



# Healthcare

**Union Budget 2017-18**

**Post-Budget sectoral  
point of view**

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# Setting the context

## Where are we

The healthcare sector in India has struggled for long with multiple health indicators, including high maternal mortality rate (MMR), high infant mortality rate (IMR) and low life expectancy rates. However, the situation has drastically changed over the years and the healthcare sector is rapidly contributing to both employment as well as revenue. It is expected to grow up to INR1,230,800 crore by 2020 from INR669,500 crore in 2015 at a Compound Annual Growth Rate (CAGR) of 13 per cent.<sup>1</sup> Furthermore, the healthcare expenditure is likely to continue growing predominantly due to the dual disease burden, rising healthcare awareness, increasing disposable income and growing population. However, the budget allocation to the sector has always been deficient to meet the ever-growing demands of the rising population. India spends only 4.7 per cent<sup>2</sup> of the total Gross Domestic Product (GDP) on healthcare, wherein the public sector contribution is the lowest at 1.3 per cent<sup>3</sup> around the globe.

Although there are significant investment opportunities and scope for enhancing the healthcare services, key challenges that the Indian healthcare sector is witnessing are the inequality in healthcare availability and accessibility. Affordability is one of the major challenges that exist due to dearth of infrastructure and shortage of skilled professionals. Given the importance of this sector, the country could benefit with efficient policy framework and increase in cumulative public healthcare investment to determine the equitable access to healthcare services across the country.

## Key issues/challenges

- Low government spending: Public expenditure on healthcare is the lowest in India at just 1.3 per cent<sup>3</sup>, globally. It is deficient to overcome the rising gap between the maintenance of basic amenities in the primary healthcare system and increasing demands of the growing population
- High Out-Of-Pocket expenditure (OOP): In the absence of Universal Health Coverage (UHC) in India, OOP expenditure lays a significant burden on the society, contributing approximately 86 per cent of the private healthcare expenditure<sup>4</sup>
- Dearth of infrastructure: India has only 0.9 beds per 1,000 individuals/people, while the global average is of 2.9 beds per 1,000 individuals/people and three beds per 1,000 individuals/people as recommended by the World Health Organisation (WHO)<sup>5</sup>. Also, 75 per cent of this available healthcare infrastructure, including healthcare facilities and manpower, is concentrated in urban areas<sup>6</sup>
- Shortage of skilled professionals: India continues to witness a significant shortage of healthcare workforce with only 0.7 doctors per 1,000 patients as compared to the WHO's standard of one doctor per 1,000 patients<sup>7</sup>
- Lack of education infrastructure: While the country faces insufficiency of medical professionals, there is a shortage of medical institutes and a majority of them are present in urban areas.

<sup>1</sup> India Pharmaceuticals & Healthcare Report - Healthcare - Q4 2016, Business Monitor International, ISI Emerging Markets, accessed on 25 January 2017

<sup>2</sup> Healthcare expenditure, total (% of GDP), The World Bank Data, accessed on 25 January 2017

<sup>3</sup> Public health expenditure data, 2013, The World Bank Data, accessed on 25 January 2017

<sup>4</sup> Healthcare in India: Current state and key imperatives”, Review of National Health Policy 2015 (Draft), KPMG, February 2015, Page 26, accessed 25 January 2017

<sup>5</sup> Hospital beds (per 1,000 people”, The World Bank Data, accessed on 25 January 2017

<sup>6</sup> Future of the Healthcare industry in India looks bright: Bikram Barman, Modasta, Plunge Daily, <http://mybigplunge.com/mybigplunge/open-mic/healthcare-industry-india-bikram-barman-modasta/>, 22 December 2016, accessed on 25 January 2017

<sup>7</sup> Physicians (per 1000 people), The World Bank Data, accessed on 25 January 2017

