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Impact of GST rate rationalization on the Pharma sector

GST reduction on medicines and medical devices for affordable healthcare



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The GST Council's tax reforms in the pharmaceutical sector marks a significant step toward affordable healthcare. By reducing GST on all medicines from 12% to 5% and exempting 36 critical lifesaving drugs for ailments such as cancer and rare disorders, the reform substantially lowers patient costs and improves access to vital treatments. Lowering GST on medical devices from 18% or 12% to 5% further enhances the affordability of essential healthcare. In addition, GST on pharma job work services has been reduced from 12% to 5%. This people-centric reform promotes equitable healthcare access, strengthens public health and industry growth, and reinforces India's position as a global pharma leader.

Key changes:

- Reduction of GST from 12% to nil on 33 lifesaving drugs and medicines, and from 5% to nil on 3 lifesaving drugs and medicines used for the treatment of cancer, rare diseases, and other severe chronic conditions
- Reduction of GST on all other drugs and medicines from 12% to 5%
- Reduction of GST from 18% to 5% on various medical apparatus and devices used for medical, surgical, dental or veterinary purposes, or for physical or chemical analysis
- Reduction of GST from 12% to 5% on various medical equipment and supplies, such as wadding, gauze, bandages, diagnostic kits and reagents, blood glucose monitoring systems (glucometers), and other medical devices
- Reduction in GST from 12% to 5% for job work services in relation to goods falling under Chapter 30

A detailed list of the proposed GST rate changes in the pharma sector has been covered separately in the Annexure to this alert

Impact analysis

Industry impact:

- **Reduced GST on all drugs and medicines:** Reduction in GST rates on all drugs and medicines from 12% to 5%, and granting a NIL rate to 36 lifesaving drugs and medicines for conditions such as cancer, rare diseases, and other chronic illnesses, will significantly reduce patient expenses and improve access to essential therapies, thereby advancing affordable healthcare.
- **Lower cost of medical equipment and devices:** Reduction in GST rates from 18% or 12% to 5% on various medical equipment and devices will lower costs for hospitals and diagnostic centers, ultimately benefiting patients.
- **Increase in inverted duty structure:** GST rates on Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs), typically taxed at 18%, have not been reduced. The reduction in GST rates on all drugs and medicines to 5% intensifies tax inversion (inputs taxed higher than outputs) for pharma companies, leading to higher accumulation of input tax credit (ITC) and potential working capital strain for manufacturers, despite the provision for a 90% provisional refund of ITC on account of the inverted duty structure under GST law.
- **Impact on inventory:** Inventory purchased at old rates may need repricing or discounting, affecting margins.
- **Impact on incentives:** Companies availing state-level incentives (computed on net SGST paid in cash) and those claiming the Budgetary Support Scheme (58% of IGST or 29% of CGST paid in cash) may see a reduction in incentive amounts due to lower tax outflows.

Highlights

GST reduction on 36 lifesaving drugs and medicines used for treatment of cancer, rare diseases and other severe chronic conditions

12%
/5%  NIL

Before Now

GST reduction on all formulations (excl. above identified drugs) and on job work services for pharma products

12%  5%

Before Now



Impact analysis

Consumer impact

- Patients are expected to directly benefit from the reduced GST rates on drugs, medicines, medical devices and equipment. The reduction in GST rates from 12% to 5% on all drugs and medicines, and to NIL on lifesaving drugs and medicines for conditions such as cancer, rare diseases, and other severe chronic illnesses, coupled with the cut in GST rates on various medical equipment and devices, will improve the affordability and accessibility of healthcare for patients at large.

Way forward:

- **Ensuring system readiness:** Update ERP and tax systems to incorporate revised GST rates.
- **Pricing strategy:** Reassess product pricing, MRP setting, and margin planning across revised rate slabs to reflect tax reductions.
- **Trade alignment:** Restructure pricing policies, align with distributors/trade partners, renegotiate contracts, and ensure timely communication on transitional aspects to minimize supply chain disruptions.
- **Government advocacy:** Explore representation of key issues including:
 - Align the GST rate for APIs/ KSM with the GST rate of formulations
 - Allowing a refund of inverted duty on capital goods and input services.
 - Extending the inverted duty refund to traders facing ITC accumulation due to rate changes.
- **Transitional planning:** Identify old stock, plan credit notes/discounts to clear inventory, and other regulatory requirements, as applicable.
- **Considerations for importers of pharma products and medical devices:** Assess the risk of ITC accumulation for imported consignments in transit or on-hand stock, and consider mitigation measures such as bonded warehouse imports, subject to business and commercial feasibility.

