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Pharma Companies May Get Tax Sops for Clinical Trials, Patent Filings

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The Department of Pharmaceuticals is planning to recommend extension of tax benefits given to drugmakers for in-house R&D and research work done outside the firm such as clinical trials, bioequivalence studies, regulatory approvals and patent filings which could benefit most Indian drug companies.

Expenses incurred on drug development process outside the firm should be eligible for tax exemption, if done through firms exclusively engaged in R&D and approved by specified authority, a draft proposal of the sub-working group (SWG) on regulatory issues for pharma sector for 12th Five-Year Plan said.

At present, the government gives weighted average tax deduction of 200% for in-house R&D investments and up to 175% if done with few R&D partners recognised by government. Pharma requires big investments to develop new medicines and most local drugmakers spend about 5-10% of their revenues on R&D.

Rajesh Jain, managing director at Delhi-based Panacea Biotec said two-third of drugmakers' drug development expenses are done outside the company such as pre-clinical studies and clinical trials. Hence, the new proposal will cover bulk of their R&D investments. "It will boost moral and investment by local firms," Jain said.

SWG has sought the industry's views to finalise its proposal and sent to Working Group (WG) of the Department of Pharmaceuticals. If the WG endorses the proposal, it will be sent to Planning Commission to be part of the Five-Year Plan beginning 2012.

Among other tax exemption proposals to incentivise pharma sector for investment in R&D, SWG has also recommended extending the weighted tax deduction benefit by another 10 years to 2022.

It has also proposed a modification in minimum alternate tax (MAT) structure. With imposition of MAT of 20%, companies are unable to avail full benefit of tax deduction. Though the law provides for carryover and set off, investments in R&D is ongoing and growing, limiting firms from enjoying weighted deduction to R&D, it said.

"Alternatively, the amount spent for R&D should be treated as investment tax credit and allowed to be set off against tax and/or MAT payable," it said.

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