

# Impacts Of GST On Healthcare And Pharma Sector

Shashi Bidawat

Department of Botany, MS College, Bikaner

**Abstract**— since the independence of the country, GST (Goods and services Tax) is government's one of the major indirect tax reform major step. For the Pharmaceutical industry, which just blooms up to \$70 Billion from 2012, it will be a game changer. Earlier with 17 federal and state taxes, this sector will be replaced with one uniform tax. On the brighter side of this bill, it has just simplified the entire process of paying tax. According to the expert's impact of GST on Healthcare and Pharma Sector has both pros and cons in the industry.

**Keywords**—tax; GST; healthcare; pharma; economy.

- Introduction

Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. In simple words, Goods and Service Tax (GST) is an indirect tax levied on the supply of goods and services. This law has replaced many indirect tax laws that previously existed in India. GST is one indirect tax for the entire country. Under the GST regime, the tax will be levied at every point of sale. In case of intra-state sales, Central GST and State GST will be charged. Inter-state sales will be chargeable to Integrated GST. There are 3 taxes applicable under this system: CGST (Central GST), SGST (State GST) & IGST (Integrated GST).

CGST: Collected by the Central Government on an intra-state sale.

SGST: Collected by the State Government on an intra-state sale.

IGST: Collected by the Central Government for inter-state sale.

This indirect tax system under GST improve the collection of taxes as well as boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate.

The healthcare industry (also called the medical industry or health economy) is the range of companies and non-profit organizations that provide medical services, manufacture medical equipment, and develop pharmaceuticals. It includes the generation and commercialization of goods and services lending themselves to maintaining and re-establishing health. The modern healthcare industry is divided into many sectors and depends on interdisciplinary teams of trained professionals and paraprofessionals to meet health needs of individuals and populations.

The healthcare industry is one of the world's largest and fastest-growing industries. Consuming over 10 percent of gross domestic product (GDP) of most developed nations, health care can form an enormous part of a country's economy.

The passing of GST (Goods and Services Tax) Bill has grabbed the attention across all the industries in the country. It would benefit most of the sectors and make the taxation process easier as it will replaces number of different taxes and duties. The Indian Healthcare Industry is now among of the major sectors with respect to revenue and to employment. As the expenditure on the Healthcare increases, so do revenues from taxes. Recently, the Government of India decided for the implementation of GST, which would subsume various taxes of the complex tax system in the country into one uniform tax system.

As the GST arrived in, all the healthcare and pharma companies have to invest more in cost of manufacturing as raw material cost has goes up by 7% and hence product MRP need to be changed to absorb that impact. While speaking about the overall impact of GST to end consumer, as manufacturing cost is between 10-15% of product MRP, the GST impact to the end consumer is less than 1% by cutting C&F cost, yet paying higher GST on finished product, the total net impact resulting to almost 4% to the end consumer. Thus in the coming days we can expect MRP on medicines revised by 5%, as pharmaceutical companies decide to pass the complete burden to the end consumer. Government has taken steps in ensuring drug price controlled medicines and also capping MRPs of certain salts/compounds, resulting in a loss of 2-3% by pharmaceutical manufacturers and marketing companies losing.

GST can be good or bad for your company. Preparation in advance for the adverse is the thing to do. The key stakeholders such as distributors, associates, suppliers, and buyers and the internal stakeholders i.e. employees should be aware of the plans and progress in every situation which can be forecasted.

- effects

The main categories of Indian healthcare sector are pharmaceutical, medical imaging, medical insurance, telemedicine, biotechnology and hospitals. Out of these, pharmaceutical industry plays the most prominent role in Indian health care system. These research-directed pharma companies can affect a country's economy by developing innovative therapies that replace conventional and less effective. The largest portion of funds allocated to healthcare sector continues to be devoted to the advancing pharmaceutical sector. Thus, the implementation of GST would be having a great impact on pharmaceutical sector as compared to the other sectors.

