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Budget 2010: High Expectations

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The finance ministry has warned the industries not to expect any major sops in the coming budget which will be presented by the government in February 2010. Last year, the Finance Minister Pranab Mukherjee missed an excellent opportunity to provide fiscal stimulus to the life sciences industry in the Union Budget 2009. But the forthcoming Budget 2010 is yet another opportunity to push the healthcare sector into a higher growth trajectory.

Despite major boosters like the removal of surcharge on personal income tax, enhanced group specific exemptions and abolition of fringe benefit tax (FBT), Budget 2009, gave a lukewarm benefits to all and failed to make any long-lasting impression in the pharmabiotech industry.

The UPA-II's first budget presented on July 6, 2009, could not sweep the business sector at large, and like other markets,the life sciences industry too looked disappointed. But the forthcoming Budget 2010 is yet another opportunity to push the healthcare sector into a higher growth trajectory. Research and innovation can play a crucial role in achieving this goal if the government provides ample rewards and recognition. And this requires long-term tax breaks extending well into the next decade.

BioSpectrum takes a first person account on how the Union Budget 2010 should be.

Need of more tax holidays

Dr Bhuwnesh Agarwal, chairman and MD of Roche Diagnostics, says, “Tax holidays must be given to pharma biotechnology and medical devices companies. Custom duties on the import of raw materials for life saving formulations and drug manufacture must be abolished. Such measures will benefit millions in India who suffer from cardiovascular and kidney ailments, diabetes, cancer, asthma as well as other chronic diseases. Fiscal stimulus will make sure healthcare costs in India are within the reach of the common people. High on expectations, low on delivery is how I would describe the 2009-10 budget. Reduction of customs duty from 10 percent to five percent on a few life saving drugs, vaccines and bulk drugs was a welcome move, though not good enough. Abolishing fringe benefit tax was a sensible move, as it was a nuisance for everyone and barely augmented revenues.”

According to him, MAT (minimum alternate tax) hike from 10 to 15 percent — the effective rate with surcharges being 17 percent — was a dampener. Foreign companies with a permanent presence in India will now have a higher tax outflow on book profits, adding to the overall disincentives. An ill-timed hike, since this was supposedly a stimulus budget.

"Government should relax the custom duty and also more sops should be there for the life sciences industry. Some of the products imported in India for use in research are unique and they should be provided exemption from the taxes," says Neeraj Gupta, director, sales and marketing, Imperial Life Sciences.

He maintains that the government must change the existing institutional funding policy. Seasonal funding to the institutes needs to be replaced by funding for the whole year. That would help in reducing the wastages as the institutes do not have to pay taxes time and again while purchasing the research products from biosuppliers.

"CROs in India are getting affected by the medical taxes leveled on them. This will ultimately benefit the Chinese CROs who do not have to pay any such tax and thus, affecting the overall clinical research business and thus shooing away the potential clients," Gupta adds.

Import duties must be equated

Import duties to be equated for government and non-government institutes for all life sciences products used in research, feels Praveen Gupta, vice-president-business development, Premas Biotech.

He says, “Provisions for creation of supply centers at key institutes for stocking consumables at equated duties. Export shipments to be simplified.”

Looking at the grim recessive period for exports, Praveen maintains that the time lines for biotech export obligations for EOU should be extended, and setting up of a nodal government agency to push Indian IP technologies from biotech SME to VC, biotech and larger pharma companies worldwide.

According to Dr Rita Karia, CEO and president, CliniRx, “Government needs to support this potential sector at par with the IT Industry. The tax benefits from the government are crucial to motivate the client and grow this business. So, we expect the government to provide tax incentives for CROs.”

More incentives for better healthcare

There are some who feel that in order to help the biotechnology research and development (R&D) in the country,government should give further incentives and help promote innovative ways of using biotechnology for better healthcare, and sustainable green technologies.

Dr Gopal Dasika, senior vice-president, R&D, Actis Biologics, says, “One of the needs of our industry is good, well-trained scientists. We have many good schools and institutes for training students through undergraduate level, and very few for higher studies in life sciences. Therefore, providing incentives to global leaders in the area of higher education to set-up universities in India would reduce brain drain from India and vastly improve the quality of R&D in our country. The culture of science and innovation would then become
commonplace in our biotech and pharma companies.”

According to Dipta Chaudhury, program manager - South Asia and Middle East, Pharma and Biotech Practice, Frost & Sullivan, the Central government has initiated and sustained healthcare reforms for rural and the urban - rural population through its past few budgets. While these initiatives are improving healthcare reach for the vast majority of the poor population directly, large corporates are focusing on tier I cities.

“There is a need to create initiatives on a Central government level to spur private participation for tier II and tier III cities to ensure sustainable healthcare through all classes of society in India. Also, while tax sops for healthcare infrastructure has been a boon, further benefits for medical devices and for quality medical education would really help spur industry growth," says Chaudhury.

Muralidharan Nair, partner - Life Sciences Advisory Practice, Ernst & Young, says, “Biotech is an area which will have an increasing share of global pharmaceuticals and China and Korea have significantly higher capability than us in this area. While we are already delayed, we should do our best to promote this with dedicated biotech fund for assisting new drug and biosimilars.”

Improve competitiveness

Dharmesh Panchal, senior director of Deloitte, who leads life science and healthcare division is of the opinion that the pharma industry has shown robust growth in the recent years. The global pharmaceutical companies see India not only as an enormous domestic market but also as a sourcing base for generic drugs, bulk drugs and contract research services. India has various advantages to offer such as low cost base and availability of skilled man power.

