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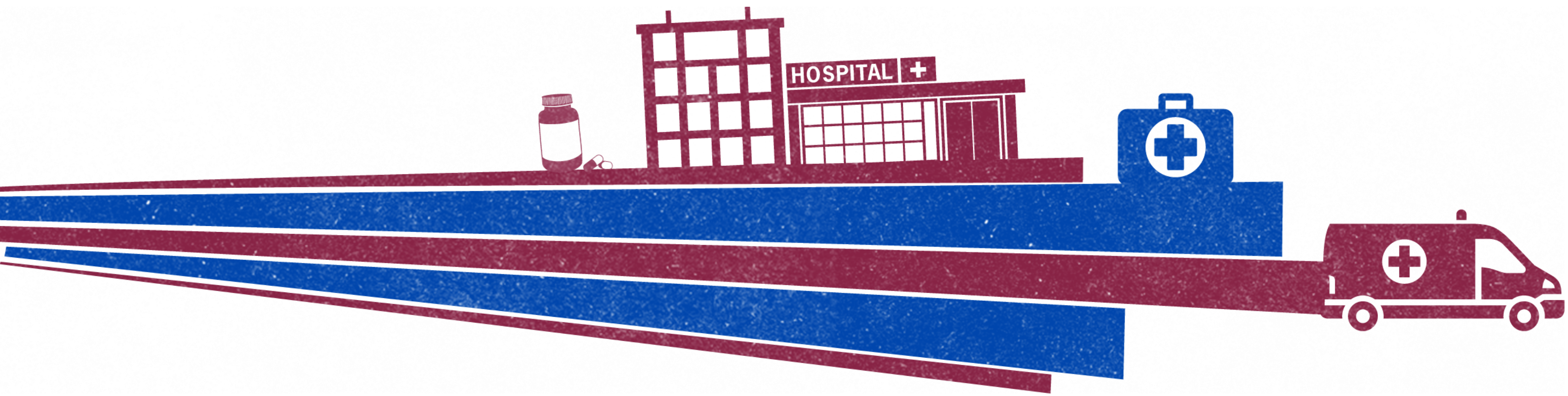
Union Budget 2016-17

Impact on the healthcare sector



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Foreword

Vrinda Mathur

Partner, Grant Thornton India LLP

Promising to increase the overall healthcare spend, the Finance Minister had little to offer in terms of tangible industry level benefits. Focusing largely on addressing the needs of those falling in the low income groups and the unorganised sector, the Union Budget saw announcements aimed at the masses. These announcements are either meant for an increased insurance penetration for families living below the poverty line or provisions availability generic medicines at affordable prices. Oddly enough, leaving aside all other life threatening diseases, dialysis has found a special favour in this budget. This aims to address a larger population which is in need for regular dialysis treatment. While the government has already addressed the need to strengthen the delivery system in the country, the healthcare industry will remain hopeful of more radical changes in the years to come.

An overview

The healthcare sector provides an extensive coverage across various segments including the pharma, public and private sector healthcare delivery models and institutions, medical equipment sector, public and private training colleges and medical institutions as well as medical devices industry besides various models spread over pathology and diagnostics.

