Union Budget 2014-15

Impact on the Healthcare sector

July 2014

Content

Budget overview

When we at Grant Thornton conducted a pre-budget survey a fortnight ago, the recurring demands from industry were to give increased tax benefit to individual taxpayer, usher in an investor-friendly and growth-oriented regime and bring ease of doing business by controlling tax litigation. The Finance Minister, in his maiden budget today, covered fair ground to meet these demands!

For individuals, he proposed to increase the basic exemption limit by Rs 50,000, proposed an additional interest deduction for self-occupied house property to the extent of Rs 50,000 along with an additional Rs 50,000 deduction under Section 80C. This can provide a benefit of upto Rs 35,000 a year in case of an individual who is in the 30% slab rate.

On ushering an investor-friendly regime, the Finance Minister has announced that new cases pertaining to retrospective amendments on indirect transfer would go to a high powered committee of the CBDT. This falls short of investor expectation of doing away with the retrospective application altogether.

Though it needs to be seen how the committee would be able to contain the litigation on this count. However, there are other positive announcements in the Budget, such as granting pass through status to REITs, extending lower TDS rate of 5% to long-term bonds (other than infrastructure bonds), increasing the FDI cap in insurance and defence sectors, and characterising FII income as capital gains.

As regards the growth agenda, the government has promised to resolve the issues pertaining to GST within this year and lay down a clear roadmap. This is encouraging. Further, specific indirect tax sops extended to a few sectors such as power, shipping, auto, consumer durables, tourism, aviation, etc. does make a favorable ground for regaining confidence of industry players. Also, extension of lower rate of 15% tax on dividend received by Indian companies from their foreign subsidiaries without a sun-set date is a very positive policy move.

Budget overview

On ease of doing business by reducing litigation, the proposal for strengthening the APA administration and giving rollback effect to the arrangement is a welcome move. This, coupled with the proposal to use a range for benchmarking and multiple year data, would avoid lot of unnecessary litigation. Also, the proposal to extend the scope of Advance Rulings to resident taxpayers, setting up a high level committee to interact with industry and expanding the scope of settlement commission should go a long way in reducing tax litigation in India.

In a nutshell, the budget proposals are not everything that people aspired for but is a move in the right direction to usher "acche din"...

Key policy initiatives

'Health for All' initiative

- 'Heath for all' continues to remain a priority and to augment the same, free drug service and free diagnosis service has been introduced

Medical education

- Funding of Rs 500 crore for AIIMS like institutions in Andhra Pradesh, West Bengal, Vidarbha in Maharashtra and Poorvanchal in UP
- 12 new Government medical colleges to be set up
- National level research and referral Institute for higher dental studies to be set up
- 2 national institutes for early quality diagnosis and treatment of TB patients to be set up at AIIMS, New Delhi and Madras Medical College, Chennai

Affordable healthcare

- 15 Model Rural Health Research Centres to be set up for research on local health issues concerning rural population for improving affordable healthcare and augmenting transfer of technology

Central government assistance

- Central government to provide assistance to strengthen the State's Drug Regulatory and Food Regulatory Systems by creating new drug testing laboratories and strengthening the existing State laboratories

Tackling malnutrition

- A national programme to halt the deteriorating malnutrition situation in India to be put in place within six months

Foreign Direct Investment (FDI) related policy

- Manufacturing units with FDI to be allowed to sell their products through retail including e-commerce platforms

Others

- Thrust on introduction of GST
- Convergence with International Financial Reporting Standards (IFRS) by adoption of the new Indian Accounting Standards by Indian companies

Direct tax proposals

Corporate tax rates

- There is no change in the corporate tax rates, surcharge, education cess and secondary and higher education cess

Investment allowance available to smaller investments under Section 32AC

- Finance Bill (No. 2), 2014 proposes to extend the investment allowance under Section 32AC to medium size investments in plant and machinery
- This is proposed to be NOW ALSO available where a company engaged in business of production or manufacture of article or thing, acquires and installs certain new plant and machinery in excess of Rs 25 crore in a financial year starting from 1 April 2014 till 31 March 2017
- An investment allowance of 15% on the amount invested is proposed on such investments
- This investment allowance was available under existing provisions only if the aggregate investment exceeded Rs 100 crores in Financial Years 2013-14 and 2014-15

Direct tax proposals

Deduction in respect of expenditure incurred for specified business under Section 35AD

