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UNION BUDGET 2024-25

Expectations on Indirect Taxes front

The recently re-elected central government is set to present its thirteenth Union Budget on 23 July 2024. There is much anticipation from NDA 3.0 for policies aimed at economic growth, fiscal consolidation, inflation check, and promotion of private and foreign investments in crucial sectors like infrastructure, education, and healthcare.

While GST related reforms in this Budget would be aligned to give effect to the recently announced trade facilitation measures of the 53rd GST Council meeting, much remains to be seen on the Customs legislation as well as on the incentivization front.

Indirect taxation plays a pivotal role in formulating the economic policy of the country, and accordingly, the key expectations are discussed herein below:

Customs

Correction of inverted duty structure

Reduction in customs duty rates on raw materials and intermediate goods required for domestic manufacturing of finished products which otherwise attract a lower GST rate, such as textile, leather and paper. To further enhance the involvement of domestic industries under the Make in India initiative, the government has been emphasizing on the use of local produce instead of imports, as is evident from the withdrawal / pruning of the exemption list over the years. However, until India is able to tap into the indigenous resources and start manufacturing such raw materials and intermediate goods locally, the government may consider lowering the customs duty rates with an aim to rectify the inverted duty structure for these sectors.

Continuation of customs duty exemptions

Similarly, with an aim to further reduce the carbon footprint and looking at the current environmental needs, the government could extend the customs duty exemptions beyond 30 September 2024. The items which currently enjoy an exemption inter alia include lithium-ion cells for battery / battery pack of cellular mobile phones and EV / hybrid motor vehicles, solar tempered glass for solar cells, panels and modules, lactose for use in homeopathic medicine, gold ores and concentrates.

Streamlining of valuation norms for related party transactions

The related-party imports are subject to scrutiny under both Transfer Pricing and Customs regulations. However, the respective administrations work in the opposite direction, thus warranting a common pricing norm that can aid in determining an arm's length price which is acceptable under both legislations.

Further, the government should overhaul the 2016 procedure and lay down clear and specific guidelines for timely and efficacious completion of proceedings before the Special Valuation Branch. It may also expand the jurisdictional SVB offices for administrative convenience.

Revival of MOOWR scheme

The IGST deferment benefit was removed in Budget 2023. Further, lack of clarity regarding certain procedural aspects coupled with the government's lackluster efforts to create awareness / promote this scheme has led to tepid response from the trade and industry.

Some of the issues which the government could address / implement in the upcoming Budget, for promoting the scheme further, are:

- Allowing depreciation for computing customs duty on capital goods when removed from bonded premises.
- Entitlement to claim drawback / RoDTEP benefits on goods manufactured in MOOWR bonded premises and exported thereof.
- Digitalization of returns / registers required to be filed / maintained under MOOWR.
- Bringing in more transparency for better awareness and uniformity among the administrative officials.
- Removing the technical difficulties in integrating the MOOWR scheme on ICEGATE portal.

One-time amnesty scheme

Similar to the amnesty announced for the initial years under the GST regime (Section 73), the government could consider extending a one-time amnesty under the Customs law, to reduce litigation around issues like valuation, incorrect classification, erroneous refunds, bona fide export obligation defaults under Advance Authorization / EPCG Authorization schemes, etc.

Grievance redressal cell for IGST refunds

The refund with respect to goods exported out of India on payment of IGST are often stuck due to non-transmission of data from GSTN to ICEGATE, or due to mismatch between the returns data transmitted by GSTN and the shipping bill details. The exporters receive error codes relating to EGM validation, incorrect details of shipping bill or invoice number or port code etc. To resolve these concerns, the exporters are required to reach out to the GSTN or ICEGATE Helpdesks, which proves to be a cumbersome activity.

For smooth and expeditious redressal of such grievances, a specialized Cell may be set up at Customs which can resolve technical queries as well.

Incentivization schemes

Revival of DESH

The Development of Enterprise and Services Hub (DESH) Bill was initially introduced by the Hon'ble Finance Minister in her Budget Speech on 1 February 2022. She had announced the replacement of the Special Economic Zones (SEZ) Act with new legislation enabling the States to become partners in the development of Enterprise and Service hubs.

However, since then, this initiative has hit a roadblock given the Ministry of Finance's reservations on offering any tax concessions to such units, fearing it could kick-start a debate about extending similar incentives to companies outside SEZ / DESH. The Ministry also opposed to the proposal of allowing the units to sell in the domestic market by only relinquishing the duty benefits availed on raw materials and inputs used in the finished products.

While the discussions in the media are indicating that the government may amend the existing SEZ Act instead of introducing a new legislation, the proposed roadmap may be announced by the Hon'ble Finance Minister in the upcoming Union Budget, including the extension of work from home policy beyond the sunset of 31 December 2024. This could also give further impetus to the Foreign Trade Policy initiative of developing districts as export hubs, thereby empowering MSMEs, farmers and small-scale industries to get the benefit of export opportunities in the overseas markets.

New Production-Linked Incentive (PLI) Schemes

Since their introduction in March 2020, the PLI schemes have contributed significantly to revitalizing the manufacturing sector and strengthening the supply chains. At present, the schemes extend to 14 sectors including electronic / technology, pharmaceutical, automobiles & auto components, advance chemistry cell (ACC) battery, telecom, textiles & apparel, and specialty steel.

While this has resulted in the creation of over 6.50 lakhs jobs (approx.), both directly and indirectly, it would be imperative for the government to address the limited employment generation in sectors like leather, handicrafts, toys, footwear, and jewellery. Further, it may announce the extension of the budget allocation as well as expansion of the PLI scope for automobile and auto components, textiles, electronics and pharmaceuticals sectors. This would further bolster the country's manufacturing capabilities and attract investments and improve efficacy, which in turn would help in economic growth.

As the D-day fast approaches, the trade & industry, experts, as well as the aam aadmi await with bated breath for the Hon'ble Finance Minister Smt. Nirmala Sitharaman to take the center stage and announce the proposals and allocate budgets which could address the issues pertaining to defense, education and infrastructural sector. Whether the Union Budget 2024 would be populist, reformist or a balanced budget, only time will tell!

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