KPMG

India Union Budget 2024-2025

Point of view

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Consumer Markets and E-commerce **KPMG. Make the Difference.**

Key announcements for the sector

The focus for this year's second budget presentation has been on enabling the 'Viksit Bharat' agenda with key themes featuring around employment and skilling for youth, rural infrastructure development, boost to MSMEs and the economic upliftment of the middle class. The increased capex budget with key changes in the tax rate is a sign of financial prudence to balance the outlays with an efficient tax structure. As infrastructure improves, supply chain costs are poised to decrease, while policies promoting digital payments add hues of growth. E-commerce export hubs, forged through public-private partnerships, beckon local manufacturers toward global vistas. Overall, the budget will help foster a conducive business environment, drive consumption, and fuel growth.

- Leather & Textile
  - Reduce BCD on real down filling material from duck or goose
  - Impetus to manufacturing by adding list of exempted goods for manufacture of leather and textile garments, footwear and other leather articles for export
  - Reduce BCD, subject to conditions, on methylene diphenyl diisocyanate (MDI) for manufacture of spandex yarn from 7.5 to 5 per cent
  - Export duty structure on raw hides, skins and leather is proposed to be simplified and rationalised.
- Electronics
  - The government has considered the industry to be matured and thus proposed to decrease the BCD on mobile phone and mobile charger to 15per cent
  - BCD on PCBA for mobile phones has been reduced from 20 per cent to 15 percent to promote domestic manufacturing
  - Remove the BCD, subject to conditions, on oxygen free copper for manufacture of resistors to promote domestic manufacturing
  - Exempt certain parts for manufacture of connectors
  - Promote domestic – telecom equipment - Increase the BCD from 10 to 15 per cent on PCBA of specified telecom equipment

- To incentivise domestic manufacturing, reduce duties on telephone equipment.

- Jewelry
  - Reduce custom duties on gold and silver jewelry – 6 per cent, platinum jewelry - 6.4 per cent
  - Further reduced duties on few other metals including oxygen free copper.
- E-Commerce Export Hubs
  - To enable MSMEs and traditional artisans to sell their products in international markets, E-Commerce Export Hubs will be set up in public-private-partnership (PPP) mode. These hubs, under a seamless regulatory and logistic framework, will facilitate trade and export related services under one roof.
- Metals and Minerals used in manufacturing
  - Certain critical minerals used in manufacturing of consumer goods have been exempted from custom duties and further duties on certain other minerals has been reduced.
- Incentives
  - No sector-specific incentive schemes announced, but target disbursements for FY 2024-25 of previously announced Production Linked Incentive (PLI) Schemes provided
  - Proposal to introduce an Employment-Linked Incentive (ELI) scheme to boost job creation in labour-intensive sectors, offering incentives like salary subsidy and provident fund reimbursements.
- Other consumables and related items
  - Extra Neutral Alcohol used in manufacture of alcoholic liquor for human consumption is excluded from purview of GST
  - Expand the list of exempted capital goods for use in the manufacture of solar cells and panels to boost solar energy
  - Exempt solar glass and tinned copper interconnects from custom duties
  - Increase BCD on ammonium nitrate from 7.5% to 10% to support existing and new capacities in the chemicals and petrochemicals sector
  - Reduce BCD on plates, sheets, films, foils, and strips (excluding PVC flex banners) from 25% to 10%
  - Increase BCD on PVC flex banners from 10% to 25% to discourage their import
  - Extend the export period for ship and aircraft repairs from 6 months to 7 years (further extendable by 1 year) and re-import under warranty from 3 to 5 years.

Others

- MSMEs
  - Introduced a credit guarantee scheme without collateral or third-party guarantee for term loans to MSMEs for the purchase of machinery and equipment
  - Implemented a new mechanism to facilitate the continuation of bank credit to MSMEs during their restructuring

- New mechanism to facilitate continuation of bank credit to MSMEs during their stress period
- Development of DPI applications in the areas of credit, e-commerce, education, health, law and justice, logistics, MSME, services delivery, and urban governance.