## Government's stance

- The government is focussed on the improvement of maternal health with a new scheme to reduce the MMR. Hence, every pregnant women is to be provided with INR6,000 directly to her savings bank account.<sup>8</sup> By 2016, this scheme was functional in only 53 districts as a pilot project with an aid of only INR4,000<sup>9</sup>
- It plans to introduce a new scheme for senior citizens. On deposits up to INR7.5 lakh, senior citizens could expect a fixed interest rate of 8 per cent over a period of 10 years and they can receive the interest on a monthly basis<sup>8</sup>
- The government has clarified their notion for promoting Public–Private Partnership (PPP) models for developing the diagnostics base for the poor<sup>10</sup> as well as for expanding the reach of National Health Protection Scheme to widen insurance coverage<sup>11</sup>
- It plans to fasten the digitisation process of healthcare. It has mandated the All India Institute of Medical Sciences (AIIMS) to extend its support to states and union territories to replicate its own digital projects<sup>12</sup>
- The government's focus is more on establishing and promoting allied health services and traditional medicines to overcome the rising demand and supply gap between patients and doctors<sup>13,14</sup>

## Expectations

- **Equitable access to public healthcare:**
  - There is a need to increase the public health expenditure budget to raise the healthcare standards in India. It could be increased to 2.5–3 per cent of the GDP to attain global average standards
  - The healthcare sector in India deserves a sustainable financial model that could be achieved via higher budget allocation and a robust policy framework
  - A National Health Policy (NHP) is long awaited for the infrastructure development and to provide equal healthcare services to all
  - Given the importance of the sector, it is currently exempted from service tax; in future, once the Goods and Services Tax (GST) is implemented, the government could continue this exemption to secure the dream of achieving UHC
  - Simultaneously, healthcare financing and health insurance premium could also be exempted from service tax.
- **Infrastructure and capacity building:**
  - Higher budget allocation along with higher public health expenditure is required to improve the quality of public health infrastructure. Infrastructure status could be given to the healthcare sector to address many challenges it faces even today
  - Well-defined investments could be encouraged to build high-quality healthcare services via PPP model

<sup>8</sup> List of Schemes Announced by Narendra Modi on 31st December 2016, Sarkari Yojana, <https://www.sarkariyojna.co.in/list-schemes-announced-narendra-modi-31st-december-2016/>, 02 January 2017, accessed on 25 January 2017

<sup>9</sup> Full Text: PM Narendra Modi New Year's Eve address to the Nation, Indian Express, <http://indianexpress.com/article/india/full-text-pm-narendra-modi-new-years-eve-address-to-the-nation-4453587/>, 31 December 2016, accessed on 25 January 2017

<sup>10</sup> PPP model to be promoted for diagnostic facilities for poor: Union Health Minister, Business Standard, [http://www.business-standard.com/article/news-ani/ppp-model-to-be-promoted-for-diagnostic-facilities-for-poor-union-health-minister-116111500993\\_1.html](http://www.business-standard.com/article/news-ani/ppp-model-to-be-promoted-for-diagnostic-facilities-for-poor-union-health-minister-116111500993_1.html), 15 November 2016, accessed on 25 January 2017

<sup>11</sup> Union Health Minister JP Nadda pitches for centres of private hospitals in semi-rural areas, Indian Express, <http://indianexpress.com/article/india/nadda-pitches-for-centres-of-pvt-hospitals-in-semi-rural-areas-4428036/>, 15 December 2016, accessed on 25 January 2017

<sup>12</sup> AIIMS to help states replicate its digital project across India, Economic Times, <http://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/aiims-to-help-states-replicate-its-digital-project-across-india/articleshow/56798515.cms>, 26 January 2017, accessed on 25 January 2017

<sup>13</sup> Union Ayush ministry plans to introduce Ayurveda PG course for modern medical graduates, Pharmabiz, <http://www.pharmabiz.com/NewsDetails.aspx?aid=99650&sid=1>, 06 January 2017, accessed on 25 January 2017

<sup>14</sup> Govt redrafts Bill for regulating allied healthcare services, Economic Times, <http://economictimes.indiatimes.com/industry/healthcare/biotech/healthcare/govt-redrafts-bill-for-regulating-allied-healthcare-services/articleshow/56479533.cms>, 11 January 2017, accessed on 25 January 2017

