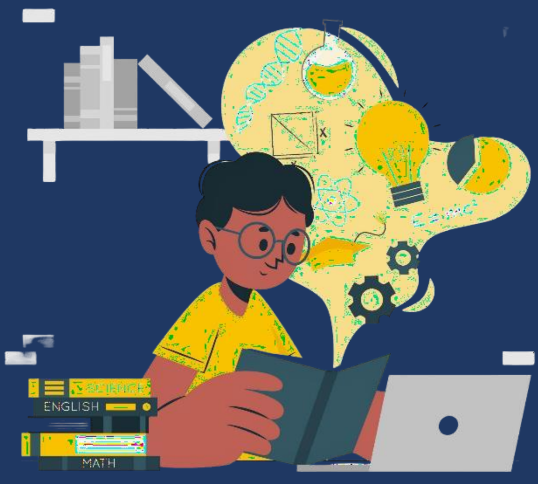
Impact of GST on Education & Health Sector

Prepared by GST Inspector Trainees of 21st and 22nd Batch, NACIN, ZTI Chennai

(August 2025)



IMPACT OF GST

ON

EDUCATION & HEALTHCARE SECTOR

Prepared by:

21st & 22nd Batch of GST Induction Trainees

NACIN, ZTI, Chennai

(*Under the mentorship of* Shri R. SRIVATSAN, IRS, *NACIN, Chennai*)

OBJECTIVES

The primary objective of preparing this analytical booklet is to conduct a comprehensive and analytical study on the impact of the Goods and Services Tax (GST) on the education and health care sectors in India. It aims to examine the legal framework, classification of services, exemptions, compliance requirements, and practical challenges faced by institutions and service providers in these sectors. By integrating legislative provisions, case studies, statistical data, and expert insights, the booklet seeks to create a complete knowledge resource and serve as a valuable reference for academic analysis for future trainees also. Ultimately, it endeavors to promote awareness among stakeholders, and contribute to the development of efficient, equitable, and sustainable taxation strategies for these socially significant sectors.

PREFACE

The implementation of the Goods and Services Tax (GST) in India from July 2017 has significantly influenced diverse sectors of the economy, with education and healthcare being two of the most sensitive and socially significant areas. The aim of this analytical work is to study the impact of GST on these sectors, focusing on several key objectives. Through this study, we seek to examine the GST framework as it applies to education and healthcare services, evaluate its implications for cost structures, exemptions, compliance requirements, and service delivery, and assess the benefits and challenges encountered by institutions, service providers, professionals, and beneficiaries. This research also investigates how GST has shaped pricing, operational efficiencies, and accessibility in both sectors, while highlighting the extent to which policy measures have preserved their public welfare orientation. Special attention is given to exemptions, concessional rates, and interpretational challenges under the GST regime, along with an evaluation of areas where improvements and policy refinements could enhance both compliance and sectoral outcomes.

The study is based on a comprehensive analysis of resources from the official GST portal, circulars and notifications issued by the GST Council and the Central Board of Indirect Taxes and Customs (CBIC), reports from professional bodies such as the Institute of Chartered Accountants of India (ICAI), academic publications, sectoral reports from government agencies, and global comparative studies. Key references also include peer-reviewed journal articles available in the public domain without any restrictions Valuable insights were further enriched through interactions with senior officers of the Department, domain experts, educators, healthcare professionals, and GST practitioners.

This research work on the impact of GST on the education and healthcare sectors is the result of a collaborative team effort, for which we are deeply grateful. Under the constructive guidance of **Shri. R Srivatsan, IRS, Assistant Director, NACIN**, the study was structured to ensure clarity and thoroughness. **Shubham Singal** coordinated the division of responsibilities and streamlined contributions from all members. **Riyaz Khan** developed the core analytical framework, drawing connections between policy provisions and their real-world implications. **Pawan Tyagi** refined the content for coherence and readability, while **Satyam Sharma** provided detailed legal and procedural inputs on GST provisions relevant to both sectors. **Navaneetha Nandhini** focused on the impact on healthcare services, including GST on medicines, hospital services, diagnostic labs, and related supplies, whereas **Divya** analysed the education sector, from early childhood education to higher education and vocational training.