According to Panchal, the expectations of pharma industry from the Budget 2010-11 are towards measures to improve its competitiveness. Listing a few, he maintains that pharma industry expects harmonization of the excise duty rate on active pharmaceutical ingredients (API) and finished formulations.

As a result of the fiscal stimulus, the excise duty rate on formulations was reduced to 4.12 percent whereas API continued to be taxed at 8.24 percent. Due to this inverted duty structure, pharmaceutical manufacturers have accumulated cenvat credit in the absence of a refund mechanism. Further, the exemption from customs duties should be granted to diagnostic equipments such as glucometer for diabetes.

“The introduction of the GST is the biggest fiscal reform post-liberalization of the Indian economy. GST will significantly impact the supply chain and businesses of pharma companies. Government must provide a clear road map for the introduction of GST to enable the pharma industry to prepare for transition. It is expected that in GST regime, life saving drugs would be exempted and medical devices would be subject to lower
band of GST rates,” he adds.

The industry also looks forward to capital as well as profit-based incentives to boost the overall capital base of the companies. The income tax holiday under Section 80IB (8) in respect of profits from R&D activities, should be re-instated to encourage the contract research services. The extension of Section 35 [2AB] to MAT calculation would also be a major relief to the R&D activities in their gestation stage. Income tax holiday should also be extended to clinical trial ctivities to make India an attractive outsourcing destination for R&D.

Incentives to agri-biotech/seed industry

From the nearest budget, Dr Govind Garg, director of R&D, Krishidhan Seeds, expects that while allocating budget, there should be tax exemption for seeds production and processing. Indian agriculture needs constant growth, not only to feed the ever increasing population but also to show resilience in the face of climatic uncertainties. Introduction of Bt cotton,besides increasing the cotton production and bringing buoyancy in textile market, has significantly increased the seeds replacement which has risen from three percent to 15 percent in the last six to seven years. Today, farmers make no distinction between seeds from private and public sectors as they prefer to buy which ever performs better irrespective of the cost.

Dr Garg says, “I would consider this as a very positive scenario and if our Finance Minister is serious about assisting the country in achieving envisaged growth of six percent in agriculture, he should give very fresh thought and thrust to policies and support to seed industry with grants and tax concessions.”

He suggests that there should be an exemption from income and service tax as the seed industry gets large quantities of seed produced through contract farming with farmers across the states and land holding spectrum. This activity is genuinely an agricultural activity except that it is done on farmer’s field either through lease or contract farming.

“I feel there is enough merit that at least for the next five years the income from seeds production and processing should be exempted from both income tax and service tax. All the resources should be diverted to support basic research so that scientists can concentrate on discovery and research to improve productivity. The seed industry which now is realizing the importance of research and development should be encouraged to evolve commercial varieties and hybrids based on the discoveries made in universities and ICAR institutions. It should be encouraged further through concessions in taxes, additional support through public private partnership schemes and rewards based on the excellence of performances of their product," he says.

He also feels that there should be an independent seed performance evaluation. Dr Garg says, "There is a need for development of an autonomous authority for independent evaluation with independent infrastructure for genotypes developed by public and private sectors. This will facilitate the recognition of genuine products developed by both public and private sectors without any bias. This is absolutely essential if the varieties and hybrids of private sector, which also are national property, be protected under PVPFR."

"The present system in my opinion suffers from a contradiction as ICAR and SAU System are both regulators and product developers. Private sector has limited access to AICIP testing system that too, only for hybrids. This prevents them from getting the varieties and hybrids released through normal channels where such testing is essential. The separation of two functions will not only increase the quality of product but will also ensure that only good products reach farmers. There is a need to make proposal for establishment of such an autonomous authority and make budgetary provision for the same," Dr Garg suggests.

Dr KK Narayanan, managing director of Metahelix Life Sciences, along with the members of the special interest group on agricultural biotechnology of ABLE, are of the opinion that it is a well established fact that the agribiotechnology would be playing a key role in enhancing the crop productivity. The group feels that there must be some concessional funding for infrastructure development, concessions on cost of deregulation of genetically modified organisms (GMOs) of national importance and service tax, VAT and tax holiday for agribiotech seed industry.

"To avoid litigation and to remove any ambiguity, where the seed companies are engaged in growing the seeds with the aid of farmers where the produce belongs to the seed companies and no risk whatsoever is taken by the farmers, the income thereon should be treated as agricultural income eligible for exemption under section 10(1) of the Income tax Act, 1961. The Central Board of Direct Taxes should issue unambiguous clarification in this regard and treatment of seed industry income as agricultural income," Dr Narayanan adds.

Expectations

However, there are some who expects the least from the nearest budget. "To be honest, I do not have any expectations. The finance ministry has lot of demands and priorities, and politics/ politicians always see what is most beneficial for the 'masses'," says CL Rathi, managing director, Advanced Enzymes.
"Biotechnology and enzyme industry is not a key agenda for them, and second generation biofuel is yet to take off even in developed world and we are yet to catch up. On taxation front, the new bill is nder consideration which is too broad based. Hence, I do not see any thing specific coming our way," he adds.

What may come, February 2010 is a month to be watched, and the deliberations by the Finance Minister, Pranab Mukherjee is to be pondered.

Nayantara Som (Mumbai), Rahul Koul (New Delhi) and Ajeesh Anand (Bangalore)