- Significant efforts are required to bridge the rising gap between the demand and supply of skilled manpower.
- **Insurance coverage:**
  - The government could encourage preventive medical care and the limit of tax exemption for preventive health check-ups could be increased from the current limit of INR5,000<sup>15</sup> to a maximum of INR20,000 under Section 80D
  - Robust policies are required to scale up the healthcare insurance penetration across India and this could be aided via PPP forum
  - The deduction for insurance premium under Section 80D for income tax assessment could be increased from the limit of INR25,000 for self, spouse, dependent children and INR30,000 for senior citizen parents to a common limit of INR50,000<sup>16</sup>
  - Concurrently, the government could also provide an additional benefit by increasing the exemption limit of medical reimbursement from INR15,000<sup>17</sup> to INR50,000 per annum.
- **Incentives:**
  - Private healthcare providers could be provided tax holidays/breaks to expand healthcare infrastructure and improve the healthcare education services
  - Both public and private players could be aided with incentives to acquire quality accreditation.
- **Technology embracing:**
  - Concrete efforts are desired to fasten the adoption of technology by the healthcare sector. The adoption of different initiatives, such as electronic health records (EHR), telemedicine and mhealth, could benefit India by alleviating the existing scarcity of doctors and widening the penetration of healthcare service to remote areas
  - Simultaneously, the government could provide deduction on the expenditure incurred while securing accreditation or implementing EHR/other technology
  - For the digitisation of the healthcare sector, a robust infrastructure is required for better connectivity of all technology-driven services.
- **Medical device reforms:**
  - The impending National Medical Device Policy (NMDP) continues to remain in the draft stage
  - The proposal for the formation of an independent National Medical Device Authority (NMDA) has not yet been formalised
  - Predominantly, a strategic medical device regulatory ecosystem is required to set up stringent safety standards and price control measures for devices
  - The promotion of indigenous manufacturing of medical devices could help curb the burden of diagnostic costs on patients
  - Furthermore, the medical device segment deserves weighted deduction on the Research and Development (R&D) cost allied to the development of medical technology to encourage indigenous manufacturing of medical devices.

<sup>15</sup> 5 lesser known facts about tax benefits of health insurance, Economic Times, <http://economictimes.indiatimes.com/your-money/5-lesser-known-facts-about-tax-benefits-of-health-insurance/tomorrowmakershow/50481718.cms>, 07 January 2016, accessed on 25 January 2017

<sup>16</sup> Insurance: Hopes on exclusive tax exemptions for life, health cover, The Hindu BusinessLine, <http://www.thehindubusinessline.com/money-and-banking/insurance-hopes-on-exclusive-tax-exemptions-for-life-health-cover/article9493631.ece>, 20 January 2017, accessed on 25 January 2017

<sup>17</sup> Budget 2017: Should reduce the income tax burden on the individual taxpayers, Money control, [http://www.moneycontrol.com/news/tax/budget-2017-should-reduceincome-tax-burdenthe-individual-taxpayers\\_8354921.html](http://www.moneycontrol.com/news/tax/budget-2017-should-reduceincome-tax-burdenthe-individual-taxpayers_8354921.html), 30 January 2017, accessed on 30 January 2017

- **Tax benefits:**

- Benefit of R&D related deductions could be extended to -
  - Specialty centre with 50 bed that is focussed on treatment of non-communicable diseases (NCDs);
  - In case of substantial expansion of the existing capabilities by existing hospitals
  - Private healthcare providers in non-metros to encourage establishment of much-needed healthcare facilities in tier-II and tier-III cities, and rural areas, in hospitals with 50 beds at least
- For a taxpayer involved in building a hospital, weighted deduction of 150 per cent could be restored to reduce cost burden on patients
- Weighted deduction could be continued till the end of the next five year plan to boost investment and growth of India's infrastructure sector
- Tax incentives related to manufacturing of medical devices in India could be included into the current healthcare facilities. Further, the rate of depreciation that is applicable on medical and pathological equipment and medical devices could be increased from 15 to 30 per cent
- Weighted deduction of 250 per cent related to approved expenditure incurred on operating technology enabled healthcare services such as telemedicine, remote radiology, etc. could be allowed for improving healthcare in remote areas across accessibility, affordability and quality of the service
- Customs duty applicable on import of finished products could be lowered and nil customs duty could be specified for the import of raw materials and parts that are required for the manufacturing of equipments/ devices.