Highlights

**Relief in the Healthcare sector:
GST reduction for
thermometers,
medical grade
oxygen, all diagnostic
kits and reagents,
Glucometers and test
strips, and corrective
spectacles**

**18/
12% » 5%**

Before **Now**



Annexure

GST rate changes proposed as per press release issued on 3 September 2025

- List of drugs and medicines under Chapter 30 on which the GST rate is proposed to be reduced from 5% to nil

S. no.	Description of goods
1	Agalsidase Beta
2	Imiglucerase
3	Eptacog alfa activated recombinant coagulation factor VIIa

- List of drugs and medicines under Chapter 30 on which the GST rate is proposed to be reduced from 12% to nil

S. no.	Description of goods	S no	Description of goods
1	Onasemnogene abeparvovec	18	Rurioctocog Alpha Pegol
2	Asciminib	19	Idursulphatase
3	Mepolizumab	20	Alglucosidase Alfa
4	Pegylated Liposomal Irinotecan	21	Laronidase
5	Daratumumab	22	Olipudase Alfa
6	Daratumumab subcutaneous	23	Tepotinib
7	Teclistamab	24	Avelumab
8	Amivantamab	25	Emicizumab
9	Alectinib	26	Belumosudil
10	Risdiplam	27	Miglustat
11	Obinutuzumab	28	Velmanase Alfa
12	Polatuzumab vedotin	29	Alirocumab
13	Entrectinib	30	Evolocumab
14	Atezolizumab	31	Cystamine Bitartrate
15	Spesolimab	32	CI-Inhibitor injection
16	Velaglucerase Alpha	33	Inclisiran
17	Agalsidase Alfa		



Annexure

- List of pharmaceuticals products and medical devices on which the GST rate is proposed to be reduced from 12% to 5% (1 of 3)

S. no.	Chapter / heading / sub-heading / tariff item	Description of goods
1.	28	Anesthetics
2.	28	Potassium Iodate
3.	28	Steam
4.	2801 20	Iodine
5.	2804 40 10	Medical grade oxygen
6.	2847	Medicinal grade hydrogen peroxide
7.	30	All Drugs and medicines including: - Fluticasone Furoate + Umeclidinium + Vilanterol FF/UMEC/VI - Brentuximab Vedotin - Ocrelizumab - Pertuzumab - Pertuzumab + trastuzumab - Faricimab
8.	3001	Glands and other organs for organo-therapeutic uses, dried, whether or not powdered; extracts of glands or other organs or of their secretions for organo-therapeutic uses; heparin and its salts; other human or animal substances prepared for therapeutic or prophylactic uses, not elsewhere specified or included



Annexure

- List of pharmaceuticals products and medical devices on which GST rate is proposed to be reduced from 12% to 5% (2 of 3)

S. no.	Chapter / heading / sub-heading / tariff item	Description of goods
9.	3003	Animal blood prepared for therapeutic, prophylactic or diagnostic uses; antisera and other blood fractions and modified immunological products, whether or not obtained by means of biotechnological processes; toxins, cultures of micro-organisms (excluding yeasts) and similar products
10.	3004	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale, including Ayurvedic, Unani, Siddha, homoeopathic or Bio-chemic systems medicaments
11.	3005	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale, including Ayurvedic, Unani, homoeopathic siddha or Bio-chemic systems medicaments, put up for retail sale
12.	3006	Wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes
13.	3822	Pharmaceutical goods specified in Note 4 to this Chapter [i.e., Sterile surgical catgut, similar sterile suture materials (including sterile absorbable surgical or dental yarns) and sterile tissue adhesives for surgical wound closure; sterile laminaria and sterile laminaria tents; sterile absorbable surgical or dental haemostatics; sterile surgical or dental adhesion barriers, whether or not absorbable; Waste pharmaceuticals] [other than contraceptives and Ostomy appliances]
14.	4015	All diagnostic kits and reagents
15.	90 or any other Chapter	Surgical rubber gloves or medical examination rubber glove
16.	3003	Blood glucose monitoring system (Glucometer) and test strips



Annexure

- List of pharmaceuticals products and medical devices on which GST rate is proposed to be reduced from 12% to 5% (3 of 3)

S. no.	Chapter / heading / sub-heading / tariff item	Description of goods
18.	9004	Spectacles and goggles for correcting vision
19.	9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments
20.	9019	Mechano-therapy appliances; massage apparatus; psychological aptitude-testing apparatus; ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus
21.	9020	Other breathing appliances and gas masks, excluding protective masks having neither mechanical parts nor replaceable filters
22.	9022	Apparatus based on the use of X-rays or of alpha, beta or gamma radiations, for medical, surgical, dental or veterinary uses, including radiography or radiotherapy apparatus, X-ray tubes and other X-ray generators, high tension generators, control panels and desks, screens, examinations or treatment tables, chairs and the light
23.	9804	Other drugs and medicines intended for personal use



Annexure

- List of medical devices on which GST rate is proposed to be reduced from 18% to 5%

S. no.	Chapter / heading / sub-heading / tariff item	Description of goods
1.	9025	Thermometers for medical, surgical, dental or veterinary usage
2.	9027	Instruments and apparatus for medical, surgical, dental or veterinary uses for physical or chemical analysis

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