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# Life-saving drug prices may drop 2% under exporters to get a boost



Pharma industry



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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," said a senior pharma industry executive.

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

"Rebalancing the portfolio for such companies could be a challenge and could see a budget of 100 crore. 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 a complete picture of the pricing of life-saving drugs is still awaited.

However, Jignesh Ghelani and Rohit Jain, partners at Economic Laws Practice (ELP), will analyze the pre- and post GST scenario, "prices of lifesaving drugs are likely to go down," they said.

The ELP executives said that under the existing tax regime specified lifesaving drugs



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 regime. "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

However, from sourcing standpoint, that is, goods used in manufacture of such lifesaving drugs will be evaluated basis its tariff classification and the same may possibly attract a higher

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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 structure for companies, with input taxes being higher than output taxes, is a cause for concern for MRP-based tax regime will be a thing of the past and we will be migrating to a transaction will truly be a value-added tax regime," said Satish

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

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



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Archit Gupta, founder and chief executive officer, ClearTax.com, said that drugs that treat hypertension and diabetes are in the 5% bracket. "Nicotine is also taxed at 5% while nicotine gum is in the 12% bracket. It is a marginal increase in the prices of certain medicines. It is contrary to industry expectation for zero tax, but it will not be an adverse effect. The bigger problem for the pharma industry is the entire distribution chain transitions to GST on time. Currently, under VAT, the tax is levied on the medicines. Distributors, therefore, did not have to pay VAT. But under GST, the entire chain has to pay tax 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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