



Tax alert: Karnataka High Court holds that healthcare services provided by one hospital to another would continue to remain exempt from GST

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The Karnataka High Court has held that GST exemption on healthcare services under Notification No. 12/2017-CT (Rate) would continue to apply where such services are provided by a hospital to the patients of another hospital, under a service agreement.

In a nutshell



The Karnataka High Court has held that healthcare services provided by a hospital (clinical establishment) through another hospital (clinical establishment) to the patients would continue to remain exempt from GST under Entry 74 of Notification



The substance of the transaction was provision of healthcare services directly to patients, which are specifically exempt from GST.



Exemption notification must be interpreted in line with the legislative intent of keeping healthcare services outside the GST net and ensuring affordability of medical treatment



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Background:

- The taxpayer H Co., a registered clinical establishment is engaged in providing specialised cancer care and healthcare services, entered into a Medical Services Agreement with T Co. a multi-specialty hospital.
- Under the arrangement, H Co deployed its doctors, specialists, technicians, and para-medical staff at the T Co. hospital for providing diagnosis, treatment, surgeries, diagnostics, and other healthcare services to in-patients and out-patients. In consideration, H Co was entitled for 75% of gross collections generated from medical services, diagnostics, surgeries, pharmacy revenue, and allied healthcare services.
- The GST Authorities initiated proceedings under Section 73 of the CGST/KGST Act, 2017 for multiple financial years alleging that H Co was supplying taxable manpower/support services to T Co. classifiable under SAC 9985 and liable to GST at 18%.
- Aggrieved by the Show Cause Notices demanding GST, interest, and penalty, H Co filed a petition before the Karnataka High Court.

High Court judgement¹

- The High Court examined the nature of the Medical Services Agreement and held that the services rendered by H Co constituted healthcare services within the meaning of the notification exempting health care services, as it involved diagnosis, treatment and medical care provided directly to patients at recognized clinical establishment.
- Following are the key observations of the High Court
 - Reference was made to CBIC Circular No. 32/06/2018-GST dated 12 February 2018 which clarified that services provided by doctors, consultants and technicians engaged by hospital, whether employed or otherwise are health care services and consequently, exempt from GST.
 - Legislative intention is not to burden essential health care services, where the exemption notification exempts GST leviable on health care services provided by clinical establishment, an authorized medical practitioner or para-medics.
 - Exemption for health care has been retained consistently across the indirect tax regime to ensure affordability of medical treatment end-to-end.
 - Any interpretation that results in taxing the services of H Co would defeat this intent and would result in an increased cost to the patient as GST if levied on H Co, ITC would not be available to T Co as its output services are exempt.
 - The true and predominant nature of the services is medical treatment rendered to patients and H Co did not provide manpower or administrative assistance to T Co.
 - Classification of services must follow its substance. Once the substance of the services provided by H Co are found to be health care services, their classification as “Support Services” under SAC 9985 was misplaced and untenable.
 - The exemption cannot be nullified by misinterpreting the contractual or revenue-sharing agreement between the parties.
- Accordingly, the Court held that healthcare services provided by H Co to T Co are exempt from GST under Notification No. 12/2017-CT dated 28 June 2017 and quashed the Show Cause Notices.

¹ Healthcare Global Enterprises Ltd. Vs. Assistant Commissioner of Commercial Taxes (Enforcement), South Zone & Ors., Hon’ble Karnataka High Court, WP No. 22236/2023 c/w WP No. 23928/2023 & WP No. 23931/2023

Deloitte Comments

The judgment reinforces the principle that the nature of healthcare services should be determined based on the substance of the activity and the ultimate recipient, rather than the contractual structure adopted between healthcare institutions.

The decision also reaffirms the applicability of the exemption available under Notification No. 12/2017-Central Tax (Rate) and the clarifications issued by CBIC regarding healthcare services rendered through doctors, consultants, and para-medical personnel, whether employed or otherwise.

The ruling may serve as an important precedent in cases where the Department seeks to classify inter-hospital healthcare arrangements as taxable support services, manpower supply services, or management services.



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