



Impact of GST on Pharmaceuticals: An Overview

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ABSTRACT

GST also known as the goods and service tax is defined as the giant tax structure designed to support and enhances the economic growth of our country. More than 150 countries have implemented GST so far. GST is an indirect tax system which takes account expenditure done through sale, manufacture, and consumption of goods & services at a national level which mainly involves companies, industries and services. The GST Rates for medicines were decided by the GST council. GST is levied under 5 different rates, namely NIL, 5%, 12%, 18% and 28% based on the HSN code of the item. GST is expecting to have a positive impact on the Indian Pharmaceutical Industries as it will decrease the manufacturing price since eight different taxes are levied in the pharmaceutical industries helps in easy going business. Beside some positive impact, there are some negative impacts also. A Drug Price Control is issued to make sure that the costs of vital medicines are fixed in such a way that they are affordable for everyone. According to the revised list issued by the National Pharmaceutical Pricing Authority(NPPA), prices of the majority drugs have come down, which includes a list of antibiotics and drugs for treating cancer, HIV, diabetes. GST also affects the Business Strategy of Pharmaceutical Companies.

Keywords: GST a giant tax structure, economic growth of country, Indirect tax system, GST rates, GST council, HSN code, Eight different tax, positive and negative impact, DPCO and essential medicines, NPPA and price control, business strategy

1. INTRODUCTION

GST: Goods & Services Tax Law in India is a complete, multi-stage, destination-based tax that is levied on every charge addition.

In simple words, Goods and Service Tax is an indirect tax levied on the supply of goods and services. GST Law has replaced many indirect tax laws that earlier existed in India.¹

The tax came into consequence from July 1st, 2017 during the implementation of 101st Amendment of the Constitution of India by the Prime Minister Narendra Modi.²



Figure 1. Goods and service tax

GST an meandering tax system which takes financial credit expenditure prepared through sale, manufacture, and consumption of goods & services at a national level which mainly involves companies, industries and services area. The main idea behind it is to eliminate the tax levied of state and central government. It involves three stages

- 1) State GST (SGST) levied by state
- 2) Central GST (CGST) levied by centre

3) Integrated GST (IGST) levied by central government on inter-state supply of goods and service.³

1.1) DRUG PRICE CONTROL ORDER (DPCO)

Under the Essential Commodities Act, a Drug Price Control is issued to ensure that the costs of crucial medicines which are required in large amounts are set in such a way that they are reasonable for each person. The order has its roots in 1970 when the government realized the sick effects of the high profitability of medical drugs and the companies which made them.^{4,5}

1.2) CALCULATION OF RETAIL PRICE OF FORMULATION

BEFORE GST: The retail price of a formulation shall be calculated by the Government in accordance with the following formula namely:

$$\text{R.P.} = (\text{M.C.} + \text{C.C.} + \text{P.M.} + \text{P.C.}) \times (1 + \text{MAPE}/100) + \text{ED.} \quad \text{Where,}$$

- "R.P." means retail price;
- "M.C." means material price and includes the price of drugs and other pharmaceutical aids used including overages, if any, plus process loss thereon specified as a standard from time to time by notification in the Official Gazette in this behalf;
- "C.C." means conversion cost worked out in accordance with well-known procedures of costing and shall be fixed as a standard every year by notification in the Official Gazette in this behalf;
- "P.M." means cost of the packing material used in the packing of concerned formulation, including process loss, and shall be fixed as a standard every year by, notification in the Official Gazette in this behalf;
- "P.C." means packing charges worked out in accordance with well-known procedures of costing and shall be fixed as a standard every year by notification in the Official Gazette in this behalf;
- "MAPE" (Maximum Allowable Flowable Post-manufacturing Expenses) means all costs incurred by a manufacturer from the period of ex-factory cost to retailing and includes trade margin and margin for the manufacturer and it shall not

exceed one hundred per cent for indigenously manufactured Scheduled formulations;

- "E.D." means excise duty: Provided that in the case of an imported formulation, the landed price shall form the basis for fixing its price along with such margin to cover selling and circulation expenses including interest and importer's profit which shall not go above fifty percent of the landed cost.^{6,7}

$$\text{AFTER GST : } \text{GST} = (\text{MRP}) / (1 + (\text{GST \%}/100))$$

$$\text{or } \text{GST} = (\text{MRP} \times 100) / (100 + \text{GST \%})$$

The retail price of a formulation after GST shall be calculated by the Government in agreement by using this formula.⁸

2. GST Rate for Medicines

The GST Rates for medicines were decided by the **GST Council** in the meeting held on 3rd June, 2017. GST is levied in 5 different rates, specifically NIL, 5%, 12%, 18% and 28% based on the **HSN code** of the article. Medicines and pharmaceuticals are classified under 37th chapter of the HSN Code.



