

# Healthcare to become costlier



## SERVICES

**Hotel accommodation, air travel also set to pinch pockets**

HEALTH TREATMENT, air travel and hotel accommodation are set to become expensive with the widening of the service tax net, though the rate has been kept unchanged. While some viewed it as a step towards introduction of the Goods and Services Tax (GST), industry leaders unanimously gave a thumbs-down to it.

The finance minister said the proposals relating to service tax would end in a revenue

gain of ₹4,000 crore in 2011-12.

"The actual collections of service tax do not reflect the full potential of this sector. While retaining the standard rate of service tax at 10 per cent, I seek to achieve a closer fit between the present service tax regime and its GST successor," finance minister Pranab Mukherjee said.

The government has sought to levy tax on all services, including diagnostic, offered by a hospital or nursing home that has central air-conditioners and more than 25 beds.

Diagnostic tests as well as services provided by doctors, who are not employees of any kind of clinical set-up, would be charged service tax. Mukherjee said there would be an abatement of 50 per cent so that the actual burden is kept at five per cent of the value of service. All government hospitals would be outside this levy.

"These proposals are extremely significant as well as controversial. I think the idea was to broaden the base in the face of GST. The focus was to tax those services that are in the organised sector," said Satya Poddar, partner, Ernst & Young.

"This comes at a time when the healthcare sector is already bearing the brunt of an inflationary spiral that has been unrelenting for the past several months. We will be forced to pass on this tax to the patients, something that will certainly cause a lot of heartburn amongst our customers. A service tax only makes the bill dearer and impacts the patient even more adversely," Pervez Ahmed, CEO and MD, Max Healthcare, said.

Besides, the ambit of service tax was also widened to cover hotel accommodation above ₹1,000 per day, air-conditioned restaurants serving liquor, and legal services.

"The fact that the finance minister chose to consider healthcare services under the service tax net is going to be extremely retrograde. Besides, as far as including hotel accommodation or restaurants are concerned, they would be litigative because these services are deemed to be sales. The maximum rate proposed under GST is 20 per cent, but what the budget proposed today exceeds 20 per cent limit," said Atul Gupta, senior director, Deloitte Haskins and Sells.

Mukherjee said a scheme would be introduced for refund of service tax on lines of drawback of duties. This would benefit the country's exporters to a large extent.

The budgeted estimates for service tax have been pegged at ₹82,000 crore for 2011-12, compared to the revised estimates of ₹69,400 crore in 2010-2011.