Healthcare

Union Budget 2016
Post-Budget sectoral point of view

#Budget2016 | #KPMGIndiaBudget
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Context

Where we are

India has come a long way since Independence in terms of improving the health of the citizens. However, the healthcare sector has traditionally been seen as a social sector receiving less focus and low budget allocation. The country spends a total of 4.2 per cent of its GDP on healthcare, where the public sector’s contribution of just 1 per cent is among the lowest globally. The Healthcare sector in India has seen the emergence of a strong private sector due to growing healthcare needs. The sector is forecasted to grow from INR684,000 crore in 2015 to INR8,237 billion in 2018 with a CAGR of 12.1 per cent. This growth is primarily fuelled by a growing population, rise in non-communicable diseases, increasing disposable incomes, changing demographics and increasing healthcare awareness. The investment opportunities in the sector are growing significantly, which is likely to make healthcare one of the most attractive investment targets for private equity and venture capital companies.

However, the number of healthcare personnel and infrastructure required to fulfill the requirements of a burgeoning population and a voluminous disease burden of the country is insufficient. The country shares about 20 per cent of the burden of global diseases. However in terms of global infrastructure share, India has only 6 per cent beds and 8 per cent doctors, which is far from being sufficient to address the prevailing healthcare needs. The country could benefit significantly by getting the right policy framework and stimulating infrastructure development.

Key issues/challenges

- Low spend on healthcare as a percentage of GDP is insufficient to meet the demands of a growing population and disease burden. Moreover, there is a significant need to implement a robust plan for effective utilisation of existing budgets so that public expenditure is fully utilised.
- Absence of universal health coverage and limited social health coverage has led to a high burden of Out-Of-Pocket expenditure (OOP) in India. OOP contributes approximately 86 per cent of private expenditure and 60 per cent of overall healthcare expenditure in the country.
- Hospital bed density in India is 0.9 per 1,000 persons, which is significantly short of World Health Organisation (WHO) - guidelines of 3.5 per 1,000 patients.
- Notable gap exists between the demand for healthcare workforce and the actual supply — India has only 0.7 doctors per 1,000 patients in comparison to WHO stipulated minimum doctor-to-patient ratio of 1:1,000.
- Shortage of medical institutes and with majority present in urban areas are key challenges related to medical education in India.

Government’s stance

- The government is focussed on strengthening tertiary care facilities in the country and plans to establish 17 new All India Institute of Medical Sciences (AIIMS) and 20 cancer institutes.
- It plans to restructure the insurance scheme ‘Rashtriya Swasthya Bima Yojana’ to widen the coverage. This could be the first step toward universal health insurance.
- The government has agreed to the universal health care vision under the National Health Assurance Mission, however it has shelved this programme due to financial reasons.
- In its election manifesto, the government had emphasised on modernisation of government hospitals, upgrading infrastructure and latest technologies.
- They have clarified that there no plans to exit or completely privatise the healthcare sector.
- It plans to launch a healthcare scheme for senior citizens as part of its social security initiative.

3. India accounts for 21% of world’s disease burden, Pharmabiz, 1 February 2014;
5. Govt sets out to widen health insurance scheme to 50 crore people, Indian Express, 27 January 2016;
8. No plan to privatise healthcare, clarifies govt, Times of India, 22 February 2015;
9. Govt plans health insurance scheme for senior citizens, Mint, 21 July 2015
Expectations (policy/fiscal/tax)

Infrastructure and capacity building:
- In the Union Budget 2015, the proposal for providing infrastructure status to the healthcare sector remained untouched. A well-defined investment plan for building high-quality public health infrastructure is much awaited.
- Healthcare infrastructure and medical innovation funds are required to be set-up to encourage new business models for improving access, availability and affordability, especially in tier-II and tier-III cities, and rural areas.

Skill development:
- To reinforce skill development in healthcare, the government needs a clear set of strategies. Special incentives could be provided to the sector to set-up medical colleges and training services to collaborate with training partners for adopting advanced technologies.
- Financial incentives, such as tax break to private players, could be provided to improve medical education across the country and fill the gaps in human resources.
- Land for setting up medical colleges could be provided at concessional rates.

