Grant Thornton

An instinct for growth™

Union Budget 2016-17

Impact on Agriculture and Food & Beverage industry

Contents

01	Foreword
02	An overview
03	Key challenges
04	Growth drivers
05	Key policy initiatives
06	Direct tax proposals
07	Indirect tax proposals
08	Fiscal and economic review

Foreword

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The budget 2016 has been built around the nine pillars of the economy, with one of the key pillars being agriculture and farmers welfare. The government has increased planned allocation to this sector and is relying on the agricultural growth to boost farmers income and thereby the rural economy.

The Union Budget has allocated substantial funds for irrigation projects; this will help bring more land under cultivation and increase crop production. A further impetus for the farmer is the setting up of the e-platforms so that all information relating to a particular crop is available real time thereby helping the farmer obtain market price for their produce.

The government has allowed 100% FDI in marketing of food products, provided that all products are purchased domestically from Indian farmers. This again is a strong thrust towards promoting the domestic food processing industry and increasing farmers' income.

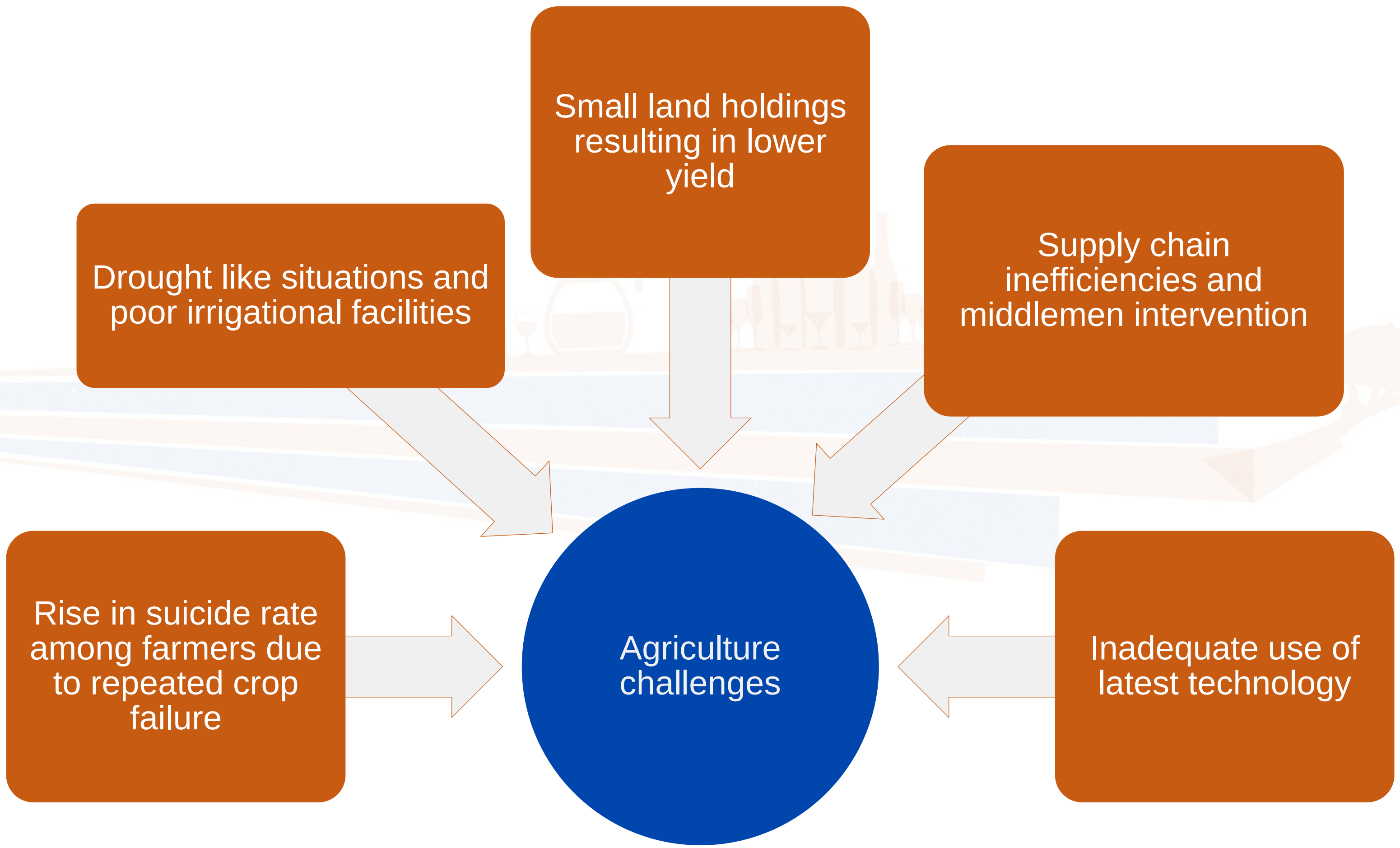
The government also proposed the Krishi Kalyan Cess to be levied on all the taxable services at the rate of 0.5% on the value of such services for the purpose of financing and promoting initiatives to improve agriculture.

