Budget proposals announced in the Budget FY 2021-22 specify Health and wellbeing as one of the key pillars. The overall budget allocation on health and wellness has gone up by 1.37 times with a particular focus on integration of health labs, establishment of critical care control hospitals, strengthening national centre for disease control, expansion of Public Health Units, etc. Even though there is substantial increase in the budgeted allocation, a significant part is for the immediate short-term needs like water, sanitisation and COVID vaccines with balance spread over a period of 5/6 years to build the infrastructure. The emphasis is also laid on expansion of Integrated Health Information portal hopefully as a step in a direction digitization of healthcare records.

There seems to be an increasing trend on government spending on healthcare through various schemes such as PMANSBY, Jal Jeeven Mission (Urban), Urban Swacch Bharat, Swasth Bharat Mission 2.0, etc.

Further, the outlay for NRF is expected to be around INR 50,000 crores, over 5 years to ensure overall research ecosystem of the country is strengthened with focus on identified national priority thrust areas. Hopefully, a reasonable part of the funding would be utilized for innovation in life sciences sector.

While these may be welcome moves on policy front, the Budget 2021-22 has no specific tax incentives around life sciences sector for R&D incentives or widening patent box regime - something the industry was hoping for.
How does the budget impact Lifesciences & Pharma sector?

Key amendments

Policy changes

► The total budget outlay for healthcare is INR 2.23 lakh crore vs. INR 94,452 crores in FY 20-21 resulting in an increase of 137%
► Provision of INR 35,000 crores for COVID-19 vaccine in FY 2021-22
► PMANSBY proposed to be launched with outlay of about INR 64,180 crore over 6 years to develop capabilities of primary, secondary and tertiary care health systems, strengthen existing national institutions and create new institutions including setting up integrated public health labs, critical care hospital blocks, expansion of Integrated Health Information Portal, etc. Few of the areas which would have an infrastructural boost under the said yojana are:
  ► Support to over 28,000 rural and urban Health and Wellness centres;
  ► Set-up of integrated public health labs and ~3,300 block public health units
  ► Set-up of critical care hospital blocks in over 600 districts
  ► Strengthening of the National Centre for Disease control
  ► Operationalization of 17 new public health units at points of entry (ie. airports, seaports and land crossings);
  ► Expansion of integrated health information portal to all states/ UTs hopefully and connection with all public health labs;
  ► Setting-up of a national institution for One health – Regional Research Platform for WHO South East Asia Region;
  ► Set-up of 9 Bio-safety labs and 4 regional National institutes for Virology; and
  ► Set-up of Health Emergency operation centres, etc.
► Launch of Mission Poshan 2.0 in order to strengthen nutritional content, delivery, outreach, and outcome by merger of Supplementary Nutrition Programme and the Poshan Abhiyan
► Launch of Jal Jeevan Mission (Urban) announced to aim universal water supply in all 4,378 urban local bodies with 2.86 crores household tap connections, as well as liquid waste management in 500 AMRUT cities, with an outlay of INR 2.87 lakh crores over 5 years
► The Urban Swachh Bharat Mission 2.0 will be implemented with a total financial allocation of INR 1.42 lakh crore over a period of 5 years from 2021-2026
► Pneumococcal vaccine, a Made in India product, to be rolled across country
► With a view to ensure transparent and efficient regulation of the 56 allied healthcare professions, National Commission for Allied Healthcare Professionals Bill has been introduced in Parliament
► The National Nursing and Midwifery Commission Bill will be introduced with the intention of bringing about transparency, efficiency and governance reforms in the nursing profession

Highlights

► Increase of 137% in budget outlay on healthcare sector
► Provision for INR 35,000 crore for COVID-19 vaccine
► Introduction on TDS on payment for purchase of goods from residents
► Increase in custom duty rate from 2.5% to 5% Denatured Ethyl Alcohol and Epichlorohydrin
Outlay for National Research Foundation expected to be INR 50,000 crores, over 5 years to ensure overall research ecosystem of the country is strengthened with focus on identified national priority thrust areas

**Direct Taxes**

**Depreciation on Goodwill**

- For the purpose of depreciation under section 32, it is proposed to clarify that the intangible assets do not include goodwill and therefore not eligible for depreciation from assessment year 2021-22; and
- It is also proposed that, for the purpose of calculation of capital gains on sale of goodwill, in case the goodwill is acquired from the previous owner and the depreciation on the same has been claimed by the assessee, the cost of acquisition would be considered as cost of acquisition less depreciation claimed on the same before assessment year 2021-22

**TDS on purchase of goods - 194 Q**

- It is proposed to insert new section 194Q to levy withholding tax on purchase of goods at the rate of 0.1% on the amount of purchases exceeding INR 50 lakhs. The provision is proposed to be applicable only where the sales, gross receipts or turnover of the buyer exceeds INR 10 crores in the financial year immediately preceding the financial year of purchase of goods;
- The provision of said section is not applicable in the case tax is required to be deducted under any other section or where tax is to be collected according to section 206C (excluding a transaction which is subject to TCS on sale of goods under section 206C(1H)); and
- In the absence of PAN, tax is required to be withheld at the rate of 5%