- It has been proposed to amend Section 35AD (dealing with investment linked incentive) which provides that the assessee shall use the assets wholly for the specified business for a period of 8 years commencing from the year of its acquisition or construction
- Failure on part of the assessee to comply with the above will result in taxability of the deduction earlier claimed, reduced by the allowable depreciation, as business income in the year of default
- It is proposed that an assessee claiming deduction under this provision shall not qualify for deduction under section 10AA
- The amendment is proposed to be effective from FY 2014-15

Units established in Special Economic Zone (SEZ) ineligible to claim deduction under Section 35AD

- Section 35AD allows investment linked deduction in respect of profits of certain specified businesses
- Budget proposes that units located in SEZ and claiming deduction under section 10AA, are ineligible to claim deduction under Section 35AD for such specified business
- This provision will take effect from FY 2014-15

Direct tax proposals

Relaxation in disallowance of expense in the event of withholding tax defaults

Non-resident:

- Presently, any default in deposition of Tax Deducted at Source (TDS) on non-residents payments within the time frame prescribed, results in disallowance of the expense under Section 40(a)(i). The expense so disallowed gets allowed or deductible in the year in which the TDS was deposited
- Finance Bill (No. 2), 2014 proposes to allow such expenses in the year of incurrence itself, if the tax is withheld in the year and is deposited before the due date for filing the tax return for that year

Resident

- Presently, any default in deposition of TDS with respect to certain payments to residents, results in disallowance of the entire expense under Section 40(a)(ia). The expense is thereafter allowed in the year in which the TDS was deposited.
- Limiting the disallowance to only 30% of the relevant expense is proposed. 30% of the expense so disallowed, would be allowed in the year in which the TDS is deposited
- The Bill also proposes to widen the ambit of disallowance under Section 40(a)(ia). Presently, not depositing TDS on certain expenses like salary, payment for acquisition of immovable property, etc. do not result in disallowance of the expense. However, this Bill proposes to enlarge the consequential provision of disallowance to include all amounts payable to residents (on which TDS provisions are applicable) in the ambit of the said disallowance
- The amendment is proposed to be effective from AY 2015-16

Direct tax proposals

Concessional tax rate on foreign dividend

- Presently, dividends received by an Indian company from a specified foreign company is chargeable to tax at the rate of 15% with a sunset clause till FY 2013-14
- The Finance Bill proposes to remove the sunset clause and extend the benefit of concessional rate of taxation of 15% indefinitely

Dividend Distribution Tax

- Under the existing provisions, a domestic company is liable for payment of DDT at the rate of 15% on any amount declared, distributed or paid by way of dividends to the shareholders under Section 115-O
- The Finance Bill proposes to amend this section, providing that DDT shall be levied on grossed up distributable amount i.e. the amount distributed and the DDT amount
- This amendment will come into effect from 1 October 2014

Direct tax proposals

Tax withholding on interest income earned by non-resident

- Tax withholding at the rate of 5% on interest payment to non-residents in respect of foreign currency borrowings is proposed to be extended to business trusts as well
- Such concessional treatment is proposed to be applicable for monies borrowed before 1 July 2017 (as against the present time limit of 1 July 2015)
- Under the existing provisions, apart from foreign currency loan, this reduced withholding tax rate of 5% applies only to interest on long term infrastructure bonds. It is now proposed that this benefit should be extended to all long term bonds (i.e. whether infrastructure bonds or not)
- this provision will be effective from 1 October 2014

Tax deduction of expenditure on Corporate Social Responsibility (CSR)

- Expenditure on CSR activities has been mandated by the Companies Act 2013. However, there was no clarity on the allowability of such expenditure under the existing provisions of the Income Tax Act
- The Budget proposes to specifically disallow the expenditure in respect of CSR under Section 37 as business expenditure
- The expense otherwise allowable under Other provisions of the Act should continue to be permissible

Direct tax proposals

No roll back in Retrospective Amendments

- No specific amendment has been proposed for retrospective taxation of indirect transfers which was introduced by the Finance Act, 2012
- The Finance Minister in his Budget Speech has assured the investor community that the government will not ordinarily bring about any change retrospectively which creates a fresh liability
- However, assurance has been given to the investor community that all fresh cases arising from the retrospective amendments in respect of indirect transfers will be scrutinised by a High Level Committee to be constituted by the Central Board of Direct Taxes before any action is initiated in such cases

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