The Budget 2016 has recognised the critical role of agriculture and farmer welfare in the economic growth of the country.

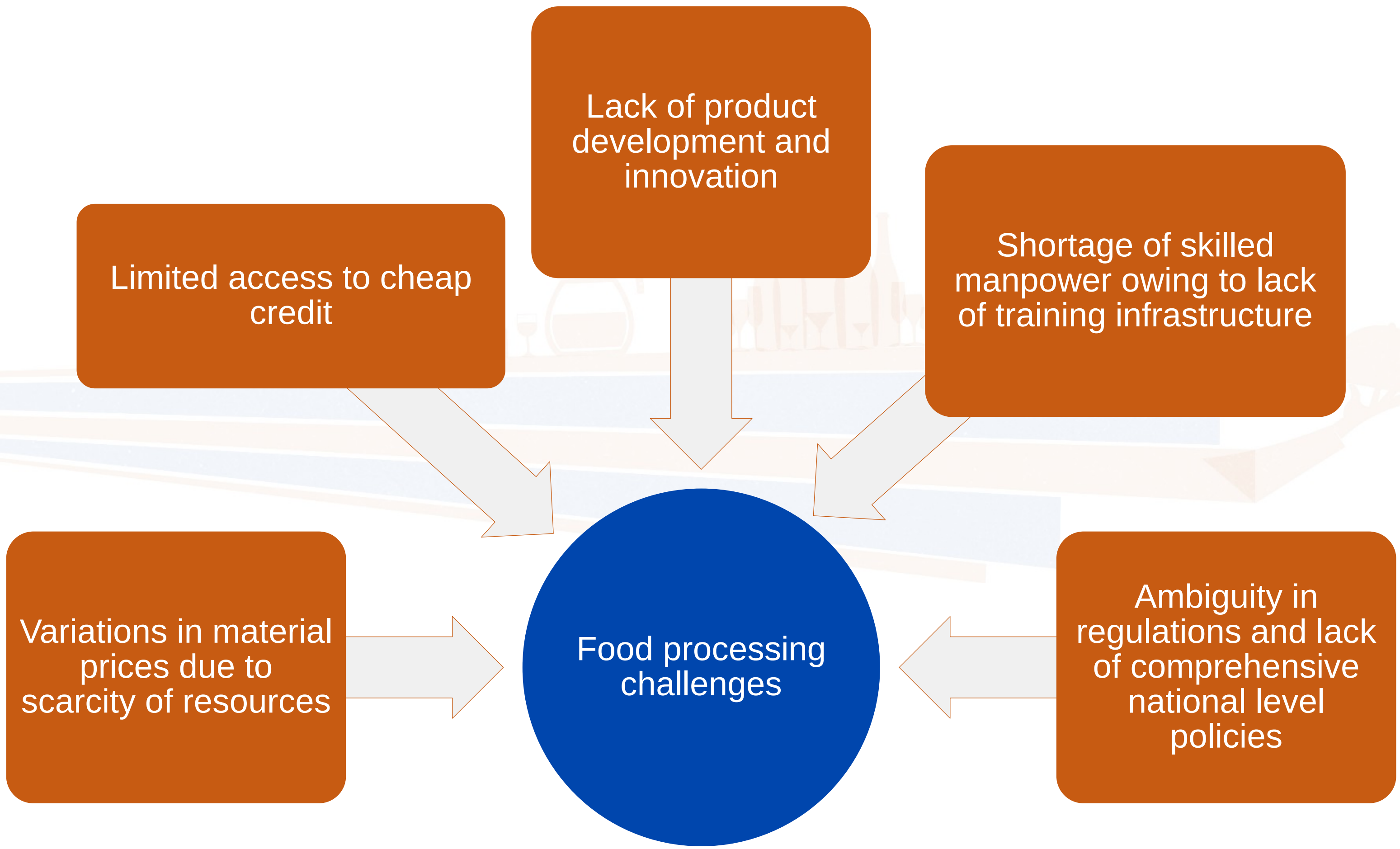
An overview

- The Indian agriculture and food industry made significant stride in the last three decades. With the second largest arable land in the world, India is the largest producer of milk, pulses, sugarcane and tea in the world and the second largest producer of wheat, rice, fruits and vegetables
- Agriculture and food and beverage industry contributes approximately 23% to the country's GDP
- Nearly 60% of the population depend on agriculture and allied industries for its livelihood
- Indian food processing industry is widely recognised as a 'Sunrise Industry' having a huge potential for uplifting the agricultural economy. The industry is estimated to be worth around US$ 121 bn
- Some key takeaways:
  - Implementation of irrigation schemes with a view to bring more than Rs 28.5 lakh hectares under irrigation
  - Allocation of Rs 9 lakh crore for agricultural credit
  - Government intervention to be reoriented, to double the income of farmers in the next five years
  - Creation of e-market platform to enable farmer's to realise better pricing
  - Enhancing expenditure in priority areas of farm and rural sector, social sector, infrastructure sector and employment generation