**TDS/ TCS at higher rates on payments to non-filers of income tax returns**

- Payments to non-filers will now attract TDS at rate which is higher of the following:
  - twice the rate specified in the relevant provision of the Act; or
  - twice the rate or rates in force; or
  - the rate of 5%
- Higher rates of TDS applicable in case of absence of PAN would parallylly continue to apply
- Similarly, TCS will be required to be done at higher rates for payments received from non-filers
- These provisions would not apply non-residents who do not have a permanent establishment in India
- This amendment will take effect from 1 July 2021

**Rationalization of the provisions of EL**

- It has been clarified that for the purpose of calculating EL, consideration received/ receivable for specified services or e-commerce supply or services shall not include consideration which are taxable as royalty or fees for technical services as per the ITA read with tax treaties;
- It has also been clarified that for the purposes of defining e-commerce supply or service, “online sale of goods” and “online provision of services” includes any of the following online activities
(i) Acceptance of offer for sale; (ii) Placing the purchase order; (iii) Acceptance of the Purchase order; and (iv) Payment of consideration;

► It is also clarified that consideration received or receivable for sale of goods and services includes consideration for sale of goods and/or provision of services irrespective of whether the e-commerce operator owns the goods and irrespective of whether the service is provided or facilitated by the e-commerce operator;

► It is also clarified that the transactions which are subject to EL will be exempt from income tax according to section 10(50) of the ITA;

► The aforementioned amendment is affective from FY 2020-21

► Other key direct tax amendments

► Similar to Faceless Assessment and Faceless Appeals, it is proposed to introduce Faceless Income-tax Appellant Tribunal. A National Faceless Income-tax Appellate Tribunal Centre shall be established and all the communication between the Tribunal and the appellant shall be made electronically; and

► It is now clarified that the employees’ contribution to specified funds will not be allowed as a deduction if not deposited within the due date provided under respective Act/ Rules/ orders or notifications

Indirect Taxes

► Customs Duty rate revisions to be effective from 2 February 2021:

► Basic Customs Duty rate on following products increased from 2.5% to 5%:

► Denatured Ethyl Alcohol (ethanol) for use in manufacture of excisable goods; and

► Epichlorohydrin

► Health cess on Medical Devices imported by International Organization and Diplomatic Missions reduced from 5% to 0%

► GST Annual Return and Audit:

► Mandatory requirement of furnishing a reconciliation statement duly audited by specified professional will be removed and annual return to be filed with self-certification

► Zero Rated Supplies:

► Zero rated supply with payment of tax:

► The option of making zero-rated supply (on exports) on payment of tax and claiming refund of the same has been restricted to only notified class of taxpayers or supplies (yet to be notified). Others have to mandatorily opt for non-payment of tax and refund of unutilized ITC.

► Supplies to SEZ:

► Scope of zero rated supply will now be restricted to supplies made to SEZ developer or SEZ unit made wholly for their authorized operations;

► Exemptions under Customs:

► Conditional exemptions - All conditional exemptions given under Customs will come to an end on 31st March falling immediately two years after the date of such grant. All existing conditional exemptions in force as on the date of the President’s asset on the
Finance Bill, 2021 will come to an end on 31 March 2023 unless having a prescribed end date.

► Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017 [IGCR Rules]:

► IGCR Rules are being amended with effect from 2 February 2021 to provide the following facilities:
  ► allow job work of the materials (except gold and jewellery and other precious metals) imported under concessional rate of duty;
  ► allow 100% outsourcing for manufacture of goods on job work;
  ► allow imported capital goods that have been used for specified purpose to be cleared on payment of differential duty, along with interest, on depreciated value.

► Time limit to file Bill of Entry:

► Mandatory to file bill of entry before the end of the day preceding the day (including holidays) of arrival of goods.

Impact analysis

Overall, the increase in expenditure on the healthcare sector is also in line with the policy of the Government to increase public expenditure for Healthcare. While COVID-2019 continues to have a bearing on the policy, given the overall economic and healthcare situation, the government is looking improving in long term to improve public health infrastructure. The staggering rise of 1.37 times in budget allocation for Health and Wellbeing sector is to ensure requirement of public health over a period of 5-6 years are catered to. This is a step in the right direction. However, The Government should also have considered how the private sector could play a role in overall healthcare development in the country.
Glossary

BCD - Basic Customs Duty
EL - Equalisation Levy
GST - Goods and Services Tax
IGCR Rules - Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017
IGST - Integrated Goods and Services Tax
ITA - Income-tax Act, 1961
LUT - Letter of Undertaking
PAN - Permanent Account Number
SEZ - Special Economic Zone
TCS - Tax Collected at Source
TDS - Tax Deducted at Source
PMANSBY - Pradhan Mantri AtmaNirbhar Swasth Bharat Yojana


Download the [EY India Tax Insights App](https://www.ey.com/en_in/tax/union-budget-2021) for detailed insights on tax and regulatory reforms.
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