

Role Of Goods And Services In Pharmaceutical Sector – With Reference To Chennai City

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STRUCTURED ABSTRACT

Purpose: The purpose of this study is to identify impact of goods and services tax on pharmaceutical industry. The other purpose of this study is to understand pharmacist perception about goods and services tax.

Methodology: The data for the study is collected through 60 pharmacists. IBM SPSS 22 version software is used to process and analyze the collected data for the study.

Findings: The study identifies that goods and services tax has brought logistics cost down and increased prices of essential drugs and medicines including ayurvedic products.

Implications: The results of the study indicate that all essential lifesaving drugs should be brought under the lowest slab of goods and services tax and steps should be taken to subsidize importing of essential drugs by pharmaceutical companies.

Keywords: Goods and Services tax, Pharmaceutical Companies, Supply Chain, Prices, Operational Activities.

INTRODUCTION

Goods and Services tax is one of the huge taxes in India. GST is an Indirect Tax which has replaced many Indirect Taxes in India. The Goods and Service Tax Act was passed in the Parliament on twenty ninth March 2017. The Act came into impact on 1st July 2017; Goods & Services Tax Law in India is a comprehensive, multi-stage, destination-based tax that is levied on each and every cost addition. In easy words, Goods and Service Tax (GST) is an indirect tax levied on goods and services. This regulation has replaced many indirect tax laws that in the past existed in India. Under the GST regime, the tax is levied at each and every factor of sale. In the case of intra-state sales, Central GST and State GST are charged. Inter-

state sales are chargeable to Integrated GST. “GST is a comprehensive, multi-stage, destination-based tax that is levied on each value addition.”

GST has primarily eliminated the Cascading effect on the sale of goods and services. Removal of cascading impact has impacted the cost of goods. Since the GST regime eliminates the tax on tax, the price of items decreases. GST is additionally in most cases technologically driven. All activities like registration, return filing, software for refund and response to be aware wishes to be done on-line on the GST Portal; this accelerates the processes.

There are three taxes relevant beneath this system: CGST, SGST & IGST.

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

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

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

INDIAN PHARMACEUTICAL SECTOR

India is that the largest supplier of generic medication globally. Indian pharmaceutical sector trade provides over fifty per cent of world demand for numerous vaccines, forty per cent of generic demand within the USA and twenty five per cent of all medication in Britain. India enjoys a crucial position within the world prescribed drugs sector. The country additionally incorporates a massive pool of scientists and engineers. United Nations agency have the potential to steer the trade ahead to a fair higher level. Presently over eighty per cent of the antiretroviral medication used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are provided by Indian pharmaceutical corporations.

The pharmaceutical sector was valued at US\$ thirty three billion in 2017. The country's pharmaceutical trade is predicted to expand at a CAGR of twenty-two.4 per cent over 2015–20 to achieve US\$ fifty five billion. India's pharmaceutical exports stood at US\$ seventeen.27 billion in FY18 and have reached US\$ nineteen.14 billion in FY19. Pharmaceutical exports embrace bulk medication, intermediates, drug formulations, biologicals, Ayush& flavoring merchandise and surgicals. Indian firms received 304 Abbreviated New Drug Application (ANDA) approvals from the USA Food and Drug Administration (USFDA) in 2017. The country accounts for around thirty per cent (by volume) and regarding ten per cent (value) within the USA\$ 70-80 billion US generics

market. India's biotechnology trade comprising bio-pharmaceuticals, bio-services, bio-agriculture, bio-industry and bioinformatics is predicted grow at a median rate of around thirty per cent a year and reach US\$ one hundred billion by 2025.

The Union cupboard has given its nod for the change of the present Foreign Direct Investment (FDI) policy within the pharmaceutical sector so as to permit FDI up to one hundred per cent below the automated route for producing of medical devices subject to bound conditions. The medication and prescribed drugs sector attracted additive FDI inflows price US\$ fifteen.98 billion between Gregorian calendar month 2000 and March 2019, in step with information discharged by the Department of business Policy and Promotion (DIPP).

Some of the recent developments/investments within the Indian pharmaceutical sector are as follows:

Between Jul-Sep 2018, Indian drug company sector witnessed thirty-nine letter investment deals price US\$ 217 million. Investment (as you look after sales) in analysis & development by Indian drug company companies enlarged from five.3 per cent in FY12 to eight.5 per cent in FY18. In 2017, Indian pharmaceutical sector witnessed forty six merger & acquisition (M&A) deals price US\$ one.47 billion The exports of Indian pharmaceutical trade to the USA can get a lift, as branded medication price US\$ fifty five billion can become off-patent throughout 2017-2019.