Key challenges



Key challenges



Growth drivers

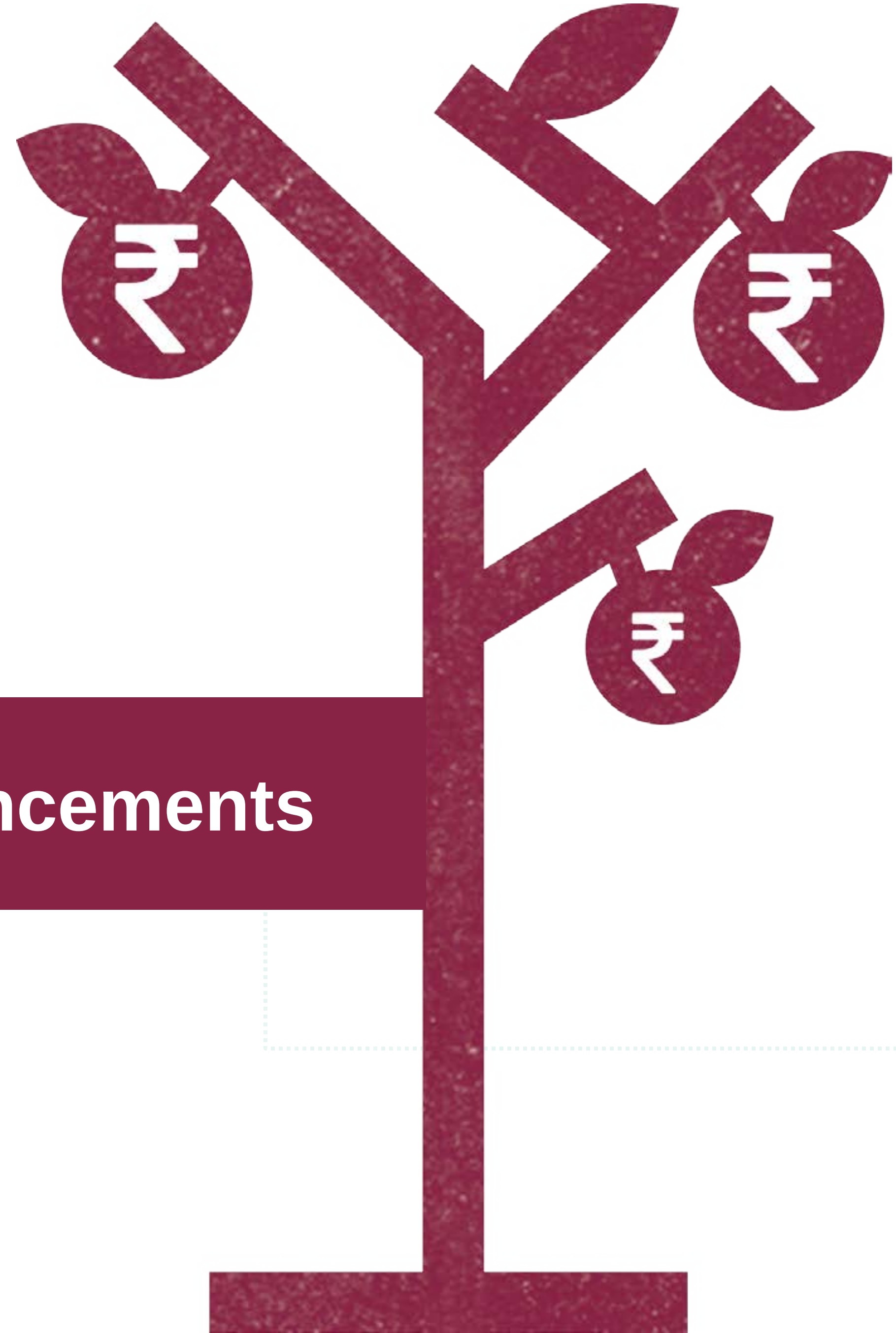
Agriculture

- Agricultural marketing promotion
- Development of Mega Food Parks
- FDI in retail chain
- Early warning system and weather watch management
- Development of horticulture
- Infrastructure development and increased supply of power

Food Processing

- Increased spending on health and nutritional foods
- Increased number of nuclear families and working women
- Changing lifestyle and demographics along with rising disposable incomes
- Organised retail and private label penetration

