



An Analysis of GST in Reference to Pharmaceutical Companies of Rajasthan: A Legal Study

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Abstract

The introduction of the Goods and Services Tax (GST) in India on 1 July 2017 brought a major transformation in the indirect taxation system by subsuming several central and state indirect taxes into a unified tax framework. The pharmaceutical sector is one of the strategically important sectors of the Indian economy because medicines, medical preparations and healthcare products have a direct relationship with public health. The application of GST to pharmaceutical companies has consequently generated important legal, fiscal and compliance issues.

The present research paper examines the Goods and Services Tax regime with special reference to pharmaceutical companies operating in Rajasthan. The study analyses the constitutional and statutory framework of GST, including the Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, the Rajasthan Goods and Services Tax Act, 2017 and relevant rules, notifications and decisions affecting pharmaceutical businesses. Particular attention has been given to classification of pharmaceutical products under the Harmonised System of Nomenclature (HSN), tax-rate structures, input tax credit, inter-State and intra-State supplies, registration, invoicing, returns, reverse charge provisions, exports, compliance requirements and the legal challenges faced by pharmaceutical manufacturers, distributors and suppliers in Rajasthan. The study adopts a doctrinal and analytical methodology based on statutory provisions, government notifications, judicial decisions, official GST materials and secondary legal literature. The study finds that GST has substantially rationalised the indirect tax structure applicable to pharmaceutical businesses, but classification disputes, rate changes, input tax credit issues, compliance requirements and treatment of promotional and related business transactions continue to present legal and operational challenges. The research concludes that a clearer classification framework, stable tax policy, effective dispute resolution and technology-driven compliance mechanisms are important for ensuring greater certainty in taxation of the pharmaceutical sector.

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1. INTRODUCTION

The Goods and Services Tax constitute one of the most significant reforms in India's indirect taxation system. It came into operation on 1 July 2017 with the objective of creating a destination-based tax on the supply of goods and services and reducing the multiplicity of indirect taxes that existed under the earlier regime.

Before GST, pharmaceutical companies were affected by a combination of central excise duty, state value added tax, central sales tax, entry taxes and other indirect levies. The multiplicity of taxes created issues relating to classification, tax credits, movement of goods and inter-State transactions. GST sought to create a more integrated framework by replacing a number of such taxes with CGST, SGST and IGST mechanisms.

The pharmaceutical sector presents a particularly important case for studying GST because medicines and healthcare products have substantial public-interest implications. Classification of products, application of different tax rates, availability of input tax credit, treatment of discounts and promotional schemes, stock transfers, interstate supplies and compliance requirements can directly influence the cost structure and commercial operations of pharmaceutical companies.

In Rajasthan, the issue is particularly relevant because the State has a substantial network of pharmaceutical manufacturers, wholesalers, distributors, hospitals, pharmacies and public procurement institutions. The Government of Rajasthan's health infrastructure also interacts with pharmaceutical suppliers through procurement processes in which GST registration and tax compliance form part of tender requirements. Recent Rajasthan Medical Services Corporation procurement documents, for example, require bidders to furnish GST registration details and prescribe GST-related documentary compliance.

The legal framework governing GST in Rajasthan is principally constituted by the Rajasthan Goods and Services Tax Act, 2017, together with the Central Goods and Services Tax Act, 2017 and the Integrated Goods and Services Tax Act, 2017. The Rajasthan Government notified the Rajasthan Goods and Services Tax Rules, 2017 under the enabling provisions of the State Act.

The present study therefore seeks to examine GST not merely as a taxation mechanism but as a legal framework influencing the functioning of pharmaceutical companies in Rajasthan.

2. Background of GST in India

The GST framework originated from the constitutional reform that enabled Parliament and State Legislatures to legislate on GST. The constitutional framework established a system in which the Central and State Governments exercise concurrent legislative powers over GST, while the GST Council provides a constitutional mechanism for recommending tax rates, exemptions and other important matters.

The Central Goods and Services Tax Act, 2017 governs central GST on intra-State supplies, while the corresponding State GST legislation applies the State component. The Integrated

Goods and Services Tax Act, 2017 governs inter-State supplies and imports.

