

Budget 2009 Snapshot

Specific proposals for Pharmaceuticals sector

Economic Indicators

- Indian Pharma industry has grown from a turnover of Rs 15,000 m in 1980 to over Rs 780,000 m in 2008
- In world ranking, Indian Pharma market is 4th in terms of volume and is the 15th largest market by sales
- Despite the economic slowdown, the Indian Pharma industry is expected to reach USD 20 bn by 2015
- The Pharma sector has attracted FDI of USD 1,401.60 m from 2000-01 to September 2008, of which USD 125.30 m (8.9%) came in April to September 2008

Policy Initiatives

- Steps have been taken to streamline procedures covering development of new drug molecules, clinical research etc

- Government has launched two new schemes - New Millennium Indian Technology Leadership Initiative and the Drugs and Pharmaceuticals Research Programme - specially targeted at drugs and pharma research
- The National Pharmaceutical Pricing Authority has fixed/ revised the prices of many formulation packs & bulk drugs from time to time, vide notifications/ orders
- Indian government is planning to invest around Rs 422.96 m for setting up six National Institutes of Pharmaceutical Education and research. This government initiative will help boost R&D in the pharma sector

Policy Initiatives Announced

- The Finance Minister has increased the allocation to the National Rural Health Mission by Rs 20,570 m, over and above Rs 120,700 m provided in the Interim Budget
- An amount of Rs 3,500 m is provided in this Budget towards the Rashtriya Swasthya Bima Yojana

Income Tax

- This year's budget wish list included the abolishment of Fringe Benefit tax ('FBT') which has been accepted by the Government. Budget 2009 proposes to abolish FBT. Fringe benefits shall now be taxable as perquisites in the hands of the employees
- From October 1, 2009, the withholding tax provisions on payments to contractors have been expanded to include manufacture or supply of a product according to the requirements or specifications of a customer by using material purchased from the customer

In case of composite arrangements involving supply of material along with labour, it is proposed that the value of material would not be subjected to tax withholding, if the same is separately reflected on the invoice

- Tax holiday for EOUs extended for 1 year ie upto March 31, 2011
- Anomaly on the formula for computing tax holiday for SEZ units to be settled. Deduction shall now be computed with reference to the total turnover of the 'undertaking' and not the turnover of the 'assessee'
- New Dispute Resolution mechanism to be introduced for resolving transfer pricing disputes
- Safe Harbour Rules to be introduced for determining 'arms length' price. This should help in setting appropriate mark-ups for services outsourced to India in the pharma industry
- New Direct Tax Code to be released within next 45 days for public discussion/ consultation
- No changes proposed in rates of corporate tax, surcharge and cess
- Minimum Alternate Tax ('MAT') rate increased from 10% to 15% (excluding surcharge and cess as applicable). Carry forward period for MAT credit (i.e., for MAT paid on or after April 1, 2006) extended from 7 years to 10 years

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Service Tax

- There is no change proposed in the service tax rate (10.30%)
- Procedural simplification introduced for claiming refund of specified input service tax paid by the manufacturer exporter. This will help in expediting the sanction of refund claims to such manufacturer exporter

Customs

- There is no change in the peak rate of basic customs duty (10%)
- No change in effective rate of customs duty (24.42%)
- Basic customs duty on nine specified drugs, bulk drugs and on Influenza vaccine reduced from 10% to 5% with 'Nil' Additional Customs Duty
- Basic customs duty reduced from 7.5% to 5% on Patent Ductus Arteriosus/ Artrial Septal Defect occlusion device with 'Nil' Additional Customs Duty
- Basic customs duty reduced from 7.5% to 5% on Artificial heart (left ventricular assist device)

CENVAT

- There is no change in the median rate of basic excise duty (4.12%) on drugs and pharmaceutical products
- Manufacturer of both dutiable and exempted goods to pay 5% of total price of exempted goods to claim full CENVAT credit (earlier it was 10%)

CST

- No change proposed in Central Sales Tax rate

GST

- Reiteration of April 1, 2010 deadline with satisfactory progress on roadmap
- Proposal to introduce Dual GST in India - Central and State

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