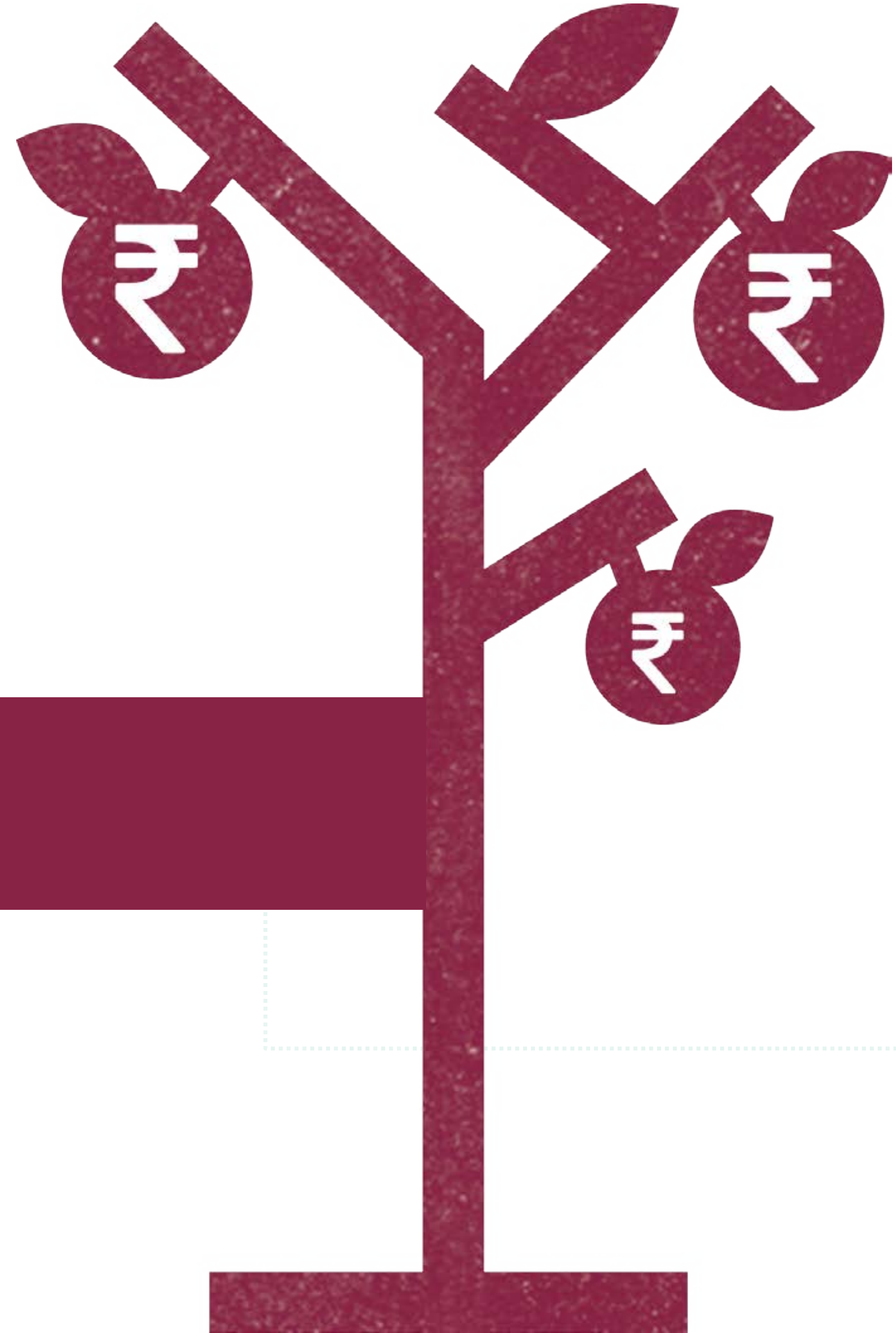
Key policies and announcements



Key policy initiatives

- Rs 35,984 crore allocated under Agriculture and Farmers' welfare
- 'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode by bringing 28.5 lakh hectares of land under irrigation
- Implementation of 89 irrigation projects under AIBP
  - 100% Foreign Direct Investment ('FDI') under FIPB approval route in marketing of food products produced and manufactured in India
- A dedicated long term irrigation fund will be created in NABARD with an initial corpus of about Rs 20,000 crore
- 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for production of organic manure will be taken up under MGNREGA
- Soil Health Card scheme to cover all 14 crore farm holdings by March 2017
- Promote organic farming through 'Parmparagat Krishi Vikas Yojana' and 'Organic Value Chain Development in North
- Unified agricultural marketing e-platform to provide a common platform for wholesale markets
- Allocation under Pradhan Mantri Gram Sadak Yojana increased to Rs 19,000 crore which will connect remaining 65,000 eligible habitations by 2019
- Provision of INR 15,000 crore has been made in the Budget Expenditure 2016-17 towards interest subvention
- Promoting pack-houses and ripening chambers – concessional BCD of 5% for 'cold chain' including pre-cooling unit, pack houses, sorting and grading lines and ripening chambers
- INR 850 crore for 4 dairying projects – 'Pashudhan Sanjivani', 'Nakul Swasthya Patra', 'E-Pashudhan haat' and National Genomic Centre for indigenous breeds

Direct tax proposals



Income Tax rates

Corporates

- Tax rate reduced to 29% for domestic companies with a total turnover/gross receipts of upto Rs 5 crore in FY 2014-15
- Newly set up domestic companies engaged solely in manufacture or production to be taxed at 25% resulting in a 5% reduction in rate - the company should not avail of specified tax incentives
- No other changes in corporate tax rates or surcharge

Other taxpayers

- No change in tax rates and surcharge for firms, LLPs and co-operative societies

Reduction in corporate tax rates for new manufacturing companies and existing small companies