Figure2. GST rate for medicines

2.1) NIL GST Rate Medicines

The following types of medicines and pharmaceutical products are free from GST:

- Human Blood and its components
- All types of contraceptives

2.2) 5% GST Rate

Goods under the subsequent HSN categories are taxed at 5% GST rate:

- Animal or Human Blood Vaccines
- Diagnostic kits for detection of all types of hepatitis
- Desferrioxamine injection or deferiprone
- Cyclosporin
- Medicaments (including veterinary medicaments) used in bio-chemic systems and not bearing a brand name

- Oral re-hydration salts
- Drugs or medicines including their salts and esters and diagnostic test kits
- Formulations manufactured from the bulk drugs

2.3) 12% GST Rate

The subsequent types of medicines and pharmaceutical goods are taxed at 12% GST rate:

- Organs for organo-therapeutic uses;
- extracts of glands or other organs or of their secretions for organo-therapeutic uses;
- heparin and its salts; other human or animal substances prepared for therapeutic or prophylactic uses, not elsewhere specified or included
- Animal blood prepared for curative, prophylactic or diagnostic uses;
- antisera and other blood fractions and customized immunological products, whether or not obtained by means of biotechnological processes;
- toxins, cultures of microorganisms (not including yeasts) and similar products.
- Medicaments consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale, including Ayurvedic, Unani, Siddha, homoeopathic or Bio-chemic systems medicaments.
- Medicaments consisting of mixed or unmixed products for curative or prophylactic uses, put up in measured doses (as well as those in the form of transdermal administration systems) or in forms or packings for retail sale, including Ayurvedic, Unani, homoeopathic siddha or Biochemic systems medicaments, put up for retail sale.

- Wadding, gauze, bandages and similar goods (for example, dressings, adhesive plasters, poultices), impregnated or layered with pharmaceutical substances or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes.
- Pharmaceutical goods such as Sterile surgical catgut, similar sterile suture materials (including sterile absorbable surgical or dental yarns) and sterile tissue adhesives for surgical cut closure; sterile laminaria and sterile laminaria tents; sterile absorbable surgical or dental haemostatics; sterile surgical or dental adhesion barriers, whether or not absorbable, etc.,
- Waste pharmaceuticals.

2.4) 18% GST Rate

Nicotine polacrilex gum is the only medicine or pharmaceutical creation taxed at 18% GST rate. No pharmaceutical or medicines have been taxed at 28% GST. Hence, the maximum applicable GST rate for medicines is 18%.^{9,10}

3. HSN Code and GST Rate for Pharmaceuticals and Medicines

HSN (Harmonized System of Nomenclature) is an 8-digit code for identifying the appropriate rate of GST on different goods as per GST rules. If a company has earnings up to RS.1.5 Crore in the previous financial year then they need not mention the HSN code while supplying goods on invoices. If a company has earnings more than 1.5 Cr but up to 5 Cr then they need to mention the 2 digit HSN code while supplying goods on invoices. If turnover crosses 5 Cr then they shall mention the 4 digit HSN code on invoices.^{11,12}

HSN codes	Description	%	Implement from	Import and export
3001	Glands And Other Organs For Organo-Therapeutic Uses; Extracts Of Glands Or Other Organs Or Of Their Secretions For Organo-Therapeutic Uses; Heparin And Its Salts; Other Human Or Animal Substances Prepared For Therapeutic Or Prophylactic Uses, Not elsewhere Specified Or Included ^{13, 14, 15}	12%	28/06/2017	
300120	Extracts of glands or other organ Or of their secretions	12%		
	Liquid extracts of liver	12%		30012010

