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Pharma cos dodging tax: CAG study

The Indian pharma industry has been resorting to a slew of dodgy tax avoidance practices which include claiming exemptions for illegal freebies given to doctors, research work which was not taking place, and other tricks, reveals a new report of India's audit watchdog, the CAG. The report also takes to task the income tax department for allowing these practices causing tax losses worth crores of rupees.

Taking an innovative approach to digging out the dirt on the flourishing pharma sector, Comptroller & Auditor General (CAG) asked the income tax department to show tax assessments of the whole pharma sector in India.

The tax office had no database of pharma manufacturers and was able to produce only 2,868 assessment records. These were put under the scanner by CAG and they found 246 cases involving tax deficiency of over Rs1348 crore.

The most startling of the dirty tricks played was that of claiming tax exemption for giving gifts to doctors to lure them into prescribing certain drugs or treatments.

The Medical Council of India expressly prohibits this and the statutory Central Board of Direct Taxation has also clarified in 2012 that such expenses are not allowable for tax exemptions. Yet, the CAG found that in 21 cases spread over five states this was allowed by assessing officers resulting in a tax loss of Rs 45.43 crore.

Giving examples, the CAG report, says that a company in Gujarat spent Rs 7.48 crore on "doctors' travelling expenses along with spouse, gift articles distributed, etc." and was given exemption resulting in tax loss of Rs 2.54 crore. In another case, a pharma company from Mumbai spent Rs 2.91 crore on what they candidly called "Heart Touching Celebration, Sponsorship of Doctors and corporate brand recall items" and got a Rs 11.91 crore exemption.

A Bengaluru company spent Rs 18.43 crore over three years towards "Doctor's domestic and foreign travelling expenses including hotel bookings, gifts" and they got an exemption of Rs 6.26 crore.

Besides these clear cut cases, there were 11 cases where such illegal expenditures were concealed within larger "sales promotion" heads of spending.