



## THE POWER OF BEING UNDERSTOOD

# PHARMACEUTICAL AND MEDICAL PRODUCTS BUSINESSES

## Navigating your supply chain challenges created by value-added tax

The pharmaceutical and medical products sectors in the life sciences industry are innovative, fast-moving and global.

Developing new products typically involves a variety of parties operating from a number of jurisdictions, and from a manufacturing perspective, in particular, this function is frequently provided by third parties in another country.

Being able to identify and manage the value-added tax (VAT) consequences of various transactions not only ensures compliance, but also mitigates the risk of VAT becoming an unforeseen cost, and at rates often in excess of 20 percent, it can be a significant cost.

### Working with toll manufacturers

Toll manufacturers by their nature do not own material or finished products, but they do provide a service to turn material into a finished product. Consequently, the material that is included in the process, such as in the active pharmaceutical ingredient (API), is generally owned by the principal pharmaceutical company. This means that the pharmaceutical company may be responsible for importing and sourcing API and other materials and providing them to the toll manufacturer. This would typically require the pharmaceutical company to be registered for VAT in the same location as the toll manufacturer, or at least have a mechanism to recover VAT incurred on the cost of materials.

The absence of planning could result in delays in being able to provide materials to the manufacturer or incurring a VAT cost that cannot be recovered.

### Working with third-party logistics companies

Many pharmaceutical and medical products companies use third-party companies to import, warehouse and distribute products as it avoids the need for the principal company to create its own infrastructure.

However, caution should be exercised. Even though these logistics companies provide excellent support services, they are not usually resellers and therefore, the obligation to manage VAT on importation and sale of product resides with the principal company requiring it to register for VAT.

This can often be overlooked when the imported product is not for resale, such as when it is for trial or demonstration purposes. Import VAT will still be incurred and recovery of that expense can be more challenging without a VAT registration.

### Demonstrator products

Medical equipment companies will typically provide certain products to potential customers for a trial period or demonstration purposes. This might be at the customer location or at a trade show, for example.

These products often have to move across international borders potentially triggering a VAT event, such as an import VAT charge.

Many countries do not refund VAT to nonresident, non-VAT registered companies, and thus VAT could become costly. However, if the product is not resold and is only in the country for a relatively short period, there may be a mechanism to suspend the VAT event, for example, using a carnet. These structures need advanced planning.

## Nonresident VAT refund claims

Although some countries will refund VAT to nonresident companies, it is not the norm, and the VAT expense is better managed in a different way, if possible. However, where these programs exist, they are rigidly applied in terms of supporting documentation and timeline, and refund payments can take several months to be made.

## How can we help?

In today's fast-paced marketplace and complicated regulatory environment, internationally active pharmaceutical and medical products companies face a variety of challenges, with VAT planning and management likely topping the list.

RSM has relevant, current experience on VAT issues, including those highlighted above, supply chain-related matters, as well as experience supporting and providing a range of compliance services. Contact us today to learn how we can help your business.

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