For pharmaceutical companies, this structure means that the tax consequences of a transaction depend significantly upon the nature and location of the supplier and recipient.

An intra-State sale within Rajasthan normally involves **CGST + Rajasthan SGST**, whereas an inter-State supply attracts **IGST**.

The GST system is therefore based upon the principle that tax follows the place of supply rather than merely the place where the seller is located.

3. Pharmaceutical Industry in Rajasthan

Rajasthan possesses a diversified healthcare and pharmaceutical ecosystem involving manufacturing units, formulation companies, bulk-drug operations, medical-device manufacturers, distributors, wholesalers and retailers.

The Department of Medical, Health and Family Welfare, Government of Rajasthan, provides information concerning pharmaceutical and related manufacturing units, including bulk drug manufacturers, drug formulation units, homoeopathic medicine units, disinfectant manufacturers and medical-device manufacturers.

The pharmaceutical sector is therefore not limited to the manufacture of finished medicines. It includes an extended supply chain involving:

1. Active Pharmaceutical Ingredients;
2. Bulk drugs;
3. Finished formulations;
4. Medical and healthcare preparations;
5. Packaging materials;
6. Warehousing;
7. Wholesale distribution;
8. Retail distribution;
9. Institutional supply; and
10. Export and import transactions.

GST affects substantially all these stages.

4. Research Objectives

The study has the following objectives:

1. To examine the legal framework of GST applicable to pharmaceutical companies in Rajasthan.
2. To analyse the impact of CGST, SGST and IGST on pharmaceutical transactions.
3. To examine classification and GST-rate issues relating to pharmaceutical products.
4. To analyse the availability and legal limitations of input tax credit for pharmaceutical businesses.
5. To examine GST registration, invoicing, return filing and compliance requirements.
6. To identify major legal and practical challenges faced by pharmaceutical companies in Rajasthan.
7. To suggest measures for improving the effectiveness and certainty of GST administration in the pharmaceutical sector.

5. Research Questions

The study addresses the following research questions:

1. What is the legal framework governing GST for pharmaceutical companies in Rajasthan?
2. How does GST classification affect taxation of pharmaceutical products?
3. What are the major legal issues relating to input tax credit in the pharmaceutical industry?
4. How does GST affect intra-State and inter-State pharmaceutical transactions?
5. What compliance difficulties are encountered by pharmaceutical companies?
6. Whether the present GST framework provides adequate legal certainty for pharmaceutical businesses?

6. RESEARCH METHODOLOGY

The present research is **doctrinal, descriptive and analytical** in nature.

6.1 Nature of Research

The research primarily examines legal provisions, notifications, rules, government documents and relevant judicial principles.

6.2 Sources of Data

The study is based on:

- Central Goods and Services Tax Act, 2017;
- Integrated Goods and Services Tax Act, 2017;
- Rajasthan Goods and Services Tax Act, 2017;
- Rajasthan Goods and Services Tax Rules, 2017;
- Notifications and circulars issued by the GST authorities;
- GST Council recommendations;
- Official government procurement documents;
- Judicial decisions and legal literature;
- Books, research papers and journal articles concerning GST and pharmaceutical taxation.

6.3 Method of Analysis

The statutory provisions have been examined through doctrinal interpretation and comparative legal analysis. The practical position of pharmaceutical businesses has been analysed with reference to GST compliance and the pharmaceutical supply chain in Rajasthan.

7. Legal Framework of GST Applicable to Pharmaceutical Companies

7.1 Central Goods and Services Tax Act, 2017

The CGST Act provides the legal framework for Central GST on intra-State supplies.

For a pharmaceutical manufacturer located in Rajasthan selling medicines to another registered person within Rajasthan, the transaction would ordinarily involve CGST and Rajasthan SGST, subject to the classification and applicable rate.

7.2 Rajasthan Goods and Services Tax Act, 2017

The Rajasthan GST Act provides the State-level framework for taxation of intra-State supplies in Rajasthan.

The State Government notified the Rajasthan Goods and Services Tax Rules, 2017 under the authority of the State Act.

The Rules establish procedural requirements concerning registration, invoices, returns and other matters.

