CONSUMER & E-COMMERCE

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Taking measures to boost private consumption:**
  Reduced private spending due to stagnant real incomes and a tough job market is directly hitting India's growth story, with Private Final Consumption Expenditure growth slowing to 4% during fiscal year 2024 compared to 6.8% in fiscal year 2023. Both traditional and new-age companies are acknowledging a moderation in urban growth and are expecting measures to increase consumers' disposable income in the Budget to revive demand.

- **Upgrading the last-mile network:**
  E-commerce companies are looking to expand into remote areas, with quick commerce companies rapidly expanding beyond metros. Continued investment is expected to upgrade the road network and last-mile delivery infrastructure, which is essential for the success of these expansions.

What Budget Gave?

- **Focus product scheme for retail sector - footwear and leather:**
  Introduction of a focus product scheme aimed at boosting the productivity, quality, and competitiveness of India's footwear and leather industry. This scheme will provide support for design development, component manufacturing, and machinery needed for non-leather footwear production, in addition to supporting leather footwear and products.

- **Scheme to encourage domestic toy manufacturing:**
  Launch of a scheme aimed at transforming India into a global hub for toys, building on the National Action Plan for Toys.

- **Recognising gig workers:**
  Registration of gig workers on the e-Shram portal and issuance of identity cards.

How It Impacts The Industry?

The Budget's initiatives are set to positively impact a couple of sub-segments within the Consumer sector.

- The focus product scheme for footwear and leather is expected to create 2.2 million jobs, generate a turnover of INR 4tn, and boost exports by over INR 1tn. This would encourage domestic manufacturing and create investment opportunities for investors and corporate in this sector.

- The toy industry will benefit from a strengthened manufacturing base, improved skills, and the production of high-quality toys, enhancing India's global market presence.

- Gig workers will receive support, with around 10 million workers benefiting from healthcare under the PM Jan Arogya Yojana.

Our Point Of View

- The industry had called for reforms to boost private consumption, addressing stagnant incomes, improve import/export processes, and support infrastructure, especially for last-mile delivery. The Budget introduced measures to address some of these expectations, including tax reforms and launching an Export Promotion Mission to streamline the export processes.

- Key sub-segments within Consumer & E-commerce sector have received attention from the Budget to promote domestic manufacturing, such as the focus product scheme for footwear and leather and initiatives for the toy industry.

Part 2: Tax implications

What The Industry Asked For?

- **Extension of tax incentives:**
  The e-commerce start-up industry seeks extension of the tax incentive by another three to five years.

- **Simplifying processes for imports/ exports:**
  Industry stakeholders are suggesting reforms to improve the ease of doing business for e-commerce firms working in the import/ export sectors, including dedicated e-commerce import terminals to reduce congestion and improve turnaround time.

What Budget Gave?

Direct tax

- **Extension of tax holiday for startups:**
  The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 1 April 2030.

- **Change in tax slab:**
  With the aim of increasing disposable income, the Government has made the changes in tax slabs.

- **Rationalisation of carry-forward of losses in case of amalgamation:**
  It is proposed to put a capping on the indefinite carry-forward of losses and permits to carry forward the loss for 8 years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.

- **Rationalisation of tax deducted at sources and tax collected at sources:**
  The Government has proposed to rationalise tax withholding (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the requirement of higher TDS / TCS in case of non-filer of tax return proposed to be removed in case of non-PAN cases.

- It is proposed to remove the provisions of TCS under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025

- **Extension of time limit for filing Updated returns:**
  In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinise later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.

- **Multi-year Arm's length determination for Intra-group transactions:**
  The Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.

Indirect tax

- Duty rates on parts of electronic toys, open cell for manufacture of LCD/LED TV panels, components of mobile phones, etc reduced

- Definitive time limit of 2 years introduced to finalise Bill of entries provisionally assessed, subject to conditions.

- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.

- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.

- Introduced enabling provisions for invoice management system, to claim ITC and adjustment of outward liability.

- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025

How It Impacts The Industry?

- Extension of incentives for start-ups to claim 100% tax deduction on profits is likely to fuel further growth for start-ups/ early-stage companies.
- The changes in the tax slabs are expected to result in higher disposable income for individuals, which will, in turn, encourage increased household consumption. With more financial flexibility, people would be able to spend more and contribute to overall economic expansion.

Our Point Of View

- Extension of incentives for startups to claim 100% tax deduction on profits is a welcome change, with the increased focus on gig workers through the e-Shram portal also being a positive step towards recognition of gig workers. Changes in the tax slabs are a welcome move, as they are expected to boost private consumption, ultimately contributing to economic growth. In conclusion, the overall Consumer and E-commerce sector has witnessed balanced support from the Budget.

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Contact Us

MUNJAL ALMOULA
Partner & Head
Tax & Regulatory Services
munjalalmoula@bdo.in

SAMIR SHETH
Partner & Head
Deal Advisory Services
samirsheth@bdo.in

LALIT ATTAL
Partner - Technology
Tax & Regulatory Services
lalitattal@bdo.in

SAVIO MONTEIRO
Partner - Strategy & Commercial Due Diligence
Deal Advisory Services
saviomonteiro@bdo.in

For queries regarding our services, please get in touch with us
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