In a nutshell, the need of the hour is an effective implementation of NHP for the improvement of healthcare service delivery. The healthcare sector in India deserves a sustainable financial model, a global standard infrastructure and universal insurance coverage to ensure affordable and accessible healthcare to all.

# Key policy proposals

## Key announcements<sup>18</sup>

### Policy

- The healthcare budget allocation for 2017–18 is INR48,853 crore, an increase of 23 per cent than that of last year's Union Budget revised estimate of INR39,688 crore. A significant increase in budget allocation resonates that strengthening of the healthcare system for poor and the under-privileged class is one of the 10 distinct themes.
- The government has proposed deadlines for the elimination of several communicable diseases:
  - Kala Azar and Filariasis by 2017
  - Leprosy by 2018
  - Measles by 2020, and
  - Tuberculosis by 2025
- The MMR is planned to be reduced to 100 by 2018–20 from 167 in 2011–13 and IMR is planned to be reduced from 39 in 2014 to 28 by 2019
- In continuation with the Prime Minister's announcement in the beginning of the year 2017, under a new scheme, every pregnant women is to be provided with INR6,000 for health and nutrition benefits. The amount would be directly deposited to the savings bank accounts of the women who go through hospitalised delivery and vaccination of their children
- The Union Budget 2017–18 has focussed on enabling easy healthcare services for senior citizens. Aadhaar-based smart cards is to be introduced that would contain health details of the card holders. Initially, a pilot project is proposed to be initiated in 15 districts during 2017–18
- A new scheme by the Life Insurance Corporation of India (LIC) is to be provided to ensure guaranteed pension to senior citizens. An assured return at an interest rate of 8 per cent per annum is to be made available for 10 years
- Two new AIIMS would be set up in Jharkhand and Gujarat
- About 1.5 lakh health sub-centres to be transformed to health and wellness centres
- For strengthening the medical education sector, structural renovation of medical education reforms and policies would be undertaken
- To combat the deficiency of specialised doctors at the secondary- and tertiary-level healthcare system, an additional 5,000 seats per annum are to be included in the system for post-graduation (PG) courses
- To enhance medical education; PG level teaching is to be strengthened at the ESI and municipal corporation hospitals
- All private hospitals, big district hospitals and government hospitals would be encouraged to roll out the Diplomate of National Board (DNB) courses
- To safeguard people from high healthcare expenditure, the Drugs and Cosmetics Rules have to be amended to enhance the availability of drugs at an economical cost and encourage the promotion of use of generic medicines
- For further enablement of the 'Make in India' initiative, new rules are to be formulated for the medical devices sector to increase investments and reduce the prices of medical devices
- The allocation of INR71,305 crore for the welfare of children under various schemes has improved across all ministries with an increase of 7.6 per cent and the allotment of INR22,095 crore towards the Ministry of Women and Child Development has increased by 25 per cent

<sup>18</sup> "Budget Speech 2017-18", Government of India, accessed on 1 February 2017

- An allotment of INR20,755 crore towards the 'Integrated Child Development Services' scheme, for the improvement of primary healthcare services, has increased by 25 per cent compared to INR16,580 crore the previous year, to focus on children below six years of age and their mothers
- 'Swachh Bharat Abhiyan' has been allocated a budget of INR16,248 crore compared to INR12,800 crore in 2016–17 to further promote the hygiene and cleanliness practice across the country that would further encourage preventive healthcare practices
- The National Health Mission has received an allocation of INR27,131 crore, an increase of 20 per cent on INR22,598 crore from the previous year
- The government announced the availability of high-speed broadband connectivity via optical fibre by the end of 2017–18 in more than 150,000 gram panchayats. These gram panchayats would also be enabled with wi-fi hotspots and digital services access at low tariffs. Telemedicine, education and skills to be provided through digital technology under the initiative 'DigiGaon'
- The government announced that necessary steps would be taken to promote digital payments at hospitals