	Liver extracts, dry	12%		30012020
	Snake venom	12%		30012030
	Other	12%		30012090
300190	Other	12%		
	Of human origin	12%		30019010
	Heparin and its salt	12%		30019091
	Other	12%		30019099

Table: 1 Pharmaceutical comes under HSN 3001

3002	Animal Blood Products, Antisera And Other Blood Fractions , Modified Immunological Products, Toxins And Culture Of Microorganism ^{13, 14, 15}	NIL	28/06/2017	
300210	Antisera and other blood fractions and immunological products, whether or not modified or obtained by means of biotechnological processes:	NIL		
	Malaria diagnostic test kits	NIL		30021100
300212	Antisera and other blood fraction	NIL		
	For diphtheria	NIL		30021210
	For tetanus	NIL		30021220
	For rabies	NIL		30021230
	For snake venom	NIL		30021240
	Other	NIL		30021290
300213	Immunological products, unmixed, not put up in measured does or in form or packaging for retail sale	NIL		
	Immunological products, unmixed, not put up in measured does or in form or packaging for retail sale	NIL		30021310
300214	Immunological products ,mixed, not put up measured doses or in form or packaging for retail sale	NIL		
	Immunological products ,mixed, not put up measured doses or in form or packaging for retail sale	NIL		30021410
	Immunological products , put up measured doses or in form or packaging for retail sale	NIL		30021500
	Other	NIL		30021900
300220	Vaccines for human medicine	5%		
	Single vaccines:			
	For cholera and typhoid	5%		30022011
	For hepatitis	5%		30022012
	For tetanus	5%		30022013
	For polio	5%		30022014
	For tuberculosis	5%		30022015
	For rabies	5%		30022016
	For Japanese encephalitis	5%		30022017
	For whooping cough(pertusis)	5%		30022018
	Other	5%		30022019

	Mixed vaccines:			
	For diphtheria, pertusis and tetanus(DPT)	5%		30022021
	For diphtheria and tetanus(DT)	5%		30022022
	For measles, mumps and Rubella(MMR)	5%		30022023
	For typhoid – parathyroid(TAB) or typhoid-parathyroid-cholera(TABC)	5%		30022024
	Other	5%		30022029
	Vaccines for veterinary medicine	5%		30023000
300290	Other	NIL		
	Human blood	NIL		30029010
	Animal blood prepared for therapeutic, prophylactic, or diagnostic use	NIL		30029020
	Probiotics	NIL		30029030
	Toxins	NIL		30029040
	Other	NIL		30029090

Table: 2 Pharmaceutical comes under HSN 3002

3003	Medicaments consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale, including Ayurvedic, Unani, Siddha, homoeopathic or Bio-chemic systems medicaments. ^{13, 14, 15}	12%	28/06/2017	
	Containing penicillins or derivatives thereof, with a penicillanic acid structure, or streptomycins or their derivatives	12%		30031000
	Other, containing antibiotics	12%		30032000
	Containing Insulin	12%		30033100
	Other	12%		30033900
	Containing ephedrine or its salts	12%		30034100
	Containing pseudoephedrine or its salts	12%		30034200
	Containing norephedrine or its salts	12%		30034300
	Other	12%		30034900
	Other, containing anti-malarial active principles	12%		30036000
300390	Other	12%		
	Ayurvedic, Unani, siddha, Homoeopathic or bio-chemic systems medicaments:			
	Of ayurvedic system	12%		30039011
	Of unani system	12%		30039012
	Of siddha system	12%		30039013
	Of homeopathic system	12%		30039014
	Of bio-chemic system	12%		30039015
	Menthol crystals	12%		30039021
	Milk of magnesia	12%		30039022
	Bovine Albumin and drugs of animal origin, Merbromine National Formulary XII (Mercurochrome), Calcium Sennoside, Anaesthetic agents used in human or veterinary medicine or surgery, Aluminium hydroxide gel:			

	Bovine albumin and drugs of animal origin	12%		30039031
	Merbromine national formulary XII	12%		30039032
	Calcium sennoside	12%		30039033
	Anaesthetics agents used in human or veterinary medicine or surgery	12%		30039034
	Aluminium hydroxide gel	12%		30039035
	Ketamine	12%		30039036
	Other	12%		30039090