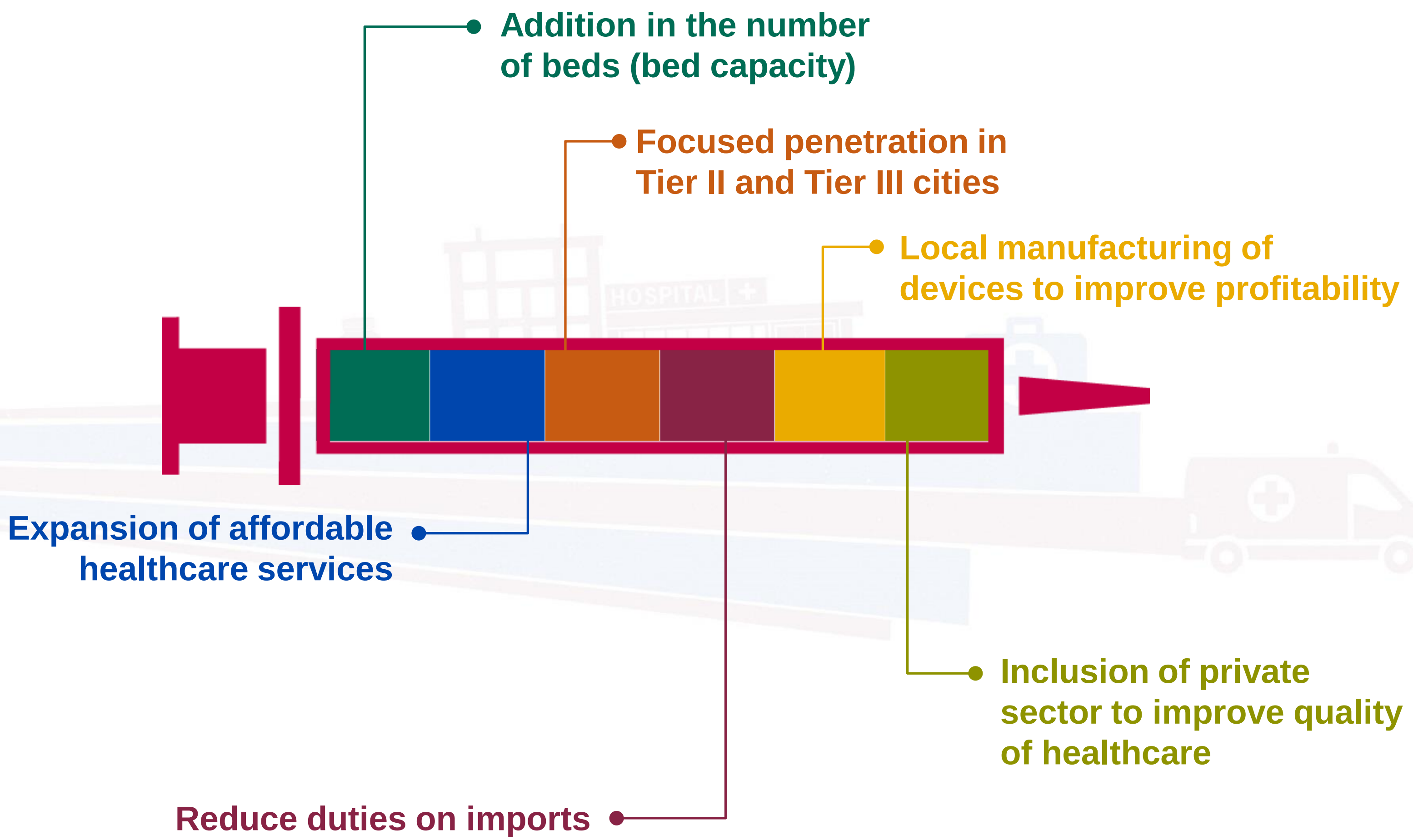
The overall Indian healthcare market is estimated at around US$ 100 bn with hospitals and healthcare delivery contributing 65% followed by pharma and medical devices with 20% and 8%, respectively.

Healthcare delivery, medical insurance and medical devices (including medical equipment) are sectors which contribute significantly to the growth of this industry. From an incentivisation perspective, exempting healthcare services from tax was a welcome means aimed to reduce the costs of healthcare, however, that alone cannot contain all the costs.

Key challenges

- Demand supply gap – beds, doctors and locations
- Attracts less than 2% allocation from the GDP spend
- Inability to monetise fully from medical value tourism
- Access to affordable healthcare for all
- Low insurance penetration
- High levels of import in medical devices, equipment and consumables
- Ambiguity around price control and frequent modifications under the NPPS regime

Growth drivers



Key policy initiatives

Flavour of the National Health Policy

- Universal health coverage and increased allocation of health insurance premium (including specifically for senior citizens) will pave the way for wider healthcare access.
- Creation of new National Health Mission (NHM) for providing effective healthcare across urban and rural population.