- Skill Development programme
  - Providing internships to 10 Mn youth over 5 years
  - Introduce a new centrally sponsored scheme for skilling 20 lakh youth under the Prime Minister's Package over a 5-year period
  - Revise the Model Skill Loan Scheme to facilitate loans up to INR 0.75 Mn
  - Provide financial support for loans up to INR 1 Mn for higher education in domestic institutions to youth not eligible for other government benefits
  - Allocate more than INR3 Trillion for schemes benefitting women and girls.
- ODI / FDI rules reforms to strengthen Rs. based overseas trade
  - Simplify rules and regulations for Foreign Direct Investment and Overseas Investments
  - Facilitate foreign direct investments
  - Prioritise opportunities for using the Indian Rupee in overseas investments.

Direct Tax

- Personal and corporate taxes
  - New personal tax regime made more attractive with modified tax slabs, enhanced standard deduction of INR 75,000 and increased Employer NPS deduction
  - Ease of cash flow and compliance burden for salaried taxpayers with set-off of other TDS/ TCS from payroll taxes[1]
  - Foreign company corporate tax rate reduced from 40% to 35%
  - STT[2] on futures reduced to 0.2% and on options to 0.1%
  - STCG on STT paid equity shares, units of equity oriented and unit of business trust to be increased to 20% from current 15%; no changes in other STCGs
  - Rate of LTCG changed to 12.5% for all assets categories. Indexation benefit to be removed.[3] Changes from capital gains are applicable w.e.f 23 July 2024
  - Buy back tax removed - Sum received by shareholder on Buy back of shares by a domestic company to be taxed as Dividend; Cost of acquisition with respect to the shares bought back to be considered as capital loss in the hands of the shareholder which may be set off against any other capital gains

1. TDS – Tax deducted at source TCS- tax collected at source
2. STT- Securities transaction tax
3. LTCG – Long Term Capital Gain, STCG, Short Term Capital Gain

— Gift of shares to be exempt from capital gains tax only where the transfer is by an Individual or a HUF

— Transfer pricing assessments amended to include powers of TPOs to deal with specified domestic transactions.

- Withholding tax provisions

— Reduction of TCS for e-commerce and set-off of TCS Credit against TDS.

- Litigation

— Various measures to reduce tax disputes have been announced. Thresholds for filing appeal by Income-tax Department raised to INR1 Crore, INR2 Crores, and INR 5 Crores for ITAT, HC, and SC appeals, respectively[4]

— Period of initiation of reassessment proceedings reduced to 5 years from the end of the relevant assessment where the income escaping income is in excess of INR 50 lacs

— New scheme, *Vivad se Vishwas Scheme*, 2024, to be introduced for settlement of pending appeals (including DRP and writs).

- Other tax simplification measures

— Equalisation levy @2% abolished w.e.f. 1 August 2024

— Immunity scheme from penalty and prosecution in certain cases to be introduced

— Safe harbour rules to be rationalized and introduced for new transactions and sectors, including foreign diamond sellers

— Angel tax abolished to encourage foreign investors and ease raising of capital

— Thin capitalisation rules to not apply to finance companies located in an International Financial Services Centre (IFSC).

Indirect Tax

- The government has introduced a conditional waiver of interest and penalty in respect of demand notices issued for Financial Years 2017-18, 2018-19 and 2019-20 under GST[5] except the demand notices in respect of erroneous refund.
- Rationalisation of GST duty rates over a period.
- Rationalisation of custom duties to promote local value addition and manufacturing.
- Provisions for issue of notice for tax demand is standardised for fraud / other than fraud cases - Limited to 3.5 years with additional year to pass the order.

4. ITAT- Income tax Appellate Tribunal, HC- High Court, SC- Supreme Court
5. GST – Goods and Sales Tax

Pradhan Mantri Janjatiya Unnat Gram Abhiyan

- Support socio-economic development of tribal families in 63,000 tribal-majority villages and aspirational districts, benefitting 50 Million tribal people.
- Integrate the e-shram portal with other portals for a one-stop solution.
- Create open architecture databases for the changing labour market, skill requirements, and available job roles.
- Develop a mechanism to connect job aspirants with potential employers and skill providers.

