Comparative Analysis of Taxation under GST: A Study of the Pharmaceutical Industry and FMCG Industry in India

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ABSTRACT:
The introduction of the Goods and Services Tax (GST) in India marked a major reform in the indirect taxation framework, aiming to unify multiple taxes into a single, streamlined system. While GST has significantly transformed the tax landscape, its impact varies across industries due to differences in product types, supply chains, tax slabs, and regulatory frameworks. This research paper presents a comparative analysis of the taxation structure and impact of GST on two major sectors: the pharmaceutical industry and the Fast-Moving Consumer Goods (FMCG) industry.

The pharmaceutical industry, being essential to public health, is subject to relatively lower tax rates and regulatory oversight, whereas the FMCG sector operates in a highly competitive environment with varied tax slabs and consumption patterns. The study uses a qualitative research approach based on secondary data to evaluate differences in tax burden, pricing, compliance, profitability, and supply chain efficiency.

The findings reveal that while GST has improved operational efficiency and transparency in both sectors, the pharmaceutical industry benefits from concessional tax rates, whereas the FMCG industry faces higher tax variability. The study concludes that GST has created a more uniform tax system but requires sector-specific adjustments to ensure balanced growth.

KEYWORDS:
GST, Pharmaceutical Industry, FMCG, Taxation, India, Comparative Study, Supply Chain

INTRODUCTION :

Taxation plays a crucial role in shaping industrial growth, pricing strategies, and consumer behavior. In India, the implementation of GST on July 1, 2017, replaced a complex system of indirect taxes such as VAT, excise duty, and service tax.

The pharmaceutical and FMCG industries are two of the most significant contributors to the Indian economy. While the pharmaceutical sector focuses on healthcare and life-saving products, the FMCG sector deals with daily-use consumer goods such as food, beverages, personal care items, and household products.

The tax structure under GST differs considerably between these sectors. Medicines are often taxed at lower rates (0%–12%) to ensure affordability, whereas FMCG products are taxed across a broader range (5%–28%), depending on the product category.

This paper aims to compare the impact of GST on these two industries, highlighting similarities, differences, and policy implications.

LITERATURE REVIEW:

Existing studies provide insights into GST's sectoral impact:

Research shows that GST has simplified taxation in the pharmaceutical sector and improved supply chain efficiency.

Studies indicate that the FMCG sector has benefited from reduced logistics costs and elimination of inter-state barriers.

Some scholars highlight that tax rate diversity in FMCG creates pricing challenges.

Literature also points out that the pharmaceutical industry faces issues like inverted duty structure, while FMCG deals with demand sensitivity.

Comparative studies suggest that GST has a more stabilizing effect on pharmaceuticals than on FMCG due to essential vs. discretionary consumption patterns.

Overall, literature indicates that GST's impact is uneven across sectors.

OBJECTIVES OF THE STUDY:

1. To analyze GST structure in pharmaceutical and FMCG industries.
2. To compare tax rates and their impact on pricing.
3. To evaluate supply chain efficiency post-GST.
4. To assess compliance burden in both sectors.
5. To identify challenges and opportunities in each industry.

RESEARCH METHODOLOGY:

Type of Research

- Descriptive and comparative research

Data Sources

- Secondary data (journals, reports, government publications, industry analysis)

Approach

- Comparative analysis of pre-GST and post-GST scenarios
- Sector-wise evaluation

Scope

- India-based study
- Focus on indirect taxation under GST

HYPOTHESES

H1: GST has a uniform positive impact on both pharmaceutical and FMCG industries.
H2: Pharmaceutical industry benefits more from GST than FMCG industry.
H3: GST has improved supply chain efficiency in both sectors.
H4: Tax rate variability affects FMCG sector more significantly than pharmaceuticals.

GST Structure: Pharmaceutical vs FMCG

Pharmaceutical Industry

- Tax rates: 0%, 5%, 12%
- Essential medicines often exempt or taxed at lower rates
- Strong government regulation (price control mechanisms)
- Focus on affordability and accessibility

FMCG Industry

- Tax rates: 5%, 12%, 18%, 28%
- Luxury and sin goods taxed higher
- Wide product diversity
- Demand-driven pricing

Comparative Analysis

Tax Rates and Pricing

- Pharmaceuticals: Lower and stable tax rates ensure affordability
- FMCG: Wide variation leads to price fluctuations

Observation:
Pharmaceutical pricing is more regulated, while FMCG pricing is market-driven.

Supply Chain Efficiency

- Both sectors benefit from removal of inter-state taxes
- FMCG sector sees greater logistics optimization due to large distribution networks

Observation:
GST has significantly improved warehousing and distribution efficiency in FMCG.

Compliance and Documentation

- Pharmaceuticals: Moderate compliance burden
- FMCG: Higher compliance due to product diversity

Observation:
FMCG companies face more complex tax filings.

Profitability Impact

- Pharmaceuticals: Stable margins due to controlled pricing
- FMCG: Margins fluctuate based on tax rates and consumer demand

FINDINGS

The key findings of the study are:

- GST has simplified taxation in both industries.
- Pharmaceutical sector benefits from lower tax rates.
- FMCG sector faces higher tax variability.
- Supply chain efficiency has improved in both sectors.
- Compliance burden is higher in FMCG industry.
- Pharmaceutical sector experiences more regulatory challenges.

DISCUSSION/RESULTS:

The comparative analysis highlights that GST has not affected all industries equally. The pharmaceutical industry, being essential, enjoys favorable tax treatment, ensuring affordability and accessibility. However, it faces structural issues such as inverted duty structure. On the other hand, the FMCG sector operates in a competitive environment where tax rates significantly influence pricing and demand. The diversity of products leads to classification challenges under GST.

While both industries benefit from improved logistics and reduced tax cascading, the extent of benefits varies. The FMCG sector gains more in supply chain efficiency, whereas the pharmaceutical sector benefits more in pricing stability.

CONCLUSION:

GST has transformed India's taxation system, bringing transparency and efficiency. However, its impact differs across industries.

The pharmaceutical industry has benefited from lower tax rates and improved affordability, while the FMCG sector has experienced mixed effects due to tax variability. Both industries have seen improvements in supply chain management and compliance systems. For balanced growth, policymakers must address sector-specific challenges such as inverted duty structure in pharmaceuticals and tax classification issues in FMCG.

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.

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