#### **Direct tax**

- Corporate tax rates for domestic companies whose total turnover or gross receipts does not exceed INR50 crore proposed at 25 per cent. For other domestic companies, corporate tax rates remain unchanged
- Thin-capitalisation rules, in line with recommendation of Base Erosion and Profit Shifting (BEPS) Action Plan 4 introduced, restricting deduction for interest above INR1 crore to 30 per cent of earnings before interest, tax, depreciation and amortisation (EBITDA) payable to non-resident related parties
- Time limit for carry forward of Minimum Alternate Tax (MAT) credit extended from 10 years to 15 years. Introduction of framework for computing book profits under MAT to bring book profits in alignment with IndAS provisions
- Period during which start-ups may claim the three year tax holiday extended to seven years from five years. Carry forward of business losses of eligible start-ups allowed despite change in the shareholding by more than 51 per cent provided that the existing shareholders continue to hold shares
- Deductions available to units located in special economic zones to be restricted to the total income
- All assessee except a domestic company and certain funds, trusts, institutions, etc., are subject to 10 per cent tax on dividend income in excess of INR0.1 crore
- Charitable institutions contributing to the corpus of other charitable institutions out of their current income will not be able to claim such amounts as an application. Charitable institutions are required to file their return of income within the specified due dates in order to claim tax exemptions
- Charitable institutions which amend/modify their objects not conforming to registration conditions will be required to re-obtain such charitable registration

#### **Indirect tax**

- The Union Budget 2017–18 re-affirmed the commitment to implement GST. The GST council has finalised its recommendations on almost all the issues including rate structure, threshold for levy, compensation to states, examination of draft model GST law, draft IGST law, compensation law and administrative mechanism for GST, etc.
- With effect from 1 April 2017 extensive reach-out efforts would be made to trade and industry bodies to make them aware of the new taxation system
- Preparation of an IT system for GST is on schedule and minimal changes have been proposed in view of GST roll-out
- Retrospective service tax exemption for the period, 10 September 2004 to 1 February 2016 in respect of services provided by Army, Naval and Air Force Group Insurance Funds by way of life insurance to members of the Army, Navy and Air Force, respectively, under the Group Insurance Schemes of the Central Government. Refund shall be made for service tax which has been collected, and application

for claim of refund shall be made within six months from the date on which the Finance Bill, 2017 receives Presidential assent

- In addition to the retrospective exemption, life insurance business provided or agreed to be provided by the Army, Naval and Air Force Group Insurance Funds has been exempted from the levy of service tax with effect from 2 February 2017
- R&D cess (5 per cent), applicable on the import of technology, proposed to be repealed with effect from 1 April 2017. Accordingly, service tax to be paid at applicable rates without claiming any deduction of R&D cess
- Provisions relating to filing of advance ruling under customs, excise and service tax re-aligned with income tax
- Advance ruling machinery merged with income tax and time limit for pronouncement extended from 90 days to six months.

## Impact

The Union Budget 2017–18 has many proposals for the healthcare sector including increase in allocation of budget. The Budget has focussed on healthcare development of the under-privileged and the bottom-of-pyramid section of the society.

