



# Helping Pharma companies gear up for GST

## Introduction

The GST rollout is the most significant tax reform India will see post Independence. It will have an impact on prices, business processes, investments and profitability in all segments of the economy. Businesses large and small, will need to understand the impact of the proposed changes and be prepared to migrate from the existing taxation norms of VAT, Excise duty and service tax to the new GST system.

Under the proposed GST regime, various Indirect Taxes would be subsumed (except for few taxes such as Stamp Duty), and hence it is expected that it would result in a simpler tax regime, especially for industries like the Pharmaceutical Industry (Pharma Industry). The Pharma Industry has been representing for addressing the present inverted tax structure in GST and also for a lower GST rate for Pharma products. GST would have an impact on the 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.

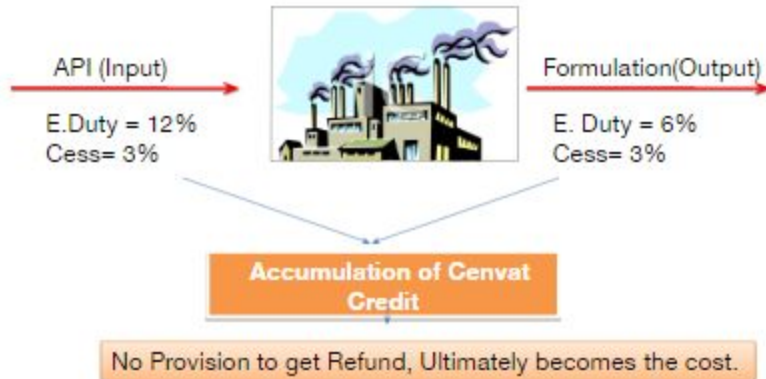
## Impact of GST

S.No	Particulars	Pre- GST	Post-GST
1	<u>Inverted Duty Structure</u>	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 higher than the rate of tax on outputs
2	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 effecting the Cashflow.
3	Taxability of Free Supplies	Free Supplies subject to Excise and not VAT	<ul style="list-style-type: none"> <li>• Transactions without consideration is deemed as "Supply".</li> <li>• Possibility of Services provided by R&amp;D Centres to the Manufacturing Plants to be treated as free supply for GST Purpose.</li> <li>• Expenses related to promotion could increase.</li> <li>• Taxability of Free samples/physician samples</li> <li>• Impact on Patient Assist Programmes.</li> </ul>

S.No	Particulars	Pre- GST	Post-GST
			<ul style="list-style-type: none"> <li>Impact on supplies of expired goods for destruction purposes.</li> <li>Valuation could be a challenge.</li> </ul>
4	Job Work and Loan Licensee Model	<ul style="list-style-type: none"> <li>Supplies to loan licensee : No VAT</li> <li>Formulations cleared by job-worker to loan licensee is subject to excise based on MRP minus abatement.</li> <li>Processing charges paid to loan licensee: No service Tax</li> </ul>	Special Provisions for movement of goods without payment of GST subject to permission. (Section 43A)
5	Stock Transfer and Supply Chain Issues	<ul style="list-style-type: none"> <li>No tax on Stock Transfer.</li> <li>MRP based valuation</li> </ul>	<ul style="list-style-type: none"> <li>GST on Inter-state Stock transfer. No clarity on intra-state stock transfer.</li> <li>Stock transfer between two business segment/verticals having different GST registrations in same state subject to CGST and SGST.</li> <li>Valuation will be based on the Transaction value</li> </ul>
6	Input Tax Credit	<ul style="list-style-type: none"> <li>Receipt of Goods and services &amp; Payment by vendors- a precondition for credit.</li> </ul>	Can be claimed only if the GST has been paid by the supplier.
7	Transportation Cost	<ul style="list-style-type: none"> <li>Currently for transportation from manufacturing unit to W/H &amp; W/H units to retail outlets, industry depends on the carry and forward agents (C&amp;F As) in the supply chain which constrict the profit margin.</li> </ul>	Availability of tax credit in logistics would be created as it covers tax on both goods/services. It will leads 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 can get max tax credit on all the purchase of raw materials for the production of the medications and other drugs. This will be one of the biggest advantages of the GST rollout on the pharma sector. With GST the cost of purchasing will reduce for the pharma companies and help the maximize profit.