REVIEW OF LITERATURE

Kinjal V et.al (2018) in their paper entitled “Impact of GST on Pharmaceuticals: An Overview” concluded goods and services tax has enabled pharmaceutical companies to explore strategic supply chain and distribution channel activities. Further, goods and services tax will result in rising prices of ayurvedic products compared to the past and it will have an impact on small pharmaceutical companies.(Kinjal V, 2018)

RanjanaUpashi in his paper entitled “Study on effects of goods and service tax on different sectors in India” concluded that goods and services tax will bring down the prices of essential drugs but could increase the cost of ayurvedic products as they are brought under highest slab of goods and services tax. Further goods and services tax will make it difficult for companies to offer, free samples, discounts and interstate stock transfer.(Upashi, 2017).

Karthick R et.al(2017) in their research paper found that consumers feel that the tax rates square measure high for the product of daily use. They additional found that buyers feel that methodology being followed for GST is extremely difficult and periodic analysis of tax rates is needed. additional they over that GST will be eminent only if business persons have a right understanding of however GST needs to be charged to the shoppers.(R Karthick, 2017)

Chaurasia et al. (2016) concluded that that in overall GST are useful for the event of Indian economy and this can conjointly facilitate in up the Gross Domestic product of the country over two percent.(Pradeep Chaurasia, 2016)

Jaiprakash (2014) in his analysis study mentioned that “the GST at the Central and therefore the State level square measure expected to present additional relief to trade, trade, agriculture and customers through a additional comprehensive and wider coverage of input tax set-off and repair tax set-back, subsuming of many taxes within the G ST and phasing out of civil time. Responses of trade and additionally of trade are so encouraging, therefore GST offers USA the simplest choice to broaden our assets and that we mustn't miss this opportunities to introduce it once the circumstances square measure quite favorable and economy is enjoying steady growth with solely delicate inflation.”(Jaiprakash, 2014)

OBJECTIVES OF THE STUDY

The objective of this study

- To study the demographic profile of the respondents.
- To understand pharmacists perceptions towards goods and services tax
- To identify whether there is any relationship between goods and services tax and thrust areas of pharmaceutical sector.

MATERIALS AND METHODS

Sources of Data	Primary Data collected with structured questionnaire.
Research Design	Quantitative and Empirical
Sampling Design	Simple Random Sampling
Sample Area	Chennai
Sample Size	60
Statistical Design	Descriptive Analysis and one sample t-test
Independent variables	Goods and Services tax
Dependent variable/Thrust areas of pharmaceutical sector	Pricing, Supply chain and Operational Activities

RESULTS AND DISCUSSION

Table 1 showing Age Profile

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	15	25.0	25.0	25.0
	30-40	15	25.0	25.0	50.0
	40-50	20	33.3	33.3	83.3
	50-60	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

Source: Primary Data Analysis

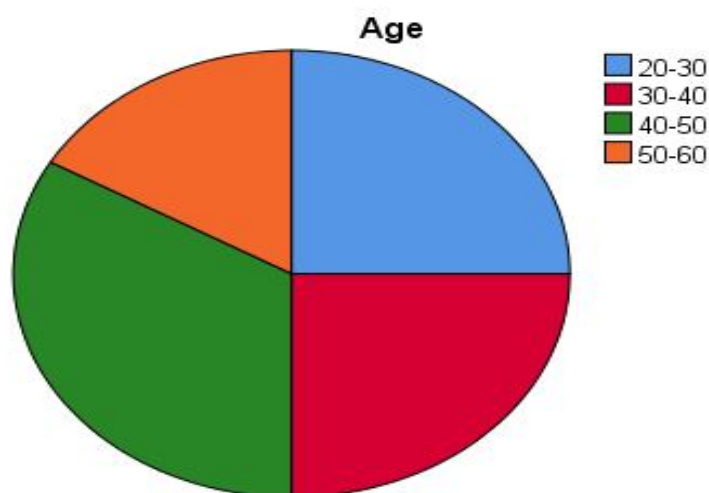


Figure 1 showing Age Profile of the Respondents

Interpretation

The table 1 shows the age profile of the respondents. The Frequency column indicates the number of observations in the given category. The Percent column indicates the percentage of observations based on overall observations in the study. The Valid Percent column displays the percentage of observations based on total non-missing responses in the category. The Cumulative Percent column can be computed by adding all of the numbers in the Valid Percent column above the current row. It is clear that 25% of the respondents of this study belong to 20-30 and 30-40 respectively while 33.3% of the study's respondents belong to the age group of 40-50 while 16.7% of the respondents are below the age group of 50-60. Figure 1 shows diagrammatic representation of age profile of the respondents.

