HEALTHCARE & LIFESCIENCES

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Increasing the budget allocation for the healthcare sector to 2.5-3% of GDP:**

  The healthcare industry is urging the Government to increase healthcare spending to 2.5-3% of the GDP to align with global. averages. India's healthcare expenditure has historically remained within the range of 1.5-2.1% of GDP in recent years, resulting in inadequate infrastructure.

- **Increasing the budget allocation for the PLI scheme for pharma products and medical devices:**

  The industry is requesting an increased allocation for the PLI scheme to drive domestic manufacturing of pharmaceutical products and medical devices.

- **Implementing a policy to facilitate the streamlined import of refurbished medical devices in India:**

  To curb the influx of unregulated second-hand medical devices into the country, CDSCO is informing the customs department that importing refurbished devices is not allowed. Parts of the industry are seeking special provisions to facilitate imports, ensuring continued access to cost-effective medical equipment.

- **Introducing more incentives to stimulate investments in research and development and support domestic manufacturing of pharmaceutical products in India:**

  Most of the research grants provided by the Government are limited to institutions and academic centres, with few exceptions for private companies. The industry is expecting the Government to widen the base and funding support to encourage private Contract Research Organisations (CROs) to participate in early discovery and clinical research in India.

- **Offering incentives to promote the adoption of AI and advanced technologies in healthcare:**

  With the adoption and use of AI and advanced technologies reaching an all-time high, the associated costs are proving to be a hindrance for some. The industry is expecting the Government to take initiatives and help promote the adoption of AI and advanced technologies.

- **Introducing a single-window clearance system for pharmaceuticals and medical devices: :**

  For certain categories of pharmaceuticals and medical devices, a separate licence is required in each state. This is making operations difficult and time-consuming. The industry is requesting a single regulatory authority for pharmaceuticals and medical devices to increase the ease of doing business.

INDIA UNION BUDGET 2025

Healthcare & Lifesciences Sector Update

What Budget Gave?

- The Union Budget 2025 has allocated INR 983bn for healthcare, marking a modest increase of 11.7% from INR 880bn in 2024-25.
- **Boost to medical education:**

  Government plans to add 10,000 additional seats in medical colleges and hospitals and have a goal of adding 75,000 seats in the next five years.
- **Day care Cancer centres:**

  Government to facilitate setting up of Day Care Cancer Centres in all district hospitals in the next three years. A total of 200 centres are to be established in 2025-26.
- **Medical Tourism:**

  Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.
- **Patient Assistance Programmes:**

  Government has proposed to add 37 more medicines along with 13 new patient assistance programmes in the list of duty-free imports by pharmaceutical companies for supply free of cost to patients.
- **Healthcare for Gig Workers:**
  Gig workers will be provided healthcare under PM Jan Aarogya Yojna.

How It Impacts The Industry?

- The government's latest budget introduces several initiatives aimed at strengthening the healthcare system in India. The proposed increase in medical college seats will address the long-term shortage of doctors, ensuring a more robust healthcare workforce. The establishment of day-care cancer centres across district hospitals will provide essential support to cancer patients while easing the strain on existing healthcare infrastructure. Additionally, the easing of visa norms is expected to give a boost to the growing medical tourism sector by attracting more international patients.
- The government is also focusing on improving access to medicines for patients suffering from rare diseases. The inclusion of 36 life-saving drugs and six others under concessional duties will reduce costs, benefiting both the pharmaceutical industry and patients. Further, the addition of 37 medicines and 13 patient assistance programs to the list of duty-free imports will enable pharmaceutical companies to supply essential treatments free of cost, lowering financial barriers and promoting growth within the healthcare sector. Together, these measures will enhance both accessibility and affordability, fostering a more sustainable healthcare ecosystem. Recognising the contribution of gig workers, the inclusion of this workforce under the PM Jan Aarogya Yojana will provide them with essential health coverage.

Our Point Of View

- While the industry has asked for more, this budget is a welcome move from the Government in the right direction towards providing support and relief for patients suffering from critical diseases, to taking care of the healthcare ecosystem by the expansion of medical college seats as well as bolstering the sector growth by attracting medical tourism in India. Solving these ecosystem challenges would enhance the potential of the Healthcare and Life Sciences sector and create a conducive environment for investment opportunities.

Part 2: Tax implications

What The Industry Asked For?