Encouraging the PPP model

- Increase in the number of projects being developed using the PPP model.

Government recognition of Medical Value Tourism

- Medical value tourism through the launch of a formal government website provides an overseas patient details of accreditations, therapies and hospitals which provide relevant treatment.

Rectifying the Drug Pricing Policy

An irrational drug pricing policy is still under review. Clarity of basis, coverage of medicines and therapies and economic sense to service the domestic market will be clear drivers for provision of medicines.

Incentives for deeper penetration of healthcare

Government's incentives for increasing beds and providing tax incentives in Tier II cities are already in force.

Other Key policy initiatives

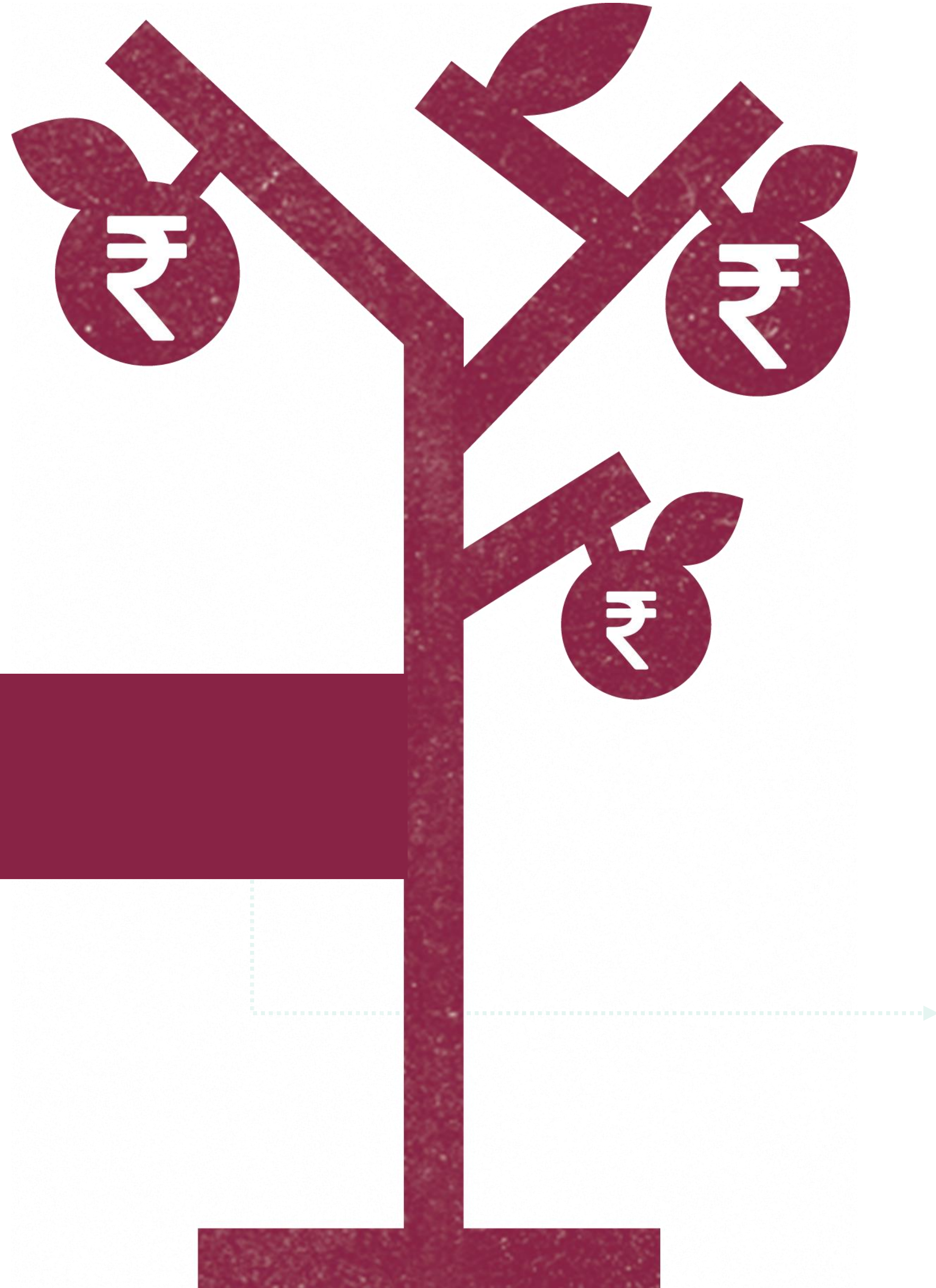
Proposed changes in Foreign Direct Investment ('FDI')