Phasing out incentives

Proposed plan to phase out incentives (profit linked/investment linked/weighted deduction):

Section	Particulars	Current incentive	Proposed phase out of incentives
32	Accelerated depreciation provided to certain industrial sectors to give impetus for investment	Depreciation up to 100% available	Depreciation now capped at 40% for all assets from FY 2017-18
35(1)(ii)	Expenditure on scientific research: for sum paid to approved scientific research association and other approved institution undertaking scientific research	Weighted deduction of 175%	Deduction capped at: • 150%from FY 2017-18 to 2019-20 • 100% from FY 2020-21
35(1)(iia)	Expenditure on scientific research: for sum paid as contribution to an approved scientific research company	Weighted deduction of 125%	Deduction capped at 100% from FY 2017-18

Phasing out incentives

Proposed plan to phase out incentives (profit linked/ investment linked/weighted deduction):

Section	Particulars	Current incentive	Proposed phase out of incentives
35(1)(iii)	Expenditure on scientific research: for contribution to an approved research association or university or college or other institution to be used for research in social science or statistical research	Weighted deduction of 125%	Deduction capped at 100% from FY 2017-18
35(2AA)	Expenditure on scientific research: for any sum paid to a National Laboratory or a university or an Indian Institute of Technology or a specified person for the purpose of approved scientific research programme	Weighted deduction of 200%	Deduction capped at: • 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21
35(2AB)	Expenditure on scientific research: incurred by a company, engaged in the business of bio-technology or in the business of manufacture or production of any article or thing, on scientific research on approved in-house research and development facility.	Weighted deduction of 200% of the expenditure (not being expenditure in the nature of cost of any land or building)	Deduction capped at: • 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21

Phasing out incentives

Proposed plan to phase out incentives (profit linked/ investment linked/weighted deduction):

Section	Particulars	Current incentive	Proposed phase out of incentives
35AD	Investment linked deduction for the purchase of machinery and other capital assets (100% or 150% in various cases) for specified businesses, e.g., cold chain facility, warehousing facility for storage of agricultural produce, an affordable housing project, production of fertiliser, hospitals	Weighted deduction of 150% of capital expenditure (other than expenditure on land, goodwill and financial assets)	100% of capital expenditure from FY 2017-18
35CCC	Expenditure incurred on notified agricultural extension project	Weighted deduction of 150% of expenditure incurred on notified agricultural extension project	Deduction capped at 100% from FY 2017-18

Welcome incentives

Incentives for startups

- Startups to be allowed a 100% deduction of profits for 3 consecutive years out of five, subject to the fulfilment of prescribed conditions

