

A study on article of goods and services tax (GST) rates on dairy products

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ABSTRACT:

The implementation of goods and services tax (GST) in India has significantly transformed the taxation structure of various industries, including the dairy sector. This article examines the impact of GST on dairy products, focusing on how the uniform tax system has influenced pricing, production, distribution, and consumption patterns. Under the GST regime, essential dairy products such as milk and curd remain exempted, while processed and value-added items like cheese, butter, ghee, and flavored milk attract different tax rates ranging from 5% to 18%. The differential taxation has created both opportunities and challenges for dairy farmers, cooperatives and manufacturers. The study also highlights how GST has improved transparency and streamlined supply chains, while simultaneously affecting small-scale producers due to compliance costs. Overall, the GST framework has modernized the dairy sector's taxation but requires further rationalization to ensure equitable growth across all segments of the industry.

Key Highlights: - Raw and basic dairy products are exempt from GST (0%). - Most processed and packaged dairy products are subject to a 5% GST. - Luxury or value-added dairy products, such as ice cream, can have a GST of up to 18%. The new system aims to keep prices affordable for consumers and simplify compliance for small farmers and businesses.

INTRODUCTION:

The Indian government introduced the goods and tax (GST), a single indirect tax system on July 1st 2017. A unified uniform tax that was applied across the country took the place of several earlier levies such as excise duty, VAT, and service tax. Among India's biggest industries, the dairy sector sustains more than 10 crore farmers and makes a sizable contribution to the agriculture based economy. Under the Goods and Services Tax (GST) framework, most essential dairy products—including fresh milk, curd, lassi, and paneer—are exempt from taxation. This exemption is intended to maintain affordability for the general population. In contrast, value-added or processed dairy items such as ghee, butter, cheese, flavored milk, and ice cream are subject to GST rates ranging from 5% to 18%. The applicable rate depends on the extent of processing and packaging involved. This tax structure affects both public sector cooperatives, such as Amul, Nandini, and Mother Dairy, and private sector companies, including Nestlé, Hatsun Agro, and Britannia. Cooperatives benefit from the exemption on basic dairy products, while private entities engaged in processed dairy production can utilize input tax credits under GST, thereby reducing their overall production costs. Overall, the implementation of GST has introduced greater uniformity, transparency, and efficiency in the taxation of the dairy industry. It ensures that essential dairy products remain accessible, while also supporting innovation and expansion within the processed dairy segment. Following are the ways GST is very important in this sector: Every state had varying VAT rates for milk, ghee, paneer, etc. before GST. Under GST, the same rate applies across the board, which makes it simpler for dairy farmers to trade between states. GST requires every registered company to electronically pay tax and create invoices. This has motivated formalizing the dairy supply chain, therefore lowering unorganized trading and increasing. With input tax credit, businesses that produce cheese, butter, ice cream, or flavored milk can seek credit for taxes paid on inputs including packaging, freight, and This raises profit margins and lowers cascading tax. Keeping simple dairy products like milk, curd, and paneer at 0% GST helps the government guarantee basic nutrition stays accessible while also helping co-operative dairies that buy milk from small farmers.

GST OVERVIEW on dairy products:

The Goods and Services Tax (GST) was implemented in India on July 1, 2017, as a single tax to replace various indirect taxes. In the dairy industry, GST is crucial for ensuring price stability and enhancing transparency. Basic dairy products like fresh milk, curd, lassi, and paneer are exempt from GST (0%) to keep them affordable for consumers. In contrast, value-added products such as ghee, butter, cheese, milk powder, flavored milk, and ice cream are subject to GST rates that range from 5% to 18%, depending on their processing and packaging. The GST framework has streamlined tax processes for both public cooperatives and private dairies, reduced barriers between states, and fostered the growth of processed and branded dairy products in India.

Objectives of the study:

The goals of a study on the GST (Goods and Services Tax) rate for dairy products primarily aim to examine the tax's influence on industry growth, farmer welfare, consumer prices, and overall market conditions. Important objectives include analyzing how changes in the GST rate affect affordability, demand, supply chain expenses, and the competitiveness of dairy products in both domestic and international markets.

- To investigate the impact of GST adjustments on the pricing and availability of dairy products for consumers, particularly in light of recent reforms that have lowered or exempted certain rates.
- To evaluate how these tax changes benefit farmers, especially smallholders, marginal farmers, and landless laborers, by lowering operational costs and enhancing their livelihoods.
- To assess the overall impact on the sector, including the increased competitiveness of Indian dairy products and the stimulation of demand in the domestic market.
- To explore how GST supports value addition, reduces adulteration, and facilitates investments in cold chain infrastructure and innovation within the dairy industry.
- To analyze how these reforms contribute to broader socio-economic development, including improvements in rural incomes and support for women-led businesses.

