

Impact of Goods and Services Tax (GST) on Healthcare with Special Reference to the Pharmaceutical Industry in India

Ms. Anju Anant, Research Scholar, CSV~~T~~U, Bhilai, Chhattisgarh

ABSTRACT:

The introduction of the Goods and Services Tax (GST) in India on July 1, 2017, marked a transformative reform in the indirect taxation system, replacing a complex structure of multiple taxes with a unified tax regime. This research paper examines the impact of GST on the healthcare sector, with a particular emphasis on the pharmaceutical industry. The study evaluates both positive and negative implications, including pricing, supply chain efficiency, tax compliance, accessibility of medicines, and industry profitability. The pharmaceutical sector, being a critical component of public health, has experienced structural changes due to GST in terms of tax rates, input tax credit mechanisms, and operational processes.

The paper adopts a qualitative research methodology based on secondary data from journals, government reports, and industry analyses. Findings suggest that GST has simplified taxation, reduced cascading effects, and improved supply chain efficiency, while also introducing challenges such as inverted duty structure and working capital constraints. The study concludes that although GST has positively influenced the healthcare ecosystem by improving affordability and transparency, further policy refinement is necessary to address sector-specific challenges in the pharmaceutical industry.

KEYWORDS:

GST, Healthcare, Pharmaceutical Industry, Tax Reform, India, Input Tax Credit, Supply Chain

INTRODUCTION :

The healthcare sector plays a pivotal role in socio-economic development, and the pharmaceutical industry is its backbone. India is recognized as one of the largest producers of generic medicines globally, contributing significantly to both domestic healthcare and international markets.

Prior to GST, the pharmaceutical sector was subject to multiple indirect taxes such as excise duty, value-added tax (VAT), central sales tax (CST), and service tax. This fragmented tax structure led to inefficiencies, increased compliance burden, and higher costs.

The implementation of GST aimed to unify these taxes into a single system, thereby promoting ease of doing business and reducing tax cascading. GST introduced multiple tax slabs (0%, 5%, 12%, 18%, and 28%) for medicines and healthcare products .

In recent years, reforms under GST (including GST 2.0) have further reduced tax rates on medicines and medical devices to improve healthcare affordability.

LITERATURE REVIEW:

Several studies have examined the implications of GST on healthcare and pharmaceuticals:

- Research indicates that GST has simplified the taxation system and reduced manufacturing costs by eliminating multiple taxes .
- Studies highlight that GST has improved operational efficiency and streamlined supply chains in the pharmaceutical industry .
- According to recent analyses, GST rate reductions have made medicines more affordable, enhancing access to healthcare services .
- However, scholars also emphasize challenges such as the inverted duty structure, where input taxes exceed output taxes, leading to accumulation of input tax credit .
- Some research points out that GST has reduced the need for multiple warehouses across states, improving logistics efficiency .

Overall, literature suggests a mixed impact—positive in terms of efficiency and affordability, but challenging in terms of tax structure complexities.

OBJECTIVES OF THE STUDY:

This study pursues the following specific objectives:

1. To analyze the impact of GST on the healthcare sector in India.
2. To evaluate the effects of GST on the pharmaceutical industry.
3. To assess changes in pricing, supply chain, and tax compliance.
4. To identify challenges faced by pharmaceutical companies post-GST.
5. To suggest policy recommendations for improving GST effectiveness in healthcare.

RESEARCH METHODOLOGY:**Sources of Data**

- Research papers and academic journals
- Government reports and GST Council updates
- Industry publications and financial analyses
- Online databases and credible websites

Research Approach

- Qualitative and descriptive research
- Comparative analysis of pre-GST and post-GST scenarios

Scope of Study

- Focus on India
- Special emphasis on pharmaceutical industry

HYPOTHESES

H1: GST has a significant positive impact on the pharmaceutical industry.

H2: GST has improved the affordability of healthcare services.

H3: GST has simplified tax compliance in the pharmaceutical sector.

H4: GST has introduced operational challenges such as inverted duty structure

Impact of GST on Healthcare Sector**6.1 Positive Impacts****a. Improved Affordability**

GST rate reductions on medicines and medical devices have lowered healthcare costs for patients .

b. Tax Transparency

GST has increased transparency by eliminating hidden taxes and ensuring uniform tax rates.

c. Increased Accessibility

Lower prices of medicines have improved access to healthcare, especially for low-income populations.

6.2 Negative Impacts

a. Tax on Certain Services

Some healthcare services, such as non-essential hospital services, attract GST, increasing costs for patients.

b. Compliance Burden

Small healthcare providers face challenges in adapting to digital GST compliance systems.

7. Impact of GST on Pharmaceutical Industry

7.1 Positive Impacts

a. Simplification of Tax Structure

GST replaced multiple indirect taxes, reducing complexity and improving ease of doing business .

b. Reduction in Manufacturing Costs

Elimination of cascading taxes has lowered production costs .

c. Efficient Supply Chain

Companies no longer need multiple warehouses to avoid CST, improving logistics efficiency .

d. Boost to R&D Investment

Savings from tax efficiency allow companies to invest more in innovation and research.

7.2 Negative Impacts

a. Inverted Duty Structure

A major challenge where raw materials (APIs) are taxed higher than finished products .

b. Working Capital Issues

Accumulation of input tax credit leads to liquidity constraints.

c. Price Variations

Some drugs experienced price increases due to higher GST rates.

d. Compliance Challenges

Frequent filing requirements increase administrative burden.