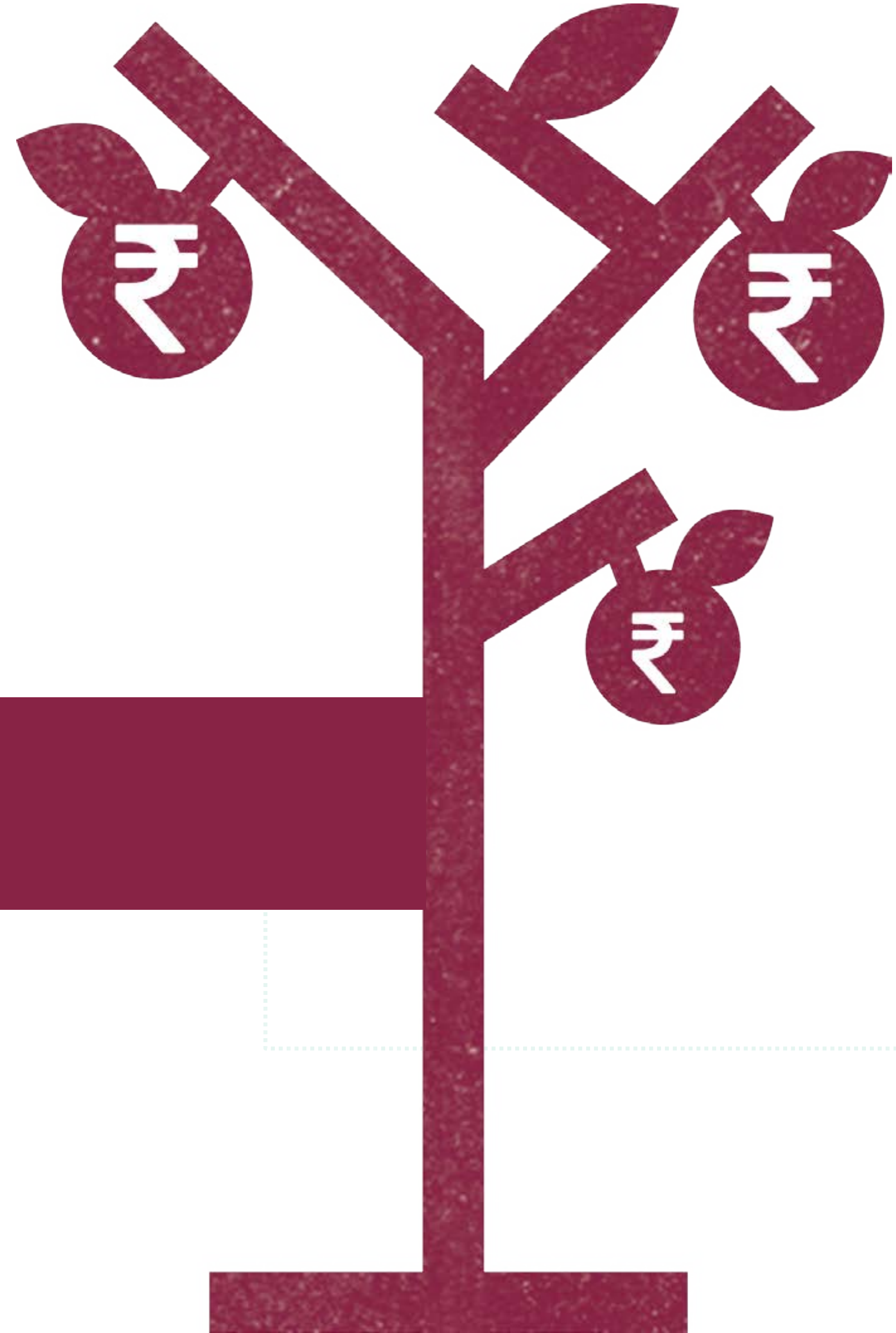
Tax incentive for employment generation

- Budget has introduced the following amendments/ insertions:
  - Deduction available with respect to employee costs incurred, where total emoluments are less than or equal to Rs 25,000 per month
  - No deduction allowed on government funded pension accounts
  - Minimum days of employability reduced from 300 days to 240 in a financial year
  - 30% of all emoluments paid/payable to the employees employed during the year shall be allowed as deduction in the first year of business

Other proposals

- Simplification, rationalisation and digit of tax procedures
- Country-by-Country reporting introduced for multinational enterprises along with stringent non- compliance penalty

Indirect tax proposals



Snapshots of indirect tax proposals

01	Krishi Kalyan Cess (KKC) introduced at 0.5% on all taxable services; effective service tax rate now at 15%
02	Service tax exemption extended in relation to services provided by National Centre for Cold Chain development and Deen Dayal Upadhyay Grameen Kaushalya Yojana
03	CENVAT credit rules tweaked to allow for more logical flow and restriction of credits
04	Change in rate of certain goods of Central Excise Tariff viz. fertilizers, containers etc.

