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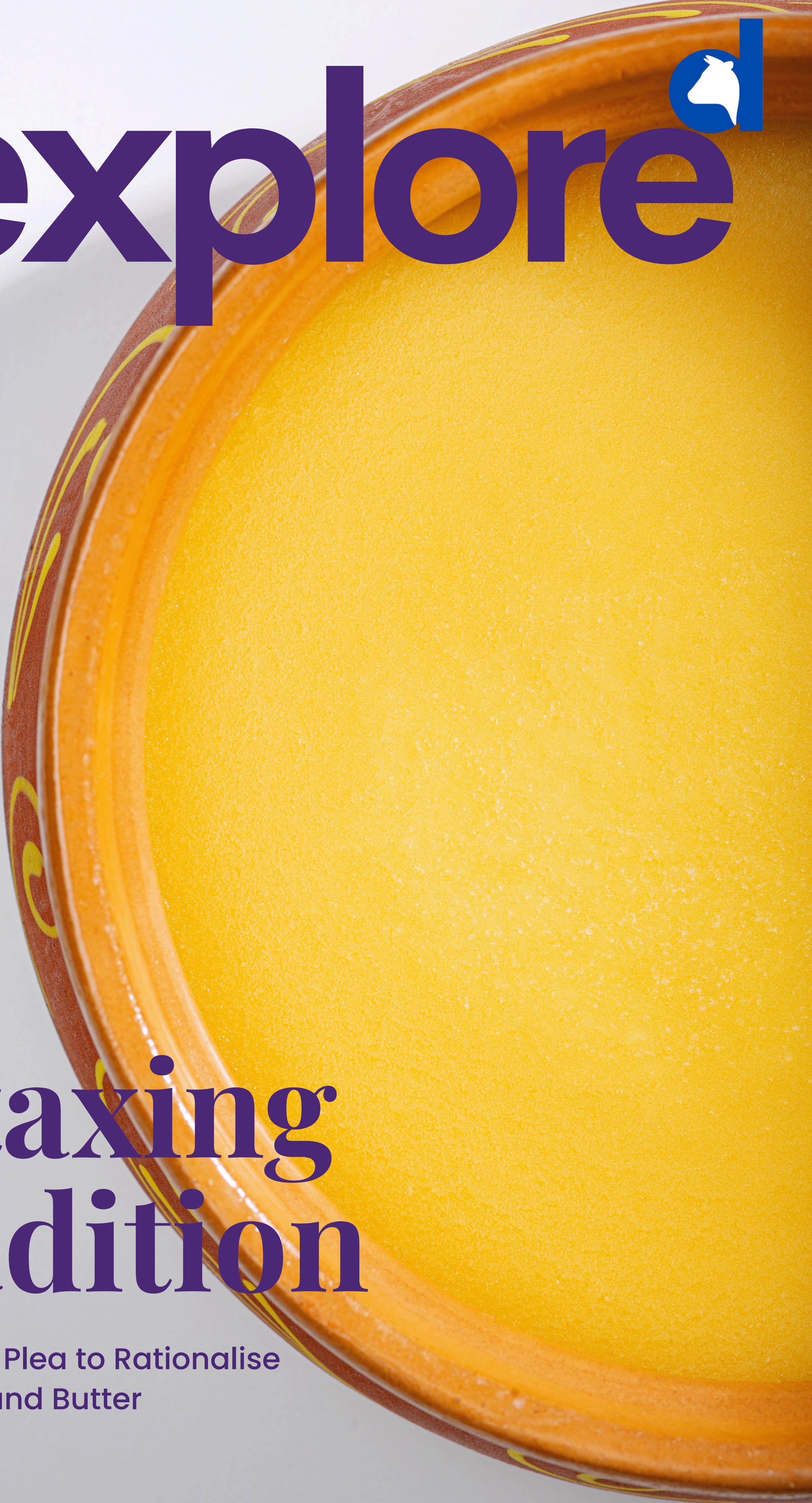


Untaxing Tradition

A Dairy Sector Plea to Rationalise GST on Ghee and Butter

Context

As the GST Council convenes this month, India's dairy industry is once again urging policymakers to address an overlooked injustice — the disproportionate 12% Goods and Services Tax (GST) levied on ghee and butter. At the heart of Indian nutrition, agriculture, and culture, these products are taxed more than imported olive oil — an irony not lost on consumers, farmers, or policymakers.

