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Union Budget 2022

Tax Alert - Consumer Products and Retail sector

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Budget 2022: focus on "Overall Growth" and Economy



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Budget 2022-23 is highly focused on "growth" and "capex spending" across sectors, which is a positive step in the right direction. For the "multiplier effect" which consumer and retail sector looks out for, Budget 2022-23 seems to have strategically chosen to address the "supply" side, instead of giving a "direct booster" to demand side for increasing disposable income.

In the medium to long term, Budget 2022-23 seems to be aiming at giving a good push to infrastructure by significantly increasing capital expenditure, with renewed focus on supply chain and logistics, and domestic manufacturing. This should, in the medium to long term, result in strong employment generation, buoyancy and growth in economy, thereby benefiting the sector.

Budget includes rationalization of import duties to support "Make in India" initiative, including gems and jewellery, electronics, imitation jewellery, etc. Fintech and Digital push, including digital rupee, digital banking, etc under "Amrit Kaal" vision, is in line with the Digital E-commerce and start up revolution being witnessed in India. Also, Budget 2022-23, by proposing to extend tax holiday eligibility timelines, has recognized the Start-up sector contribution.

How does the budget impact the Consumer products and retail sector?

Key policy announcements

▶ Capital expenditure:

- ▶ Large capital expenditure increase of 35.4% in FY 2022-23, taking the capex of the Government to 2.9% of Gross Domestic Product ('GDP'). This is the highest ever allocation for capital expenditure in the last 10 years. The money spent on infrastructure would help create jobs and boost the consumer economy.

▶ Supply chain/ logistics:

- ▶ 'PM GatiShakti' initiative has been launched as a transformative approach for economic growth and sustainable development. The approach is driven by seven engines, namely, Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure.
- ▶ A Unified Logistics Interface Platform ('ULIP') designed for 'Application Programming Interface ('API') will be set up. This is expected to provide for efficient movement of goods through different modes, reducing logistics cost and time, assisting just-in-time inventory management, and in eliminating tedious documentation. Most importantly, this will provide real time information to relevant stakeholders, and improve international competitiveness.
- ▶ Focus on improvement in supply chain/logistics by setting up multimodal logistic parks, 100 cargo terminals over the next three years to reduce transportation and other supply chain related costs and increase reach.
- ▶ Above initiatives are expected to support consumer products and retail sector growth

▶ Export Promotion:

- ▶ The Special Economic Zones Act will be replaced with a new legislation that will enable the States to become partners in 'Development of Enterprise and Service Hubs'. This is likely to cover all large existing and new industrial enclaves to utilize available infrastructure and enhance competitiveness of exports.

▶ Rural inclusion:

- ▶ To enable affordable broadband and mobile service proliferation in rural and remote areas, 5% of annual collections under the Universal Service Obligation Fund will be allocated.
- ▶ The Government's aim is that all villages and their residents should have the same access to e-services, communication facilities, and digital resources as urban areas and their residents. The contracts for laying optical fibre in all villages, including

Highlights



remote areas, will be awarded under the 'Bharatnet' project through PPP in 2022-23.

Highlights



Extension of concessional rate for new manufacturing companies



Covid related exemption

- ▶ Thus, the above is likely to help consumer and retail companies in their expansion in rural outreach and increased rural consumption thereby supporting the overall growth of the sector.
- ▶ **Digitization:**
 - ▶ The measures around Digital Banking and Digital payment such as 75 Digital Banking units in 75 districts of the country by Scheduled Commercial Banks is likely to provide a big push to the digital banking infrastructure of India.
 - ▶ The continued support for Digital Payment ecosystem is likely to promote use of payment platform that are economic and user friendly and are likely to support e-commerce activities.

Key tax announcements

- ▶ **Direct Taxes:**
 - ▶ **New Manufacturing entities under section 115BAB**
 - ▶ Section 115BAB of the Act provides for an option of concessional rate of taxation @ 15 % for new domestic manufacturing companies provided that they do not avail of any specified incentives or deductions and fulfil certain other conditions.
 - ▶ It is proposed to amend section 115BAB so as to extend the date of commencement of manufacturing or production of an article or thing, from 31 March 2023 to 31 March 2024.
 - ▶ **Exemption of amount received for medical treatment and on account of death due to COVID-19**
 - ▶ Proposed to amend section 17(2) to provide 100% exemption of amount received by employee from employer for expenditure incurred on medical treatment of self or family member in respect of COVID-19.
 - ▶ Further, it is proposed to amend section 56(2)(x) to provide as under:
 - ▶ 100% exemption of amount received by an individual from any person for actual expenditure incurred on medical treatment of self or his family member in respect of illness related to COVID-19;
 - ▶ 100% exemption of amount received by family member of deceased employee from employer in respect of death due to COVID-19 (received within 12 months from death);
 - ▶ Exemption up to INR 10 lakhs for amount received by family member of deceased individual from any person in respect of death due to COVID-19 (received within 12 months received from death).
 - ▶ The amendment is subject to conditions as may be notified by the Central Government.
 - ▶ This amendment is effective from 1 April 2020 (AY 2020-21 onwards).

