Life-saving drug prices may drop 2% under GST, pharma exporters to get a boost
The goods and services tax (GST) will prove to be a big plus for pharma exporters.

Companies that are importing active pharmaceutical ingredients (APIs) – especially from a special economic zone (SEZ) – will get credits under integrated goods and service tax, according to pharma industry officials.

"Also, while companies buying APIs domestically may not get customs credit they will get credit under GST, said a senior pharma industry executive.

Having said that, the executive said, the GST regime can be detrimental to pharmaceutical companies that have over 50% revenues from the Indian market.

"Rebalancing the portfolio for such companies could be a challenge and could see a 2% drop in their earnings. Companies will obviously pass on the cost to customers," he said.

Pharmaceutical companies – Sun Pharma, Cipla, Lupin – were unavailable for a comment.

The general consensus of advisory firms is that tax rates are on expected lines but the final pricing of life-saving drugs is still awaited.

However, Jignesh Ghelani and Rohit Jain, partners at Economic Laws Practice (ELP), account the pre- and post GST scenario, "prices of lifesaving drugs are likely to go down by around 2% under GST."
Levying tax on lifesaving drugs at a lower rate under GST regime vis-a-vis being exempt beneficial to the companies as it will help to liquidate the input tax credits under the was a cost in the present regime," the ELP executives said.

However, from sourcing standpoint, that is, goods used in manufacture of such lifesaving case of value added tax (VAT) these goods are either exempt or attract minimal VAT ra depending on the state-specific provisions.

"Under the GST regime however, lifesaving drugs are subject to a tax rate of 5%. This is Levying tax on lifesaving drugs at a lower rate under GST regime vis-à-vis being exempt beneficial to the companies as it will help to liquidate the input tax credits under the was a cost in the present regime," the ELP executives said. However, from sourcing standpoint, that is, goods used in manufacture of such lifesaving be evaluated basis its tariff classification and the same may possibly attract a higher 'The issue of inverted duty structure would, therefore occur in manufacture of lifesaving company may either utilise the excess input tax credits against output tax liability or S Satish, executive director, RSM Astute Consulting Group, the GST rate is 12% on pharma for APIs while it is 5% for lifesaving drugs. "The likelihood of an inverted duty structu companies, with input taxes being higher than output taxes, is a cause for concern fo MRP-based tax regime will be a thing of the past and we will be migrating to a transa-will truly be a value-added tax regime," said Satish.

Suresh Nair, tax partner, EY India, said, pharma firms would focus on ensuring that ta regime are effectively captured to negate the increase in effective tax rate.

"It would be relevant to examine whether the exemption hitherto available for specifi-manufacture of exempted formulations would continue or otherwise. The concern of sought to be addressed through the refund provisions. The treatment for area-based e the next key watch out area for the industry," said Nair.

Archit Gupta, founder and chief executive officer, ClearTax.com, said that drugs that t: and diabetes are in the 5% bracket. "Nicotine is also taxed at 5% while nicotine gum is marginal increase in the prices of certain medicines. It is contrary to industry expect for zero tax, but it will not be an adverse effect. The bigger problem for the pharma int-entire distribution chain transitions to GST on time. Currently, under VAT, the tax is le medicines. Distributors, therefore, did not have to pay VAT. But under GST, the entire c online, which could be a big pain point for such a vast and layered sector," said Gupta.

...& ANALYSIS

- Companies importing APIs will get credits under integrated goods and service tax (IGST) and customs tax
- The tax rates are as expected but clarity on its impact on the pricing of life-saving drugs is awaited

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