

# Decoding the intricacies of indirect tax in the pharmaceutical industry



## India has the third largest pharmaceuticals industry in the world by volume and the fourteenth largest by value<sup>#</sup>.

Though the pharmaceutical industry has shown rapid growth over the years, the government is committed to further develop this sector and make India Atmanirbhar. For this, various initiatives and schemes have been launched, such as the production linked incentive (PLI) scheme, along with the promotion of bulk drug parks scheme, to enhance manufacturing capabilities.

With the growing scale and operations (including diverse tax zones, new SEZ units and rise of new technologies) comes layers of complexities, responsibilities and challenges for indirect tax governance.



**3<sup>rd</sup>** by volume



**14<sup>th</sup>** by value

# <https://www.ibef.org/industry/pharmaceutical-india.aspx>



## Crucial challenges for the pharmaceutical sector

**01**

Working capital blockage due to input tax credit (ITC) restrictions on free supplies, promotions, exempted and expired products

**02**

Difficulty in product classification for multi-rate structures on medicaments and formulations

**03**

Complications in the valuation method for related party transactions

**04**

Difficulty in adhering to anti-profiteering mechanism

**At Grant Thornton Bharat, we understand the ever-evolving taxation ecosystem and the developing pharmaceutical industry.** Our sector-focused professionals are engaged in analysis and review of overall operations, including API, formulations, research and development services. We provide seamless quality service, identify risk areas and sustainably plan opportunities, basis our experience in developing tailored solutions. **Our expertise includes:**



**Assistance in supply chain and distribution**

**Procurement cost planning**



**Structuring and capital expansion**

**Assistance in imports and exports**



**Compliance modulation**

**Developing anti-profiteering measures**



## Our service offerings



### Supply chain and distribution

#### A. Supply chain

- Valuation of assets/goods/services provided to distributors, related parties and foreign companies.
- Inclusion/exclusion of discounts, schemes, reimbursements provided pre and post supply.
- Stock transfer and cross-charge valuation for optimisation.
- Goods, including expired goods, lost in transit/manufacturing, destroyed/goods returned.
- Supply between research and development units and manufacturing plants.
- Supply through e-commerce and stores.

#### B. Sub-segments to focus

- Examination of issues, such as risky exporters and HSN classification of goods/services.



### Procurement cost planning

- Approach and mechanism adopted for input tax credit (ITC) reversal, price revision for change in rate of tax.
- Marketing and promotion – Sample supply, ITC.
- CSR<sup>5</sup> activity – ITC position adopted.
- R&D<sup>4</sup> - Exports vs intermediary, place of supply.
- Factory related expenses, canteen services.
- Trademark, patent, intellectual property registration and transfer.
- Refund blockage examination due to mismatch.

1. RODTEP- Remission of duties and taxes on export products  
2. EPCG- Export Promotion Capital Goods scheme  
3. MEIS - Merchandise exports from India scheme



### Structuring and capital expansion

- Structuring for business model and applicable implications on sale/takeover/merger of business.
- Evaluating benefits under schemes/incentives, such as PLI<sup>6</sup>, budgetary support, capital subsidy.
- Advance ruling for complex tax positions.
- Determination of the import price of APIs, drugs and medical devices in terms of valuation.



### Anti-profiteering measures

- Evaluate anti-profiteering measures
- Analyse impact of National Anti Profiteering Authority orders passed on similar transactions of industry.



### Import and export

- Evaluation of eligibility of export benefits (advance authorisation, RODTEP<sup>1</sup>, EPCG<sup>2</sup>, etc.).
- Analysis of change from MEIS<sup>3</sup> to RoDTEP and its impact on business and pricing policy.
- Classification of new products in line with applicable licencing, customs and control requirements.
- Preparation, filing of applications and obtaining claims/certificates for schemes.
- Customs valuation, treatment on royalties, R&D<sup>4</sup> costs, medicines and equipment imported.

4. R&D- Research and Development  
5. CSR- Corporate Social Responsibility  
6. PLI- Production Linked Incentive



## Compliance modulation

### A. Compliance review

- Top down review from source data.
- System walkthrough and movement of transactions.
- System control on transactions, documentation, ITC/liability recording.
- Data testing to identify errors in ERP while identifying ITC eligibility/tax applicability.
- Process of recording and capturing ITC, tax liability.

