

Budget

2020

2021

2022

2023

2024



Promoting Research and innovation



Hitesh Sharma

*Partner & National Tax Leader - Life Sciences
EY - India*

While expectations were high from this year's Budget for the Pharma and Healthcare Industry, there is little which was actually covered by the Finance Minister in the Budget. The government health expenditure has been increased from 1.4% of GDP in FY 19 to 2.1% of GDP in FY 23.

Initiatives announced in the budget which could help the Healthcare industry include a plan to have Centres of excellence for Artificial Intelligence and introduction of multi-disciplinary courses for medical devices to upskill manpower for futuristic medical technologies and high-end manufacturing and research.

To boost R&D and innovation, the Government has announced a new pharma program and further collaborations for public and private medical faculties and private R&D teams. While these are steps in the right direction, the much-hoped income tax benefits in the form of higher R&D linked weighted deductions, extension of sunset date for commencement of manufacturing to avail concessional tax regime by new manufacturing units or simplification of the patent box regime were not considered. Also missed was extension of customs exemption for specified goods used in pharmaceutical and biotechnology sector for R&D beyond 31 March 2023.

How does the budget impact Lifesciences & Pharma sector?

Key amendments

Policy Changes

- ▶ **Pharma innovation**
 - ▶ New program to promote research and innovation in pharmaceuticals to be taken up through COEs;
 - ▶ Encouragement to industry for investment in research and development in specific priority areas.
- ▶ **Medical research**
 - ▶ To encourage collaborative research and innovation, facilities in select ICMR labs will be made available for research by public and private medical college faculties and private sector R&D teams.
- ▶ **Multidisciplinary courses for medical devices**
 - ▶ Dedicated multidisciplinary courses for medical devices will be supported in existing institutions to ensure availability of skilled manpower for futuristic medical technologies, high-end manufacturing and research.
- ▶ **Medical and nursing colleges**
 - ▶ 157 new nursing colleges to be set up in co-location with existing 157 medical colleges established since 2014.
- ▶ **Sickle Cell Anaemia Elimination Mission**
 - ▶ Mission to eliminate Sickle Cell Anaemia by 2047 to be launched:
 - ▶ Awareness creation;
 - ▶ Universal screening of 7 crore people in the age group of 0-40 years in affected tribal areas;
 - ▶ Counselling through collaborative efforts of central ministries and state governments.

Direct Taxes

- ▶ **Clarification on benefits and perquisites in cash**
 - ▶ Courts had interpreted that the benefits or perquisites received in cash shall be outside the ambit of section 28;
 - ▶ It is proposed to amend section 28(iv) and insert Explanation to section 194R to clarify that the section applies to benefits or perquisites in cash or in kind or partly in cash and partly in kind.
- ▶ **Taxability of consideration received from 'non-resident' investors in excess of fair market value**
 - ▶ Currently, consideration received from 'residents' on issuance of shares in excess of fair market value is taxable as income from other sources;
 - ▶ It is proposed to bring 'non-resident' investors within the ambit of the aforesaid provision.
- ▶ **Relief to Start-ups**
 - ▶ Extension in sunset date for incorporation of start-ups from 31 March 2023 to 31 March 2024, for availing 100% deduction of profits and gains from business for 3 consecutive years out of 10 years period;