Methodology:

This study examines the GST rates applied to dairy products using both primary and secondary data collection methods to assess the tax structure, its effects, and overall efficiency within the dairy industry. The research employs a descriptive and analytical approach, aiming to understand the impact of GST on pricing, production, and distribution in both the cooperative (public) and private dairy sectors. Primary data :This data was obtained through interviews, questionnaires, and surveys conducted with dairy farmers, cooperative societies, private dairy companies, and retailers. The goal was to gather insights on their perspectives regarding the impact of GST, the challenges they face, and the benefits they experience in their operations. b) Secondary Data Information was sourced from government publications, GST Council reports, articles, research papers, news outlets, and official websites like the GST Council and the Department of Animal Husbandry & Dairying. This data was utilized to analyze the GST rate structures, policy modifications, and the performance of the industry following the implementation of GST. The gathered data was categorized and compared based on product type, tax rate, and sector (public/private). A comparative analysis was conducted to identify changes in prices and profitability before and after the introduction of GST. Graphs and tables were employed to illustrate the effects of variations in GST rates on dairy products. The study faced challenges such as limited access to recent GST updates and regional data from smaller dairy operations. Additionally, some respondents were not fully informed about the intricate details of the GST system. The methodology provided valuable insights into how GST rates have affected pricing, marketing, and the growth of dairy products in India, as well as how both public and private sectors have adjusted to the new tax framework.

Impact on the Public Sector and private sector

Public dairies like : Amul, Mother Dairy, Nandini and Others

Cooperative dairies such as Amul and Mother Dairy play a significant role in the public sector, particularly in the distribution of essential dairy products. These organizations benefit from the Goods and Services Tax (GST) exemption on basic items like milk and curd. This exemption reduces their overall tax burden, enabling them to maintain lower prices for consumers. While the GST exemption is advantageous, it also presents certain limitations. Since many of the products offered by these cooperatives are tax-exempt, they are often unable to fully claim input tax credits on associated costs, such as packaging and transportation. As a result, some production expenses may increase, despite the relief provided by the exemption. Additionally, the GST framework encourages greater formalization and transparency within cooperative operations. By adhering to standardized tax procedures, these organizations contribute to improved accountability in the sector.

Private dairies like: Heritage foods, Hatsun agro , Britannia,

Private brands, including well-known companies such as Nestlé, Britannia, and various local milk processors, are significantly affected by the current Goods and Services Tax (GST) structure on dairy products. Increased Costs Due to Higher GST: Processed dairy items are subject to GST rates ranging from 5% to 18%. This taxation leads to higher production costs, which are often reflected in the final retail prices of products such as cheese, flavored milk, and ice cream. Offsetting Costs Through Input Tax Credit: The input tax credit mechanism allows companies to claim credit for taxes paid on raw materials and inputs. This system helps mitigate some of the increased costs associated with higher GST rates, promoting greater efficiency and tax compliance throughout the supply chain. Changes in Consumer Demand: There has been a noticeable shift in consumer preferences towards unpackaged or GST-exempt dairy products. This trend is largely driven by the price differences resulting from the current tax structure. Encouragement of Innovation: The evolving tax environment encourages private sector companies to innovate, particularly in the development of value-added dairy products. Firms are increasingly focusing on new product lines and improved processing techniques to remain competitive in the market.

Impact of the Rate Reduction

The reduction in Goods and Services Tax (GST) rates for dairy products has led to several significant effects across different segments of the market.

Impact on Consumers

Lower Retail Prices: The revised GST rates have resulted in decreased retail prices for various dairy products. Notably, several companies implemented price reductions for items such as ghee, butter, cheese, and ice cream from September 22.

More Affordable Essentials: The cost of essential dairy items, including milk and paneer, has become slightly more manageable for households, contributing to reduced grocery expenses.

Impact on Dairy Producers and the Sector

Increased Demand: With a lower tax burden, processed dairy products have become more accessible to consumers, which may lead to higher consumption levels.

Support for Farmers: Many dairy cooperatives are owned by farmers. The reduction in GST rates extends benefits to these upstream suppliers, particularly in rural areas, by improving their economic position.

Enhanced Competitiveness and Sector Growth: Reduced taxes on value-added dairy products may encourage private sector investment in packaged and processed dairy goods, fostering growth and innovation within the industry.

Comparison: Public/Cooperative Sector and Private Sector

Public and Cooperative Dairies: Rural dairy cooperatives and other public sector entities benefit from exemptions on basic items such as milk and paneer. Additionally, the reduction in taxes on value-added products further supports their operations.

Private Sector Firms: Branded and packaged dairy companies gain from lower taxes on processed products. This change enables them to improve profit margins, pass savings on to consumers, and invest in product development.

Key reasons behind the GST rate redemption:

Why Was the GST Rate Reduced?

