KPMG

India Union Budget 2025-26

Point of view

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Life Sciences

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Key announcements for the sector

- Around 1 crore gig workers will be provided healthcare under the government's flagship health insurance scheme
- The government will facilitate the setting up of daycare cancer centers in all district hospitals in the next three years. the government will establish 200 cancer centers in 2025-26
- Medical Tourism and Heal in India to be promoted in partnership with private sector. Capacity building and Streamlined visa norms for medical tourism
- Increase in the cost norms for nutritional support programs like Saksham Anganwadi and Poshan 2.0. These initiatives provide nutritional assistance to over 8 crore children, 1 crore pregnant and lactating women, and 20 lakh adolescent girls, particularly in aspirational districts and the northeastern region
- The government will add 10,000 new seats to medical colleges across India next year, with a target of creating 75,000 new seats over the next five years
- An Export Promotion Mission, with sectoral and ministerial targets, driven jointly by the Ministries of Commerce, MSME, and Finance to be set up. Schemes for supporting the MSME and the startup ecosystem in the country. The investment and turnover limits for classification of all MSMEs to be enhanced to 2.5 and 2 times. Customized Credit Cards with ₹ 5 lakh limit for micro enterprises registered on Udyam portal, 10 lakh cards to be issued in the first year. A new Fund of Funds, with expanded scope and a fresh contribution of ₹ 10,000 crore to be set up
- ₹20,000 crore to be allocated to implement private sector driven Research, Development and Innovation initiative announced in the July Budget. Deep Tech Fund of Funds to be explored to catalyze the next generation startups. 10,000 fellowships for technological research in IITs and IISc with enhanced financial support
- Center to provide guidance framework to states to establish Global Capability Centers (GCCs) in emerging tier 2 cities.

Tax Proposals

Direct Tax

- Overhauling and simplification of Direct Tax Law
  - New Income tax Bill to be introduced next week.
- Rationalization measures
  - Increase in monetary thresholds for applicability of deduction of tax at source ('TDS') under various sections
  - Significant economic presence not to be formed, if activities by non-resident confined to sourcing of goods from India for the purpose of export

— Abolishment of collection of tax at source ('TCS') at rate of 0.1%, on sale of goods

— Abolishment of TDS and TCS, at higher rate, in case of non-filers of income-tax return

— No prosecution for delay in deposit of TCS, if the sum is deposited on or before the due date of filing such TCS return for respective quarter.

- Other key changes

  — In case of amalgamation, accumulated losses of amalgamating entity can be carried forward in the hands of the successor entity for not more than 8 assessment years, immediately succeeding the assessment year for which such loss was first computed for original predecessor entity

  — Sunset date for incorporating eligible start-ups for claiming tax-holiday extended for 5 years (i.e., from 31st March 2025 to 31st March 2030)

  — Measures to enhance the ease of doing business include rationalizing the process for company mergers and expanding the scope for fast-track mergers

  — Updated return of income can now be filed upto 48 months from end of relevant assessment year. Additional tax to be paid at 60%, if return filed beyond 24 months but upto 36 months, and 70%, if return filed beyond 36 months but upto 48 months

  — To remove the difficulty in tracking multiple barring dates for imposition of penalty, Section 275 proposed to be amended to restrict the timeline for issuance of penalty order to six months from the end of the quarter in which the connected proceedings are completed/ appeal order received/ order of revision passed, or as the case maybe

  — Ease of doing business

    o Measures to enhance the ease of doing business include rationalising the process for company mergers and expanding the scope for fast-track mergers.

  — Clarification on loss carry forward

    o The amendment limits the carry forward of accumulated losses to 8 (eight) assessment years post-amalgamation, preventing evergreening of the losses. This amendment proposed to be applicable for amalgamation or reorganisation effected on or after 1 April 2025.

Transfer Pricing

- Arm's length price determination for block period of three years:

  — Applicable from AY 2026-27

  — Relevant for similar transactions – AE, quantum, etc.

  — Option to be exercised by the taxpayer whereby ALP determined by TPO in year 1 applies to years 2 and 3

  — Does not apply to 'search' cases and timing, forms, process to be prescribed

  — Clarity required on several aspects

- Expansion of scope of Safe Harbour rules to reduce litigation and provide certainty in international taxation
- Removal of time limit (31 March 2025) for adoption of faceless regime for TP assessment, DRP and ITAT

Personal taxes

- Income tax slabs and rates remain unchanged under the old tax regime.
- Changes proposed under new the tax regime:
  - — The tax rates and revised income slabs are as under:

Existing		Proposed	
Taxable Income (INR)	**Tax Rate**	**Taxable Income (INR)**	**Tax Rate**
Upto 300,000	Nil	Upto 400,000	Nil
300,001 – 700,000	5 per cent	400,001 – 800,000	5 per cent
700,001 – 1,000,000	10 per cent	800,001 – 1,200,000	10 per cent
1,000,001 – 1,200,000	15 per cent	1,200,001 – 1,600,000	15 per cent
1,200,001 – 1,500,000	20 per cent	1,600,001 – 2,000,000	20 per cent
Above 1,500,000	30 per cent	2,000,001 – 2,400,000	25 per cent
		Above 2,400,000	30 per cent

  - — Surcharge, cess remain unchanged.

- Income threshold for rebate under new tax regime enhanced from INR700,000 to INR1,200,000 (excluding income taxable at special rates e.g. capital gains, etc.)
- Deduction of INR50,000 extended for contribution towards minor's National Pension Scheme (Vatsalya) account under old tax regime. Partial withdrawal upto 25 per cent for specified reasons from minor's account shall not be taxable in the hands of parent / guardian
- All unexempted Unit Linked Insurance Plans (ULIPs) will qualify as capital asset and profit / gains from redemption of such ULIPs shall be considered taxable as capital gain on par with equity oriented mutual funds
- Conditions for property to qualify as self-occupied property relaxed
- Amount withdrawn from National Savings Scheme (NSS) on or after 29 August 2024 shall be considered exempt from tax.

