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BUDGET 2016
Understanding the Business Impact

Impact on Life Sciences & Health Care

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The India Union Budget 2016 was tabled in Parliament on 29 February, 2016. The Finance Minister, in his budget speech described the agenda to 'Transform India', based on nine distinctive pillars. One of the pillars is 'Social Sector including Healthcare'; there have been some good announcements made with regard to welfare and health services.

At the outset, the Government has acknowledged the need of healthcare spending and requirement of ensuring quality medicines to be made available at affordable price, and giving coverage for unforeseen medical expenditure. Towards this, announcement of new health protection scheme to provide a health cover (for poor and economically weak families) up to INR One lakh per family along with an additional top-up package up to INR 30,000 for senior citizens is a welcome step. Opening of 3,000 stores (to supply quality medicines available at affordable prices) under Prime Minister's Jan Aushadhi Yojana; is also a step in this direction.

Further, in terms of research & development, the introduction of concessional tax regime on 'royalty income from patents' i.e., 10% rate of tax on income (from worldwide exploitation of patents developed and registered in India) is expected to encourage indigenous research and development activities aimed to make India a global R & D hub.

The following section covers Tax and Policy updates

Policy Updates

- 1500 Multi Skill Training Institutes will be setup across the country under the 'Skill India' mission. National Board for Skill.
- Development Certification to be formed in partnership with the industry and academia to skill one crore youth over the next three years to support manufacturing sector.
- Hybrid instruments to be included as one of eligible FDI instruments for the purpose of raising funds from overseas.
- Proposal to introduce a Centre State Investment Agreement to

ensure fulfilment of the obligations of the State Governments under the Bilateral Investment Treaties entered by India with other countries.

Corporate Tax Highlights

Tax rates:

- Corporate tax rate for domestic companies is reduced to 29% plus surcharge and cess if turnover is less than Rs.5 Crore in FY 2014-15. In all other cases, base tax rate and MAT rate to remain unchanged at 30% and 18.50% respectively.
- Newly set-up domestic manufacturing companies incorporated on or after 1 March 2016 can opt to be taxed at 25% plus surcharge and cess, provided they do not claim any profit-linked incentives, investment-linked incentives, accelerated depreciation, investment allowance, expenditure on scientific research and certain deductions covered under Chapter VI-A.

New and beneficial provisions:

- Start-ups set-up before 1 April 2019 and are in a business involving innovation development, deployment or commercialization of new products, processes or services driven by technology or intellectual property will be eligible for deduction at 100% of the profits for 3 consecutive years at the option of the assessee and subject to fulfilment of the specified conditions.
- Income from worldwide exploitation of patents developed and registered in India shall be taxable at the rate of 10% on gross basis for resident tax payers. The expenditure and income towards the royalty shall be added back and reduced respectively in the MAT computation. Preferential regime to address the issue of Intellectual property ('IP') structures in line with BEPS.

Phasing out of deductions and incentives:

- For specified business under section 35AD, weighted deduction of capital expenditure at the rate of 150% will be reduced to 100% from FY 2017-18.
- From 1 April 2017 to 31 March 2020, weighted deduction in relation to contribution to scientific research association / National Laboratory / in-house R&D expenditure will be restricted to 150%. With effect from 1 April 2020, deduction is further restricted to 100% of the expenditure.
- Weighted deduction of 150% on expenditure incurred on skill development under section 35CCD will be available only for four years up to 31 March 2020. With effect from 1 April 2020, the same is restricted to 100%.
- New SEZ units to commence operation on or before 31 March 2020 to avail tax holiday benefits as per section 10AA.
- Highest rate of tax depreciation is restricted to 40% for both, old or new assets from FY 2017-18.

Other proposals:

- Dual conditions of acquisition and installation of new plant and machinery in the same year is relaxed for claiming investment allowance under Section 32AC. Benefit will be allowed for new asset installed on or before 31 March 2017 even though acquired in earlier year. This provision is applicable retrospectively from AY 2016-17.
- Provisions relating to claim of additional deduction under section 80JJAA for new employment is extended to all assesses who are subjected to tax audit. The minimum number of days of employment reduced from 300 days to 240 days to determine the eligibility of new workmen. Further the requirement of minimum number of workmen has been done away with.
- Applicability of Place of Effective Management ('POEM') to determine residential status of foreign company deferred by one year.

- General Anti Avoidance Arrangement to come into effect from 1 April 2017.
- MAT not apply to foreign companies not having a Permanent Establishment (‘PE’) under relevant tax treaty or a place of business in India.
- Higher TDS at 20% will not apply on the payments made to non-residents on submission of alternate documents to PAN card.
- Limitation of disallowance under section 14A (Rule 8D) to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure.
- Period for getting benefit of long term capital gain regime in case of unlisted companies is proposed to be reduced from three years to two years.
- In accordance with the Base Erosion and Profit Shifting plan, a specific reporting regime has been provided in respect of Country by Country (‘CbC’) reporting, applicable to an international group having consolidated revenue above a threshold limit to be prescribed (likely to be Euro 750 million).
- Penalty rates to be at 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.
- Other penal provisions rationalized.
- Direct tax Dispute Resolution Scheme, 2016 to be introduced to provide an option to tax payers to settle the tax disputes pending before the first appellate authority.
- Provisions to fast track the tax refunds have been introduced.
- Stay of demand to be granted by the tax officer upon payment of 15% of the disputed tax amount.