Table: 3 Pharmaceutical comes under HSN 3003

3004	Medicament consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale^{13, 14, 15}	12%	28/06/2017	
300410	Containing penicillin or derivatives thereof, with a penicillanic acid structure, or streptomycins or their derivatives	12%		
	Penicillin	12%		30041010
	Ampicillin	12%		30041020
	Amoxicillin	12%		30041030
	Becampicillin	12%		30041040
	Cloxacillin	12%		30041050
	Ampicillin and cloxacillin combination	12%		30041060
	Streptomycin	12%		30041070
	Other	12%		30041090
300420	Other, containing antibiotics	12%		
	Cephalosporins and their derivatives:	12%		
	Cefazolin	12%		30042011
	Cephalexin	12%		30042012
	Ciprofloxacin	12%		30042013
	Cefoxitin	12%		30042014
	Other	12%		30042019
	Sulphonamides and cotrimoxazole	12%		30042020
	Fluoroquinolones:	12%		
	Norfloxacin	12%		30042031
	Nalidixic acid	12%		30042032
	Ciprofloxacin	12%		30042033
	Ofloxacin	12%		30042034
	Other	12%		30042039
	Tetracycline:			
	Chlortetracycline	12%		30042041
	Oxytetracycline	12%		30042042
	Other	12%		30042049
	Chloramphenicol	12%		30042050
	Macrolides:			
	Erythromycin	12%		30042061
	Roxithromycin	12%		30042062
	Clarithromycin	12%		30042063

	Azithromycin	12%		30042064
	Other	12%		30042069
	Cefadroxil	12%		30042070
	Other:			
	Isoniazide	12%		30042091
	Rifampicin	12%		30042092
	Pyrazinamide	12%		30042093
	Ethambutol	12%		30042094
	Clindamycin	12%		30042095
	Vancomycin	12%		30042096
	Polymixin B and colistin	12%		30042097
	Other	12%		30042099
300431	Containing insulin	12%		
	Insulin injection	12%		30043110
	Other	12%		30043190
	Containing corticosteroid hormones, their derivatives or structural analogues	12%		30043200
300439	Other	12%		
	Pituitary hormones; Prednisolone; Dexamethasone; Danazol; Other progestogen and oestrogen group hormones:			
	Pituitary hormones	12%		30043911
	Prednisolone	12%		30043912
	Dexamethasone	12%		30043913
	Danazole	12%		30043914
	Other progestogen and oestrogen group hormones	12%		30043919
	Gonadotrophins and luteinising hormone:			
	Gonadotrophins	12 %		30043921
	Luteinizing hormone	12%		30043922
	Other	12%		30043990
300440	Other, containing alkaloids or derivatives thereof:	12%		
	Containing ephedrine or its salts	12%		30044100
	Containing pseudoephedrine (INN) or its salts	12%		30044200
	Containing nor ephedrine or its salts	12%		30044300
300449	Other:	12%		
	Atropine and salts thereof	12%		30044910
	Caffeine and salts thereof	12%		30044920
	Codeine and derivatives, with or without ephedrine hydrochloride	12%		30044930
	Ergot preparations, ergotamine and salts thereof	12%		30044940
	Papavarine hydrochloride	12%		30044950
	Bromohexin and salbutamol	12%		30044960
	Theophylline and salts thereof	12%		30044970
	Other	12%		30044990
300450	Other, containing vitamins or other products of heading 2936:	12%		
	Heamatinics and Erythropoyetin preparations	12%		30045010
	Preperations of minerals and their supplements	12%		30045020
	Preparations of vitamins:	12%		
	Of Vitamin A	12%		30045031