Ghee: From Sacred Ritual to Rural Livelihoods

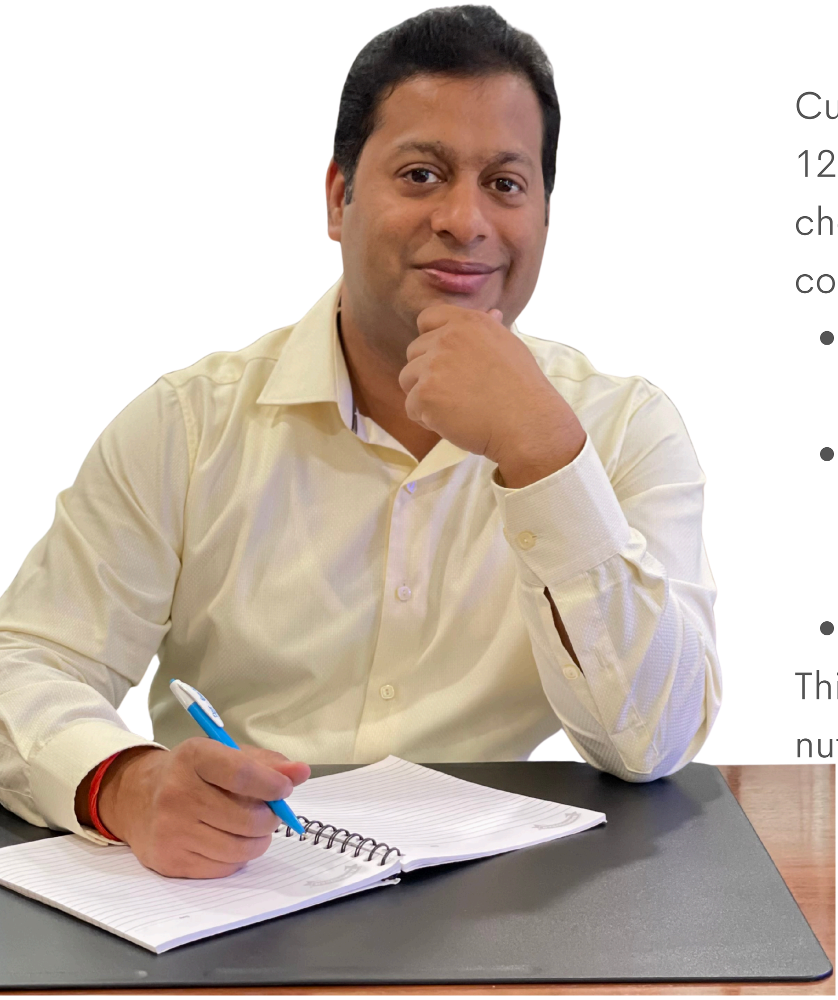
Ghee is far more than a cooking fat. It is "India's liquid gold" — a sacred offering in temples, a centrepiece in Ayurvedic medicine, and a daily staple in Indian kitchens. From the Vedic period to modern diets, its nutritional richness (fat-soluble vitamins A, D, E, K, and antioxidant properties) and lactose-free profile make it ideal for Indian consumers across age groups and regions.

Today, ghee also drives the dairy economy — with 25–30% of India's total milk converted into ghee annually, supporting millions of small and marginal dairy farmers, particularly women.

"The 12% GST on ghee disadvantages organised, quality-focused players. It benefits informal, often adulterated products that bypass regulation. A 5% rate would protect public health, improve affordability, and strengthen farmer incomes."

Dr. R.S. Sodhi, President, Indian Dairy Association

The Tax Paradox: Why Is Ghee Taxed Like a Luxury?



Currently, ghee and butter are taxed at 12% under GST — the same slab as chocolates and processed snacks. In contrast:

- Edible oils like sunflower, palm, and olive oil are taxed at just 5%.
- Traditional dairy staples such as curd, lassi, and buttermilk also enjoy 5% GST.
- Unbranded paneer is tax-exempt.

This GST disparity defies both nutritional logic and public interest. It makes ghee artificially expensive, disproportionately affecting low-income families and discouraging consumption of a healthier, native fat.

