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# BUDGET 2017 ANALYSIS

IMPACT ON CONSUMER BUSINESS

February 2017

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# Foreword

Budget 2017 is followed by few transformational reforms in last year which have a direct impact on the consumer business sector:

- Passage of the Constitution Amendment Bill for GST and the progress for it’s introduction
- Demonetisation of high denomination currency notes

Budget 2017 has strived to achieve the Government's aim to curb black-money. Focus has also been placed on growth schemes in rural areas and steps been taken in digitizing the economy. This has been done, keeping in mind the welfare of the larger population base.

Economy has moved on a high growth path. India’s Current Account Deficit declined from about 1% of GDP last year to 0.3% of GDP in the first half of 2016-17. FDI grew 36% in H1 2016-17 over H1 2015-16, despite 5% reduction in global FDI inflows. Foreign exchange reserves have reached 361 billion US Dollars as on 20th January, 2017

The Budget proposes to increase allocation on rural, agricultural and allied sector in 2017-18 to INR 1, 87, 223 crores, which is 24% higher than the previous year to achieve the targeted growth. This budget demonstrates the continued focus on the agriculture sector with target growth of 4.1% and intention to double the income of the farmers in the 5 year window.

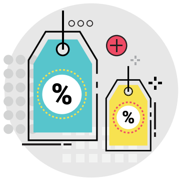
## Summary

Budget 2017 would certainly increase the purchasing power of the rural population, with an impetus to bring more than 1 crore households out of poverty by attempting to increase their livelihood. Also, the disposable income of Indian consumer is likely to increase due to direct tax incentive in form of reduced individual taxes and reduction in corporate tax rates for small and medium players. The consumer sector will certainly benefit from these changes.

## Key highlights

Inflation brought under control. CPI-based inflation declined from 6% in July 2016 to 3.4% in December, 2016 – This will help in controlling increase in the prices of consumer related products and services.

Reduced corporate-tax rate of 25% for domestic MSMEs – Likely to benefit the consumer companies falling under this category.



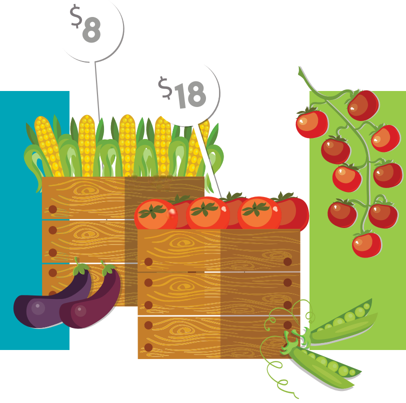

Secondary adjustment brought in by section 92CE, creating notional interest charge on primary transfer pricing adjustment – This would have an impact on the players in the industry having transactions with the related parties.

It has been decided to abolish the Foreign Investment Promotion Board and the roadmap to be provided in the FDI consolidated policy – This roadmap willbe helpful especially for foreign players planning entry in the Indian retail sector.

# Policy Updates

- Target for agricultural credit in 2017-18 has been fixed at a record level of 10 lakh crores
- The Long Term Irrigation Fund already set up in NABARD to be augmented by 100% to take the total corpus of this Fund to INR 40,000 crores.
- Dedicated Micro Irrigation Fund in NABARD to achieve ‘per drop more crop’ with an initial corpus of INR 5,000 crores
- Coverage of National Agricultural Market (e-NAM) to be expanded from 250 markets to 585 APMCs. Assistance up to INR 75 lakhs will be provided to every e-NAM
- A model law on contract farming to be prepared and circulated among the States for adoption
- Dairy Processing and Infrastructure Development Fund to be set up in NABARD with a corpus of INR 2000 crores and will be increased to INR 8000 crores over 3 years
- The finance minister in his budget speech highlighted ten themes on which he has based his budget. Farmer and Rural population were top of this chart

**Income of farmers to be doubled in 5 years**




**Agriculture growth expected @ 4.1%**

# Direct Tax

### Corporate Tax Rate

Micro Small and Medium Enterprises: Tax rate for domestic companies having annual turnover not exceeding INR 50 crores during financial year 2015-16 proposed to be reduced to 25%

