

Viewpoint

# Income tax deduction as a tool to mitigate catastrophic health expenditure for cancer care falls short of its purpose in India

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## ABSTRACT

Income tax deductions aimed at alleviating the financial strain of catastrophic health expenses, prove inadequate in supporting cancer care in India. First, the stringent eligibility criteria for accessing this tax deduction restrict its availability to a narrow segment of the population. Typically, it is granted only to those who receive treatment at government-sanctioned medical facilities. Consequently, this deduction excludes a substantial number of patients, intensifying their financial woes. Moreover, the maximum deduction amount, despite sporadic revisions, falls short in the face of skyrocketing cancer treatment costs. The current structure of the income tax deduction does little to alleviate this burden, as the deduction often pales in comparison to the actual costs incurred. Rather than dissolution of this provision in the new tax regime, we propose a reform and reevaluation of the income tax deduction framework to ensure it genuinely fulfills its role in alleviating the financial strain of cancer care in India.

**Keywords:** Health expenditures, Income tax, Income, Taxes, Humans, Neoplasms

*“We do not travel; we do not spend on anything nowadays because we are facing a “one lakh rupee’ illness. We are caught between a rock and a hard place.”*

*A 57-year-old insured woman with metastatic breast cancer — let us call her “J” — recently described how her life changed due to costs of cancer care.*

High treatment-related expenses impact the well-being of patients through exhausting savings, cutting daily expenses, and curtailing leisure activities. Furthermore, financial challenges can impact a patient’s overall well-being and their ability to obtain necessary medical services. As an illustration, individuals might choose not to purchase prescribed medications or refrain from visiting health-care professionals to cut costs.<sup>[1]</sup> Individuals suffering from cancer are more prone to experiencing financial hardships compared to those without this condition, which has been widely discussed in literature,<sup>[2-6]</sup> and a recent systematic review highlighted cancer costs in an Indian setting.<sup>[7]</sup>

## HOW IS HEALTH-CARE FUNDED AND WHAT CONSTITUTES HEALTH-RELATED SPENDING?

Health spending encompasses both the immediate and secondary costs associated with health-care goods and

services. This encompasses various aspects include individual health-care expenses (including curative, rehabilitative, and long-term care, along with supportive services), public services (including preventive measures, public health services, and health-care management), and the utilization of medical equipment.<sup>[8]</sup>

## World scenario

Healthcare is funded through various financing mechanisms, which encompass government expenditure, compulsory and/or voluntary health insurance, as well as alternative sources such as out-of-pocket payments, non-governmental organizations, and private corporations.<sup>[8]</sup>

## Indian scenario

India operates a comprehensive health-care system with multiple payers, combining public and private health insurance funds. Public hospitals, predominantly funded by taxes, offer nearly free services, although there may be minimal co-payments for certain treatments. However, the quality and availability of services are often limited due to inadequate coverage and funding.<sup>[9]</sup> Although India has

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a relatively high total tax rate (30.9% Income Tax Rate and 32.4% Corporate Tax Rate), the government allocated only around 3% of the country's gross domestic product (GDP) for healthcare in fiscal year 2021, which is significantly lower compared to other countries.<sup>[10]</sup> Table 1 presents a comparison of these provisions between India and larger economies worldwide.<sup>[11]</sup>

The lack of government funding in the health-care sector often forces Indian citizens to rely on personal savings and out-of-pocket expenses to cover medical costs. Research indicates that in 2018, approximately 63% of total health expenditure by Indian citizens was paid out-of-pocket, 72% of that went for medication coverage.<sup>[12]</sup> Surprisingly, outpatient costs are greater than inpatient ones, and costs on travel, and accommodation bore a heavy brunt on the pocket.<sup>[10]</sup>

In 2018, the Government of India launched a national publicly funded health insurance program (Ayushman Bharat) to provide free treatment at both public and private hospitals to the bottom 50% of the population (approximately 500 million people) working in the unorganized sector.<sup>[13]</sup> Many state governments also offer contributory insurance schemes and medical aid to support low-income individuals. For those working in the organized sector, and earning a monthly salary of up to ₹21,000, their healthcare is covered by the Employees' State Insurance, a social insurance scheme. This scheme, in addition to providing healthcare benefits, also offers unemployment benefits and is applicable in both public and select private hospitals.<sup>[14]</sup> Private insurance serves as another avenue for healthcare financing in India with the health insurance market projected to reach USD 198 billion by 2027. There are other welfare schemes such as the Central Government Health Scheme and Armed Forces Medical Services provide coverage for central government employees, their dependent family members, and defense personnel, respectively.<sup>[15]</sup>

