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Medical device companies cry foul over skewed duties

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New Delhi: Tweaking of the duty structure in the Budget, which offered incentives to import devices in comparison with indigenously manufactured products, has increased disparity, claims the domestic medical devices industry. Prior to the Budget, the domestic medical devices sector had sought a correction to irrational duty structure in case of over 110-odd devices where the duty on import of raw material is higher than that of finished device.

“We are not sure whether the Tax Research Unit knew the imbalances loaded against domestic industry, but the truth is that domestic industry is in peril. According to our calculation, in cases where the imported products attract a tax burden of 13.39%, the comparable domestic products would invite a tax rate of up to 13.89%, inclusive of excise duty and state VAT,” said Hindustan Syringes and Medical Devices JMD Rajiv Nath. Nath also acts as the forum coordinator of the Association of Indian Medical Device Industry (AIMED).

The industry is also lobbying for a uniform value added tax regime on medical devices across states to eliminate market distortion and usher in a level playing ground, geographically speaking. "Some states charge VAT on MRP and others on invoice value. The existing skewed structure already marked a huge loss of opportunity for the indigenous industry and inhibited growth of Indian manufacturers. For instance, importing blood collection tube incurred a customs duty of 7.5% while import of its components like glass tube and cap attracted a duty of 10%, higher than the finished product,” Nath said. In select cases of life saving products, the customs duty has been further slashed, in contrast to the industry’s desire of removal of these benefits and exemption to imported products as the same are not valid for raw material and packing material used as inputs for a finished product. Eventually, cost of a finished product manufactured within the country remains higher than a imported product, he adds.

Even today, the country’s medical devices market continues to be import dependent with over 75% of medical devices demand being met via imports, according to industry estimates. Medical equipment, instruments and appliances have been subjected to complex import duty regime based on several long lists. The lists describe items attracting multiple tax rates depending on which list it figures in. This Budget proposes to do away with all such lists and clubs medical, dental and veterinary products under a single duty structure “Multiple rates coupled with descriptions not aligned with tariff lines, result in disputes and

at times prevent state-of-art equipment from getting the benefit of exemption. I propose to prescribe a uniform, concessional basic duty of 5%, countervailing duty of 4% with full exemption from special additional duty on all medical equipment. A concessional basic duty of 5% is being prescribed on parts and accessories for the manufacture of such equipment while these would be exempt from CVD and special additional duty.” the finance minister said in his Budget speech on Friday. Full exemption currently available to medical equipment and devices such as assistive devices, rehabilitation aids was retained.

“As the tax holiday for export oriented units have not been extended beyond 2011, many units would look at shifting out of EOUs to special economic zones which will put a lot of people out of jobs. Some players are likely to consider moving out of India to tax-friendly regimes,” said Himanshu Baid, MD, Poly Medicare Ltd. The Indian medical technologies market is estimated at Rs 15,000 crore at present.

It is growing at 22% annually and projected to touch Rs 22,000 crore by 2012.