Indirect Tax

Customs

- Concession/ exemption provided vide Notification no. 50/2017- Customs dated 30 June 2017 have further been extended upto 31st March 2029 for following:
  - — Bulk drugs used in the manufacture of drugs or medicines specified in List 3 (Sr. No 166)
  - — Bulk drugs used in the manufacture of polio vaccine and Monocomponent insulins (Sr. No 166A)
  - — Drugs, medicines, diagnostic kits or equipment specified in List 3 (Sr. No 166B)
  - — Bulk drugs used in the manufacture of life saving drugs or medicines specified in List 4 (Sr. No 167)

- Drugs, Medicines or Food for Special Medical Purposes (FSMP) used for treatment of rare diseases (Sr. No 167A)
- Lifesaving drugs/medicines including their salts and esters and diagnostic test kits specified in List 4 (Sr. No 167B)
- Drugs, Medicines or Food for Special Medical Purposes (FSMP) used for treatment of rare disease specified in list 38 (Sr. No. 607B).

- Cancer, rare disease and other severe chronic diseases related 36 life-saving drugs added in List 4 (exempted from Basic Customs Duty)
- 6 life-saving drugs added in List 3 (liable to Basic Customs duty at 5%)
- 37 lifesaving drugs added in 13 new Patient Assistance Program which is exempted from Basic Customs Duty with effect from 2nd February 2025
- Amendments in Customs (Import of goods at Concessional Rate of Duty or for Specified end use), 2022
  - The maximum period for utilization of imported goods is extended from six months to one year
  - Introduction of quarterly IGCR-3 instead of monthly return.
- Time limit for Provisional Assessments defined at 2 years, extendable by 1 year (subject to certain conditions)
- Voluntary revision of Bill of entry post clearance (subject to conditions) and allows to pay duty with interest without penalty

Goods and Services Tax (GST)

Effective from 1st April 2025

- Provisions amended to allow distribution of input tax credit by Input Service Distributor (ISD) for tax payable under Reverse Charge Mechanism on inter-state supplies

Amendment effective from date to be notified by Government

- Retrospective amendment to substitute ‘plant or machinery’ with ‘plant and machinery’ related to input tax credit and negate impact of the Supreme Court’s judgement in the case of *Safari Retreats*
- Requirement of reversal of corresponding input tax credit in respect of credit note u/s 34 of CGST Act, 2017 introduced for the purpose of reduction of tax liability of Supplier
- Section 38 of CGST Act, 2017 amended for enabling Invoice Management System (IMS) facility
- 10% mandatory pre-deposit introduced for filing appeal in cases involving only demand of penalty
- Provision introduced for implementation of Track and Trace mechanism for specified commodities. No specific commodity notified till now. Further, penalty of one lakhs rupees or 10% of tax payable on goods, *whichever is higher* is payable on non-compliance with this provision
- Supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area shall be treated neither as supply of goods nor as supply of services.

Implications for the sector

- Government focus on improving healthcare access for cancer and rare diseases by reducing custom duties signals positive outlook for companies trying to bring innovative lifesaving drugs and making these drugs affordable
- Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) provides health cover of ₹5 lakh per family per year. By enabling inclusion of gig workers under AB-PMJAY, this will add 1 cr. population through social insurance schemes driving growth for the pharmaceutical drugs, medical devices as well as healthcare delivery (hospital and diagnostic services) for the gig worker population in these regions
- Setting up day care cancer centers across districts is expected to improve healthcare access in lower tier towns for which patients currently travel to urban centers for treatment. This is expected to drive growth for cancer care drugs as well as improve treatment adoption & compliance by making healthcare accessible at grass roots level
- The 'Heal in India' initiative, coupled with a ₹20,000 crore allocation for tourism will enable India to leverage its affordable healthcare facilities and build a global hub for affordable and high-quality medical care. Streamlining visa processes and enhancing infrastructure in the top 50 tourist destinations will help in driving demand for healthcare services, pharmaceutical drugs and medical devices used in these procedures. Increase in medical tourism is also expected to drive demand for alternative medicines (Ayurveda, Homeopathy, etc.) in the country
- Infant and maternal nutrition segment is expected to see growth driven by increased government spending under the Saksham Anganwadi and POSHAN 2.0 scheme
- Improvement of the healthcare infrastructure through addition of 75,000 new medical seats over the next 5 years, is expected to drive demand for healthcare services as well as improve patient access and quality of healthcare
- The credit and financial support for MSME, startups and focus on export promotion is expected to benefit MSME players in the pharma and medical devices segment to drive global competitiveness in manufacturing
- Financial support for R&D and innovation is expected to drive focus on research and development within pharma and medical devices segment
- Framework and guidelines for GCCs are expected to enable Indian states to develop capabilities for attracting leading multinational pharma and medical device companies planning to setup GCC centers in low-cost destinations
- Government's efforts towards affordable healthcare continued. This is evident as customs duty exemptions/ concessions are extended and it should result in controlling cost of treatment for patients
- The Budget 2025 proposal to determine the arm's length price for the block period of three years is intended to reduce compliance burden on the taxpayer and administrative burden on revenue authorities
- Consequently, this could benefit taxpayers with recurring transactions for e.g., Global Capability Centres, who opt for this scheme
- The introduction of fast-track mergers simplifies and accelerates the merger process, enabling pharmaceutical and life sciences companies to consolidate and expand more efficiently
- By capping the carry forward period, the amendment prevents companies from indefinitely extending tax benefits from losses, encouraging more efficient financial planning.

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