The reduction in the Goods and Services Tax (GST) rate was implemented for several key reasons. The government aimed to address both economic and sector-specific concerns through this rationalisation. The principal factors are outlined below:

Affordability and Household Relief:

The government sought to reduce the financial burden on households by lowering the cost of essential food items, including dairy products. This measure formed part of the broader “GST 2.0” reform initiative

Support for Agriculture and the Dairy Sector:

Given the significant number of dairy farmers in India, the reduction in GST was intended to benefit farmers, cooperatives, and livestock owners, thereby strengthening the agricultural and dairy sectors.

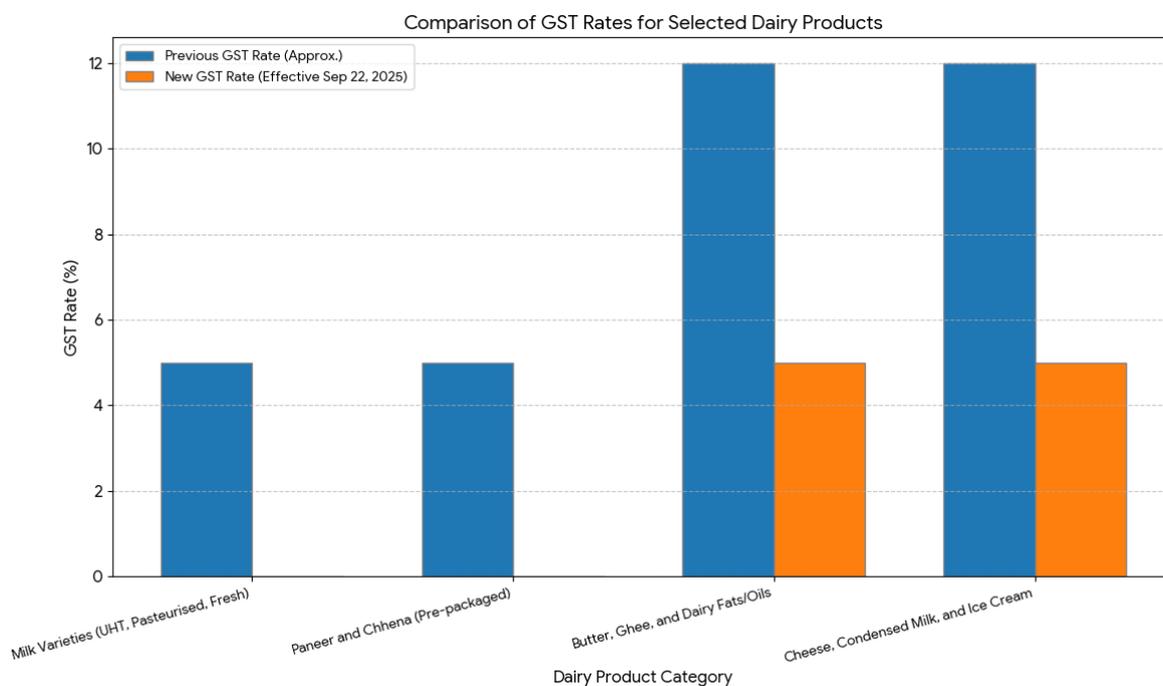
Simplification of Tax Slabs:

As a component of the wider GST reform, the government streamlined the tax structure by rationalising the number of tax slabs. Dairy products were consequently moved into lower or reduced tax categories.

Enhancing Competitiveness of the Dairy Industry:

Lowering the tax on value-added dairy products is expected to improve the competitiveness of processed dairy goods, both within the domestic market and in potential export markets.

Previous and present GST rate graph on dairy products.



Conclusion:

The introduction of the Goods and Services Tax (GST) has significantly changed the dairy industry in India by establishing a unified and transparent tax system. It has replaced several indirect taxes and made the taxation process simpler for both the public and private dairy sectors.

In the public sector, cooperative dairies like Amul, Nandini, and Mother Dairy still benefit from GST exemptions on essential dairy products such as milk, curd, and paneer. This helps them maintain stable and affordable prices for everyday people while ensuring fair returns for farmers. However, they face challenges like limited input tax credit (ITC) and the need for digital compliance, which slightly raises operational costs.

Conversely, private dairies like Nestlé, Britannia, and Hatsun Agro enjoy lower GST rates, generally around 5%, on processed products like ghee, cheese, and butter. Access to ITC lowers their overall production costs, boosts profitability, and encourages innovation and product variety. The consistent GST structure also allows private dairies to expand easily across states, fostering competition and growth in the industry.

In summary, GST has created a balanced effect by protecting consumer interests through exemptions on basic dairy products while supporting industrial growth in the value-added segment. It has promoted efficiency, transparency, and modernization in both public and private sectors. Although compliance challenges still exist, GST has shown to be a positive move toward strengthening India's dairy economy and ensuring fair benefits for farmers, producers, and consumers.

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