Table 2 showing Gender

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	50	83.3	83.3	83.3
	Female	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

Source: Primary Data Analysis

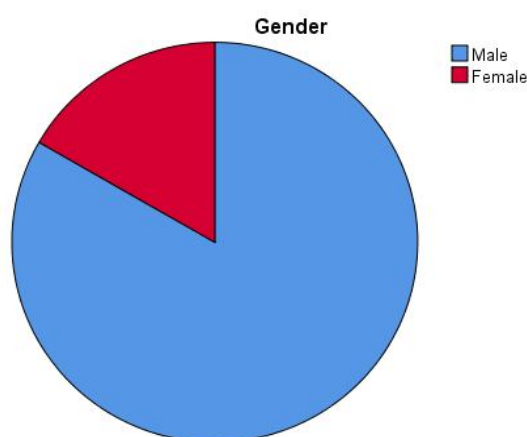


Figure 2 showing Gender

Interpretation

The table 2 shows the gender profile of the respondents. From the above table it is clear that 83.3% of the respondents are male and 16.7% of the respondents are female. Figure 2 show diagrammatic representation of the gender of the respondents.

Table 3 showing Educational Qualification

Educational Qualification					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Graduate	30	50.0	50.0	50.0
	Post Graduate	10	16.7	16.7	66.7
	Professionally Qualified	20	33.3	33.3	100.0
	Total	60	100.0	100.0	

Source: Primary Data Analysis

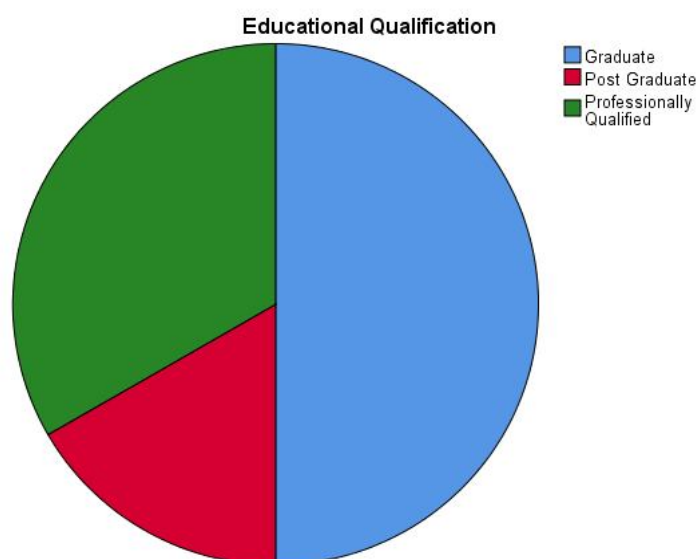


Figure 3 showing Educational Qualification

Interpretation

The table 3 shows the educational qualifications of the respondents. From the above table it is clear that 50% of the pharmacists are graduates while 16.7% of the respondents are post graduates. It can also be observed that 33.3% of the respondents are professionally qualified in pharmaceutical industry. Figure 3 show diagrammatic representation of the educational qualification of the respondents.

Table 4 shows Pharmacists opinion on impact of GST on prices

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
GST has resulted in increase in prices of drugs and medicines	12	2.00	5.00	3.3333	1.07309
GST has resulted in working capital blockages.	12	2.00	4.00	3.1667	.71774
Input tax credit reduces the burden of double taxation	12	3.00	5.00	4.0000	.73855
GST increased loan licensee charges and commission paid	12	2.00	5.00	3.7500	.75378
Withdrawal of area based exemptions affected the business	12	1.00	5.00	3.5833	.99620
Valid N (listwise)	12				

Source: Primary Data Analysis

Interpretation

The table 4 shows the pharmacists opinion on impact of goods and services tax on pricing of medicines. Based on the mean score of 4.00, it is clear that goods and services tax has reduced the burden of double taxation. Further it is clear that increased licensing charges have made it difficult for pharmacists to obtain loan. It is supported by mean score of 3.75. GST provisions like withdrawal of area based exemptions has increased drug prices and created working capital problems. This is advocated by the mean score of 3.58, 3.33 and 3.16 respectively.

