

# Thoughts

Reflexion and Analysis for the Indian Market

March 2020

## Union Budget 2020 – Impact on Consumers



## Consumer Products

The budget focused on augmenting the manufacturing sector.

The increased outlay of INR 1.70 lacs 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% 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 phases 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 and furniture.

## Retail

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% of their business transaction in cash

Retail start-up perspective

Liberalising the incentives for start-ups, by increase in the turnover threshold for tax holiday to INR 1,000 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 will suffer withholding at the rate of 1% 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 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. In such cases, business models may need to be revisited 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 archaeological 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 Indian, 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 Indian as the Government reiterated its objective of ease of living, ease of doing business and ease of transactions on the Budget.

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