Healthcare services by a clinical establishment, an authorized medical practitioner or paramedics are exempted. Services provided by way of transportation of a patient in an ambulance when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma are also exempted. GST has now slotted life-saving drugs for Diabetes, Malaria, TB, HIV-AIDS compulsorily under the 5% slab, while categorizing formulations into the 12 percent slab (up from nine percent). Medical furniture such as beds, dentist's chair and operating table etc. will be charged at 18% slab of GST. Diagnostics has been put in 18% and 12% tax slabs; it was 16% prior to GST. Some medicines have become more expensive under the GST regime, the cost of MRI (Magnetic resonance imaging) and X-rays may increase marginally. Medical tourism generates extra revenue for Healthcare industry; it has grown from \$334 million in 2004 to \$2 billion this year. With the implementation of GST, medical tourism is also projected to grow manifold due to exemption. Under the new GST regime the outsourced services, aesthetics and outpatient pharmacies are subject to GST imposition. The increase in tax on most finished drug formulations is only 1.8 percent, and companies are likely to absorb the additional burden. Currently, 5 percent of the country's GDP is expended on the Healthcare sector. The healthcare sector is expected to touch \$150 billion by end of 2017, from \$80 billion in the year 2012 due to the introduction of GST.

The GST is expected to have a positive effect on the pharmaceutical sector. It will simplify the tax structure, since currently 8 different taxes are levied on the pharmaceutical industry. The GST will also result in operational efficiency by streamlining the supply chain. GST will help pharmaceutical companies in rationalising their supply chain, therefore they will have to review their distribution networking and strategies. Additionally, GST implementation will also envisage a seamless flow of tax credit, account for improvement in overall compliance. A big advantage for companies will be the reduction in transaction costs with the discontinuation of the Central Sales Tax. GST is expected to bring down manufacturing costs. GST is expected to be beneficial for pharmaceuticals because of following reasons: From the consumers point, the price of the medicines will fall as 8 different taxes will be subsumed into one under GST. CST will be discontinued which will be a major advantage as it will lead to reduction in the transaction cost.

The retailer will be able to manage supply chains better. There will also be a seamless flow of input credit. The warehouses will be consolidated and the logistics cost will reduce. From the pharma industry's point of view, the key decision to watch out for would be GST rate on formulations compared to GST rate on Active Pharmaceutical Ingredients (API).

There are chances of accumulation of GST credit even in GST regime in case if the current deviation in the central excise duty rate of pharma formulations in relation to the duty rate of API is not addressed. The pharma industry is expecting a favourable solution to this area of concern.

GST will beef up the supply chain across the country more efficiently. Inter-state transaction between two dealers will become tax neutral, replacing traditional C&F distribution model. Most of the companies have to restructure their entire distribution chain thus, focusing more on regional hub rather than multiple states. This will not only make the process lean and alleviate the complexities involved but will also reduce the Supply Chain Management (SCM) cost considerably.

The biggest advantage to the industry would be that of reduction in transaction cost, with an immediate impact coming from the discontinuance of CST. The multistage taxation along with the inability to take full benefit of the CENVAT credit /refund has been an issue for the industry. With central GST expected to be a single rate for goods and services, going forward credit accumulation may not be an area of concern. Furthermore, if the legislation provides for carrying forward of the unutilized credit this would be an additional boost to the industry.

Furthermore, the pharmaceutical sector currently enjoys various location based tax holidays on its manufacturing activities. Under the proposed structure of GST, such area based exemption will be done away with. However, taking into account past precedents suitable work around/refund process would be constituted to ensure that any existing hubs do not get impacted and continue to get the agreed benefits.

GST would bring everything on a single and same platform for all. It would bring more transparency in the system.

However, GST is not likely to impact financial or operational performance of the companies in a notable manner.

The present indirect tax system in India is a multistage taxation, which impose taxes not only at the central level but also at the state level. Central excise is imposed on manufacture, Customs duty on imports, service tax on provision of services and central sales tax (CST)/ value-added tax (VAT) at the time of sale. Other taxes which include entry tax, octroy and cess are also levied by the local and municipal authorities. It is not possible to credit CST against VAT, service tax against CST/VAT. Owing to this, significant increase in cost of taxes has been registered as the taxpayer has to file several returns every month with distinct authorities.