Highlights



Custom duty rationalisation

Extension in incentivising start ups



- ▶ **Clarification regarding treatment of cess and surcharge**
 - ▶ Proposed to clarify that the term "tax" includes and shall be deemed to have always included any surcharge or cess, by whatever name called, under section 40(a)(ii). Accordingly, deduction for the same would not be allowed.
 - ▶ This amendment will take effect retrospectively from 1 April 2005 (i.e. AY 2005-06 onwards).
- ▶ **Incentives for start-ups:**
 - ▶ The existing provisions of section 80-IAC specify certain conditions to be eligible to claim a deduction as specified in the said section. One of the key conditions is that the start-up should be incorporated on or after 1 April 2016 but before 1 April 2022.
 - ▶ Due to delays in setting up such units COVID pandemic, it is proposed to period of incorporation of eligible start-ups to 31 March 2023.
 - ▶ This amendment will take effect from 1 April 2022 (AY 2022-23 onwards).
- ▶ **Dividend from outbound investments:**
 - ▶ Concessional rate of 15% on dividend earned by an Indian company having a substantial shareholding in foreign company has been removed, to bring parity in taxation of dividend earned from domestic companies.
- ▶ **TDS on benefit or perquisite of a business or profession:**
 - ▶ Benefit or perquisite provided to a resident carrying on business or profession shall be subject to TDS at the rate of 10% of the value of such benefit/ perquisite.
 - ▶ In case of non-monetary benefit/ perquisites or where the monetary component is not sufficient to cover the TDS liability, the person responsible for providing shall be required to ensure that tax has been paid before such benefits/ perquisites are released.
 - ▶ These provisions shall not apply if the value of the benefit or perquisite does not exceed INR 20,000 in each financial year.
 - ▶ This amendment will take effect from 1 April 2022¹.
- ▶ **Indirect Taxes:**
 - ▶ **Customs duty proposals**
 - ▶ Import of goods subject to Import of Goods at Concessional Rate of Duty to follow end to end automation, requiring submission of information on online portal and seeking Import Identification Number.
 - ▶ Customs administration of Special Economic Zones shall henceforth be fully technology driven and function on the Customs National Portal. This reform is proposed to be implemented by 30 September 2022.

¹ The Explanatory Memorandum specifies the effective date as 1 July 2022 raising an ambiguity on the effective date of this provision

- ▶ It is proposed to phase out the concessional rates in capital goods and “project” imports gradually and apply a moderate tariff of 7.5%. This is conducive to the growth of domestic industry and Government’s initiative of “Make In India”.
- ▶ Customs duty rates are being calibrated to provide a graded rate structure to facilitate domestic electronics manufacturing.

Decrease in Customs duty rate (illustrative) to promote exports / Make in India:

Product description [to be read in light of Chapter heading]	Old rate (%)	New rate (%)
Asafoetida	20%	5%
Camera lens for use in manufacture of camera module of cellular mobile phone	15% /10%	2.50%
Cocoa beans, whole or broken, raw or roasted	30%	15%
Cut and Polished Diamonds and Cut and Polished Natural Gemstones (except synthetic or reconstructed stones)	7.50%	5%
Frozen Krill, Frozen Mussels and Frozen Squids	30%	15%
Live Black tiger shrimp (Penaeus monodon)	30%	10%
Simply Sawn Natural Diamonds	10%	0%
Specified parts of transformers for use in manufacture of chargers/ adapters	15% /10%	5%
Woven fabrics, jackets, blazers, etc	25% or specified Rs per piece, whichever is higher	Multiple rates ranging from 10% to 20% or specified Rs per piece, whichever is higher

Increase in Customs duty rate:

Product description [to be read with Chapter heading]	Old rate	New rate
Crude glycerine for use in manufacture of soaps	0%	7.5%
Hazelnuts or filberts	10%	30%
Rock salt	0%	5%
Goods used in the manufacture of laser and laser-based instruments	0%	As per Customs Tariff
Umbrellas and sun umbrellas	10%	20%
Parts of umbrellas including umbrella panels	5%	10%
Imitation jewellery	20%	20% or Rs 400/kg whichever higher
Specified Parts of wrist wearable devices (commonly known as smart watches)	As per Customs tariff	Gradual increase to 15% over 4 years
Hearable devices (specified blue tooth speakers and ear phones)	15%	20%
Goods and capital goods imported for the manufacture of specified electronic goods	0%	Sunset date of 31.3.2024 introduced
parts used for manufacture of electronic toys	15%	25%
Synthetic tracks and artificial surfaces and equipments	0%	10%

Machinery used in the leather or footwear industry	5%	As per Customs Tariff
On snow-skis, water-skis, surf boards	0%	Sunset date of 31.3.2023 introduced

Impact analysis

Overall policy announcements around increased capital expenditure, supply chain, logistics, export promotion, rural inclusion, digitization, etc are welcome steps likely to support the overall growth in consumer and retail sector in medium to long term. Budget seems to have focused more on longer term value creation which are expected to create the right enabling platform for employment, incomes and consumption, rather than short term benefits with respect to "putting more money in consumer wallets" or special subsidies or support to industry.

Going forward, regarding inflation concerns, easing of global supply constraints may be an important factor in reining in the inflation that can further boost consumer confidence.

Direct tax proposals around extension of timelines for tax benefits for new manufacturing units, and start-ups, covid related exemptions, are also welcome steps. However, some expectations around rationalization of ESOP taxation, Equalization levy, set off of unabsorbed losses for retail sector on amalgamation, etc have not been dealt with by Budget 2022-23.

Customs duty reduced on inputs required for manufacture of consumer goods such as simply sawn diamonds, camera lens used in mobile phones, specified parts of transformers used in chargers and adapters may help in enhancing domestic value addition. Removal of customs exemption on certain items, and providing concessional duties on raw material that go into manufacturing of intermediate products will support the Government's objective of 'Make in India' and 'Atmanirbhar Bharat' especially in sectors like electronics, gem and jewellery, etc.

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