	Of Vitamin B1 and B2 and their salts thereof	12%		30045032
	Of Vitamin B9	12%		30045033
	Of Vitamin B12	12%		30045034
	Of Vitamin C	12%		30045035
	Of Vitamin D	12%		30045036
	Of Vitamin E	12%		30045037
	Other	12%		30045039
	Other	12%		30045090
	Other, containing antimalarial active principles	12%		30046000
300490	Other:	12%		
	Ayurvedic, Unani, Homoeopathic, Siddha or Bio-chemic systems medicaments, put up for retail sale:			
	Of Ayurvedic System	12%		30049011
	Of Unani systems	12%		30049012
	Of Siddha system	12%		30049013
	Of Homoeopathic System	12%		30049014
	Of Bio-chemic system	12%		30049015
	Anthelmintics drugs; Antiamoebic and other Antiprotozoal drugs; Antifungal drugs:			
	Anthelmintics and preparations thereof	12%		30049021
	Metronidazole	12%		30049022
	Tinidazole	12%		30049023
	Secnidazole	12%		30049024
	Diloxamide Furoate	12%		30049025
	Sodium Stibogluconate	12%		30049025
	Pentamidine	12%		30049027
	Other	12%		30049029
	Antihistaminics drugs; Antacids preparations; Antiulcer drugs; Antiemetics and other Gastrointestinal drugs:			
	Promethazine, Chlorpheniramine, Astemizole and Ceteirizine	12%		30049031
	Sodium bicarbonate, Magnesium hydroxide (Milk of Magnesia), Magnesium carbonate, Magnesium trisilicate, Aluminium hydroxide gel, Magaldarate and combinations thereof	12%		30049032
	Cimetidine, Rantidine, Nizatidine and Roxatidine	12%		30049033
	Omeprazole and Lansoprazole	12%		30049034
	Dicyclomine, Metoclopramide and Dexamethasone and Ondansetron	12%		30049035
	Chenodiol and Ursodiol	12%		30049036
	Other	12%		30049039
	Anticancer drugs:			
	Cyclophosphamide	12%		30049041
	Methotrexate, 5-fluorouracil(5-FU) and Ftorafur	12%		30049042
	Bincristine and Vinblastine	12%		30049043
	Paclitaxel and Docetaxel	12%		30049044
	Etoposide	12%		30049045
	Actinomycin D-Dactinomycin and Doxorubicin	12%		30049046
	L-Asparaginase, Cisplatin and Carboplatin	12%		30049047

	Tamoxifen	12%		30049048
	Other	12%		30049049
	Antitubercular drugs; Antileprotic drugs; Antimalarial drugs:			
	Isoniazid	12%		30049051
	Rifampicin	12%		30049052
	Pyrazinamide and Ethambutol	12%		30049053
	Streptomycin	12%		30049054
	Dapsone(DDS), Acedapsone (DADDS), Solopsone and Clofazimine	12%		30049055
	Chloroquine, Amodiaquine, Mefloquine, Quinine, Chloroquine, Pyrimethamine	12%		30049056
	Other Antitubercular drugs	12%		30049057
	Other Antileprotic drugs	12%		30049058
	Other Antimalarial drugs	12%		30049059
	Nonsteroidal antiinflammatory, analgesics and antipyretic drugs:			
	Analgins with or without other compounds such as paracetamol	12%		30049061
	Acetyl salicylic acid (Aspirin) and formulations thereof	12%		30049062
	Ibuprofen with or without paracetamol or other compounds	12%		30049063
	Oxyphen butazone, Phenyl butazone and formulations thereof	12%		30049064
	Indomethacin	12%		30049065
	Mephenamic acid, dactofenac sodium, Piroxicam, Tenoxicam and Meloxicam	12%		30049066
	Ketorolac, Nimesulide, Mefenamic acid and Nefopam	12%		30049067
	Other	12%		30049069
	Antiheperventive drugs:			
	Captopril, Enalapril, Lisinopril, Perindopril and Ramipril	12%		30049071
	Verapamil, Nifedipine, Amlodipine and Lacidipine	12%		30049072
	Losartan	12%		30049073
	Propranolol, Metoprolol, Atenolol and Labetalol	12%		30049074
	Prazosin, Terazosin, Phentolamine and Phenoxybenzamine	12%		30049075
	Clonidine, Methyldopa	12%		30049076
	Hydralazine, Minoxidil and Diazoxide	12%		30049077
	Other	12%		30049079
	Antiepileptic drugs; Sulfa drugs not elsewhere specified or included, Preparations of enzymes; veterinary medicinal preparations, not for human use, not elsewhere specified or included; Oral rehydration salts; Antibacterial formulations not elsewhere specified or included, Sedatives and Tranquilizers:			
	Phenobarbitone, Memphobarbitone, Primidone, Phenytoin, Carbamazepine, Ethosuximide, Valproic acid (Sodium valporate), Diazepam,	12%		30049081

