

Office of Comptroller and Auditor general of India

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Press Release

CAG's report on Performance Audit on "Assessment of Private Hospitals, Nursing Homes/Medical Clinics, Medical Colleges/Research Institutes, Diagnostic Centers, Pathological Labs and other Medical Supplies Agencies/Stores" laid in parliament

The Comptroller & Auditor General of India (C&AG) carried out a Performance Audit on 'Assessment of Private Hospitals, Nursing Homes/Medical Clinics, Medical Colleges/Research Institutes, Diagnostic Centers, Pathological Labs and other Medical Supplies Agencies/Stores'. The study was carried out during July 2016 to November 2016, findings were discussed with the Central Board of Direct Taxes (CBDT) in May 2017. The Report no 27 of 2017 was laid on the floor of the Parliament today.

Introduction

Indian healthcare sector is one of the fastest growing service areas and has witnessed significant growth in terms of revenue and employment in recent years and it comprises both private and public sectors. This performance audit covered the assessment of private hospitals, nursing homes/medical clinics, medical colleges/research institutes, diagnostic centres, pathological labs, medical supplies agencies/stores, including those running on 'not-for-profit basis', and healthcare delivery professionals which included cases of scrutiny assessments, appeal and rectification cases completed during the period from 2012-13 to 2015-16. The performance audit was conducted for assessing the achievement of objectives behind the introduction of tax incentives specific to the healthcare sector and to derive an assurance that the existing systems and controls are adequate for compliance of provisions specific to the healthcare institutions and medical professionals under the Income Tax Act. The other objectives were to examine whether all types of healthcare institutions were effectively covered in the tax net of the Income Tax Department (ITD), and to assess the adequacy of efforts made by ITD towards this.

Audit Findings

Audit found deficiencies in the monitoring and control of Tax base of assesseees engaged in private healthcare sector, Tax incentives available under the Income Tax Act for Private Healthcare Facilities. The C&AG found deficiencies in application of other provisions of Income Tax Act availed by healthcare sector assesseees. The following are the highlights of deficiencies noticed by the C&AG:

- a. Audit noticed that the systems viz. Income Tax Payer Data Management System (ITDMS), Non-filers Monitoring System (NMS), Project Insight and other versatile tools for analyzing data collected from external sources for widening of tax base, have not been effectively utilized/ implemented for strengthening the tax base in private healthcare sector and for identifying the stop-filers and non-filers. This also points to the possibility of potential assesseees remaining outside the tax net.
- b. ITD has not undertaken any impact analysis to assess the outcome of relief provided to assesseees engaged in the private healthcare sector.
- c. The Income Tax Act does not prescribe any measurable parameter to assess the extent of charitable activities being undertaken by hospital trusts availing of exemptions under the Act. This gives rise to a possibility of assesseees availing of exemption without performing charitable functions.
- d. Audit noticed deficiencies in monitoring of donations and cross verification of donation receipts of donees vis-a-vis claims made by donors. As such, there is no provision in the ITD module to enable validation of section 80G certificates by Assessing Officers on similar lines as in done in the case of TDS certificates under TRACES.
- e. Audit noticed instances where exemptions were allowed to ineligible assesseees engaged in trading/commercial activities, as well as instances of incorrect allowance of accelerated depreciation on items not classified under life-saving medical equipment, incorrect allowance of deduction under section 80IB of the IT Act on incomes from non-hospital activities and irregular allowance of deduction on provisioning rather than on actual capitalization under section 35AD of the Act.
- f. The Assessing officers omitted to obtain details of cases where cash receipt and payments were made in contravention to sec 269SS and 269T and also failed to initiate penalty proceedings. The computation and allowance of capital gains/losses were not carried out according to the provisions of the Act.
- g. The “referral fees” paid to the doctors by the private hospitals, nursing homes, diagnostic centres etc. for referring patients and payments made on account of “advertisement expenses” by the medical practitioners were allowed, although such expenditure has been held as disallowable and “unethical” as per CBDT’s directives and laws of regulatory bodies.

Recommendations by the C&AG

C&AG has recommended that the CBDT may consider requesting the registering bodies/ agencies through their administrative Ministries/Departments for making quoting of PAN mandatory while registering the different healthcare institutions. CBDT would like to consider modifying its existing mechanism to identify non-filer/ stop-filer private companies and registered medical professionals in healthcare sector to widen its tax base. Ministry may consider using survey operations more effectively to strengthen the tax base of assesseees related to the healthcare sector and fixing of

sector- specific targets for survey operations to factor in the increases in revenues of the private healthcare sector. CBDT is recommended to prescribe measurable parameters for assessment of charitable activities undertaken by private hospital trusts as a pre-condition for granting exemptions under the Income Tax Act. CBDT may consider the possibility of introducing automated generation of 80G certificates above a certain threshold. CBDT may consider including the provision of disallowance of expenditure in respect of all kinds of freebies and referral fees paid to medical practitioners as well as advertisement and business promotion expenses within the purview of explanation under section 37 of Income Tax Act 1961 to create an additional deterrence against such unethical practices.