There are two sides to every coin, if there is positive effect then there will be negative effect also.

The government is charging 12 percent GST rates on Platelet Carry Bag. HB Kit being charged 18 percent GST rates, earlier it was 5.5 percent. 18 percent GST Rates being levied on Glass slide, earlier it was 14 percent. Test Tab being charged 18 percent GST rates, earlier it was 14.5 percent. 12 percent GST being levying on tracer tape, earlier it was 5.5 percent. Banded being charged 12 percent tax rates under GST, earlier it was 5.5 percent.

Many Ayurvedic products are falling in the slab of 12% to 15% as many of the ayurvedic products falling under cosmetic range. GST is said to increase the indirect tax paid by pharma companies by 60 %and MRP by 4 percent. Thus, leaving a Tax rate of 15% which is said to be 18% for diagnostics and reagents. Other pharma drugs, medicines, Pharma products, and medical technology products are ranged between 5% or 12% with mostly being a total tax (including VAT) of 11.5 to 12.5 percent to 18%.

The GST regime benefit tax collectors, that is governments at the Centre and state levels, will be happy. In due course, if not immediately, all businesses, manufacturers and traders with an annual turnover of more than twenty lakh will pay tax and will be 'captured' in the tax net. But there will be enough procedural and legal wrangles between tax payers and the governments that collect the tax, increasing the burden on courts and increasing the work, and income, of at least two professions: chartered accountants and lawyers. Absolute tax revenues will increase in the country. How such increased revenues are used for people's welfare depends on the governments.

Interstate commerce will pick up: the pile up of trucks at the state border will be less as also the regime of road permits – and associated corruption that you had to face if you had to sell interstate within India – will be history. It already is for the most part. In one year we will know how things are working out.

- major concerns

There is an uncertainty if the life-saving drugs, Healthcare services, and medical devices would continue to be tax-free once GST comes into force. Till now, life-saving drugs are exempted from the Excise and Customs Duties. Some of the States charge 5 percent taxes on the medicines; it might change once GST comes to play. The Government must continue the duty and tax incentives which are in place already. As the Goods and Services Tax is applicable on all the stages of the supply chain, it is still unclear how this would influence the bonus schemes, free drug samples and the inter-state movement of the expired products or the stock transfers.

One of the major query for the healthcare sector is the inverted duty structure that majorly effects the native manufacturers. The cost of inputs is much more than output, i.e., the raw materials are more expensive in terms of duty than the finished product itself hence poor investments from the manufacturers. For addressing this issue, the GST structure proposes either to dispose of the inverted duty structure or bring in a refund of the accrued credit. If this is implemented, it would prove to be the biggest advantage for the healthcare sector and would be a booster for the development of healthcare industry.

- impact on various healthcare products

17 items are there in the depreciating list in the present state in which there is no service tax levied on the items. Including approximately 60 services similar to pilgrimage, health-care, education and skill development, journalistic activities which are relieved from the service tax duty and are not bound to the sudden taxation.

Health-care is being spent on with 5.5% of India's GDP – in which the private division contributes to almost 4.3% and now the Indian Health-care Industry has been tremendously advancing in the current year, and the Ministry of Health is focused on the development of 50 new innovations before the current year's over to treat ailments, like cancer and tuberculosis. To get more foreign direct investment (FDI), the Government did raise the FDI top for brown-field Pharmaceutical investments to 72% in July. Perhaps, past 74% under government endorsement in brown-field Pharmaceutical investments a 100% FDI is allowed in Greenfield Pharmaceutical investments.

Two main key points in relation to the pharma industry have changed. First is the price of manufacturing, as a matter of fact many raw materials for medicines have been renewed to the 12% GST bracket from the 5% VAT bracket. Secondly, many medicinal salts and compounds have been totally moved to 12% GST rate from 5% VAT on pharma industry. Additionally, a number of health supplements that were earlier in the 12% to 15.5% tax bracket are now in the 18% to 28% GST bracket. The net total effect of all these changes has led to a significant increase in the cost of medicines.