	Lamotrigine, Gabapentin, Bigabatin, Phenacemide, Trimethadione and Acetazolamide		
	Other Antiepileptic drugs	12%	30049082
	Sulpha drugs not elsewhere specified or included	12%	30049083
	Preparations of Enzymes	12%	30049084
	Veterinary medicinal preparations, not for human use, not elsewhere specified or included	12%	30049085
	Oral rehydration salts	12%	30049086
	Antibacterial formulations, not elsewhere specified or included	12%	30049087
	Sedatives	12%	30049088
	Tranquilizers	12%	30049089
	Other:		
	Salbutamol, Terbutaline, Ephedrine, Salmeterol and Methyl xanthines	12%	30049091
	Plasma expanders	12%	30049092
	Chlorpheniramine Maleate, with or without other compounds (excluding steroids and alkaloids)	12%	30049093
	Theophylline, Aminophylline and other Broncho dilators	12%	30049094
	Carcino-chemotherapeutic drugs not elsewhere specified or included	12%	30049095
	Ketamine	12%	30049096
	Other	12%	30049099

Table: 4 Pharmaceutical comes under HSN 3004

3005	wadding, gauze, bandages and similar articles, (for example, dressings, adhesive plasters, poultices), or with pharmaceutical substances or put up in form of packings for retail sale for medical, surgical, dental or veterinary purposes ^{13,14,15}	12%	28/06/2017
300510	adhesive dressings and other articles having an adhesive layer:	12%	
	adhesive guaze	12%	30051010
	adhesive tape	12%	30051020
	Other	12%	30051090
300590	other:	12%	
	cotton wool, medicated	12%	30059010
	poultice of kaolin	12%	30059020
	Lint, medicated	12%	30059030
	Bandages	12%	30059040
	Burn therapy dressing soaked in protective gel	12%	30059050
	Micro pores surgical tapes	12%	30059060
	Corn removers and callous removers	12%	30059070
	Other	12%	30059090

Table: 5 Pharmaceutical comes under HSN 3005

3006	PHARMACEUTICAL GOODS SPECIFIED IN NOTE 4 TO THIS CHAPTER	12%	28/06/2017	
300610	sterile surgical catgut, similar sterile suture materials including sterile absorbable surgical or dental yarns) and sterile tissue adhesives for surgical wound closure; sterile laminaria and sterile laminaria tents; sterile absorbable surgical or dental ^{13 14 15}	12%		
	sterile surgical catgut, similar sterile suture materials (including sterile absorbable surgical or dental yarns) and sterile tissue adhesives for surgical wound closure	12%		30061010
	sterile laminaria and sterile laminaria tents; sterile absorbable surgical or dental haemostatics; sterile surgical or dental adhesion barriers, whether or not absorbable	12%		30061020
	blood grouping reagents	12%		30062000
	opacifying preparations for x-ray examinations; diagnostic reagents designed to be administered to the patient	12%		30063000
	dental cements and other dental fillings; bone reconstruction cements	12%		30064000
	first-aid boxes and kits	12%		30065000
300660	chemical contraceptive preparations based on hormones, or on other products of heading 2937 or on spermicides:	NIL		
	based on hormones	NIL		30066010
	based on other products of heading 2937	NIL		30066020
	based on spermicides	NIL		30066030
	gel preparations designed to be used in human or veterinary medicine as a lubricant for parts of the body for surgical operations or physical examinations or as a coupling agent between the body and medical instruments	NIL		30067000
	other:			
	appliances identifiable for ostomy use	NIL		30069100
	waste pharmaceuticals			30069200

Table: 6 Pharmaceutical goods under HSN 3006.

4. GST on India's Pharmaceutical Industry

The 122nd improvement Bill was passed as the Constitution's One Hundred and Twenty-Second Amendment Act, 2017. It will be affecting several industries, businesses, and companies at the same time.