Access to public healthcare:
- A robust National Health Policy is need of the hour with a well-planned roadmap for the healthcare sector. The government could introduce healthess as suggested in the National Health Policy 2015.
- Public expenditure on healthcare could be increased from 1.3 per cent to 5 per cent of the GDP to match the global average expenditure. A clear roadmap to focus on primary healthcare delivery could outline the path for universal access to primary care.
- Healthcare is currently exempted from service tax. This exemption could be continued even after implementing GST, to help achieve the goal of universal healthcare. Furthermore, tax exemption on preventive health check-up could be increased.
- Similar to healthcare services, healthcare financing could also be exempted from service tax. The government could withdraw service tax on health insurance premium.
- Budget allocation for health insurance schemes to provide insurance of minimum INR1.5 lakh to every individual could be made.
- Tax holiday period could be increased for private healthcare providers in non-metros for hospitals with 50 beds to encourage establishment of much-needed healthcare facilities in tier-II and tier-III cities, and rural areas.
- Simultaneously, the government could upgrade public healthcare system, for access to better facilities under universal healthcare coverage, instead of limiting the benefits to maximum hospitalisation expense of INR30,000 per year for BPL families under the health insurance scheme of Rashtriya Swasthya Bima Yojana (RSBY).
- At the same time, RSBY could increase its coverage to include senior citizens.

Focus on geriatric care:
- There is a need to address the basic requirements of senior citizens through special financial incentives and establishing support groups. Nevertheless, there is also a need to educate younger citizens about preventive healthcare to encourage a healthy lifestyle.

Technology promotion:
- By providing incentives, the government could encourage the use of technology in healthcare, such as tele-medicine, electronic health records and mobile health. The initiative could help increase the penetration of healthcare services to tier-II and tier-III cities, and rural areas, to improve operational efficiency.

Financial incentives:
- To boost the quality of care and services, both public and private players can be provided incentives to get relevant accreditations.
- Weighted deduction on cost borne on scientific research and research and development (R&D) activities related to the development of medical technology is essential to encourage quality and innovation.

Medical device reforms:
- The government could devise a robust regulatory framework with more clarity on the price regulations for medical devices to boost the ‘Make in India’ initiative.
- Tax incentives to manufacture medical devices in India could be included into the current healthcare facilities. The rate of depreciation applicable on medical and pathological equipment and medical devices can be increased from 15 per cent to 30 per cent.
- Altogether, the allotted Budget needs to be properly channelised and utilised throughout the healthcare value chain. A well-balanced ecosystem and a great thrust is required by the government to propel the healthcare economy.
Key policies/fiscal and tax proposals

Key announcements1

Policy2

- A new health protection scheme to cover poor and economically weaker sections of the society, under which, a health coverage of INR1 lakh per family to be provided
- To safeguard senior citizens of age group 60 years and above, within the poor and economically weak sections of the population, an additional benefit of INR30,000 has been announced
- A National Dialysis Services Programme has been launched under the National Health Mission. The programme aims to provide dialysis service in district hospitals via Public-Private Partnership (PPP) model
- Additionally, to reduce the cost of dialysis, certain dialysis equipment have been exempted from custom duty, excise, Countervailing Duty (CVD) and Special Additional Duty (SAD)
- About 3,000 stores under the Prime Minister’s Jan Aushadhi Yojana to be opened during FY2016-17 to ensure that quality generic medicines are available at affordable prices
- In addition to the proposed health insurance scheme for under-privileged sections of the society, Niramaya Health Insurance Scheme launched by National Trust for the Welfare of Persons autism, cerebral palsy, mental retardation and multiple disability has been exempted from service tax
- Allocation of INR39,533 crore to the Ministry of Health And Family Welfare, an increase of approximately 13 per cent over last budget’s revised estimate of INR34,957 crore. This resonates with the government’s underlying theme of this year’s Budget built around nine major pillars, with healthcare as one of the social pillars
- A 9 per cent increase in budget allocation to the National Health Mission has been announced. A total of INR20,037 crore has been allotted this year as against INR18,328 crore, an increase of approximately 13 per cent
- The allotment of INR16,120 crore toward the ‘Integrated Child Development Services’ scheme, almost doubling the allotment made from the last budget of INR8,000 crore, which is an improvement in primary healthcare services for children under six years of age and their mothers
- An allotment of INR11,300 crore to “Swachh Bharat Abhiyan” in this Budget is expected to further promote preventive healthcare practices in the country. This initiative also aims to promote rural population’s healthcare standards
- Additionally, ‘Rashtriya Swasthya Suraksha Yojana’ has been allotted INR1,500 crore in this budget. It is an effort toward decreasing the financial burden of healthcare costs on economically vulnerable sections of the society
- Foreign investment will be allowed in the insurance and pension sectors in the automatic route up to 49 per cent subject to the extant guidelines on Indian management and control to be verified by the regulators.

