

Helping Pharma Companies Make the Most of GST



Under the proposed GST regime, various Indirect taxes would be subsumed (except for few taxes such as Stamp Duty), and hence a simpler tax regime is in order, especially for the Pharma industry. The Pharma industry has been campaigning to address the present inverted tax structure in GST and also for a lower GST rate for Pharma products.

GST would have an impact on pricing, working capital, contracts with vendors and customers, ERP systems, processes, internal control and accounting. Another important impact of GST on Pharma companies would be the opportunity to review the supply chain and move to a supply chain based on business parameters. Hence, GST would impact every aspect of the business.

Impact of GST

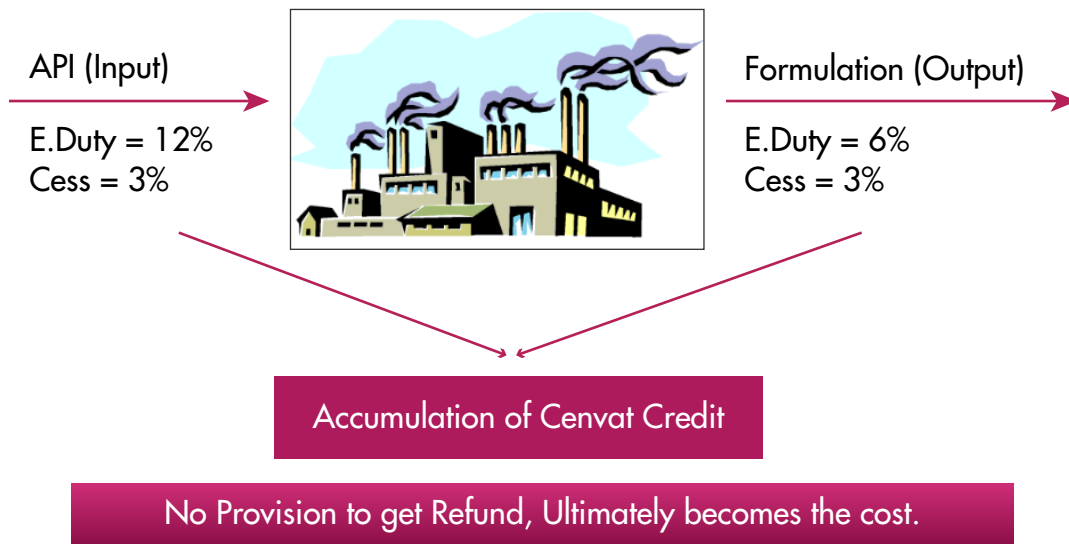
Particulars	Pre-GST	Post-GST
Inverted duty structure	Inverted excise duty structure for formulation vis a vis API led to the accumulation of cenvat credit - Cost to Manufacture.	Refund of accumulated credit proposed to be allowed in case rate of tax on input is higher than the rate of tax on outputs.

Particulars	Pre-GST	Post-GST
Area-based exemption	Area-based exemptions under the Excise Legislation and State Industrial Policy.	Area-based exemptions expected to get converted into tax refund mechanism. Also, subsidies to be included in transaction value, thereby affecting the cashflow.
Taxability of free supplies	Free supplies subject to excise and not VAT.	Transactions without consideration is deemed as 'Supply'. - Possibility of services provided by R&D centres to the manufacturing plants to be treated as free supply for GST purpose. - Expenses related to promotion could increase. - Taxability of free samples/physician samples - Impact on Patient Assist programmes. - Impact on supplies of expired goods for destruction purposes. - Valuation could be a challenge.
Job Work and Loan License Model	<ul style="list-style-type: none"> - Supplies to loan licensee: No VAT - Formulations cleared by job-worker to loan licensee is subject to excise based on MRP minus abatement. - Processing charges paid to loan licensee: no service tax. 	Special provisions for movement of goods without payment of GST subject to permission.
Stock transfer and supply chain issues	<ul style="list-style-type: none"> - No tax on stock transfer - MRP-based valuation 	<ul style="list-style-type: none"> - GST on inter-state stock transfer. No clarity on intra-state stock transfer. - Stock transfer between two business segments/verticals having different GST. Registrations in same state subject to CGST and SGST. - Valuation will be based on the transaction value.
Input tax credit	Receipt of Goods and Services & Payment by vendors - a pre-condition for credit.	Can be claimed only if the GST has been paid by the supplier.

Particulars	Pre-GST	Post-GST
Transportation cost	Currently for transportation from manufacturing unit to W/H & W/H units to retail outlets, the industry depends on the carry and forward agents (C&F As) in the supply chain which constrict the profit margin.	Availability of tax credit in logistics would be created as it covers tax on both goods and services. It will lead to elimination of C&F As.

Inverted Duty Structure for Pharma companies

Where the Taxes paid on purchases/Inputs is more than the tax to be paid on Sales/Output



The Inverted Duty Structure, as shown in the diagram will be reversed to ensure that Pharma companies get the maximum tax credit on all purchases of raw materials for the production of medications and other drugs. This will be one of the biggest advantages of the GST rollout for the Pharma sector. With GST the cost of purchasing will reduce for the Pharma companies and help maximize the profit.