Fiscal and economic review

Goods and Service tax proposals

GST preparedness

- No change in the current status-quo on passing the GST Constitution Amendment Bill. The bill is currently pending with the Rajya Sabha (Upper House of Parliament)
- The Central Government may attempt to pass the GST Constitution Amendment Bill despite differences with key opposition parties, in the next parliament session
- Tentative implementation date of GST remains at 01 April 2017 although, both government and industry are stretched to meet this timeline

No concrete announcements around GST preparedness, lack of political consensus continues to create ambiguity on a realistic implementation date

Customs duty

Effective from date of enactment of Finance Bill 2016

- Amendment in Customs Act to provide facility to defer payment of duties for certain class of importers/exporters as prescribed by Rules to be notified
- Enabling special warehouse licenses for storage of dutiable goods; to enable storage of specific goods subject to physical controls of the department and power to cancel licenses. Warehousing period for all other goods extended to 1 year with a further extension permitted 1 year at a time
- Capital goods intended for use in EOU/EHTP/STPI to be treated as warehoused goods till their clearance from warehouse
- Amendment to provide for cancellation of warehousing bond in case of transfer of ownership

Central Excise duty

Tariff changes – product wise

Effective from 01 March 2016

Product	Old Rate	New Rate
Disposable aluminium foil containers	2% (without CENVAT credit) and 6% (with CENVAT credit)	2% (without CENVAT credit) and 12.5% (with CENVAT credit)
Refrigerated containers	12.5%	6%
Fertilizers, made by physical mixing of chemical fertilizers	1% (without CENVAT credit] or 6% [with CENVAT)	Exempt
Sacks and bags of polymers of any plastics	12.5%/15%	15%

CENVAT credit rules

All changes are effective from 01 April 2016 except where otherwise specified.

Changes to definitions

- Definition of 'capital goods' expanded to include specified goods used in office/railway wagons etc.
- Definition of 'input' expanded to include all capital goods of value up to Rs10,000 per piece
- Definition of 'exempted service' to exclude services by way of transportation of goods by a vessel from customs station of clearance in India to a place outside India (effective 01 March 2016)
- CENVAT credit on inputs and capital goods used for pumping of water, for captive use in the factory, is being allowed even where such capital goods are installed outside the factory

CENVAT credit rules

Changes in CENVAT reversals for taxable and exempt manufacturers/service providers

- CENVAT credit have undergone significant changes, as under:
  - Exempted services will include an activity, which is not a service (for e.g. trading of goods)
  - Option of maintaining separate books earlier available under Rule 6(2) replaced with specified methods highlighted below depending on the nature of output activity
  - CENVAT credit on capital goods exclusively attributable to exempted activity now proposed to be claimed after two financial years from commencement/installation
  - Monthly reversal to be computed based on pervious financial year's turnover
  - Interest rate for non-reversal of CENVAT credit reduced from 24% to 15% per annum
  - CENVAT credit of inputs transferred from manufacturer warehouse can be taken on invoice raised by such a warehouse
  - Hierarchy for utilisation of CENVAT credit deleted

CENVAT credit rules

Relaxations on CENVAT credits (Effective from 01 April 2016)

Type of inputs/capital goods	Credit relaxations
Jigs, fixtures, moulds and dies or tools falling under Chapter 82	CENVAT credit allowed to principal manufacturer even if goods are directly sent to premises of job worker
Goods at the premises of job worker	Permitted period for storage of goods extended from one to three financial years subject to approval

Expansion of Input Service Distributor mechanism

- Input Service Distributor (ISD) allowed to distribute CENVAT credit to an outsourced manufacturing unit with requirement to maintain separate account for credit received from each ISD
- Applicable credit reversals to be done by outsourced manufacturing units separately for each ISD
- Transitional provision inserted to clarify that credit available with ISD as on 31 March 2016 not to be transferred to any outsourced manufacturing unit

Service tax

- Krishi Kalyan Cess (KKC) at 0.5% of value on all taxable services; effective service tax to increase to 15% (inclusive of SBC and KKC). KKC paid on input services adjustable against output KKC liability (Effective from 01 June 2016)
- Exemption restored on construction and maintenance of canal, dam, etc. or other irrigation works (Effective from 01 July 2012)
- Service tax exemption extended to:
  - Specified National Centre for cold chain development
  - Skill/vocational skill training by ‘Deen Dayal Upadhyay Grameen Kaushalya Yojana’ training partners
- Reverse charge extended to all services provided by government to business entities (Effective from 01 April 2016)
- Annual return for specified assesses to be filed by 30 November (Effective from 01 April 2016)

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