7.3 Integrated Goods and Services Tax Act, 2017

IGST becomes particularly significant for pharmaceutical companies engaged in:

- inter-State sales;
- supply to distributors located in another State;
- exports;
- imports; and
- certain transactions involving movement across State boundaries.

For pharmaceutical manufacturers in Rajasthan supplying products to Gujarat, Haryana, Delhi, Madhya Pradesh or other States, IGST generally becomes relevant to the inter-State supply.

8. GST Classification of Pharmaceutical Products

Classification is one of the most important legal issues in pharmaceutical taxation.

Pharmaceutical products are generally classified under the HSN-based tariff structure. The applicable GST rate depends upon the precise description, composition, use and classification of the product.

This creates legal significance because two products that appear commercially similar may potentially fall under different tariff classifications.

The CBIC GST rate framework expressly provides that tax rates depend upon the relevant tariff heading and the description of goods in the applicable schedules.

Consequently, pharmaceutical companies must undertake careful HSN classification before determining the GST rate applicable to a product.

9. GST Rates and Pharmaceutical Products

GST rates applicable to pharmaceutical products are not uniform across the entire sector.

Different medicines and healthcare products may fall under different tax-rate categories depending upon their tariff classification and applicable notifications.

An example of policy differentiation occurred in relation to certain cancer medicines. At its 54th meeting in September 2024, the GST Council recommended reduction of the GST rate on Trastuzumab Deruxtecan, Osimertinib and Durvalumab from 12% to 5%.

This illustrates an important feature of pharmaceutical taxation: changes in GST policy can have a direct impact on product pricing and healthcare affordability.

It also demonstrates why pharmaceutical businesses must continuously monitor GST notifications and rate amendments rather than relying permanently upon historical classifications.

10. Input Tax Credit and Pharmaceutical Companies

Input Tax Credit is one of the most important features of the GST system.

A pharmaceutical company incurs GST on various business inputs and services, including:

- raw materials;

- packaging materials;
- machinery;
- professional services;
- transportation;
- warehousing;
- advertising;
- maintenance and other eligible business expenses.

Subject to the statutory conditions and restrictions, GST paid on eligible inputs and input services may be available as credit against output tax liability.

The concept of input tax credit reduces cascading of taxation and is therefore economically important to the pharmaceutical industry.

However, pharmaceutical companies must maintain proper documentation and fulfil statutory conditions regarding invoices, receipt of goods or services, tax payment and return compliance.

11. GST Registration and Pharmaceutical Businesses

Registration is a fundamental requirement for businesses whose activities fall within the statutory registration framework.

The practical importance of GST registration is visible in public procurement in Rajasthan. Rajasthan Medical Services Corporation tender documentation requires pharmaceutical suppliers to furnish GST registration details and related tax documents.

This demonstrates that GST compliance is not merely a tax issue but can also become a condition affecting a pharmaceutical company's eligibility to participate in government procurement.

For pharmaceutical businesses, proper maintenance of GST registration is therefore important for:

- commercial transactions;
- government procurement;
- issuance of tax invoices;
- claiming input tax credit;
- inter-State supplies; and
- statutory compliance.

12. GST Invoicing and Documentation

Pharmaceutical companies frequently undertake transactions involving multiple products, batches, quantities and tax classifications.

GST invoices must contain the required particulars, including appropriate classification and tax details.

The legal importance of correct invoicing is considerable because an incorrectly prepared invoice may affect:

- input tax credit;
- assessment;
- reconciliation;
- return filing;
- audit;
- e-invoicing compliance, where applicable; and
- dispute resolution.

Since the pharmaceutical sector generally operates through sophisticated supply chains, inaccurate invoicing at any stage can create downstream compliance issues.

13. GST and Inter-State Movement of Pharmaceuticals

Rajasthan is geographically connected with several economically significant States. Pharmaceutical manufacturers frequently supply products beyond the State's boundaries.

For example, where a manufacturer in Rajasthan supplies pharmaceuticals to a registered distributor in another State, IGST ordinarily becomes relevant.