Table 5 showing Pharmacists opinion on impact of GST on supply chain

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
GST will bring down the logistics costs down.	60	3.00	5.00	3.8333	.71774
Consolidation of warehouses and depots reduces cycle time	60	3.00	5.00	3.6667	.65134
E-way bills make outbound logistics more efficient.	60	3.00	5.00	4.3333	.77850
GST enables companies to comply with anti-profiteering guidelines	60	3.00	5.00	3.9167	.66856
Drug prices are highly regulated by GST	60	2.00	4.00	3.5000	.79772
Valid N (listwise)	60				

Source: Primary Data Analysis

Interpretation

The table 5 shows the pharmacists opinion on impact of goods and services tax on prices of drugs and medicines. Based on the mean score it is clear that goods and services tax has made outbound logistics in pharmaceutical industry more efficient. This is supported by the high mean score of 4.33. This is true because goods and services tax has eradicated all the state trade barriers which existed in the past indirect tax system. Further it is also clear from mean score of 3.9167 that goods and services tax enabled companies to comply with anti-profiteering guidelines. Pharmacists has brought down logistics cost and reduces cycle time. This is supported by mean score of 3.83 and 3.66. Further pharmacists feel that drug prices are regulated by GST as supported by mean score of 3.50.

Table 6 showing Pharmacists opinion on impact of GST on operational activities

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Reverse Charge mechanism increases cost of APIs imported in India	60	3.00	5.00	3.7500	.75378
Batch failure problem is not addressed by GST	60	3.00	5.00	3.9167	.66856
Multirate structure makes classification of products difficult.	60	2.00	4.00	3.5000	.79772
Lack of provision for loan and licensee units hinders business	60	2.00	5.00	3.5000	.79772
Treatment of Expired/near expired drugs is not addressed.	60	2.00	5.00	3.9167	.99620
Valid N (listwise)	60				

Source: Primary Data Analysis

Interpretation

The table 6 shows the pharmacists opinion on impact of goods and services tax on supply chain activities. Based on the mean score it is clear that goods and services tax has not addressed batch failure and treatment of drugs in pharmaceutical industry more efficient. This is supported by the high mean score of 3.91. This is true because goods and services tax has made certain procedural complexities in certain areas. Further it is also clear from mean score of 3.75 that goods and services tax through reverse charge mechanism increased the cost. Pharmacists finds it difficult to classify products and hurdles are there in obtaining loans for pharmaceutical business. This is supported by mean score of 3.50.

Hypothesis 1

H₀– Goods and Services tax does not influence the prices of medicines

H₁ – Goods and Services tax does influence the prices of medicines.

Table 7 showing one-sample Test for GST on prices

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
GST on prices	24.182	11	.000	14.83333	13.4832	16.1834

Source: Primary Data Analysis

Interpretation

The table 7 shows the one-sample t-test to study the relationship between goods and services tax and prices of medicines. From the above table it is clear that goods and services tax has a significant influence on prices of medicines. Since the p-value 0.000 is less than the significant value 0.01, the null hypothesis stating goods and services tax does not influence the prices of medicines is rejected and the alternate hypothesis accepted at 1% significance level.

Hypothesis 2

H₀– Goods and Services tax does not influence the supply chain activities

H₁ – Goods and Services tax influences the supply chain activities.

Table 8 showing one-sample Test for GST on supply chain

One-Sample Test						
	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
GST and Supplychain	27.453	11	.000	16.25000	14.9472	17.5528

Source: Primary Data Analysis

Interpretation

The table 8 shows the one-sample t-test to study the relationship between goods and services tax and supply chain. From the above table it is clear that goods and services tax has a significant influence on prices of medicines. Since the p-value 0.000 is less than the significant value 0.01, the null hypothesis stating goods and services tax does not influence the supply chain is rejected and the alternate hypothesis accepted at 1% significance level.

Hypothesis 3

H₀– Goods and Services tax does not influence the operational activities

H₁ – Goods and Services tax influences the operational activities.

Table 9 showing one-sample Test for GST on operational activities

One-Sample Test						
	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
GST and Operational activities	27.990	11	.000	15.58333	14.3579	16.8087

Interpretation

The table 9 shows the one-sample t-test to study the relationship between goods and services tax and operational activities. From the above table it is clear that goods and services tax has a significant influence on prices of medicines. Since the p-value 0.000 is less than the significant value 0.01, the null hypothesis stating goods and services tax does not influence the operational activities is rejected and the alternate hypothesis accepted at 1% significance level.

CONCLUSION AND RECOMMENDATIONS

Goods and Services tax has made a significant impact on the pharmaceutical industry. While certain bottlenecks has been eradicated, it has brought new challenges as well. For instance, it has increased licensing charges which make it difficult for the pharmacist to obtain loans for expansion and diversification in pharmaceutical products. Efforts should be taken by the government to reduce the licensing charges and loan facilitation should be smoothened to help pharmacists. Imports can be cheaper by subsidizing core products of pharmaceutical products like lifesaving drugs. To conclude, the study enabled to get practical touch with the topic and understand the various implications of GST for pharmaceutical industry.

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