

Higher GST on medical equipment is bad news for the healthcare industry

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Considering the massive healthcare requirements and the need for healthcare infrastructure in India, the Narendra Modi government has rightly kept the healthcare sector outside of the otherwise overarching Goods and Services Tax (GST) regime.

However, the fine print of the roll out of the GST in the country and the taxes on many of the inputs that the healthcare industry requires obviates the very reasons why healthcare has been kept out of the GST net. The GST regime has served to increase the cost of several medical equipments used in everyday treatment.

Healthcare providers currently absorbing the increased costs

The final increase in the prices of a lot of medical equipment is currently being absorbed by the healthcare providers. But in the process, the ability of the healthcare providers to expand to newer geographies and make a difference to the lives of people is being compromised. While initially healthcare providers are bearing the increased costs, yet there will be a time when they will find it unviable to do the same. This is when they will start looking at ways to pass on the increase to the patients, making the cost of treatment more expensive for them eventually.

How higher taxes on equipment ups cost of treatment

The net effect of the incidence of taxes in current GST system has the potential to make the healthcare costs of a patient go up. For example, now the dialysis treatment for a kidney patient will go up as the equipment required to carry out dialysis has been put in the 12 per cent tax slab when the overall tax incidence on these items was in the region of 5 percent. The hospitals will have to pay 12 percent tax on dialysis machine, tubings, dialysis needles, Catherter, plasma filter, dialysis fluid and the like. The tax on these items was about 5 per cent earlier.

Considering the fact that about 2,10,000 people in India suffer from advanced kidney failure every year and require transplants and the fact that only about 6,000-7,000 of them are able to get a kidney from a donor and the only option for the rest of the patients is to go for dialysis on a regular basis, the change in the tax incidence on these dialysis inputs will have a bearing on the cost of the treatment for all such patients. Just to give an example, the cost increase at the patient's end for a dialysis after the change in tax rates is going to be Rs 300 more per session and if a patient requires 10-12 sessions in month, then the patient will have to cough up Rs 40,000 extra in a year.

Private players need tax incentives to expand services

If the patient has to be insulated from the increase in cost, then the hospital has to bear the extra cost which will impact the ability of the healthcare providers to expand and reach out to

more and more needy people. It is important to underline here that private players are playing a significant role today in taking basic and tertiary healthcare to a wide number of people, even as government services remain seriously underequipped to meet the healthcare needs of the country. In this scenario, imposing of higher taxes on medical inputs and equipment is a major setback, and doesn't bode well for the healthcare infrastructure in the country.

All said and done, private healthcare providers cannot survive and expand services without making suitable profits. Notably, India ranks 154th among 190 countries in terms of healthcare infrastructure, behind even Nepal, Bangladesh and Sri Lanka. If this has to change then healthcare providers need to be given incentives by the government, besides being provided a conducive tax regime.

The dialysis equipment and related increase in tax was just an example. There are a host of other medical equipments and inputs that have been made more expensive. The lead valve of pacemaker used in heart treatment will now be taxed at 18 percent from about 5.5 percent earlier. The CRT-ICD machine will now be taxed at 12 percent, up from 5.5 percent earlier. As a result, the pacemaker which is priced Rs 1.5 lakh will now be costing Rs 15,000-20,000 extra and the ICD will be costing Rs 40,000 extra. If this increase in costs of providing healthcare facilities will not be passed to the end consumer, that is the patient, then healthcare providers will be looking at a bleak future.

Zero rating needed for all healthcare services and equipment

It is imperative to lay the ground for zero rating of health and healthcare services to make sure input tax credit is available for refund, in the absence of which healthcare service providers will find it increasingly difficult to provide services at the current rates and prices, and will be compelled to pass on the increased cost to the consumer.

Not just healthcare services, there needs to be exemption for all supporting and auxiliary services like cosmetology, dermatology, pathological and even aesthetics and outpatient pharmacy. This is so because unless these costs are controlled, quality healthcare services may not permeate into each and every stratum of the society. Take for example the dearth of quality birthing in India. About 25 percent of all births are still being performed by unprofessional or unskilled mid wives, especially in the rural areas and rural pockets of urban centres. At a time when gauze/cotton, gloves and many others have been made expensive under the current GST system, such unskilled personnel are even more unlikely to use proper equipment if there are increases in cost of these consumables.

The GST council also has to make sure that there is no ambiguity in policies regarding tax free zones, physician samples, and inter movement of stock transfers.

The GST in the country is heralded as a revolutionary step and bodes well for the overall economic environment in the country, something that will not only smoothen operational challenges of businesses but also boost the economical growth in the long run. But in implementing the GST in the country, care has to be taken that it is not contrary to the purpose that was envisaged for introducing it in the first place.

Note: The opinion expressed by the author in the above article is his own.