

## **Fiscal incentives<sup>1</sup> for the promotion for the Food Processing sector:**

### **I. Income Tax relief:**

- (i) Section 80-IB of the Income Tax Act, 1961 deals with some **deductions in respect of profits and gains** from certain industrial undertakings related to Food Processing Industries. The scope of deduction has been expended over the years. As per the latest provision in the Income Act, 1961 an assessee shall be allowed a deduction from of an undertaking deriving profit from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products and the integrated business of handling, storage and transportation of food grains, shall be 100 per cent of the profits and gains derived from such undertaking for five assessment years beginning with the initial assessment year and thereafter, 25 per cent (or 30 per cent in the case of a company) of the profits and gains derived from the operation of such business in a manner that the total period of deduction does not exceed ten consecutive assessment years and subject to fulfilment of the condition that it begins to operate such business on or after the 1st day of April, 2001.
- (ii) **Deduction is permitted for expenditure incurred on investment in capital** for setting up of Food Processing related items. Under section 35-AD of Income Tax Act, 1961, an assessee shall be allowed a deduction in respect of the whole of any expenditure of capital nature incurred, wholly and exclusively, for the purposes of any '**Specified Business**' carried on by him during the previous year in which such expenditure is incurred by him provided that the expenditure incurred, wholly and exclusively, for the purposes of any specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business, if—
  - (a) The expenditure is incurred prior to the commencement of its operations; and
  - (b) The amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

*Deduction under the aforesaid section is allowed of an amount equal to one and one-half times i.e. 150 per cent of the expenditure referred to there in w.e.f. 1.4.2013.*

The **specified business** defined with regard to Food Processing Industries includes:

- (a) Setting up and operating a cold chain facility;
- (b) Setting up and operating a warehousing facility for storage of agricultural produce;
- (c) Bee-keeping and production of honey and beeswax;
- (d) Setting up and operating a warehousing facility for storage of sugar;

Further, '**cold chain facility**' has been defined to means a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture and processed food items under scientifically controlled conditions

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<sup>1</sup> Fiscal Incentives indicated are illustrative. Details regarding the incentives and their duty implications can be ascertained from the relevant Act and Notifications issued by the Department of Revenue, Ministry of Finance.

including refrigeration and other facilities necessary for the preservation of such produce.

## **II. Service Tax:**

**Exempted categories:** Service Tax exemption has been provided for services relating to:

- (a) Construction, Erection, Commissioning, or installation of original works pertaining to post-harvest storage infrastructure for agricultural produce including Cold storages for such purposes.
- (b) Mechanized Food grain handling system, machinery or equipment for units processing agricultural produce as food stuff excluding alcoholic beverages; and
- (c) Services provided by a goods transport agency by way of transportation of fruits, vegetables, eggs, milk, food grains or pulses in a goods carriage.
- (d) Services of Loading, unloading, packing, storage or warehousing of agricultural produce are not liable to Service tax.

*(Ref. Service Tax notification No. 25/2012-Service Tax dated 20<sup>th</sup> June 2012 issued under Section 93 Chapter V of the Finance Act, 1994- Power to grant exemption from service tax.)*

**Negative List:** Services relating to agriculture included in the “Negative list” are not levied service tax. These services include processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter the essential characteristics of agricultural produce but make it only marketable for the primary market.

*(Ref. Section 66 D(d) (iii) Chapter V of the Finance Act, 1994)*

## **III. Custom Duty:**

Project Imports’ is an Indian innovation to facilitate setting up of and expansion of Industrial projects. The Project Import Scheme seeks to achieve the objective of simplifying the assessment in respect of import of capital goods and related items. Project Imports’ benefits have been extended to the following projects:

- (a) Projects for the installation of mechanized food grain handling systems and pallet racking systems in ‘Mandis’ and Warehouses for food grains and sugar.
- (b) Cold storage, cold room (including for farm level pre-cooling) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic and marine produce and meat.

Consequently all goods related to Food processing, imported as part of the project, irrespective of their tariff classification, would be entitled to uniform assessment at concessional basic customs duty of 5 %.

*(Ref. Notification No 12/2012 dated 17.3.2012)*

## **IV. Central Excise Duty:**

- (a) Some processed foods items like sauces, ketchup, ready to eat food products milk containing nuts with edible sugar, flavored milk attract a concessional rate of 2% of duty subject to non-availment of Cenvat credit or 5% with Cenvat credit.
- (b) Excise Duty has been reduced from 10% to 6% on processed food products of soya.

- (c) Nil Excise Duty on Conveyer belt system used in cold storage facilities for the preservation, storage, transport or processing agriculture, apiary, horticulture, dairy, poultry, aquatic and marine produce and meat, Mandis and warehouses, Milking machines and dairy machinery.
- (d) Nil Excise Duty on machines for cleaning, sorting or grading seed, grain or dried leguminous vegetables, machinery used in the milling industries or for the working of cereals or dried leguminous vegetables other than farm type machinery, Machinery for flour mill, rice mill and parts of these machinery.