Highlights

Pharma innovation by COEs



Collaborative research and innovation

Multi-disciplinary courses for upskilling



157
new nursing colleges

Mission Sickle Cell Anaemia Elimination



- ▶ Period of carry forward and set-off of losses on change of shareholding of eligible start-ups increased from 7 to 10 years from the date of incorporation.
- ▶ **Rationalization in claiming deduction of preliminary expenditure**
 - ▶ Currently, the deduction of specified preliminary expenditure is allowed only if it is carried out by taxpayer or by a concern which is approved by the Board. It is proposed to remove the aforesaid condition;
 - ▶ It is proposed that the taxpayer shall be required to furnish a statement containing the particulars of specified preliminary expenditure in the specified manner within the notified period before the prescribed income-tax authority.
- ▶ **Withdrawal of TDS exemption on interest on listed debentures**
 - ▶ Removal of TDS exemption on payment of interest on listed debentures issued by a Company, to a resident, with effect from 1 April 2023.
- ▶ **Deduction in respect of payment to Micro and Small Enterprises**
 - ▶ Any sum payable to a Micro or Small Enterprise beyond the time limit specified under MSMED Act, 2006 shall be allowed as deduction only on actual payment basis;
 - ▶ This has been proposed to promote timely payments to Micro and Small Enterprises.
- ▶ **Cost of acquisition of intangibles assets/ rights**
 - ▶ Currently, for computing capital gains, there is ambiguity on the cost of acquisition to be considered where no amount is paid for acquisition of intangible assets/ rights (other than certain specified intangible assets);
 - ▶ It is proposed that cost of acquisition and improvement of capital assets, being any intangible asset (other than those specified), shall be considered as 'Nil'.

Indirect Taxes

- ▶ **Customs Duty exemption under Notification No. 50/ 2017 - Customs dated 30 June 2017, has not been extended beyond 31 March 2023, in respect of:**
 - ▶ Specified goods for use in Pharmaceutical and Biotechnology sector for R&D;
 - ▶ Human Embryo.
- ▶ **Customs Duty exemption under Notification No. 50/ 2017 - Customs dated 30 June 2017, extended by 2 years (up to 31 March 2025), in respect of:**
 - ▶ Specified Drugs, medicines, diagnostics kits;
 - ▶ Life Saving Drugs.
- ▶ **Customs Duty exemption under various notifications extended up to 31 March 2024 and to be taken up for review this year, in respect of following key products:**
 - ▶ Specified drugs and medicines supplied free of cost to patients under Patient Assistance program of Pharma Companies;
 - ▶ Specified equipment, instruments, raw material etc. imported for R&D projects;
 - ▶ Research equipment by publicly funded and research institutions, Government Department, laboratory, IIT, etc.;
 - ▶ Medical and surgical instruments, apparatus and appliances including spare parts and accessories thereof;
 - ▶ Hospital Equipment (excluding consumables) for use in specified hospitals;
 - ▶ Lifesaving medical equipment including accessories or spare parts or both of such equipment for personal use;
 - ▶ Portable X-ray machine/ system;
 - ▶ Specified Life Saving drugs/ medicines including medicines for Spinal Muscular Atrophy or Duchenne Muscular Dystrophy, for personal use;
 - ▶ Lifesaving drugs/ medicines for personal use supplied free of cost by overseas supplier.

▶ **Decriminalization under GST**

- ▶ Threshold for prosecution raised from INR 1 to 2 crores, except for issuance of invoices without supply;
- ▶ Prosecution provisions not to be initiated for (i) Obstruction or preventing any officer in discharge of his duties (ii) Tampering of material evidence (iii) Failure to supply information or furnishing incorrect information.

▶ **The following transactions to be considered as 'not a supply' with retrospective effect from 1 July 2017:**

- ▶ Supply of goods from a location outside India to another location outside India and high-sea sales;
- ▶ Supply of warehoused goods before clearance for home consumption;

It has been clarified that where tax has already been paid in respect of such transactions from 1 July 2017 to 31 January 2019, no refund of such tax paid shall be available.

- ▶ ITC restriction on spends made towards fulfilment of CSR under Companies Act, 2013
- ▶ Supply of warehoused goods to any person prior to clearance for home consumption, to be included in 'exempt supply' for ITC reversal.