### B. Review of core documents

- Registers, tax ledgers and ERP reports.
- Agreement/invoices for post sale discounts/free of cost supplies, ITC/tax position.
- Various samples, expired medicines process with supporting document.
- Job work arrangements, exports
- Exempt supply invoices.

# Why Grant Thornton Bharat?



Extensive expertise in assisting pharmaceutical clients



Diverse team with varied skill-set



Preferred partners for leading pharmaceutical players



Customised service offerings designed for unique business needs



Strong connects and affiliations with industry experts



## Our experts

Grant Thornton Bharat delivers the greatest value by collaborating across services to create innovative and tailored solutions to resolve our clients' complex challenges.

**Our sector experts span transaction mapping, review of tax positions, compliances under GST, etc.**



**Bhanu Prakash Kalmath S J**

Partner

E: [bhanuprakash.kalmath@in.gt.com](mailto:bhanuprakash.kalmath@in.gt.com)



**Krishan Arora**

Partner

E: [krishan.arora@in.gt.com](mailto:krishan.arora@in.gt.com)



**Biren Vyas**

Partner

E: [biren.vyas@in.gt.com](mailto:biren.vyas@in.gt.com)



**Karan Kakkar**

Partner

E: [karan.kakkar@in.gt.com](mailto:karan.kakkar@in.gt.com)



**PS Krishnan**

Partner

E: [ps.krishnan@in.gt.com](mailto:ps.krishnan@in.gt.com)

# Contact us

To know more, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

## NEW DELHI

National Office,  
Outer Circle,  
L 41, Connaught Circus,  
New Delhi - 110001  
T +91 11 4278 7070

## NEW DELHI

6th Floor, Worldmark 2,  
Aerocity,  
New Delhi - 110037  
T +91 11 4952 7400

## BENGALURU

5th Floor, 65/2, Block A,  
Bagmane Tridib,  
Bagmane Tech Park,  
CV Raman Nagar,  
Bengaluru - 560093  
T +91 804 243 0700

## CHANDIGARH

B-406A, 4th Floor,  
L&T Elante Office Building,  
Industrial Area Phase I,  
Chandigarh - 160002  
T +91 172 433 8000

## CHENNAI

9th floor, A wing, Prestige  
Polygon,  
471 Anna Salai,  
Mylapore Division,  
Teynampet,  
Chennai - 600035  
T +91 44 4294 0000

## DEHRADUN

Suite No 2211, 2nd Floor,  
Building 2000,  
Michigan Avenue,  
Doon Express Business Park,  
Subhash Nagar,  
Dehradun - 248002  
T +91 135 264 6500

## GURGAON

21st Floor, DLF Square,  
Jacaranda Marg,  
DLF Phase II,  
Gurgaon - 122002  
T +91 124 462 8000

## HYDERABAD

7th Floor, Block III,  
White House,  
Kundan Bagh, Begumpet,  
Hyderabad - 500016  
T +91 40 6630 8200

## KOCHI

6th Floor, Modayil Centre  
Point, Warriam Road  
Junction, MG Road  
Kochi - 682016  
T +91 484 406 4541

## KOLKATA

10C Hungerford Street,  
5th Floor,  
Kolkata - 700017  
T +91 33 4050 8000

## MUMBAI

11th Floor, Tower II,  
One International Center,  
SB Marg Prabhadevi (W),  
Mumbai - 400013  
T +91 22 6626 2600

## MUMBAI

Kaledonia, 1st Floor,  
C Wing,  
(Opposite J&J Office),  
Sahar Road, Andheri East,  
Mumbai - 400069

## NOIDA

Plot No 19A, 2nd Floor,  
Sector - 16A,  
Noida - 201301  
T +91 120 485 5900

## PUNE

3rd Floor, Unit No 309-312,  
West Wing, Nyati Unitree,  
Nagar Road, Yerwada  
Pune - 411006  
T +91 20 6744 8800

For more information or for any queries, write to us at [GTbharat@in.gt.com](mailto:GTbharat@in.gt.com)



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