

Budget

2020

2021

2022


 2023

2024

Boosting rural demand, 'Make in India' push, increased disposable income



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Budget 2023 being the last full budget of the NDA government, the Hon'ble Finance Minister had an uphill task to come up with policy measures to boost the economy amidst global inflation, fear of recession, geo-political conflicts and high fiscal deficit.

Given this backdrop, the slew of measures announced in the Budget focusing on boosting rural demand, additional push to 'Make in India' sentiment and extension of exemption for start-ups is a positive for the Consumer Products and Retail sector.

A game changing approach on "rural economy" through rural women empowerment, increased agri-credit target, fisheries scheme, Agri start-ups, Natural farming, etc should also help boost the rural demand for FMCG sector.

Continued 'Make in India' push through reduced import duties for 'parts/ raw materials' used for Electronics, Lab Grown Diamond seeds, Camera lens, TV Panels, etc should help boost demand while generating employment. Also, governments intent for higher capital investment and focus on Tourism would garner more employment opportunities and boost consumption.

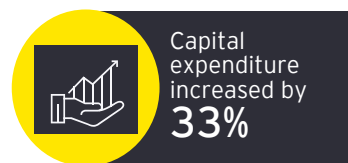
Additionally, reduced personal taxation slabs and reduction in surcharge for ultra-rich should increase disposable income and fuel demand. While amendments such as inclusion of consideration received from non-residents on issue of equity shares into the ambit of taxability where the consideration received exceeds the FMV may increase litigation, the measures announced will surely play a pivotal role in providing the much-needed push to the sector which is a key contributor to the GDP.

How does the budget impact Consumer products and retail sector?

Key Policy announcements

- ▶ **Capital expenditure**
 - ▶ Capital expenditure of INR 10 lakh crore resulting in a steep hike of 33% in FY 2022-23, taking the capex of the Government to 2.9% of GDP. The money spent on infrastructure to have a large multiplier impact on growth potential and employment generation.
- ▶ **Rural inclusion**
 - ▶ To enable activities of fishermen, fish vendors and micro and small enterprises, improve value chain efficiencies and expand the market, a new sub-scheme of PM Matsya Sampada Yojana with targeted investment of INR 6,000 crore to be launched.
 - ▶ The Government aims to increase the agriculture credit target to INR 20 lakh crore with focus on animal husbandry, dairy and fisheries.
- ▶ **Youth empowerment**
 - ▶ Pradhan Mantri Kaushal Vikas Yojana has been launched to skill lakhs of youth within the next three years. The focus is to provide on-job training, industry partnership, and alignment of courses with needs of industry.
 - ▶ The scheme will also cover new age courses for Industry like coding, AI, robotics, mechatronics, IOT, 3D printing, drones, and soft skills. This is expected to skill youth for international opportunities.
 - ▶ Government plans on setting up 30 Skill India International Centres across different States.
- ▶ **Tourism**
 - ▶ It is proposed to focus on promotion of tourism with active participation of states, convergence of government programmes and public-private partnerships.
 - ▶ The Government aims at sector specific skilling and entrepreneurship development to achieve the objectives of 'Dekho Apna Desh' initiative and direct middle class to prefer domestic tourism over international tourism.
 - ▶ 'Swadesh Darshan Scheme' has been launched for integrated development of theme-based tourist circuits.
 - ▶ Government also proposes to encourage states and set up Unity Mall in respective state capital or most prominent tourism centre or the financial capital for promotion and sale of their own ODOPs, GI products and other handicraft products, and for providing space for such products of all other States.

Highlights



Agri-credit

Credit target of INR 20 lakh crores



PM Matsya Sampada Yojana



Swadesh Darshan Scheme

Promote local tourism - boost for employment and consumption

Key Tax announcements

Direct Taxes:

- ▶ **Relief for start-ups (Section 80-IAC and Section 79):**
 - ▶ Relaxation from 51% shareholding continuity condition for carry forward and set-off of losses incurred during 7 years from date of incorporation for eligible start-ups now extended to 10 years from date of incorporation.
 - ▶ Profit-linked tax exemption for eligible start-ups extended by another year - start ups incorporated before 1 April 2024 will now be eligible.
 - ▶ These amendments will take effect from 01 April 2023 (AY 2023-24 onwards).
- ▶ **Consideration on issue of shares received from non-resident [Section 56(2)(viib)]:**
 - ▶ As per current provisions of section 56(2)(viib), where a company receives consideration for issue of shares at premium exceeding the FMV of the shares from a resident, the consideration exceeding the FMV is subjected to tax in the hands of the company.
 - ▶ It is proposed to amend section 56(2)(viib) and bring consideration received from a non-resident as well under its ambit.
 - ▶ Accordingly, provisions of section 56(2)(viib) shall now apply irrespective of the residency status of the investor where the consideration received exceeds the FMV.
 - ▶ This amendment will take effect from 1 April 2024 (ie. AY 2024-25 onwards).
- ▶ **Benefits and perquisites in cash (Section 194R):**
 - ▶ It is proposed to clarify by way of an explanation to section 194R that the provisions shall be applicable to benefit or perquisite whether in cash or in kind or partly in cash and partly in kind.
 - ▶ Also, a corresponding amendment has been proposed to be introduced under section 28(iv) to clarify that provisions of said clause also to benefit or perquisite whether in cash or in kind or partly in cash and partly in kind.
 - ▶ Provisions of section 271C (penalty for failure to deduct TDS) and section 276B (prosecution for failure to deduct TDS) have been expanded to include failure to deduct TDS even in cases of benefits and perquisite.
 - ▶ These clarifications will take effect from 1 April 2023 (AY 2023-24 onwards).
- ▶ **Timely payments to MSME (Section 43B):**
 - ▶ Proposed to insert new clause under section 43B thereby mandating the companies to claim deduction for transactions with MSMEs only on payment basis.
 - ▶ Deductions can be allowed on accrual basis only where the payments are made within the time limits mandated under section 15 of the MSMED Act (ie. *within 15 to 45 days depending upon the facts of the case*).
 - ▶ This amendment will take effect from 1 April 2024 (AY 2024-25 onwards).