TABLE 1. The GST rates have included numerous categories from the wide range of healthcare amenities.

TAX RATE	HEALTHCARE COMMODITIES
0%	Contraceptives, Human Blood
5%	Medicines, Animal or Human Blood Vaccines
12%	Ayurvedic Medicines, Medicinal Grade Hydrogen Peroxide, Anaesthetics, Potassium Iodate, Iodine, Steam, Glands And Other Organs For Organo-Therapeutic Uses, Ayurvedic, Unani, Homoeopathic Siddha Or Biochemical Systems Medicaments, Sterile Suture
18%	Tampons, Disinfectants

The health-care industry is being struck by the GST tax rates and many other rules and regulations. But the goods and services tax has formed a lethal situation for the normal person who has come under the monstrous fate. As the tax charges are moved up to a thick number. It seems that the GST has led to the change more in a negative way than a positive one. It has led to the hike of cost for various medical equipment which are required for day-to-day life. For an example, the dialysis cost has hiked up for kidney patients as hospitals are paying 7% more tax on a dialysis fluid, dialysis machine, tubings, dialysis needles, Catheter, plasma filter which was earlier in the tax slab of 5% tax rate but has now changed to 12%. Blood Rates and RBC increased from ₹1050 to ₹1250 respectively. Even on blood carry bags, 12 percent GST is being charged which wasn't there under previous taxation structure.



TABLE 2. List of expensive category items:

• Items	• Pre-GST	• Post-GST
• Surgical Item	• 5.5%	• 12%
• Wing Scale	• 5%	• 28%
• HOTWATER BAG	• 5.5%	• 28%
• WHEEL CHAIR	• 5%	• 18%

GST is relied upon to positively impact the Pharmaceutical part. It will help the business by streamlining the tax structure since 8 different taxes are implied in the Pharmaceutical Industry currently. A unification of all these into one tax would led to a unified work,as mitigate the falling effects of numerous taxes connected to one item. Aside from this, GST will likewise bring about yielding proficiency by streamlining the store network which can alone add 2% to India’s Pharmaceutical market measure. Since GST will help Pharmaceutical companies rationalise their production network, they should audit their circulation systems and technique.

TABLE 3. Revised hospital room rent with GST tax slabs:

HOSPITAL ROOM RENT	APPLICABLE GST RATES
Below ₹10000	0%
₹1000 to ₹2499	12%
₹2500 to ₹7499	18%
Above ₹7500	28%

TABLE 4. The general rate of medicines etc., inter alia is covered under the following classification:

ITEM DESCRIPTION	CGST	SGST	IGST
Drugs or medicines including their salts and esters & diagnostic test kits.	2.5% or 6%	2.5% or 6%	5% or 12%
Dutiable drugs and medicines (imported by post or air) including their salts and esters and diagnostic test kits specified in list 1, given at chapter 30, and Formulations specified in list 2 given in chapter 30, intended for personal use.	2.5%	2.5%	5%
Other Dutiable drugs and medicines intended for personal use.	6%	6%	12%

The Government has also taxed implants such as artificial limbs which is a necessary and integral part of health care services in relation to loss of limbs. Such artificial limb is recommended as a post health care to restore life or to at least provide a workable living means so that one is not left to miseries.

Moreover, GST usage will likewise conceive a seamless stream of the tax credit, represent a change in general consistency and is additionally anticipated that would make a level-playing field for Pharmaceutical organisations in India. A major favourable position for organisations will be diminished in exchange costs with the discontinuance of Central Sales Tax (CST). the impacts of GST usage on the Healthcare and Pharmaceutical segment is somewhere very hard for the general public. The Healthcare Industry, on the off chance that the tax rate is set at an effective level, will profit as GST absolutely diminishes complexities and evacuates many obstacles to the business' growth. The business is on a way of promising development and expanded profitability.