### Minimum Alternate Tax ('MAT')

Tax credit: Eligibility to carry forward MAT credit proposed to be increased to fifteen years, from existing ten years. Similar amendment proposed for credit of Alternate Minimum Tax

Rationalization in line with Ind AS: Framework proposed for computation of book profits for Ind AS compliant financial statements, including adjustments arising on first-time adoption of Ind AS

### Concessional rate of withholding tax for interest on foreign borrowings

Concessional withholding tax regime of 5% on interest on foreign borrowings, proposed to be extended for such borrowings, including rupee-denominated offshore bonds (Masala bonds), made up to 30 June 2020

### Ceiling on interest deduction

In accordance with the base erosion and profit shifting plan, thin capitalization norms have been introduced, wherein if debt has been issued by non-resident associated enterprises, the maximum amount of interest which would be deductible would be 30% of Earnings before Interest, Tax and Depreciation. This provision is proposed to apply in cases where interest exceeds INR 1 crore.

Interest not considered deductible in a year proposed to be allowed to be carried forward for a period of eight assessment years for set-off against business income, subject to conditions.

### Incentives for Start-ups

Tax holiday: Deduction of 100% of profits derived by an eligible start-up from eligible business allowed for 3 consecutive years out of 7 years (presently, 5 years) from the year of incorporation of the company

Carry forward and set-off of losses: For losses incurred during 7 years from the year of incorporation of the eligible start-up, carry forward and set-off not to be denied in case of change of shareholding by more than 51% subject to certain conditions.

### Scheme of Presumption Taxation

Rate of deemed profit: In case of an assessee eligible for presumptive taxation under section 44AD, the rate of deemed profit proposed to be considered at a reduced rate of 6% for turnover received in a mode other than cash

# Direct Tax

### Tax Collection at Source on Jewellery

Proposed to omit requirement of tax collection at source on cash sale of jewellery, in line with the move to ban cash transactions exceeding INR 3 lakhs

### Authority of Advance Rulings ('AAR')

There are significant pendency of cases before the AAR. With a view to expediting the rulings, amendments proposed with regard to qualifications for appointment as revenue Member and Chairman of Authority of Advance Rulings

### Capital gains

Holding period for immovable property in relation to long term capital gain reduced to 2 years. Further, base year for indexation revised to 2001 from 1981 for all classes of assets including immovable property

Conversion of preference share of a company into its equity share not to be regarded as transfer

Exemption for long term capital gains arising on transfer of listed equity share only if the acquisition of share is chargeable to Securities Transactions Tax. Exemptions to this rule to be prescribed.

If the consideration for transfer of unquoted shares is less than the Fair Market Value (FMV), then the FMV would be considered as full value of consideration for computing capital gains. The determination of FMV to be prescribed.

### Reduction in scope of specified domestic transactions

Relief have been offered by way of limited applicability of domestic transfer pricing regulations. As the same is now restricted to companies claiming profit linked tax deductions, the consumer business companies who generally do not avail such profit linked tax deductions, would enjoy lesser transfer pricing compliance and litigation burden from Income-tax perspective. However, it is pertinent to note that they would still need to comply with the Companies Act which requires related party transactions to be at arm's length.

### Provisions in relation to secondary transfer pricing adjustment introduced

One cause of concern has been served to the companies is by way of secondary adjustments being brought in by section 92CE. Whereby the quantum of transfer pricing adjustment that have been accepted by the taxpayer would now be treated as advances given and notional interest would now be charged, probably upto perpetuity or till such time difference is brought into India. This is especially a worry area for multinationals that procures from of centralized hubs and are facing transfer pricing adjustments on the price paid for such procurement.

Limited applicability of domestic transfer pricing regulations likely to reduce compliance burden on consumer companies having domestic transactions transactions with related parties


Secondary adjustments for transfer pricing likely to be a cause of concern to companies to ensure arm's length price to be actually charged

# Indirect Taxes

Increase in the basic custom duty on import of cashew nut from 30% to 45% and excise duty on manufacture of tobacco and tobacco products (such as cigar, cigarettes of tobacco substitutes).

Abolition of 5% ‘R&D Cess’ payable on import of technology into India under a foreign collaboration.