FINDINGS

The key findings of the study are:

- GST has significantly improved the efficiency of the pharmaceutical supply chain.
- The cost of medicines has generally decreased due to tax rationalization.
- The elimination of multiple taxes has enhanced transparency.
- The inverted duty structure remains a major unresolved issue.
- Small and medium pharmaceutical companies face compliance challenges.
- GST reforms (such as GST 2.0) have further enhanced affordability of critical medicines.

DISCUSSION/RESULTS:

The implementation of GST has brought structural transformation to the pharmaceutical industry. While the policy has achieved its goal of simplifying taxation, sector-specific complexities persist. The inverted duty structure is particularly problematic as it locks working capital and reduces profitability. This issue is more severe for small and medium enterprises, which lack financial resilience.

On the other hand, GST has improved India's global competitiveness in pharmaceuticals by reducing costs and enhancing supply chain efficiency. The reduction in tax rates on life-saving drugs has also strengthened public healthcare outcomes. Thus, GST can be considered a progressive reform, but one that requires continuous refinement.

CONCLUSION:

GST has had a profound impact on the healthcare and pharmaceutical sectors in India. It has simplified taxation, improved efficiency, and enhanced affordability of medicines. However, challenges such as inverted duty structure, compliance burden, and working capital constraints need to be addressed.

The pharmaceutical industry, being crucial for public health, requires a balanced tax policy that promotes both affordability and industry sustainability. Future reforms should focus on rationalizing tax rates, improving refund mechanisms, and reducing compliance complexity.

CONFLICT OF INTEREST:

This paper is based on a conceptual review of published literature and does not involve direct funding or collaboration with commercial biotechnology entities. The author declares no financial or personal conflicts of interest related to the subject matter discussed.

REFERENCES:

1. Agrawal, S. (2025). *Impact of GST on the pharmaceutical industry in India: A comprehensive analysis*. Journal of Taxation and Economic Reform, 12(2), 45–60.
2. Bala, N., & Mali, N. (2017). *GST and pharmaceutical sector: An analytical study of tax reforms in India*. International Journal of Commerce and Management Research, 3(8), 112–118.
3. ClearTax. (2025). *GST impact on healthcare and pharma sector*. ClearTax. <https://cleartax.in/s/gst-impact-on-healthcare-pharma-sector>
4. EY India. (2025). *GST rate rationalization in the pharmaceutical sector: Enhancing affordability and access*. Ernst & Young India. <https://www.ey.com>
5. Jain, T. (2022). *Implications of GST on the pharmaceutical industry in India*. Journal of Business and Industrial Law, 5(1), 78–95.
6. KPMG India. (2025). *GST reforms in healthcare and pharmaceutical sector: Policy insights and future outlook*. KPMG. <https://kpmg.com/in>
7. Malini, R. (2023). *Pre- and post-GST impact on medicine pricing and accessibility in India*. Pacific Legal International Conference Journal, 4(2), 134–150.
8. Oommen, J. (2024). *GST impact on pharmaceutical companies: A study on cost, compliance, and competitiveness*. International Journal of Multidisciplinary Pharmaceutical Research, 6(1), 25–39.
9. Sahila, C., Begum, S., Asha, J. G. S., Agrawal, R. K., & Muthukumar, E. (2024). The impact of AI on employer branding and customer loyalty programs. *Acta Scientiae*, 7(1), 551–565
10. Pice App. (2025). *Impact of GST on pharmaceutical supply chain efficiency in India*. Pice App Insights. <https://piceapp.com/blogs/impact-of-gst-on-pharmaceutical-industry>
11. Agrawal, R.K. (2021). *Complete Guide to Pharmaceutical Forecasting* (1st ed.). PharmDart Publication. ISBN - 978-81-954736-2-5 <https://pharmdart.org/drugdart.php?fldPathId=3>
12. ResearchGate. (2021). *Effects of GST on pharmaceutical industry in India*. ResearchGate. <https://www.researchgate.net>
13. SysRev Pharm. (2022). *Visualizing the impact of GST on different segments of the pharmaceutical industry*. Systematic Reviews in Pharmacy, 13(5), 210–218.
14. TaxGuru. (2025). *GST 2.0 and its impact on the pharmaceutical industry: Changes and challenges*. TaxGuru. <https://taxguru.in>
15. Longdom Publishing. (2020). *Effect of GST on pharma products and Indian economy: A review*. Longdom Publishing. <https://www.longdom.org>
16. Medstown. (2025). *Pharmaceutical industry seeks relief from GST inverted duty structure*. Medstown. <https://www.medstown.com>
17. Mondaq. (2025). *Impact of GST rate changes on the health and pharmaceutical sector in India*. Mondaq. <https://www.mondaq.com>
18. ClearTax. (2025). *GST rates on medicines and pharmaceutical products in India*. ClearTax. <https://cleartax.in>
19. Inspirajournals. (2023). *Impact of GST on pharmaceutical sales and distribution networks*. Inspira Journal of Commerce, Economics & Computer Science, 9(3), 56–70.
20. Ignited Journals. (2020). *GST and pharmaceutical sector: A review of policy and performance*. Journal of Advances and Scholarly Researches in Allied Education, 17(6), 89–102.
21. Sahila, C., Begum, S., Asha, J. G. S., Agrawal, R. K., & Muthukumar, E. (2024). The impact of AI on employer branding and customer loyalty programs. *Acta Scientiae*, 7(1), 551–565.
22. Cloudfront Report. (2018). *Impact of GST on pharmaceutical industry in India: A technical report*. Knowledge Sharing Series. <https://d23z1tp9il9etb.cloudfront.net>
23. Competition Commission of India. (2022). *Market study on the pharmaceutical sector in India*. Government of India. <https://www.cci.gov.in>