> ***"High GST has pushed many consumers toward unsafe, cheaper substitutes.***
> ***This disrupts demand for genuine dairy and hurts rural producers.***
> ***A lower rate would restore balance, improve margins, and boost sector growth."***

Sandeep Aggarwal, Director, SMC Foods

Pre-GST Reality: Lower Taxes, Higher Trust

Before the implementation of GST, ghee enjoyed lower or zero tax rates in most Indian states:

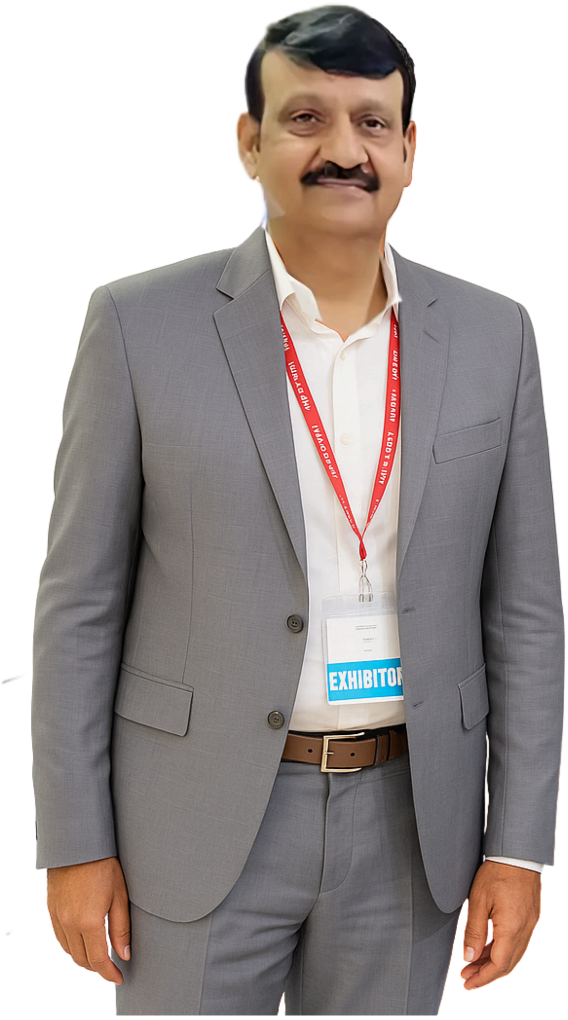
- Exempt: Andhra Pradesh, Telangana, Madhya Pradesh, Chhattisgarh
- 4–5.5% VAT: Gujarat, UP, Rajasthan, Haryana
- 13.5–14.5% VAT: Tamil Nadu, Maharashtra

The average tax incidence across India was around 5–6%, especially in major dairy-producing states. Following the implementation of GST, the steep 12% levy not only increased consumer prices but also disrupted inter-state competitiveness and encouraged grey-market transactions.

***"Ghee is central to Indian households and farmer livelihoods.
The 12% rate hampers innovation and makes scaling affordability difficult.
Reducing GST would unlock investments and drive inclusive, long-term growth."***

Ravin Saluja, Director, Nova Dairy

Global Benchmarking: How Leading Economies Treat Dairy Fats



Most advanced dairy economies treat butter and traditional dairy fats as essential goods, often exempting them from consumption taxes or applying reduced rates. In the EU, butter usually attracts zero or reduced VAT, with France and Germany charging 5.5% and 7% respectively, while Ireland and Malta fully exempt it. New Zealand zero-rates butter and other basic foods under GST, while in the US, there is no federal consumption tax and butter is generally exempt from state sales tax when considered a staple.

"The current GST structure inflates costs and encourages unsafe alternatives.
It risks consumer health and slows formal market development.
A rationalized 5% rate would support quality, trust, and sustainable dairy practices."