From the viewpoint of wholesalers and retailers, the earning margins may not drop immediately, and supplies will be stabilised soon. The bigger concern will be the inventory held by them, on which the new GST rates will apply, although these goods were bought at the older VAT rates. In this case, the distributors and retailers will lose about 3% to 4% on their entire inventory.

- medical tourism

By January 2016, the medical tourism sector of India was thought of to have a value of US 3 billion dollars. It was projected to grow to \$7.5-\$8.5 billion by the year twenty-twenty. Numerous studies have indicated that the cost of healthcare services in India along with the travelling and housing costs is around 25% to 35% less than similar medical procedures in developed countries such as the US, Canada, Australia and most Western European countries. The advancement in the Healthcare Industry has resulted in increased profitability and development of medical tourism.

With the arrival of GST, Medical Tourism has grown manifold. Also, the formation of National Medical Tourism Board has initiated their policies for solving the issues which are faced by the medical travelers. The Board under the Ministry of Tourism would go a long way to solve the challenges in coordination across different ministries. With the roll out of GST, the cost of insurance, pharmaceuticals, and international travel together with quality health care is expected to reduce which would culminate into better prospects of medical tourism in the country.

ST will also help our Medical Tourism industry in an indirect way. India has benefit over the developed countries as the same medical procedures here as of just 30-40% cost as they are in the developed countries. With GST, the cost of healthcare package including insurance, pharmaceuticals, and international travel is expected to reduce which would culminate into better prospects of medical tourism in the country.

Currently, there exists an inverted duty structure in this sector. It adversely affects the domestic manufacturers as this means the raw materials are costlier in terms of duty than finished products. Under GST, either disposal of this structure or bringing in a refund of the accrued credit is proposed. This would prove to be a huge benefit for pharmaceutical sector.

- Ayurveda, Unani, Acupuncture, Siddha, Yoga, Homeopathy are the alternative medicine practices which are native to India and famous among the foreigners. These alternative medicine practices provide benefit to India over most of its competitors such as Thailand, Malaysia, Singapore, UAE and South Korea. GST has led to the development of the medical tourism and also increased the importance and reachability of these alternate medicinal practices.

- Conclusion

GST is expected to have a developing effect on the Healthcare Industry specially the pharma sector. It will streamline the taxation structure of our country since about 8 different types of tax are imposed as of now. The merging of all taxes into one would lead to simplification of the whole process as well it would lead to minimization of the depreciating effect that is applied to one product.

The impact of GST on the pharmaceutical industry is still not very transparent. But both end consumers and industry players hope this to culminate in a win-win situation. With reduced complexities and overall reduction in cost this translates to be a profitability and promising development.

The Industry believe that after implementation of the GST, both the customers and the industry players are in a win-win situation. The healthcare industry has benefitted from the GST as it has led to a simplified taxation structure and removed the elements which led to hindrance of the growth of this industry. Development and profitability have both carved their way through GST in the Healthcare Industry.

- References

1. Clear Tax, Impact of GST on Healthcare and Pharma Sector, <https://cleartax.in/s/gst-impact-on-healthcare-pharma-sector>; viewed on 21 April, 2018
2. Biophargroup, What will be the Impact of GST on Healthcare and Pharma Sector, <https://www.biophargroup.com/impact-of-gst-on-healthcare-pharma-sector/#axzz5DJcccq0>; viewed on 21 April, 2018
3. Economic Times, Impact of GST on Pharma Industry, <https://health.economictimes.indiatimes.com/news/industry/impact-of-gst-on-pharma-industry/59081288>; viewed on 21 April, 2018
4. Web Hoppers, Impact of GST on Pharma Companies, <https://www.webhoppers.com/impact-gst-pharma-companies>; viewed on 21 April, 2018
5. Economic Times, Impact of GST on Healthcare Sector, <https://health.economictimes.indiatimes.com/news/industry/impact-of-gst-on-healthcare-sector/59828660>; viewed on 21 April, 2018