## INCOME TAX CAN PROVIDE A SAFETY NET FOR HEALTH-RELATED EXPENSES

Some tax systems allow for deductions or credits related to health expenses. For example, individuals may be able to deduct medical expenses that exceed a certain percentage of their income, reducing their taxable income and potentially resulting in a lower tax liability [Table 2]. Section 80DDB of Indian Income Tax Act covers neurological diseases (disability ≥40%), cancers, acquired immunodeficiency syndrome, chronic renal failure, and hematological disorders up to a sum of Rs. 40,000 for age <60 years, and Rs. 1,00,000 for age ≥60 years, where the amount of deduction must be adjusted for any reimbursement. However, would not be available to a taxpayer opting for the New Tax Regime u/s 115 BAC.

## OUR RECOMMENDATION

- Out-of-pocket health expenditure in India is staggeringly high at 53.23% of current health expenditure. Along with greater government contribution to health-care expenditure, one of the many ways to provide relief to the taxpaying population might be reintroducing tax deduction through section 80DDB under the new Indian Income Tax regime, expand the list of included diseases and include expenses incurred for non-medical essential purposes such as travel and accommodation incurred for treatment.
- Insurance deduction forms can be simplified if any health expenditure is able to be claimed.
- In the era of sharply increasing costs of cancer treatments, the capped maximum reimbursements need to be revised to account for these changes, especially for diseases such as cancer where the average cost of care is 5,00,000 INR (2020).<sup>[16]</sup>

Such a modification could help in reducing poverty arising from catastrophic health expenditures (CHE) in India. The marginal loss in income tax-related revenue can be regained by keeping people out of CHE, which will prevent draining of

**Table 1:** Snapshot of health-related data for countries with high GDP in 2021.

Country name	Income tax rate (%)	Corporate tax rate (%)	Tax burden % of GDP	Health expenditure % of GDP	GDP (billions, PPP)	GDP per capita (PPP)	Unemployment (%)	Inflation (%)
China	45.0	25.0	15.2	5.3	\$24,142.8	\$17,192	5.0	2.4
United States	37.0	21.0	24.5	16.8	\$20,932.8	\$63,416	8.3	1.2
India	30.9	32.4	11	3.0	\$8,907.1	\$6,461	7.1	6.2
Japan	40.8	23.9	32.0	10.7	\$5,313.0	\$42,248	3.0	0.0
Germany	47.5	15.8	38.8	11.7	\$4,496.8	\$54,076	4.3	0.4
Russia	13.0	20.0	11.0	5.6	\$4,096.5	\$27,903	5.7	3.4
Indonesia	30.0	22.0	9.5	2.9	\$3,302.4	\$12,222	4.1	2.0
Brazil	27.5	34.0	33.1	9.5	\$3,153.6	\$14,916	13.7	3.2
France	45.0	26.5	45.4	11.0	\$2,999.7	\$46,062	8.6	0.5
United Kingdom	45.0	19.0	32.7	10.1	\$2,959.9	\$44,117	4.3	0.9

GDP: Gross domestic product, PPP: Purchasing power parity

**Table 2:** What is the world scenario in terms of eligibility for a medical expense tax deduction?

Country name	Income tax rate (%)
China	Taxpayers with serious diseases can have out-of-pocket medical costs (over RMB 15,000 and under RMB 80,000) deducted from their taxable income each year.
United States	Amount of total medical expenses that exceed 7.5% of adjusted gross income can be deducted
Japan	An amount of upto 2,000,000 yen is deducted from taxable income in the event the medical care costs paid from January 1 to December 31 of the previous year exceeded 100,000 yen or 5% of annual income (whichever is less)
Germany	Can deduct them from taxes as extraordinary burdens, the amount varies
Russia	The maximum deduction amount is 120,000 rubles
Indonesia	Expenses of up to RM8,000
Brazil	Deductible (when not reimbursed), with no limits
France	France's state health insurance covers between 70% and 100% of costs for things such as doctor visits and hospital costs
United Kingdom	Universal government-funded health system

resources and keep people in the labor workforce increasing productivity and income generation.

### Ethical approval

Institutional Review Board approval is not required.

### Declaration of patient consent

Patient's consent not required as there are no patients in this study.

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### Conflicts of interest

There are no conflicts of interest.

### Use of artificial intelligence (AI)-assisted technology for manuscript preparation

The authors confirm that there was no use of artificial intelligence (AI)-assisted technology for assisting in the writing or editing of the manuscript and no images were manipulated using AI.

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