Indirect Tax

Service Tax

- Service tax rate continues to be 14.5% inclusive of Swatch Bharath Cess (SBC) as on date.

New Levy

- Krishi Kalyan Cess @ 0.5% on all taxable services introduced w.e.f. 1 June 2016. Such cess collected would be exclusively used for financing initiatives for improvement of agriculture and welfare of farmers.
- Input tax credit of Krishi Kalyan Cess (KKC) will be available for payment of this cess.
- Service Tax rate would be 15 % (inclusive of 0.5% each of SBC & KKC) with effect from 01.06.2016.

Exemptions

- Exemption of service tax on general insurance services provided under ‘Niramaya’ Health Insurance Scheme launched by National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disability with effect from 01.04.2016.
- Services provided by Biotechnology Industry Research Assistance Council (BIRAC) approved biotechnology incubators to the incubatees are being exempted from service tax with effect from 01.04.2016.

Customs

Changes effective 1 March 2016

- Basic customs duty on import of Medical Use Fission Molybdenum-99 by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals is being reduced from 7.5% to Nil.
- Disposable sterilized dialyzer and micro barrier of artificial kidney

are proposed to be exempted from Basic Custom Duty (BCD), Additional Duty of Customs (CVD) and Special Additional Duty of Customs (SAD).

- Basic Customs Duty on Super absorbent polymer for manufacture of sanitary towels/tampons/napkins/diapers reduced from 7.5% to 5% based on actual user condition.
- Basic Customs Duty on electrolysers, membranes and their parts required by caustic soda/ potash unit based on membrane cell technology reduced from 2.5% to Nil.
- Basic customs duty on refrigerated containers reduced from 10% to 5%.

Excise

- Standard rate of duty continues to be at 12.5% with effect from 01 March 2016.

Changes effective 1 March 2016

- Excise duty on micronutrients falling under Chapters 28, 29 or 38, which are covered under Sr. No. 1(f) of Schedule 1 Part (A) of the Fertilizer Control Order, 1985 and are manufactured by the manufacturers which are registered under FCO, 1985, is being reduced from 12.5% to 6%.
- Disposable sterilized dialyzer and micro barrier of artificial kidney are exempted from Excise duty.
- Increased Excise duty on waters, including mineral waters and aerated waters containing added sugar or sweetening matter or flavored from 18% to 21%.
- Excise duty on refrigerated containers reduced from 12.5% to 6%

Contact

Mumbai
Indiabulls Financial Centre
Tower 3, 27th-32nd Floor,
Senapati Bapat Marg,
Elphinstone Road (W),
Mumbai – 400013
Tel: + 91 (022) 6185 4100
Fax: + 91 (022) 6185 4101

Bangalore
Deloitte Centre, Anchorage II,
100/2, Richmond Road,
Bangalore – 560 025
Tel: +91 (080) 6627 6000
Fax: +91 (080) 6627 6409

Delhi NCR
Building 10, Tower B, 7th Floor,
DLF Cyber City, Gurgaon –122 002
Tel: +91 (0124) 679 2000
Fax: +91 (0124) 679 2012

Chennai
No.52, Venkatanarayana Road,
7th Floor, ASV N Ramana Tower,
T-Nagar, Chennai – 600 017
Tel: +91 (044) 6688 5000
Fax: +91 (044) 6688 5019

Kolkata
Bengal Intelligent Park Building,
Alpha, 1st floor, Plot No –A2,
M2 & N2, Block – EP & GP Sector – V,
Salt Lake Electronics Complex,
Kolkata - 700 091
Tel: +91 (033) 6612 1000
Fax: +91 (033) 6612 1001

Ahmedabad
"Heritage" 3rd Floor, Near Gujarat
Vidyapith, Off Ashram Road,
Ahmedabad – 380 014
Tel: + 91 (079) 2758 2542
Fax: + 91 (079) 2758 2551

Hyderabad
1-8-384 & 385, 3rd Floor,
Gowra Grand S.P. Road, Begumpet,
Secunderabad – 500 003
Tel: +91 (040) 4031 2600
Fax: +91 (040) 4031 2714

Vadodara
Chandralok, 31, Nutan Bharat Society,
Alkapuri, Vadodara – 390 007
Tel: + 91 (0265) 233 3776
Fax: +91 (0265) 233 9729

Pune
706, ICC Trade Tower, B Wing, 7th Floor,
Senapati Bapat Road, Pune – 411016
Tel: +91 (020) 6624 4600
Fax: +91 (020) 6624 4605

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