GST: Frequently Asked Questions (FAQs) on Drugs & Pharmaceuticals

Q1. Whether formulations cleared to have been assessed to GST under transfer price mechanism or on the basis of MRP printed on them?
Ans: The assessment of drugs and formulations under GST would be based on the basis of transaction value at each level of supply with end to end ITC claim for neutralizing the GST paid at the procurement level.

Q2. What are the requirements for clearance of physician samples distributed free of cost?
Ans: In case of clearance of physician samples distributed free of cost, the ITC availed on the said samples has to be reversed in view of the provisions under Section 17(5)(a) of the CGST Act, 2017. No tax is payable on clearance of physician samples.

Q3. What is the procedure for movement of time expired medicines from the retail outlets to the manufacturer for destruction?
Ans: In such cases, the manufacturer may issue an invoice note within the time specified in sub-section (2) of Section 34 of the CGST Act, 2017 subject to the condition that the person returning the expired medicines encloses his ITC. Subsequently, when the time expired goods are destroyed, the manufacturer has to reverse its ITC on account of goods being destroyed. Where the goods are returned after the time limit specified in sub-section (2) of the CGST Act, 2017, the registered persons returning the goods shall issue a tax invoice, as if it is a supply within the meaning of Section 7 of the CGST Act, 2017.

Q4. Whether loan and licence units carry out their operations in GST regime?
Ans: GST law does not have any special provision for loan and licence units. Where the contract is in nature of performance of job work, these units can opt to follow the procedure laid down in section 147 of the CGST Act, 2017. In such cases, the principal can send an invoice to the sub-contract, if the principal can clear the goods from the premises of such unit if the principal derives these units as its additional place of business where such units are registered under section 25 of the CGST Act, 2017.

Q5. What is the treatment of clearances effected to Special Economic Zones?
Ans: The clearance afforded to the SEZ are rated supplies in terms of Section 3(1) of the CGST Act, 2017. Accordingly, the supplier can claim refund of GST paid on such supplies or clearances under the same under bond letter of undertaking and claim refund of the unutilized ITC.

Q6. Whether SEZ unit located in a State requires a separate registration under GST?
Ans: The SEZ unit located in a State is treated as a business vertical deal from other entities located in the same State outside the SEZ. As the SEZ units are registered under the CGST Act, 2017, they have to be separately registered to avail of the clearing mechanism.

Q7. Whether IGST registration is required to be obtained separately?
Ans: In terms of Section 4 of the GST Rules, 2017, the SEZ unit is treated as a SEZ, and as per the rules, the unit is required to be separately registered if it is in a different State or if it is a specific SEZ unit. If the unit is registered under the same State, it does not require a separate registration.

Q8. What is the transitional credit that can be availed on the existing stocks held by a registered person under GST?
Ans: On the transitional provisions read with Section 140(3) of the CGST Act, 2017, a registered person who was not registered under the earlier law and who is in possession of any document evidencing payment of central excise duty in respect of the goods held in stock, shall be allowed credit at the rate of sixty percent on such goods, which attract central excise duty at the rate of nil per cent or zero and forty percent for the prior goods of the central tax applicable on such goods after 01st July 2017. The said amount shall be credited in the electronic credit ledger after the central tax payable on such supply has been paid. In case where integrated tax is paid, the amount of ITC would be at the rate of thirty percent and twenty percent respectively, of integrated tax. This facility is available for a maximum period of 6 months from the appointed day, i.e., 01st July 2017

Q9. Whether a manufacturer can avail deemed credit in respect of transitional stocks on the appointed day in respect of the stocks for which duty paying document is not available?
Ans: The deemed credit in respect of transitional stock on the appointed day is not available in case of goods on account of which no duty paying document is available. The deemed credit in respect of transitional stock is available only for the goods for which duty paying document is available as per the provisions of Section 140(3) of the CGST Act, 2017.

Q10. Whether deemed credit is available in respect of goods purchased from tax free zones?
Ans: In terms of Section 5(1) of the CGST Act, 2017, a registered person is not eligible to availing the deemed credit on goods purchased from tax free zones under the provisions read with Section 140(3) of the CGST Act, 2017.

Q11. What is the obligation cast on the Registered Person in case of purchases from Unregistered Persons?
Ans: In terms of Section 94(4) of the CGST Act, 2017, read with Section 3(1) of the IGST Act, 2017, the Registered Person purchasing the taxable supplies from an unregistered Supplier has to raise an invoice and pay GST on the reverse charge basis in respect of such supplies.

Q12. What is the type of supplies made from erstwhile tax free zone?
Ans:Since GST is a destination based consumption tax with seamless transfer of ITC, no exemptions are accorded to supplies made by erstwhile tax free zones. Accordingly, the goods sold from the tax free zones will be subjected to GST from the appointed day (01st July 2017).

Q13. What is the effect of non-payment of consideration in respect of taxable supplies received by the recipient?
Ans: If the recipient fails to pay to the supplier the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from the date of issue of invoice by the supplier, the amount of input tax credit availed proportionate to the amount of consideration paid will be added to the output tax liability along with interest thereon. The ITC so reversed can be reclaimed by the recipient after payment of consideration along with tax payable therein otherwise.

Q14. Whether separate sequence numbers can be maintained for invoices issued by the Registered Person in respect of supplies made on different premises?
Ans: In terms of Rule 6(b) of the CGST Rules, 2017, single or multiple series of invoices can be raised by the Registered Person for the supplies made under GST on as many such invoice numbers are unique for the fiscal year.

Q15. Which is the document required to be issued by the Registered Person for supply of goods from one premise to another premises under the same registration number?
Ans: In terms of Rule 65(1)(c) of the CGST Rules, 2017, such movements have to be effected under the cover of a delivery challan along with any other document that may be prescribed in lieu of the e-way bill.

Q16. Whether discounts can be claimed as an abatement from the price for assessing GST?
Ans: In terms of Section 16(b) of the CGST Act, 2017, the value of supply for computing GST shall not include any discount which is given before or at the time of supply if such discount has been deducted in the invoice issued in respect of such supply. The value of supply shall be nil where the discount which is given after the supply has been effected, if such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices and ITC attributable to such discount has been reversed by the recipient of the supply.

Q17. What are the relevant provisions for movement of transitional goods lying at the premises of contract manufacturer on or after appointed day?
Ans: The procedure for movement of transitional goods lying at the premises of contract manufacturer on or after appointed day is governed by the provisions under Section 114(1)-(3) of the CGST Act, 2017.


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