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Pre-Budget Expectations for the Gems & Jewellery (G&J) Industry

As Budget 2025 approaches, industry stakeholders are optimistic about policy measures that could address these challenges, enhance competitiveness, and solidify India's position as a global hub for jewellery design, manufacturing, and export.

Some of the key expectations of Budget 2025 are as under:

1. Extension of Scope under Section 115BAB for New Manufacturing Domestic Companies

Section 115BAB provides an option to pay income-tax @ 15% (effective tax rate of 17.16% inclusive of surcharge and cess) to any new domestic company incorporated on or after 1 October 2019 making fresh investment in manufacturing subject to certain terms and conditions. Such concessional regime benefit would be available to such companies who do not avail specified exemption / incentives available under the Income-tax Act ("IT Act") and commence their production on or before 31 March 2024.

One of the conditions for claiming the benefit u/s 115BAB is that the company should not be engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it. In the Gems & Jewellery sector, it is a general practice for the manufacturing concerns to undertake ancillary trading and job work activities. Such activities, though integral to the business, may not be in direct relation to the manufacturing activities carried out by the business. Consequently, the benefit under this section could not be availed by the G&J sector units on income derived from such trading and job work activities. Accordingly, it is expected to widen the scope of the section in order to enable the applicability of such concessional rate of 15% on such ancillary trading and job work activities as well.

2. Rationalisation of Deduction u/s 80JJAA of the IT Act in respect of employment of new employees

Section 80JJAA provides for deduction of 30% of additional employee cost for three assessment years to all assesses falling within the scope of audit u/s 44AB of the IT Act. Such benefit of deduction would be applicable in case of additional employees whose total emoluments are upto Rs. 25,000 per month. Such limit has not been revised since the introduction of the said section vide Finance Act 2016. In order to boost the employment in manufacturing and also service sector, the limit of emoluments could be increased to Rs. 50,000 per month. Also, as the manufacturing sector employs maximum contract labour, the benefits under this section can be extended to contract labour as well. This would enable a larger section of the G&J sector to avail the benefit of deduction thereby generating employment.

3. Introduction of Safe Harbour Rules for G&J Sector

Safe Harbour Rules for the purpose of determination of arm's length price were introduced in the Income Tax regime in 2015 with an intent to bring down the widespread litigations with respect to international transactions conducted between Associated Enterprises. However, at present, such SHRs are applicable only to certain specific industry sectors such as IT & ITeS, contract research in generic pharmaceuticals, manufacture and export of core and non-core automobile components, etc.

Considering that the G&J sector is one of the most active sectors engaged in contributing to the foreign reserves of the country with its ever increasing exports over the years, it is expected that the scope of SHRs be extended to G&J sector as well in order to facilitate ease of doing business and would also provide a boost to the said sector. Accordingly, the margins to be prescribed in this regard shall be realistic and in consonance with the general sectorial margins prevailing in the industry.

4. Threshold for mandatory requirement of PAN to be increased from Rs. 2 lakhs to Rs. 5 lakhs

At present, the purchasers are required to provide PAN for the purpose of purchase of gold of amount exceeding Rs. 2 lakhs in accordance with Rule 114B of the IT Rules. Such mandatory requirement creates issues for customers, especially in rural areas, who not possess PAN. Prior to 1st January 2016, such threshold limit for purchase of gold was set at Rs. 5 lakhs. However, the reduction in threshold has adversely affected the organised jewellery trade in value terms. Thus, such threshold for mandatory PAN requirement may be increased to Rs. 5 lakhs.

5. Disallowance for delay in payments to Micro or Small Enterprises u/s 43B(h) may be restricted to delays beyond 90 days

The Finance Act, 2023 has amended section 43B of the IT Act with respect to the payment made to micro or small enterprises registered under MSMED Act and sub-clause (h) inserted therein. In accordance with the provision of section 43B(h) of Income Tax, 1961, if an amount payable to micro or small enterprises (registered under MSMED Act) remains outstanding beyond the period (15 days or 45 days, as applicable) specified in section 15 of MSMED Act, by the buyer, such amount is disallowed in the year of delay. However, the buyer can claim deduction in the year in which liability is actually paid under section 43B(h) of the IT Act, 1961.

Based on the current provisions, the entire amount payable to such micro or small enterprises is disallowable if it is not paid within the aforesaid timeline and is allowable in the year of payment. This provision has received mixed response as several large enterprises are reluctant to deal with micro or small enterprises particularly in businesses the credit period is much longer.

As such, to achieve a balance, the disallowance may be restricted to those cases where the payment is delayed beyond a period of 90 days. This will also reduce administrative burden for the businesses.

These expectations reflect the G&J sector's aspirations to leverage strategic opportunities and address challenges to sustain growth momentum. By addressing these priorities in the Union Budget of 2025, the government can bolster the gems and jewellery sector's role as a key driver of economic growth, exports, and employment in India.

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