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MTaI seeks streamlining of taxes & duties to make medical devices affordable

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Sends 8-point agenda to Finance Ministry for inclusion in Budget FYâ??20



Medical Technology Association of India (MTaI), has said that the government should streamline tax and duty structure in Union Budget 2019-20 to ensure people get long-term access to quality medical devices.

Since 2017, the government has taken various measures to curb the price of medical devices. Price ceiling has been imposed on devices like stents and knee implants, while only a limited 10% annual price increase is allowed for other ‘non-scheduled’

products. This is so, irrespective of cost challenges the manufacturers encounter during the year. In Addition to this, the dual effect of weakening of currency and inflationary trends has created an extra-ordinary situation and the medical device companies are finding it difficult to sustain the supply of medical devices in the present situation.

Meanwhile, the high custom duties levied on medical devices have created a cascading incremental effect on the landed cost of medical devices and is a major concern for the medical device industry. Approximately 70% of medical devices are imported into India to meet the rising demand for quality healthcare.

Pavan Choudary, Chairman & Director General, MTaI said, “We are in a constant dialogue with the government on price control which we feel hampers technology innovation in the MedTech industry, and will continue providing suggestions for a sustainable solution. There are several other concerns that threaten affordability and patient accessibility to quality and the latest technology in medical devices.”

The issues which need to be addressed in the budget this year are stated in detail below:

High Custom Duties: The high custom duties have adversely impacted the costs of products in India which contradicts the government’s efforts to provide low cost healthcare available to masses through the Ayushman Bharat program (PMJAY). We seek reduction of custom duties to 2.5% including all surcharges.

Additionally, since the custom duty regime on most medical devices in neighbouring countries of Nepal, Bangladesh, Sri-Lanka, and Bhutan is lower than in India, the duty differential could lead to smuggling of low-bulk-high-value devices. The result will not only be loss of revenue for the government but also the patient will be beset with products which are not backed by adequate legal and service guarantees.

Another point to note is that China, which has near self-sufficiency in segments like consumables, had reduced custom duties from 4% to 3.3% to avoid the problem of smuggling and to inject competition in the sector.

Customs Duty & GST on Spare Parts: Custom duty on spare parts of the medical equipment are currently charged at a higher rate than the equipment itself. For example Heart Lung Machine attracts basic custom duty of 7.5% & GST of 12% whereas its spare parts like Roller Pump attracts basic customs duty of 10% and GST of 18%. Similarly, GST on Contact Lenses is 12%, whereas the Contact Lens Solution which is the essential part of using Contact Lenses attract 18% GST. We recommend that the same customs duty and GST should be charged on spare parts and medical equipment.

Tax Holiday for R&D: Tax holiday should be provided to medical device R&D centres under the Transfer Pricing Act to boost investment in setting up in-house R&D capabilities. We also seek tax incentives for the industry for developing global patents from India and tax deduction on income made by individuals or a company for rewards earned on patent development or patent licensing.

Minimum Alternate Tax: We urge the government to reduce Minimum Alternative Tax (MAT) rate to 15% from the present effective rate of 21.34% (including surcharge and education Cess). The high rate of MAT has cast substantial burden on companies which are already affected by various external factors. Conceptually, MAT is a minimum and an alternate tax and hence it should not be at a rate which is more than 50% of the basic corporate tax rate.

GST on Trials and Samples: GST should not be charged on trials and samples as doctors need samples/free trials/demos in order to satisfy themselves on efficacy of product in best interest of patients. Cost of trials are already built into cost structures and is a business expense.

GST on Healthcare Services: Healthcare services are currently exempt from GST. As a result, hospitals are not able to claim GST input. This results in higher cost of treatment for the patient. Once zero rated, Hospitals will be able to avail GST credit on inputs, leading to lower healthcare services cost.

Expenditure on CSR: Expenditure on CSR is being disallowed in tax computation. CSR Expenditure has been mandated under law and therefore should be claimable as tax deductible expenditure.

Tax Incentives on Exports: Currently, there are no tax benefits on export income. Export being a growth engine for the economy it is important that efforts should be made to make it competitive in the international market. India’s export performance in last 2-3 years has been on a decline which impacts the balance of trade. Introduction of export incentives related to direct tax exemption for the export profits would attract more investments to sectors like medical devices.