of building shall be taken after deducting the proportionate amount for the area that does not essentially relate to production. A Chartered Engineer/Asst. Executive engineer of PWD shall certify the plan, estimate and certificate. Compound walls, official showrooms, quarters, watch house, guest house or any other civil structure not essentially related to production process shall not be eligible for investment subsidy. However civil construction for pump house, D.G. set room, canteen etc., can be considered.

Fixed Capital Investment in case of building shall include Old Buildings (having previous occupant) purchased for use by the IT Unit provided that the building had not been included in eligible FCI as part of any other incentive application by the Applicant Unit or any other Unit to Government earlier. Further, the expenditure on repairs, if any, to restore and refurbish the old building shall be eligible for inclusion as FCI. The eligible Investment Subsidy on account of building shall be restricted to 25% of total subsidy claim.

Plant and Machinery, Hardware and software:

All brand new identifiable items of plant, and machinery including tools, jigs and moulds where applicable shall be eligible for investment subsidy. All claims in this regard shall be supported by a certificate by the Applicant Unit's Chartered Accountant with regard to cost of materials and fabrication charges. Second hand imported machinery shall be eligible for investment subsidy provided the claim is supported with clear import documents and an affidavit that subsidy has not been availed of from Central Government or any State or Union Territories for these items of machinery. D.G. set shall also be considered as part of machinery for the purpose of computing the Investment for subsidy. Assets on which subsidy is claimed shall not be transferred/sold for a minimum period of three years from their date(s) of purchase.

All test equipment will be eligible for investment subsidy. Claim on this account can be considered independently without having to be a part of expansion, diversification and modernization subject however to the per unit investment subsidy ceiling.

Own your electric connection (OYEC) costs to KSEB, transformer costs and costs of Industrial wiring including that for D.G. set will be eligible for investment subsidy. These costs should be evidenced by invoices, cash receipts, and where industrial wiring costs and electrification exceeds Rs.50,000/- by a certificate of valuation from a Chartered Engineer/Asst. Executive engineer of PWD.

Licensed software including operating system and bundled software, furniture, interior, UPS, Photocopiers, bandwidth tapping equipment other than recurring costs, office equipment such as EPABX,OHP, Digital Projector, and other specialized electronic equipment related to operation of the IT Unit, air conditioning equipment, capital investment on common transport facilities other than personal transport vehicles shall be considered as 'plant and machinery' for IT industry and included in the scope of fixed capital investment, subject however to the condition that these items are purchased brand new.

For up gradation of Plant and Machinery due to technological obsolescence, if any, asset is sold or exchanged for a similar but better asset, then such Unit shall not be eligible to claim subsidy on such exchanged asset to the extent of value of the old asset exchanged or sold.

Lease hold assets shall not be included in the scope of FCI unless they are leased for a period of 5 years or more, under a 'financial lease' whereby the ownership of the asset passes to the lessee at the end of the

leasing period. Assets that are under 'operating lease' are excluded from FCI. In case Government or its agencies or other statutory boards have provided any of the assets at concessional terms, such assets shall not be included in the scope and definition of fixed capital investment.

a. Companies that set up operation after the effective date of this incentive scheme:

- i. Eligible Units must apply using format as per Annexure I for the standard investment subsidy (SIS) of upto 20% of fixed capital investment within 12 months of commencement of operation or completion of expansion/modernization/diversification. The scheme administrator shall however be competent to condone delays in individual cases on merit.
- ii. For the employment generation component of the incentive scheme, Units must intimate the scheme administrator on each occasion when it reaches the employment level of 25/50/125 for an IT products' company, or employment level of 50/100/250 for an IT software company (excluding ITES), or employment level of 100/200/500 for an ITES company. In all cases, the intimation should as per format in Annexure IIA. When the employment level for which incentive is sought is sustained for a minimum period of 12 months (in the first 24 months of operation OR as stated in the scheme document) the Unit must intimate the scheme administrator using the application format as per Annexure II B.

b. Existing Companies

- i. Existing 'Eligible IT Companies' that set up operation before the effective date of the incentive schemes and have applied for the 20% 'Capital Investment Subsidy' incentive in the past and where the incentive has already been disbursed partially or fully or not at all, the Units may apply for the employment generation component of the scheme as per procedure laid out under clause 2.a.ii above, as applicable for each level of employment. Companies who wish to participate in this scheme must mandatorily inform the scheme administrator the employment level it supports along with supporting documentation attested by a Chartered Accountant so that increase in employment is measured with respect to this base level.
- ii. Units whose applications are submitted and under process by the KSIDC, and where the incentive amount has not been disbursed, may write to the scheme administrator, under copy to the Managing Director, KSIDC, to transfer their earlier application to the IT Department. This application shall be then treated as a fresh application and processed accordingly.
- iii. Where the Unit has undergone modernization in plant and machinery and the ceiling of 20% of FCI and Rs.25 lakhs has not been reached it can apply for balance part of the SIS, subject to a minimum of 25% increase in FCI in plant and machinery over previous level. Further, the eligible FCI for calculation of incentive shall be arrived at after deducting the higher of written down value or sale value of the scrapped items, if any, arising from modernization.

3. Early Bird Incentive:

Companies that wish to participate in this scheme shall apply to the scheme administrator before the cut-off date for this scheme (as notified by the Government; currently 31.12.2002) using the format as per Annexure –IV.

The rest of the procedure shall be as applied to permanent employment provided to 250 persons, as detailed under clause 2.iii. The Unit shall intimate the scheme administrator when it first reaches the employment level and later when it sustains this employment level for a minimum period of 12 months within the specified period of operation as specified in the scheme. The employee count includes all permanent employees. Temporary, part-time, and contract employees employed by the IT Industry in its primary business shall be converted to 'full year equivalents' and included. The Applicant Unit must pay special attention to the 'Notes' in the scheme document.

4. CMM Level V or COPC Certification:

With the intention of encouraging Kerala based companies to obtain quality certification and thereby raise the maturity level of the IT Industry in the State, a special one time incentive of Rs.5 lakhs from the Kerala Government shall be provided to:

- i. A IT Software Unit that has been certified at CMM Level 5 of Capability Maturity Model of the Software Engineering Institute, Carnegie Mellon University; OR
- ii. An ITES Unit that has been certified as compliant with COPC-2000 Standard of the Customer Operations Performance Centre; OR
- iii. AN ITES Unit that has been certified for at least the eSCM Level 3 capability of the service Capability Model of the ISRI, a division of the Carnegie Mellon University.

This incentive is restricted to companies with their registered office in Kerala or to operations of IT companies that secure the quality certification specifically for their Kerala operations.

Units that receive any of the above certifications shall apply to the scheme administrator as per format attached under Annexure V with a copy of the certification attested as true copy by countersigning authority (General Manager, DIC or CEO/MD of IT parks). A true copy of the Unit's registration certificate confirming its Kerala registration shall accompany the application, or a certificate issued by the Unit's Chartered Accountant that the workforce of the Unit in Kerala is a minimum of 30% of its total workforce. The award under this category shall be payable only once even though the Unit may secure more than one certification of the three mentioned above.

5. Forms to be submitted by applicant Company

The applicant company shall submit claims for incentive in the formats prescribed in the annexure enclosed.