Implications for the sector

Sector:

- Consumer spending:
  - Increase in standard deduction is set to reduce tax liabilities for individuals, thereby resulting in a higher disposable income with the consumers and thereby increasing their spending capacity
  - Measures aimed at incentivizing employers for generating employment and facilitating internships for youth are expected to boost employment and expanding the consumer base
  - With boost to affordable housing sector, promoting inclusive growth and urban development, the consumers are poised to extend their consumption with an expected move towards premiumisation.
- Consumer Goods:
  - Allocation of INR 1.52 lac crore for agriculture and allied sectors underlines the government's focus towards growth of this sector and thus enabling rural growth. This will provide a boost to increasing income, bring innovation, augment rural consumption, and accentuate a positive sentiment around the Indian consumer market landscape
  - Various measures enhancing agricultural research and innovation, indigenous production, supply chain efficiencies and digital public infrastructure for farmers are expected to provide impetus to the agricultural sector
  - Increased support for Open Network for Digital Commerce ('ONDC') platform, setting up e-commerce export hubs through public private partnerships and improving digital payment infrastructure will help e-commerce organisations expand their domestic as well as global outreach.
- Consumer Durables:
  - A reduction in BCD for mobile phones and its accessories would provide relief to the consumers with a reduction in prices. This may be seen as providing a level playing field to Indian as well a foreign manufacturer, with consumers benefiting
  - Removal of BCD exemptions solar glass and tinned copper interconnect could lead to a price increase for solar cells and panels, however expansion of list of capital goods used for manufacturing of solar panels could fully or partly offset this price increase in the long run

— Export of leather and textile products is expected to increase due to additional BCD exemptions

— Increase in BCD on PVC flex banners is expected to curb the imports and contribute to the green agenda for the government. Domestic players may need to find alternatives for imported PVC flex banners.

- Retail and E Commerce:

  — Additional support for MSMEs to make financing easier for manufacturing and improved public infrastructure will reduce the cost of supply chain, enabling the move towards achieving the government's initiative of '*Atmanirbhar Bharat'*

  — Industrial parks setup in a 'plug and play' mode would substantially reduce the set-up time and cost contributing to the 'ease of doing business' agenda

  — Financial support towards developing 100 street food hubs in select cities over five years, setting up of 50 multi-product food irradiation units and 100 food quality and safety testing laboratories, enabling growth for organisations in the food and beverages sector

  — With cities being developed as growth hubs, increased urbanization is expected in the coming years which will give a boost to the retail sector.

- Tax Related

  — Ease of doing business by reduced litigation, tax certainty and digitisation of assessment procedures.

  — Simplicity of compliance with introduction of new safe harbor rules- detailed rules are awaited and rationalisation of TDS rates.

  — Incentives in form of lower tax rates to foreign companies to bridge the gap of rate between domestic and foreign companies.

  — No significant changes in tax rates for taxpayers to provide stability.

  — Reduced tax outflow for individuals under new regime leading to increase in disposable income and consequential spending patterns.

- Incentives

  — While no new sector specific incentive schemes or budgets were allocated, this aligns with past practices where ministries introduce sector-specific incentive schemes during fiscal year.

  — On the other hand, the proposed ELI scheme is a strategic move to address unemployment and stimulate economic growth by encouraging companies to expand their workforce. This aims to mitigate 'jobless growth' and enhance domestic production and exports.

Measures to reduce litigation, providing tax certainty and increasing disposable income for consumers will benefit the sector in long term. Enhanced focus on creating employment, skilling, land and labour reforms, use of technology, rationalisation of custom duty rates etc. will boost domestic manufacturing, promote exports and serve as engine for future growth of the sector. Speed and robust implementation of schemes and initiatives will be key to maximise benefits for overall development.

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