

## GST and Its impact on Pharmaceutical Industry



Ajit Kumar<sup>1</sup>



Prof.(Dr.) Jeewan Kumar Choudhury<sup>2</sup>

On July 1st, 2017 Goods and Services Tax came into existence by the implementation of the 101st Amendment of the Constitution of India. It is an indirect tax. It takes account of expenditure done through the sale, manufacture, and consumption of goods & services at a national level. It involves companies, industries and services. GST will decrease the manufacturing price which will result in a positive impact on the Indian Pharmaceutical Industries. National Pharmaceutical Price Authority has issued necessary instructions to fix drug prices for the vital medicines to make it affordable for everyone. According to the revised list issued by NPPA(National Pharmaceutical Price Authority) ,the prices of the majority drugs have come down, which includes a list of antibiotics and drugs for treating cancer, HIV, diabetes.

**Key words:** GST, Pharmaceutical Industries, indirect tax, vital medicines, NPPA.

### Introduction:

Goods & Services Tax Law in India is a complete, multi-stage, destination-based tax that is levied on every charge addition. Many indirect tax laws has been replaced that earlier existed in India by GST Law.

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. 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.

### Drug Price Control Order (DPCO)

Under the Essential Commodities Act, a Drug Price Control Order 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.

### 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 (Harmonized System of Nomenclature) code of the article. Medicines and pharmaceuticals are classified under 37th chapter of the HSN Code.

### Zero GST Rate Medicines

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

- Human Blood and its components
- All types of contraceptives

### Five percent 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

<sup>1</sup> Research Scholar, Lingayas Vidyapeeth, Faridabad, , ajit.kumar@iujharkhand.edu.in

<sup>2</sup> Professor, Commerce & Management Department, Lingayas Vidyapeeth, Faridabad, profjkc@gmail.com

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

#### **Twelve percent 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, who 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.

#### **Eighteen percent 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%.

#### **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.

Goods and Service Tax is expecting to have a 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.

#### **Objective of paper**

**To find out the positive and negative effects of GST on Pharmaceutical Industries.**

#### **Positive Effects of GST on Pharmaceutical Industries**

GST eliminate the cascading effect of the tax which involved multiple taxes applied on only one Product.

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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 discontinuation 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.

1. Under GST, the life-saving vital drugs like the Oral rehydration salts, Diagnostic Kits for detection of all types of hepatitis and various other life-saving injections and 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

#### **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%.

#### **Conclusion**

Although through the various points mentioned above GST has both the positive as well as negative effect on pharmaceutical businesses. But the quantum of positive impact is more and government is still working towards the changes to reduce the negative effect and such activity is an ongoing process for the further improvement. Lack of proper knowledge, training and infrastructure need for the implementation of GST was also a hinderance in the smooth implementation of GST but it is now becoming easier and more adaptable.

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