Personal tax

- ▶ New tax rates and tax slabs under Concessional Tax Regime:

| Current CTR | | Proposed CTR | |
|------------------------|-----------|------------------------|-----------|
| Amount (INR) | Tax rates | Amount (INR) | Tax rates |
| Up to 2,50,000 | NIL | Up to 3,00,000 | NIL |
| 2,50,001 to 5,00,000 | 5% | 3,00,001 to 6,00,000 | 5% |
| 5,00,001 to 7,50,000 | 10% | 6,00,001 to 9,00,000 | 10% |
| 7,50,001 to 10,00,000 | 15% | 9,00,001 to 12,00,000 | 15% |
| 10,00,001 to 12,50,000 | 20% | 12,00,001 to 15,00,000 | 20% |
| 12,50,001 to 15,00,000 | 25% | Above 15,00,000 | 30% |
| Above 15,00,000 | 30% | | |

| Surcharge Rates | | Surcharge Rates | |
|-----------------|--------------|-----------------|----------|
| Amount (INR) | Current Rate | Amount (INR) | New Rate |
| Above 50 lakhs | 10% | Above 50 lakhs | 10% |
| Above 1 crore | 15% | Above 1 crore | 15% |
| Above 2 crores | 25% | Above 2 crores | 25% |
| Above 5 crores | 37% | | |

Transfer pricing

- ▶ **Expansion of the scope of SDTs (Section 92BA)**
 - ▶ New section 115BAE has been inserted which provides for concessional income tax rate of 15% for certain new manufacturing co-operative societies subject to fulfilment of specified conditions;
 - ▶ The scope of section 92BA has been expanded to include transaction between the co-operative society as defined in section 115BAE and any other person;
 - ▶ This amendment will be effective from 1 April 2024 i.e. assessment year 2024-25.
- ▶ **Time limit to furnish information before the TPO reduced**
 - ▶ The time limit to furnish information under section 92D has been reduced from 30 days to 10 days, which on an application made by the assessee can be further extended by a period not exceeding 30 days;
 - ▶ This amendment will be effective from 1 April 2023 i.e., assessment year 2023-24.

Impact analysis

Overall, the increase in budgetary allocation on the healthcare sector is in line with the estimation of the National Health Policy, 2017. While the Government is taking steps to promote R&D, there is still a lot of ground to cover, as government seems to have given a miss to provide any tax specific incentives to this sunrise sector. Overall, it is a neutral budget from a Healthcare sector perspective.

Glossary

COE - Centre of excellence

CIT(A) - Commissioner of Income Tax (Appeals)

CSR - Corporate social responsibility

CTR - Corporate tax rate

GST - Goods and service tax

ICMR - Indian Council of Medical Research

ITC - Input tax credit

MSMED - Micro, Small and Medium Enterprises Development

PAN - Permanent Account Number

R&D - Research and development

SDT - Specified Domestic Transaction

TDS - Tax Deducted at source

TPO - Transfer Pricing Officer

ULIP - Unit Linked Insurance Plan



For details on other sectors and solutions visit our website https://www.ey.com/en_in/tax/union-budget-2023
Download the [EY India Tax Insights App](#) for detailed insights on tax and regulatory reforms.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway
Ahmedabad - 380 059
Tel: +91 79 6608 3800

Bengaluru

12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: +91 80 6727 5000

Ground Floor, 'A' wing

Divyasree Chambers
11, Langford Gardens
Bengaluru - 560 025
Tel: +91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 &
614
6th Floor, Plot No- 178-178A
Industrial & Business Park,
Phase-I
Chandigarh - 160 002
Tel: +91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: +91 44 6654 8100

Delhi NCR

Golf View Corporate Tower B
Sector 42, Sector Road
Gurugram - 122 002
Tel: +91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: +91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: +91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: +91 40 6736 2000

Jamshedpur

1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831
001
Tel: +91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: +91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: +91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: +91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: +91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: +91 20 4912 6000

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://www.ey.com/privacy). EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://www.ey.com).

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office 9th Floor, Golf View Corporate Tower B, Sector 42, Golf Course Road, Gurugram, Haryana - 122 002.

© 2023 Ernst & Young LLP. Published in India.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

[ey.com/en_in](https://www.ey.com/en_in)

[@EY_India](#) [in](#) [EY](#) [YouTube](#) EY India [f](#) EY Careers India [@ey_indiacareers](#)