



Confederation of Indian Industry

Representations submitted with the Government of Kerala

Information Technology

- Develop IT industry in smaller cities for inclusive growth and reducing the digital divide.
- Promote IT in Tier-2/3 cities by a policy change to restore the STPI/ SEZ export tax benefits for IT companies operating in Tier-2/3 cities.
- Developing IT Industry in smaller cities and Towns

Today, IT industry accounts for over 8% of India's GDP and provides over 3.2 million high quality direct jobs and over 12 million indirect jobs to the educated youth. The revenue from IT in the last fiscal stood at USD 118 billion or Rupees 710 Lakh Crores, and is expected to grow over 12% in this fiscal. However, almost all of this IT output is concentrated in 7 cities of the country (Delhi, Mumbai, Chennai, Kolkata, Bangalore, Hyderabad and Pune).

Further, currently over 90 percent of the IT exports are from companies located in the above seven cities. Over 50 Tier II&Tier III cities of India account for less than 10 percent. This calls for proactive steps to widen the industry base to smaller cities and towns of India. One policy change can effectively incentivize and motivate the industry to develop IT in Tier-2/ Tier-3 cities, and this is to restore the export tax benefits (through the STPI & SEZ Schemes), which was discontinued in March 2011, for those companies which are operating in Tier-II and Tier-III cities.

Under the STPI scheme, software exports are exempted from income tax. If the scheme is restored in Tier-II and Tier-III cities, thousands of small IT units, especially those in the MSME sector will have funds to reinvest and grow, thereby creating additional employment. Also, large companies will be motivated to grow in smaller cities. This will result in a boost to the rural economy as every direct job in IT translates to three indirect jobs. Besides, this will help in decongesting the Tier I cities and promote inclusive growth across the country.

By restoring STPI benefits to companies in Tier II & Tier III cities, the revenue loss to the Government is minimal, since 90% of the taxable income today is getting generated in the big cities.

This will be one of the path breaking policies that will promote inclusive IT growth in our country. Kerala Government could send the above recommendation for the consideration of central government.