

**TRADE CIRCULAR.**

8<sup>TH</sup> floor, Vikrikar Bhavan,  
Mazgaon, Mumbai – 400 010.

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No.VAT-2005/Act/VD-1  
Trade Cir.-1T of 2005

Mumbai Dt : 1.4.2005

**Sub** : Taxation of Medicines under the Maharashtra Value Added Tax Act 2002 (Mah.IX of 2005)- Special provisions regarding taxation of medicines.

The existing definition of ‘ sale price’ contained in clause (25) of section 2 of the Maharashtra VAT Act, 2002 (Mah.IX of 2005) has been amended with effect from the 1<sup>st</sup> April 2005. By this amendment a new Explanation, namely Explanation IV, is added to the definition. The explanation reads as follows :

**Explanation IV** : The amount of valuable consideration paid or payable to a dealer for the sale of Drugs specified in entry 29 in Schedule C shall be the maximum retail price printed on the package containing the Drugs.”

The entry for medicines (entry no. 29 of schedule C) reads as follows :

“Drugs (including Ayurvedic, Siddha, Unani, Spirituous Medical Drugs and Homoeopathic Drugs), being formulations or preparations conforming to the following description :-

any medicinal formulation or preparation ready for use internally or on the body of human beings, animals, and birds, for diagnosis, treatment, mitigation or prevention of any diseases or disorders which is

manufactured or imported into India, stocked, distributed or sold under licence granted under the Drugs and Cosmetic Act, 1940, and includes devices notified by the Central Government under sub-clause (iv) of clause (b) of section 2 of the said Act, but does not include mosquito repellants in any form.”

2. The manufacturers and importers of medicines will, therefore, be required to pay tax on their sales of medicines on the basis of the maximum retail price printed on the package containing the Drug. This price will, ofcourse, be different from the normal sale price which the manufacturers or importers will be recovering from their customers. The manufacturers will remain entitled to claim the normal set-off available as per the rules on their purchases.

3. The wholesalers, distributors, stockists, semi-wholesalers and retailers etc. should not show the turnover of sales and of purchases relating to medicines in their periodic returns. Sales of medicines in the hands of such dealers would not attract the levy of tax. These dealers can not and therefore, should not claim set-off of the tax paid on their purchases of medicines and also on the stock of medicines held by them as on 31<sup>st</sup> March 2005. It is possible that some of such dealers would be dealers in items other than medicines. If such be the case, then, ofcourse, they will have to show the turnover of sales and of purchases relating to items other than medicines in their periodic returns. On such sales of items other than medicines, they would be liable to pay tax at the appropriate rates. On the corresponding purchases they would be eligible to claim set-off in the normal manner. As to purchases of other items such as capital assets and purchases debited to the profit and loss account, it is

clarified that the wholesalers would continue to be eligible to claim set-off on such purchases.

4. The retailers of medicines, namely the chemists would be, at their option, under the composition scheme meant for retailers. The retailers should not show the turnover of sales or of purchases relating to medicines in their periodic returns. It is possible that many of such retailers would be dealing in items other than medicines, e.g. cosmetics, tooth brush etc. It is needless to add that, a retailer of medicines will have to show the turnover regarding sales and purchases of such items other than medicines in their returns under the composition scheme. They would be liable to pay tax under the composition scheme on the difference between the sale price and purchase price relating to such items. The other rules and conditions regarding Composition Scheme would continue to be applicable to the retailers of medicines in so far as items other than medicines are concerned.

5. The entire administrative arrangement for medicine dealers as outlined above has been made at the specific request of the Associations of manufacturers, wholesalers and retailers of medicines. It becomes necessary to make such special arrangements because of certain provisions contained in the Drug Price Control Order (DPCO) issued by the Union Government. The arrangement as indicated above would continue to be in force until further notice.

**( B.C.Khatua )**  
Commissioner of Sales Tax,  
Maharashtra State, Mumbai.

**No.VAT-2005/Act/VD-1**

**Trade Cir.-1T of 2005, Mumbai dt :**

**Copy Forwarded To :**

1. a. All the Addl.Commissioners of Sales Tax in the State.  
b. All the Joint Commissioners of Sales Tax in the State.  
c. All the Sr. Dy .Commissioners of Sales Tax in the State.  
d. All the Dy. Commissioners of Sales Tax in the State.  
e. All the Asstt. Commissioners of Sales Tax in the State.  
f. All the Sales Tax Officers in the State.
2. **Copy forwarded with compliments for information to :**
  - a. The Deputy Secretary, Finance Department, Mantralaya, Mumbai.
  - b. The Under Secretary, Finance Department, Mantralaya, Mumbai.
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3. **Copy to all the Desks and Desk Officers in the office of the Commissioner of Sales Tax, Maharashtra State, Mumbai.**

( S.D.BHANDARE )  
Sr.Dy. Commissioner of Sales Tax,  
(Act & Rule) Maharashtra State, Mumbai.