Highlights

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Increase in time period - carry forward and set off of losses for start-up



Consideration received on issue of equity shares above FMV from NR now taxable

Applicability of section 194R to benefits in cash



Indirect Taxes:

▶ GST

- ▶ Composition dealers (dealers having turnover upto INR 1.5 crores per annum) now permitted to make intra-state supply of goods through e-commerce operators.

▶ Excise duty

- ▶ Increase in specific rates of NCCD levied as duty of excise on specified cigarettes

▶ Customs duty

- ▶ BCD rate changes made to encourage exports and boost domestic manufacturing, subject to IGCR conditions in specified cases

Increase in BCD rates (illustrative)

Description	Rate movement (%)	
	BCD	
	From	To
Specified articles made of precious metals (such as gold, silver, platinum, etc)	22	25
Bicycles	30	35
Electric kitchen chimney	7.5	15
Toys and parts of toys (other than parts of electronic toys)	60	70

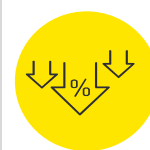
Decrease in BCD rates (illustrative)

Description	Rate movement (%)	
	BCD	
	From	To
Camera lens for camera module and input/ sub parts for lens of camera module of mobile phone	2.5	Nil
Seeds for manufacture of rough lab-grown diamonds	5	Nil
Heat coils for use in manufacture of Electric kitchen Chimney	20	15
Parts for manufacture of open cells of TV panels	5	2.5

- ▶ Exemptions with sunset clause of 31 March 2023 extended for a period of one year (ie. till 31 March 2024) for specified products, such as -
 - ▶ All parts for use in manufacture of LED lights or fixtures, including LED lamp and LED drivers

Highlights

Overall push for manufacturing



Decrease in BCD rates for parts/raw materials



Increase in BCD rates for bicycles, toys, etc



Exemption on BCD rates extended by one year for parts used for manufacturing of certain

- ▶ Parts, components and accessories for manufacture of CCTV camera/ IP camera, and sub parts
- ▶ Specified inputs for manufacture of adult diapers, tampons and sanitary pads
- ▶ Parts, components of Digital Still Image Video Cameras
- ▶ Specified exemptions not extended beyond the sunset date of 31 March 2023, such as -
 - ▶ Specified goods and its parts for use in textiles industry
 - ▶ Parts or components for use in manufacture of populated printed circuit board of CDR, NVR, CCTV camera
 - ▶ Specified machinery and Capital Goods used for manufacturing sports goods, leather/ footwear industry, fisheries sector, gems and jewelry, food processing industry

Impact analysis

Overall policy announcements around increased capital investment and slew of policy measures to support the rural infrastructure and eco-system are welcome steps likely to support employment generation and boost overall consumption enabling overall growth for the consumer and retail sector in the medium to long term. Budget seems to have focused more on ensuring to achieve the objective of 'reaching last mile' to improve longer term value creation and contribution from the rural economy of India.

Direct tax proposals around extension of timelines for tax benefits for start-ups, rationalisation of personal income-tax slabs, allowing lower tax regime for co-operative societies, are also welcome steps. However, some expectations around inclusion of service sector for lower tax regime, clarity on Equalization levy and Significant Economic Presence set off of unabsorbed losses for retail, etc have not been dealt with by Budget 2022-23.

Customs duty reduced on inputs required for manufacture of consumer goods such as camera lens, heat coils, parts for manufacturing of television sets, etc may help in enhancing domestic value addition. Increase in custom duties for products such as toys, bicycles, electric kitchen chimneys, etc will also support the Government's objective of 'Make in India' and 'Atmanirbhar Bharat'.

Overall Budget 2023, the measures announced will surely play a pivotal role in providing the much-needed push to the sector which is a key contributor to the GDP.

Glossary

AI - Artificial Intelligence

AIDC - Agriculture Infrastructure and Development Cess

AY - Assessment Year

BCD - Basic Customs Duty

FMCG - Fast Moving Consumer Goods

FMV - Fair Market Value

GDP - Gross Domestic Product

GST - Goods and Services Tax

IGCR - Import Goods Concessional Rate

IOT - Internet of Things

MSME - Micro, Small and Medium Enterprises

NCCD - National Calamity Contingent Duty

NR - Non-resident

ODOPs - One district, one product

SWS - Social Welfare Surcharge

TDS - Tax deducted at source



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