Direct tax2

- Corporate tax rates remains unchanged except for start-ups and Small and Medium Enterprises (SME). No change in education cess rates for FY2016-17.
- Corporate tax rate for new manufacturing companies not claiming incentives/accelerated depreciation reduced to 25 per cent. Corporate tax rate for companies with total turnover of less than INR5 crore reduced to 29 per cent for FY2016-17
- Tax holiday provided to start-ups established before 1 April 2019 for a period of three consecutive years out of a period of five years. Such start-ups to be subject to Minimum Alternate Tax (MAT) provisions
- Test of residency of foreign company based on Place of Effective Management deferred by one year to FY2016-17
- Income by way of royalty in respect of a patent developed and registered in India is taxable at the rate of 10 per cent
- Presumptive income equal to 50 per cent of gross receipts of persons engaged in any profession where gross receipts do not exceed INR50 lakh
- Withholding tax on commission reduced from 10 per cent to 5 per cent
- Accelerated depreciation restricted to 40 per cent
- Profit linked deductions for units in Special Economic Zones (SEZ) for profits derived from exports of articles or things or services available up to FY2019-20
- Weighted deduction restricted on sums paid to approved scientific research association/national laboratory/university/Indian Institute of Technology/specified person for the purpose of approved scientific research programme/scientific research on approved in-house research and development facility to 150 per cent from FY2017-18 to FY2019-20 and restricted to 100 per cent from FY2020-21. Balance weighted deductions for scientific research phased out from FY2017-18.

References:
2. Key Features of Budget 2015-2016, Ministry of Finance, assessed March 2015
4. FINANCIAL OUTLAYS & OUTCOME BUDGET 2016-17, MoHFW, assessed 29th Feb 2016
5. Major Programmes under Central Assistance for State Plans, MoHFW, assessed 29th Feb 2016
• Income tax on the accreted income of charitable institutions in case of conversion into, or merger with, any non-charitable form or on transfer of assets of a charitable organisation on its dissolution to a non-charitable institution
• Retirement schemes brought under the Exempt, Exempt, Taxable (EEE) regime with withdrawal up to 40 per cent of funds to be tax exempt
• Rationalisation of assessment and penalty procedures to ensure transparency and ease to the taxpayer.
• Income declaration scheme and new tax dispute resolution scheme introduced
• Investment linked deduction for specified business: It is proposed to amend section 35AD of the Income Tax Act so as to reduce the deduction from 150 per cent to 100 per cent in the case of operating hospitals w.e.f. 1 April 2017
• Weighted deduction on capital expenditure incurred on building and operating a hospital with 100 beds has been phased out from FY2017-18.

**Indirect tax**¹

• Levy of Krishi Kalyan cess at the rate of 0.5 per cent on all taxable services w.e.f. 1 June 2016 (after enactment of Finance Bill, 2016), thereby increasing the effective service tax rate to 15 per cent. Enabling provisions for availment of CENVAT credit of the said cess to be introduced
• Exemption to services of general insurance business provided under Niramaya Health Insurance scheme launched by National Trust for the Welfare of Persons with autism, cerebral palsy, mental retardation and multiple disability in collaboration with private/public insurance companies
• Life insurance business provided by way of annuity under the National Pension System (NPS) regulated by Pension Fund Regulatory and Development Authority (PFRDA) of India
• Reduction in effective rate of service tax on single premium annuity (insurance) policies from 3.5 per cent to 1.4 per cent of the total premium charged in cases where the amount allocated for investment/savings on behalf of policy holder is not intimated to the policy holder
• Exemption from basic customs duty, excise duty/Countervailing Duty and Special Additional Duty on disposable sterilised dialyser and micro barrier of artificial kidney

• Reduction in basic customs duty to nil on Medical Use Fission Molybdenum-99 by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals
• Reduction in basic customs duty to 5 per cent on Super Absorbent Polymer (SAP) for manufacture of certain specified goods such as sanitary towels, tampons, napkins, diapers, etc
• Service tax exemption for services by Insurance Regulatory and Development Authority (IRDA) of India to insurers under Insurance Regulatory and Development Authority of India Act, 1999.

**Impact**⁵

The healthcare sector has been left devoid of its due attention in the Union Budget 2016-17. Barring the announcements related to health insurance for poorer sections and the launch of a national programme for a specific disease, the gap to bridge the path to ‘Health for All’ remains wide open.

**More misses than hits**

• With the announcement of health insurance for economically weaker sections of the society and senior citizens, the government is slowly working to reduce the financial impact on people while accessing the healthcare delivery approach. However, the goal of achieving ‘universal healthcare’ remains a distant target
• Further, with the launch of a PPP programme focussed specifically on dialysis, the government has recognised the financial burden and inaccessibility related to non-communicable diseases. However, solutions to the challenges faced by a large section of the population related to the absence of preventive care and increasing the financial burden while accessing healthcare for diseases, such as diabetes and oncology, remain elusive
• The Ministry of Health and Family Welfare has received an increased budget allocation of 13 per cent. It is seen as a positive move, but the allocation is still far from the goal of increasing the public spend in healthcare to meet the global average
• The announcement of opening more stores under ‘Jan Aushadhi Yojana’ could significantly improve access to affordable medicine — and hence affordable care — for the population with limited access earlier. This could work in the direction to bring down the financial burden on the weaker sections of the society