- The basket of eligible FDI instruments is proposed to be expanded to include hybrid instruments subject to certain conditions.(The present basket includes equity shares, fully and mandatorily convertible debentures, fully and mandatorily convertible preference shares and warrants)
- Foreign investors will be accorded residential status subject to certain conditions (currently foreign investors are granted business visa only up to 5 years at a time)

Other key announcements

- Equipments for dialysis to be exempted from basic customs duty, excise/ CVD and SAD
- National Dialysis Service Programme with funds through PPP mode to provide dialysis services at all district hospitals
- For economically weaker sections (EWS) launch of new health protection scheme

Direct tax proposals



Income Tax Rates for Corporates

- Tax rate reduced by 1% to 29% for domestic companies with a total turnover/gross receipts of upto Rs 5 crore in FY 2014-15
- Option for 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

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

Phasing out of incentives

Proposed phase out of 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 2017-2018
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
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

Phasing out of incentives

Section	Particulars	Current incentive	Proposed phase out of incentives
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)	• 150% from FY 2017-18 to 2019-20 • 100% from FY 2020-21 onwards
35AC	Deduction for payments to public sector undertakings or local authority and other eligible organisation for specified scheme for promotion socio-economic welfare	100% deduction	Nil from FY 2017-2018
35AD	Investment linked deduction for the purchase of machinery and other capital assets (100% or 150% in various cases) for specified businesses, eg, 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
35CCD	Expenditure incurred (not being expenditure in the nature of cost of any land or building) on any notified skill development project by a company	Weighted deduction of 150%	100% from FY 2020-21

Welcome Incentives

Incentive for start-ups

- Start ups to be allowed a 100% deduction of profits for three consecutive years out of five years subject to fulfilment of prescribed conditions

Introduction of Patent box regime

- Royalty income earned in respect of patent developed and registered in India by a resident of India proposed to be taxed at a concessional gross rate of 10%
- MAT not applicable to income from patents developed and registered in India subject to prescribed conditions

Clarification with respect to concessional rate on gains from sale unlisted securities

It has been specifically provided that the long term capital gains, arising to non-residents from the transfer of capital asset being unlisted securities or shares of a company not being a company in which public are substantially interested, shall be taxable @10%.

Reorganisation / restructuring

Buy-back tax

- The scope of levy of buy-back tax has been widened to cover any buy-back irrespective of applicable provisions of the Companies Act.
- Buy-back tax shall continue to be levied at 20% on distributed income
- Amendment proposed to be effective 1 June 2016

Proposal seeks to bring clarity on the buy back tax regime with a view to curbing practice of undertaking buy back through court process merely to mitigate the existing buy-back tax.

Additional condition for tax neutral conversion of a company into Limited Liability Partnership (LLP)

An additional condition has been inserted for a tax neutral conversion of a company into a LLP viz. the value of the total assets in books of accounts of the company in any of the 3 preceding FYs does not exceed Rs 5 crore

Insertion of this additional condition has further restricted the flexibility available to small companies for tax neutral conversion into LLPs.