- The government has emphasised on widening the availability of affordable essential drugs across the country and is focussing on the elimination of dreadful diseases to improve the healthcare status of the less-privileged
- With the announcement of further sanitation drives, 'Swachh Bharat' initiative, and the transformation of health sub-centres to health and wellness centres, the Union Budget clearly focusses on 'preventive and wellness' initiatives for the populace
- Further, the Union Budget allocation to the Ministry of Health and Family Welfare has been increased by 23 per cent. This has been a positive move; however, the long-awaited UHC plan and infrastructure status to the healthcare sector remain obscure
- With the announcement of elimination of several diseases, the government has realised the need to diminish the increasing burden of communicable diseases. Nevertheless, the challenges faced by a majority of the population due to the growing economic burden while accessing healthcare for NCDs, such as diabetes, respiratory, oncology and cardiac, remain unaddressed
- This year the Budget's push has been towards encouraging affordable medicines as well as preventive care, while the government has given a thrust on reducing the cost of drugs and medical devices. There is also a thrust towards increasing the focus on healthcare delivery accessibility, especially in rural areas
- With the enhancement of digital payments at hospitals; better clarity, transparency, accountability and audit brings a huge potential in tracking patient cost and their subsequent claims with a health insurance provider
- The government has failed to address the reduction in corporate tax rates, stated in the previous Budget for the large corporates who contribute significantly to the tax kitty of the government
- The government has not deferred provisions pertaining to 'Place of Effective Management' residency test or the 'General Anti-Avoidance Rules' and thus continue to remain applicable as per the specified timelines.

Overall, the budget emphasised the government's efforts to make drugs and devices affordable, increase the accessibility of healthcare services to the poor; however, the long anticipated demand for the infrastructure status to the healthcare sector, increase in the public spend on healthcare, tax holidays/breaks/incentives to the private healthcare sector to expand healthcare infrastructure have not been addressed.

# Unfinished agenda

## What remains

Although the budget allocation is 23 per cent higher than the last year, still it lags in terms of increase in the public spend in healthcare to meet the global average.

- 'Health for All' has failed to grab the government's attention in terms of strong policies. Initiatives for a 'universal health' insurance were missing
- The sector again did not get its due attention for the long awaited infrastructure status
- The Budget lacked incentives for the private sector to emphasise on the infrastructure development in terms of healthcare delivery and education facilities
- Amidst all the initiatives be it eliminating dreadful diseases or be it transforming health sub-centres into health and wellness centres, more clarity is required regarding the breakdown of allocated Budget and a road map to implement these plans
- Barring the announced efforts to increase specialists in healthcare, more concrete efforts are required to reduce the existing manpower and skill gap
- Extending the incentives in form of tax holidays to a 50 bed specialty centre, substantial expansion by existing hospitals and private players to encourage them to surge their contribution towards improving the infrastructural gap has not been discussed. Further, any discussion around the involvement of PPP models for the improvement of healthcare infrastructure and education was missing
- Weighted deduction of 150 per cent available not extended in building a hospital
- No announcements were made to promote indigenous manufacturing of medical devices
- The rate of depreciation on medical/surgical/pathological equipment has not been increased. Furthermore, no announcements were made regarding the weighted deduction on the R&D cost allied to the development of medical technology
- Currently the rate of customs duty related to most of the parts of medical equipment is higher than the duty rate on equipment. There is a requirement to rationalise the inverted duty structure
- Tax exemption applicable to preventive health check-up has not been raised and the current tax exemption limit towards reimbursement of medical expenditure by the employer has also not been increased.
- Weighted deduction on operating technology for enabling remote healthcare services not discussed.

In a nutshell, the healthcare sector has not been able to attract much attention in terms of increasing public spend, insurance coverage and health for all.

## What is expected going forward

- The government needs to emphasise on increasing public spend in healthcare and insurance coverage to reduce the OOP expenditure
- A clear road map through several schemes and policies need to be encouraged to attain both economic and social agenda
- The government needs to incentivise healthcare providers to imbibe technology and digitise the healthcare sector
- The private sector could be incentivised to boost investment for infrastructure development via the PPP forum
- The healthcare sector enjoys various service tax exemptions under the present regime, it can be expected that the exemptions may be continued under the GST regime as well
- Long envisioned 'National Health Policy 2015' is desired for encouraging the 'Health for All' initiative to provide healthcare across the four pillars of accessibility, availability, affordability and acceptability.



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