The pharmaceutical industry occupies a unique case owing to the medicinal and pharmaceutical requirements it provides. If taken the share of GDP, it contributes to 5% of it. The Government of India with GST Council and its Chairman, Union Finance Minister of India – Arun Jaitley have introduced it so as to enhance FDI (Foreign Direct Investment). The alteration will bring about some changes in each individual industry.¹⁶



Figure 1. Impact of GST on pharmaceutical industries

Goods and Service Tax is expected to have an encouraging impact on the Indian Pharmaceutical Industries as it will decrease the manufacturing cost since eight different taxes are levied in the pharmaceutical industries helps in easy going business. It will eradicate the cascading effect of multiple taxes applied on One Product.

The Biggest reward for the Industries: conventional Cost and delivery Model will get replaced by supply chain efficiencies due to discontinuance of the Central Sales tax and interstate transactions between two dealers will become tax neutral. This will lead to a decrease in cost which can be added to margins and even consumers will get profit from it. This will provide absolute freedom to the companies to discover strategic supply chain and distribution channel. Additionally, it is uncertain till now that the healthcare services and lifesaving drugs will continue to be exempted or not under GST Regime. Under Current Indirect Taxation, these are exempted from Excise Duty and Custom Duty and a few states charge 5% taxes on Medicines.

The rate of GST should be kept at a relative level in the lowest slab for the pharmaceutical industries. Analysts specify the GST rate up to 12% to be neutral tax rate whereas no matter which above will have an inflationary effect on pricing. GST Council has finalized the tax rates of the goods in Nil, 5 percent, and 12 percent kind.

Beside some constructive impact, there are some unconstructive impacts also. As GST is relevant on phases of the supply chain, it will have a unhelpful impact on Free-drugs samples, Bonus/Discount Schemes, Inter-state stock transfer, etc. Pharmaceutical companies will experience better operational efficiency, condensed manufacturing & transaction costs as well as better fulfillment. It will also promote warehousing strategy. As of now, companies kept their warehouses in different States to avoid Central Sales tax of different States. Now, they can combine warehouses at strategic locations as they will only have to pay Integrated GST (IGST) on interstate supplies of Goods and Services.¹⁷

5. Positive Effects of GST On Economy of Pharmaceutical Industries

GST eliminate the cascading effect of the tax which involved multiple taxes applied on only one Product. The costing and taxation system will be easy with only mountainous of three accounts. It will create a general market for every person with an equal chance towards development across various states.

Due to discontinuance of the Central Sales Tax and Interstate transactions between two dealers the conventional Cost and Distribution Model will get replaced by supply chain efficiencies and tax will become impartial.



Figure 4. Positive effect of GST

- 1) Under GST, the life-saving vital drugs like the Oral re- hydration salts, Diagnostic Kits for detection of all types of hepatitis and various other life-saving injections ad drugs fall under the slab of 5%.
- 2) Bonus /Discount Schemes, Free-drugs samples, Interstate stock transfer, etc are said to be costlier for firms for the reason that of its applicability of phases of the supply chain.
- 3) Pharmaceutical manufacturing generic/branded formulations/ dietary supplement companies who were suffer because of heavy excise duty will see a great profit due to condensed taxation and low industrialized cost for all firms.
- 4) The highest GST on bulk drugs is 18% and on formulations, it will be around 5% & 12% at maximum. This means the formulators will be paying more tax through GST. Thus, they will be charged a smaller amount on formulations. It means the input credit will be accumulated which will be refunded itself.
- 5) Pharmaceutical companies and businessmen will find the lack of restrictions to explore strategic supply chain and distribution channel.
- 6) CENVAT credit is a credit balance in a bank account which can be refunded/ adjusted towards the central excise on the purchase or duty paid on a final product. The matter seems to finish for pharmaceutical industry due to GST charging single rate for goods and services.¹⁸

6. Negative Effects of GST on Pharmaceutical Industries

With helpful effect, there are a few unhelpful effects on the pharmaceutical industry:

- 1) Many Ayurvedic products are comes in the category of 12% to 15% as many of the ayurvedic products comes under cosmetic



range.

2) GST increase the indirect tax paid by pharmaceutical companies by 60 % and MRP by 4 % Thus, leaving a Tax rate of 15% which is said to be 18% for diagnostics and reagents.

3) Other pharmaceutical drugs, medicines, Pharmaceutical products, and medical technology products are ranged flanked by 5% or 12% with frequently being a total tax (including VAT) of 11.5 to 12.5 percent to 18%.¹⁸

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