Inter-State pharmaceutical transactions can therefore produce legal questions concerning:

- place of supply;
- determination of tax liability;
- documentation;
- e-way bill requirements;
- transportation;
- stock movement;
- branch transfers; and
- input tax credit reconciliation.

The pharmaceutical sector's distribution structure makes these issues especially significant.

14. GST and Pharmaceutical Exports

Exports constitute an important component of India's pharmaceutical economy.

GST law provides a special treatment for exports as zero-rated supplies under the statutory framework. This mechanism is particularly relevant to pharmaceutical companies because it aims to prevent domestic taxes from becoming embedded in export prices.

For export-oriented pharmaceutical companies in Rajasthan, proper compliance relating to export documentation, refunds and input tax credit assumes particular importance.

15. GST Treatment of Pharmaceutical Packaging and Allied Inputs

A pharmaceutical product does not exist independently of its packaging and manufacturing ecosystem.

Inputs may include:

- bottles;
- blister packs;
- cartons;
- labels;
- foils;
- chemicals;
- excipients; and
- other manufacturing materials.

The GST rate of packaging materials can differ from the GST rate applicable to the medicine itself.

CBIC has specifically addressed questions relating to pharmaceutical cartons and indicated that classification under the relevant packaging heading determines the applicable rate. This creates a legal and accounting requirement for companies to distinguish carefully between the final pharmaceutical product and the individual inputs used in its manufacture.

16. GST, Discounts and Pharmaceutical Trade Practices

The pharmaceutical industry uses various commercial mechanisms such as:

- trade discounts;
- quantity discounts;
- promotional schemes;
- dealer incentives;
- free samples; and
- performance-linked benefits.

The GST implications of these transactions depend upon their legal and documentary structure.

Particular difficulties may arise where discounts are subsequently given or where promotional goods are distributed without direct consideration.

Therefore, pharmaceutical companies need well-designed documentation and accounting policies to distinguish genuine discounts from independent supplies or other taxable transactions.

17. GST Compliance Challenges in Rajasthan

The principal challenges can be categorised as follows.

17.1 Classification Disputes

Differences between manufacturers and tax authorities regarding HSN classification can lead to demands, interest and litigation.

17.2 Rate Changes

GST rates applicable to pharmaceutical products can change through GST Council recommendations and subsequent government notifications. The 2024 reduction relating to specified cancer medicines illustrates this dynamic nature.

17.3 Input Tax Credit Reconciliation

Large pharmaceutical companies operating through complex supply chains must reconcile purchase records, invoices and GST returns carefully.

17.4 Compliance Costs

Registration, invoicing, returns, reconciliation, e-way bills, audit and record maintenance create continuing administrative obligations.

17.5 Government Procurement Compliance

Pharmaceutical suppliers participating in Rajasthan government procurement must satisfy tax documentation and GST registration requirements in addition to pharmaceutical licensing and quality requirements.

18. Interaction Between GST Law and Pharmaceutical Regulation

GST compliance does not operate independently of pharmaceutical regulation.

Pharmaceutical companies are also governed by laws relating to manufacture, sale, quality and distribution of medicines.

The Rajasthan health authorities identify the Drugs and Cosmetics Act, 1940 and Drugs and Cosmetics Rules, 1945 as relevant laws in the State's pharmaceutical regulatory framework.

Therefore, a pharmaceutical company must satisfy both:

Tax compliance under GST law; and

Product and manufacturing compliance under pharmaceutical regulatory law.

The legal framework consequently requires an integrated compliance approach.

19. Impact of GST on Pharmaceutical Companies in Rajasthan

The GST framework has produced both opportunities and challenges.

Positive Legal and Economic Effects

1. Greater harmonisation of indirect taxation.
2. Reduction in multiplicity of earlier indirect tax structures.
3. Availability of input tax credit subject to statutory conditions.
4. Greater digitalisation of tax administration.
5. Improved invoice-based documentation.
6. Greater transparency in inter-State transactions.

Challenges

1. Product classification disputes.
2. Changing rates and notifications.
3. Compliance and reconciliation burden.
4. Technical difficulties in credit matching.
5. Legal complexity concerning promotional transactions.
6. Need for continuous monitoring of statutory changes.