Other proposals

- Simplification, rationalisation and digitilisation of tax procedures
- Country-by-Country reporting introduced for multinational enterprises along with stringent non-compliance penalty
- Deferral of Place of Effective Management (PoEM) Rules by one year
- Holding period for unlisted shares proposed to be reduced from 3 to 2 years – this proposal is not covered in the bill as it was laid down before the Parliament
- PAN furnishing requirement for non-residents: It is proposed to accept alternate documents in the absence of PAN to obviate withholding tax at the higher rate
- It is proposed to limit the disallowance of expenditure for earning exempt income to1% of the average monthly value of investments

Indirect tax proposals

Goods and Service tax

- No specific announcement on Goods & Service Tax (GST)

Central Excise

- No change in standard rate of Excise duty
- Exemption from Excise duty to certain parts of dialysis equipment namely Disposable sterilized dialyzer and micro barrier of artificial kidney

Service Tax

- Krishi Kalyan Cess (KKC) at 0.5% of value introduced on all taxable services; effective service tax thus proposed to increase to 15% (inclusive of SBC and KKC) (from 1st June 2016)
- General insurance services provided under Niramaya Health Insurance Scheme (from enactment of Finance Bill, 2016)
- Service provided to Government by way of construction, erection, etc. of clinical establishment (exemption restored from 01.04.2015)

Indirect tax proposals

Customs

- No change in standard rate of Basic customs duty (BCD).
- Exemption from BCD/CVD/SAD to certain parts of dialysis equipment.
- Exemption from BCD to continue for certain specified assistive devices/ aids for the differently abled.
- Reduction of BCD on certain specified inputs such as ethyl alcohol, sterilized dialyzer and micro barrier of artificial kidney

Customs tariff concessions

- BCD exemption on Medical Use Fission Molybdenum-99 imported by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals reduced (from 7.50% to NIL)
- BCD on Denatured ethyl alcohol rationalized from 5% to 2.5%
- BCD and SAD exemption on Disposable sterilized dialyzer and micro barrier of artificial kidney

Contact us

To know more, please visit **www.grantthornton.in** or contact any of our offices as mentioned below:

NEW DELHI National Office Outer Circle L 41 Connaught Circus New Delhi 110 001	**AHMEDABAD** BSQUARE Managed Offices, 7th Floor, Shree Krishna Center, Above Crossword, Nr. Mithakali Six Roads, Navrangpura, Ahmedabad 380009	**BENGALURU** “Wings”, 1st floor 16/1 Cambridge Road Ulsoor Bengaluru 560 00	**CHANDIGARH** B-406A, 4th Floor, L&T Elante office Industrial area, Phase-I Chandigarh – 160002	**CHENNAI** Arihant Nitco Park, 6th floor No.90, Dr. Radhakrishnan Salai Mylapore Chennai 600 004
GURGAON 21st floor, DLF Square Jacaranda Marg DLF Phase II Gurgaon 122 002	**HYDERABAD** 7th floor, Block III White House Kundan Bagh, Begumpet Hyderabad 500 016	**KOCHI** 7th Floor, Modayil Centre point, Warriam road junction, M.G.Road, Kochi 682016	**KOLKATA** 10C Hungerford Street 5th floor Kolkata 700 017	**MUMBAI** 16th floor, Tower II Indiabulls Finance Centre SB Marg, Elphinstone (W) Mumbai 400 013
MUMBAI 9th Floor, Classic Pentagon, Nr Bisleri, Western Express Highway, Andheri (E) Mumbai 400 099	**NOIDA** Plot No. 19A, 7th Floor Sector – 16A, Noida – 201301	**PUNE** 401 Century Arcade Narangi Baug Road Off Boat Club Road Pune 411 001		

For more information or for any queries, write to us at **contact@in.gt.com**

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