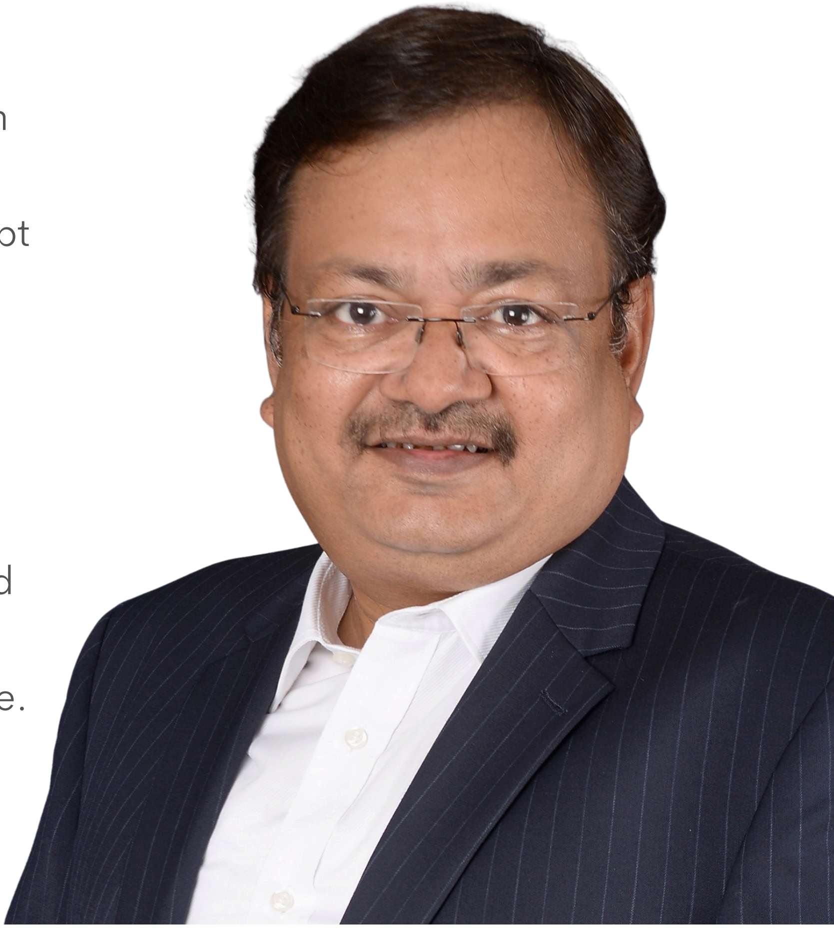
Rajender Singh, MD, Paras Dairy

Adulteration, Informality, and Revenue Loss

Higher taxes do more than inflate prices — they incentivise adulteration and tax evasion:

- Adulteration Spike: Consumers opt for cheaper ghee blended with vanaspati or palm oil.
- Fake Invoicing: Unorganised players game the system using fraudulent GST credits.
- Loss of Trust: Premium brands and cooperatives suffer, while lower-quality, untaxed alternatives thrive.

In the long run, this shrinks the formal dairy sector and undermines government revenue.



"Ghee plays an essential role in catering to the nutritional requirements of the masses . The government should encourage the availability of pure quality ghee at affordable prices, which can be ensured by reducing GST to 5%. This will also reduce adulteration considerably, and consumers won't be forced to buy cheaper alternatives mixed with vegetable oils. We need to increase ghee consumption by reducing GST and ensuring better prices for milk to farmers."

Rahul Kumar, COO, Parag Milk Foods

A ₹3.2 Lakh Crore Market Being Held Back

The Indian ghee market stood at ₹3.2 lakh crore in 2023 and is projected to grow at 8.72% CAGR, reaching ₹6.93 lakh crore by 2032. The organised sector alone accounts for ₹64,000 crore today — a number that could double if consumer trust, affordability, and tax parity were ensured. Moreover, India produces over 3.8 million metric tonnes of ghee annually, more than any other country. There is growing international demand for Ayurvedic, organic, and A2 ghee in the US, Europe, and the Middle East. But taxation limits domestic demand and narrows export competitiveness.

"Ghee is a daily essential, yet taxed higher than even imported oils. This inconsistency impacts compliance and distorts the value chain. A 5% GST would align with nutritional goals and international best practices."

Pankaj Jain, Partner, Indirect Tax, EY

The Dairy Industry's Ask: Rationalise GST to 5%

This is not a demand for tax exemption — but a call for alignment and fairness. By reducing GST on ghee and butter to 5%, the government can:

- Make nutrition affordable: Especially for middle- and lower-income households.
- Support rural livelihoods: Boost margins for farmers and cooperatives.
- Curb adulteration: Ensure genuine, high-quality ghee remains competitive.
- Enhance compliance: Bring more players into the formal tax net.
- Sustain demand: Reinforce India's dairy self-reliance and export strength.

Conclusion

In Conclusion: Don’t Tax Tradition, Enable It

Ghee is prasadam, not pastry. It is central to our thalis, not a passing trend. Taxing it at 12% ignores centuries of nutritional, cultural, and economic relevance. As India aims for higher milk processing, better farmer income, and cleaner food systems, this GST correction is a low-hanging fruit.

We urge the GST Council to act pragmatically — by aligning ghee and butter with essential dairy and edible fat products taxed at 5%. Such a step would be a tribute not just to tradition, but to fairness, nutrition, and rural prosperity.

explore

Explore is Dairy Dimension's curated bi-weekly newsletter, delivering sharp insights and essential updates from India's dairy sector and the global dairy industry. Each edition blends breaking news, market analysis, policy developments, trade intelligence, and innovation trends—crafted for dairy professionals, business leaders, and policymakers who need to stay ahead of the curve.

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