



Union Budget 2020 Consumer

A point of view on the impact on the consumer products, retail, transportation, hospitality, and services sectors



Agriculture

Keeping in line with the government's aim to focus on fundamental structural reform and inclusive growth, the finance minister in the budget 2020 unveiled a three-pronged approach to budgetary measures woven around the themes of **aspirational India, economic development, and caring society**. The emphasis this year has been primarily on the rural economy to alleviate rural distress and **catalyse the government's avowed aim of doubling farmers' income by 2022**.



In the rural sector, the thrust was primarily on **(1) agriculture irrigation and rural development; (2) wellness, water, and sanitation; and (3) education and skills.** The 16 action points enumeration was an example of the meticulous attention that focuses on the rural sector. The budgetary allocation of INR 2.83 lakh crore for the 16 action points, with INR 1.6 lakh crore allocated to agriculture and irrigation and INR 1.23 lakh crore for rural development and Panchayati Raj, is a welcome move. Comprehensive measures for **100 water-stressed districts** and balanced use of different kinds of fertilisers, is an indication of the shift towards **sustainable farming.** The widening of the ambit of the PM-KUSUM to support farmers to set up stand-alone solar pumps and solarise their grid-connected pump sets is a good move towards, **reducing the rural dependence on fossil fuels for power requirements.** The above measures are expected to alleviate farmer distress due to price fluctuations, as well as **reduce the post-harvest shrinkage and wastage considerably.**

Emphasis on the Government's commitment to the goal of doubling farmers' incomes by 2022, through various schemes and focused measures. The Report card presented in this regard contains:

Warehousing facilities and **backward linkage** to reduce logistics cost and **enhance** holding capacity, **national cold supply chain** to be set up for perishables

- Focused approach towards **horticulture and exports**
- Integrated farming systems
- **Agricultural credit** and re-finance
- Framework for development, management, and **conservation of marine fishery resources**, including Fish Farmer Producer Organisations

Further, with reference to derivative trading in commodities, provisions relating to **Commodity Transactions Tax (CTT)** are proposed to be amended to align with recent changes to other regulations. CTT **rates** on new commodity derivative transactions have been proposed with a view **to encouraging commodity transactions to be settled by physical delivery.**



Consumer Products

The budget also focused on augmenting the **manufacturing sector**. The increased outlay of INR 1.70 lakh crore for transport Infrastructure in 2020-21 is an important move to **improve logistics infrastructure** in the country. This in turn will ensure higher efficiencies across the whole supply chain right from **farm to fork**. The announcement of the introduction of a national logistics policy is expected to ease cross-country transport of goods and provide cost advantages through single window mechanisms.

The rationalisation of individual tax rates and abolition of DDT are likely to have a positive impact in terms of **increasing disposable income** and consequently, provide impetus to the sector. Increased disposable income would also lead to increase expenditure thereby improving **liquidity** and increasing in **GST revenues**.

Further, the period to **avail foreign currency loans** with a concessional withholding rate of **5 percent** on interest has been extended to **30 June 2023**. This will help businesses to continue to **avail low-cost funds** from foreign sources.

With reference to **contract manufacturing, withholding tax provisions** are to apply even in cases where raw materials are provided by an associate.

In view of **fake invoices** detected in **GST** input tax credit matters, **penalty provisions are proposed** to be introduced in income-tax law and a deterrent to false entries or omission of entries. This is proposed to discourage the use of false documents as invoices issued without receipt of the goods or services.

The Government has reiterated its commitment to **rationalise GST** through simplification and rate rationalisation. The Finance Minister highlighted the need for **electronic invoice**, as a leap towards digitisation of GST, and to curb fake invoices and fraudulent input tax credits. A phased approach must be taken initially on an optional basis, that can help facilitate compliance and return filing.

With a view to encourage **domestic manufacturing**, **Basic Customs Duty rates have increased on goods such as footwear, furniture**

Also, health cess of 5 percent is proposed to be introduced on import of medical equipment to promote healthcare infrastructure.



The proposed introduction of a **dispute resolution scheme** will help reduce tax litigation and is a step in the right direction. The details of the scheme are awaited. The finance minister also indicated that there will be **amendments to the Companies Act to remove criminal liability for civil offences**. These are welcome steps towards ease-of-doing business

MSME perspective

- Introducing **National Logistics Policy**, aimed to clarify the roles of the union government, state governments, and key regulators and create a single window e-logistics market are a few strategic steps in making MSMEs competitive.
- Enabling NBFCs to extend invoice financing to MSMEs through TReDS; schemes to provide **subordinate debt for entrepreneurs** of MSMEs
- Reducing the **compliance burden on small retailers**, traders, and shopkeepers who comprise the MSME sector, **by raising the turnover threshold for audit** from the existing INR 10 million to INR 50 million, provided that these businesses carry out less than 5 percent of their business transactions in cash

Retail start-up perspective

- Liberalising the incentives for start-ups, by **increase in the turnover threshold for tax holiday to INR 1000 million** and extension in the period of eligibility for claim of deduction from the **existing 7 years to 10 years**.



E-commerce

Sale of **goods and services through e-commerce**, by a resident (e-commerce participant), **will suffer withholding at the rate of 1 percent** of the gross amount. **E-commerce operators** would be under an obligation to make such withholding.

This **may necessitate e-commerce operators to re-visit their contracts and systems** to ensure compliance, given the enormous volumes transacted by way of e-commerce. Therefore, sellers (e-commerce participants) may face cash flow challenges in terms of money being blocked upfront on account of withholding. Sales returns could increase the challenges for sellers and e-commerce operators, depending on the approach to be applied.

It is also proposed **to include any sums paid by the recipient of goods or services, directly to the e-commerce participant**, within gross amount (subject to withholding by the e-commerce participant). In such cases, business models may need to be re-visited to ensure that cash flow issues and procedural difficulties are minimised.



Transportation, Hospitality and Services

The Budget lays emphasis on **accelerated development of highways, economic corridors, coastal and land port roads, sea ports, and inland waterways**. This should provide growth opportunities for the transportation sector and a boost to other sectors of the consumer industry.

The Budget notes the importance of **tourism as a contributor to growth and employment**. Keeping this in perspective, efforts are being proposed to enhance tourism in India, through the development of archeological sites as iconic sites with on-site museums (as maritime museums). The hospitality industry should benefit from these measures.

With the above measures being the focus areas of the government, the Union Budget is **aimed at health, prosperity, and well-being, with an emphasis on striving for ease of living**. The key themes for this Budget include economic development and aspirational India, with a significant focus on agriculture, rural development, access to health, education, and better jobs.

As a significant reform measure, corporate income-tax rate reduction had already been undertaken during the year and tax proposals were introduced in the Budget wish **to further stimulate growth, simplify the tax structure, ease compliance, and reduce litigation**. A taxpayer charter is proposed to be enshrined in the law, as a **commitment against harassment**.

Budget opens doors to a vision of a new India as The Government reiterated its objective of Ease of living, ease of doing business and ease of transactions in the Budget.