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5. India Union Budget 2016 speech, India Budget, Ministry of Finance, assessed 29th Feb 2016
• Incentives provided to start-ups is a welcome step to boost the Indian economy

• The proposed amendment on concessional taxation for patents registered in India is an encouraging step to boost the research environment

• The phasing out of scientific research can impact the research environment and should be adequately matched with deductions in corporate tax rate in future

• Several provisions have been made to build transparency, reduce litigations and disputes between tax defaulter and tax authority which benefit the taxpayer.

The long over-due demand of granting infrastructure status to the sector, increasing the national spend on healthcare, providing tax holidays to new hospitals as incentives for expanding infrastructure, improving access to basic primary and secondary healthcare, and steps to fill the ever-increasing gap in human resource demand and supply, have been left unanswered in this Budget.

Our point of view

• Once again, the ‘Health for All’ agenda did not get its due attention in the form of policies and allocations from the Union Budget 2016. However, the government has taken some steps to cover the economically weaker sections of the society with some health insurance benefits. These are likely to go a long way in achieving financial security from burgeoning healthcare costs

• Due for a long time, the expectations of granting infrastructure status to healthcare and increasing the public expenditure from the current 1.1 per cent of GDP to over 2.5 per cent, have not been met

• Efforts to reduce the manpower and skill gap were also missing from the Budget. More concrete efforts are desired in this direction in order to bridge the mounting skill gap

• In a nutshell, the healthcare industry sector remains far from being satisfied as the budget could not offer its due attention. The government should view the healthcare sector as a GDP enhancer, rather than a mere social sector, which needs reforms.
Unfinished agenda

What remains

• The long anticipated amendment for providing infrastructure status to the healthcare sector remains untouched in this Budget
• Steps towards utilising public-private partnership forums in providing health insurance to a larger section of the population has not been announced
• Significant increase in public expenditure on healthcare to match the global average is missing in the Budget
• A clear roadmap for developing a robust primary health delivery continues to remain unanswered
• Announcements for a ‘universal health’ insurance are long awaited
• No announcement of any intention to introduce health cess as suggested in the National Health Policy 2015
• Financial incentives, such as tax holidays/breaks, to private players to actively contribute to improving education in healthcare remains untouched. Further, involvement of public-private partnership models to improve healthcare education has not been discussed
• Incentives in form of tax holidays for private players to increase their contribution towards improving the infrastructural gap has not been discussed
• No discussion or announcement has come forth regarding weighted deduction on R&D cost related to the development of medical technology
• No announcements to promote manufacturing medical devices in India
• Financial or any other form of incentives to adopt technology to improve healthcare access and availability, such as tele-medicine, mobile health, electronic health records etc., has not been announced
• Quality accreditation incentives, for both public and private players, have remained untouched
• The rate of depreciation on medical/surgical/pathological equipment was not increased.

What is expected going forward

• The government needs to focus on the healthcare sector as one of the key drivers of GDP growth, generates employment and helps increase productivity. It deserves attention to translate its effect on the future growth of India
• The healthcare sector needs higher budget allocation in tune of 2.5 to 3 per cent of GDP in the short-term to fulfil both its social as well as economic agenda
• The government needs to encourage the adoption of technology and electronic health records through incentives and grants
• The healthcare insurance penetration could be increased through various schemes and policies to reduce the OOP expenditure
• PPP models could be encouraged to boost investments from the private sector
• As envisioned in the draft National Health Policy 2015, the ‘Health for All’ initiative could be implemented to achieve the four pillars of healthcare — availability, accessibility, affordability and acceptability.
# Abbreviations

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<tr>
<th>Abbreviation</th>
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<tbody>
<tr>
<td>AIIMS</td>
<td>All India Institute of Medical Sciences</td>
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<tr>
<td>CAGR</td>
<td>Compounded Annual Growth Rate</td>
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<td>CVD</td>
<td>Countervailing Duties</td>
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<tr>
<td>EET</td>
<td>Exempt, Exempt, Taxable</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>INR</td>
<td>Indian Rupees</td>
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<td>IRDA</td>
<td>Insurance Regulatory and Development Authority</td>
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<td>MAT</td>
<td>Minimum Alternate Tax</td>
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<td>NDA</td>
<td>National Democratic Alliance</td>
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<td>OOP</td>
<td>Out of Pocket</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>RSBY</td>
<td>Rashtriya Swasthya Bima Yojana</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>SAD</td>
<td>Special Additional Duty</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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