- **Reintroducing or extending concessional tax rates for manufacturers of pharmaceutical products:**

  Newly set-up pharma manufacturing companies that commence manufacturing activities on or before 31 March 2024 are entitled to a headline corporate tax rate of 15%. It is expected that this Budget, with the objective of boosting manufacturing activities in India, will reintroduce or extend the concessional headline corporate tax rate for another one or two years.

What Budget Gave?

Direct tax

- **Multi-year Arm's length determination for Intra-group transactions:** Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where pharmaceutical companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded which will provide more certainty and reduce litigation, offering greater clarity for pharma businesses engaged in cross-border transactions, R&D collaborations, and licensing agreements.

- **Rationalisation of carry forward of losses in case of amalgamation:** The Budget 2025 has put a capping on the indefinite carry forward of losses and permits to carry forward the loss for eight years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been affected.

- **Extension of Tax Holiday for Start-ups:**
  The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 01 April 2030.

- **Rationalisation of Tax deducted at sources and Tax collected at sources:**
  The Government has proposed to rationalise tax deduction at source (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the Government has proposed to eliminate tax collected at source (TCS) requirement for sellers receiving consideration exceeding INR 5mn and remove the higher withholding of taxes on non-filers of Income-tax returns.

- **Extension of time limit for filing Updated returns:**
  In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinise later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.

- **Harmonisation of Significant Economic Presence (SEP) applicability with business connection:** The Budget 2025 has now put the ambiguity to rest by clarifying that transactions or activities of a non-resident which are confined to purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.

Indirect tax

- Basic customs duty has been exempted on 36 life-saving drugs and medicines. Further, six life-saving medicines have been added to the list attracting concessional customs duty of 5%, whereas three have been removed from the list. The exemption/ concessional rate would also apply on the bulk drugs for manufacture of these medicines.
- 37 more medicines along with 13 new patient assistance programmes have been added in the list of duty-free imports by pharmaceutical companies for supply free of cost to patients.
- Exemption from BCD on import of Drugs, medicines or food for special medical purpose used for treatment of rare disease extended to 31 March 2029.
- BCD on lab chemicals (other than for specific end use, i.e. inhouse R&D) revised from 150% to 70% and a new levy of Agricultural Infrastructure and Development Cess introduced at the rate of 70% on such lab chemicals.
- Definitive time limit of two years introduced to finalise bill of entries provisionally assessed, subject to conditions.
- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.
- Time limit for fulfilling end-use condition of imported inputs under Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 is extended from six months to one year, with periodicity for submission of statements being revised from monthly to quarterly basis
- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC. .
- Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient.
- Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.
- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.
- Retrospective amendment from 1 July 2017 to treat supply of goods warehoused in SEZ or FTWZ to any person before clearance for exports or to domestic tariff area as supply of neither goods nor services.

How It Impacts The Industry?

- The extension of the start-up benefits sunset period will drive innovation and strengthen India's leadership in Healthcare and Life Sciences. Further, the proposed transfer pricing reform is expected to reduce administrative burdens by eliminating the need for annual reassessments, as many intra-group transactions are recurring. Additionally, the rationalisation of TDS/ TCS provisions will ease the compliance burden on businesses. Furthermore, by clarifying that purchasing products from India doesn't create significant economic presence, non-residents healthcare and life sciences businesses are encouraged to source goods and thereby expanding export opportunities for India.
- The government is also focusing on improving access to medicines for patients suffering from rare diseases. The inclusion of 36 life-saving drugs and six others under concessional duties will reduce costs, benefiting both the pharmaceutical industry and patients. Further, the addition of 37 medicines and 13 patient assistance programs to the list of duty-free imports will enable pharmaceutical companies to supply essential treatments free of cost, lowering financial barriers and promoting growth within the healthcare sector. Together, these measures will enhance both accessibility and affordability, fostering a more sustainable healthcare ecosystem.

Our Point Of View

- In line with its vision of Viksit Bharat, the Government has proposed to introduce new income-tax bill aimed at simplifying and streamlining the law, ensuring greater clarity, tax certainty, and reducing litigation. While the safe harbour rules will be notified in due course, the measures already introduced demonstrate the Government's commitment to minimising disputes, providing certainty in international taxation, and enhancing the ease of doing business for global companies operating in India.

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