20. Comparative Legal Analysis

Legal Issue	Earlier Tax Structure	GST Framework
Nature of indirect tax	Multiple central and State levies	Integrated GST structure
Inter-State transactions	Central Sales Tax and related State systems	IGST
Intra-State transaction	VAT + central taxes, subject to product	CGST + SGST
Input credit	Fragmented across tax regimes	Integrated credit mechanism subject to conditions
Tax administration	Multiple authorities	GST framework with common digital architecture
Documentation	Multiple tax-specific requirements	Standardised GST documentation
Classification	Different tax laws	HSN-based GST classification
Compliance	Multiple indirect tax returns	GST-based return and reporting system

The comparison indicates that GST has simplified the structure of indirect taxation at a systemic level, although

pharmaceutical companies still face product-specific legal complexities.

21. Major Findings of the Study

The study reveals the following major findings:

GST has created a substantially more integrated indirect tax framework for pharmaceutical businesses in Rajasthan.

HSN classification is one of the most important legal determinants of GST liability for pharmaceutical products.

The input tax credit mechanism is economically important for pharmaceutical companies but requires strict documentary and procedural compliance.

Inter-State pharmaceutical transactions require careful application of IGST and place-of-supply provisions.

GST compliance has become closely connected with government procurement eligibility for pharmaceutical suppliers in Rajasthan.

Pharmaceutical taxation remains sensitive to policy changes, particularly where medicines have significant public-health implications, as demonstrated by changes involving specified cancer drugs.

GST should be analysed together with pharmaceutical regulatory laws because tax compliance and drug-regulatory compliance operate simultaneously.

22. Suggestions

The following measures may improve the GST environment for pharmaceutical companies in Rajasthan:

22.1 Greater Classification Clarity

The tax administration should provide more product-specific guidance where classification disputes are recurrent.

22.2 Stable Tax Policy

Frequent changes in rates can increase compliance complexity. Greater predictability would help pharmaceutical companies in pricing and planning.

22.3 Simplified Compliance for Smaller Businesses

Small pharmaceutical manufacturers and distributors may require simplified compliance mechanisms and better technical support.

22.4 Faster Dispute Resolution

Classification and input-credit disputes should be resolved through efficient and specialised mechanisms.

22.5 Better Coordination

GST authorities and pharmaceutical regulatory authorities should improve coordination because the same business is governed simultaneously by tax and pharmaceutical laws.

22.6 Digital Compliance

Companies should strengthen integrated accounting and GST software systems for invoice matching, HSN classification, return reconciliation and compliance monitoring.

22.7 Government Procurement Facilitation

Rajasthan government procurement authorities should provide clear and updated GST documentation guidelines to pharmaceutical suppliers.

23. CONCLUSION

The introduction of GST represents a major transformation in India's indirect taxation system and has significantly altered the legal environment in which pharmaceutical companies operate.

For pharmaceutical companies in Rajasthan, GST influences almost every stage of the supply chain, from procurement of raw materials and manufacturing to wholesale distribution, institutional supply, inter-State transactions and exports.

The central legal issues include classification of pharmaceutical products under HSN, determination of applicable tax rates, input tax credit, registration, invoicing, inter-State supplies and statutory compliance.

The analysis demonstrates that GST has produced a more integrated tax structure and substantially reduced the multiplicity of indirect taxation mechanisms that characterised the pre-GST environment. At the same time, the pharmaceutical sector presents unique legal challenges because medicines are closely connected with public health and are subject to specialised regulatory requirements.

The experience of Rajasthan also demonstrates that GST compliance has become relevant not only to routine taxation but also to participation in government pharmaceutical procurement.

A balanced GST framework for pharmaceuticals therefore requires a combination of tax certainty, clear classification rules, efficient credit mechanisms, simplified compliance, rapid dispute resolution and sensitivity toward essential medicines.

The legal framework can become more effective when pharmaceutical companies adopt strong internal tax-governance systems and when tax authorities provide clearer and more stable interpretative guidance. Such developments would contribute to greater legal certainty, compliance efficiency and a more predictable business environment for pharmaceutical companies in Rajasthan.

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