The dedication, research rigor, and teamwork displayed by every member made this study both comprehensive and insightful. We believe this work will serve as a valuable reference for tax officers; industry stakeholders, policymakers, and future researchers seeking to understand and enhance the GST framework for education and healthcare in India.

CONTENT

Chapter 1
Introduction to GST

Tax! What is Tax? Why does the government levy it? And why should I part with my hard-earned money to pay it? Such questions often echo in the minds of many, whenever the word ‘tax’ finds its way into conversation. Taxation in any country is not a modern economic phenomenon as it is as ancient as civilisations itself- such as from Ancient Egypt, where taxes were levied on grain harvests, to the Roman Empire, which developed sophisticated systems of direct and indirect taxes in their country. Whenever human communities organized themselves into clans, kingdoms, empires, or states, they faced the fundamental problem of raising resources for common needs. Defense, law & order, social welfare, construction of public utilities, and in modern times education and healthcare—all require a steady stream of revenue. Even in the Vedic and Mauryan periods, India used to have organized tax systems. People contributed a share of their agricultural produce, cattle, or coins of the time, and these revenues were used to support the rulers and run public administration. Thus, Taxation in any country enables the government to fund public services, infrastructure, security, welfare programs, economic development, and overall national administration for the well-being of its citizens.

Since the ancient Vedic and Mauryan periods, taxation has been deeply rooted in India’s ancient administration. Over the period of time, with the changing of various regimes, the taxation system has evolved into what it exists today. At the time of India’s independence in 1947, the nation inherited a dual system of taxation: **direct and indirect taxes**. Direct taxes, such as income tax and corporate taxes, were levied on individuals and entities based on their ability to pay, while indirect taxes, including customs duties, excise and sales tax etc., were imposed on goods and services and collected from consumers by intermediaries. The Income Tax Act of 1922 laid the foundation for modern direct taxation, while a variety of central and state levies formed a complex web of indirect taxation system in India.

Over the years, India's indirect tax system became highly complicated as both the central and state governments imposed a wide array of taxes at various stages of the supply chain. The central government levied taxes such as excise duty on manufacturing and service tax on the Consumption of the services, while state governments and local authorities imposed Value Added Tax (VAT), sales tax, entry tax, octroi, luxury tax, and entertainment tax on the sale and movement of goods and services within their jurisdictions. This multi-layered tax structure led to several inefficacies such as Cascading Effect of taxes (Tax on Tax), Double Taxation and Lack of Uniformity, Complex Compliance, Logistical Bottlenecks (Taxes like octroi and entry tax were collected at state borders, causing delays, increased transportation costs, and inefficiencies in the movement of goods across the country.) These flaws hampered economic growth by raising the cost of goods and services, discouraging interstate trade, and making the tax environment burdensome for both businesses and consumers. These persistent complexities led to widespread demand for substantial reforms in the indirect taxation system of our country. Recognizing the need for a more unified and transparent system, the Government of India introduced the Goods and Services Tax (GST) on July 1, 2017, which became the most significant tax reform since independence.

1.2 What is GST?

Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based indirect tax which is levied across the supply of goods or services or both on a PAN-India jurisdiction. Introduced on 1st July 2017, GST subsumed a multitude of central and state indirect taxes into a single tax framework, aiming to create a seamless national market and enhance tax compliance. It was expected to bring uniformity in tax rates, reduce the cascading of taxes which eventually reduce the tax burden on consumers, and improve the ease of doing business in India. Substantial success has been achieved in the past eight years of its existence.

Key features of GST:

- **Destination-based:** GST is a destination-based tax because it is levied and collected in the state where the goods or services are consumed, rather than where they are produced or originated. This means that the revenue from GST goes to the state where the final consumer is located as it is the ultimate consumer in the corresponding state who bears the incidence of such tax. For example, if a product is manufactured in one state but supplied and consumed in another, the GST collected on that supply accrues to the state of consumption, not the state of production. This is the deviation from the erstwhile policy of origin based taxation to consumption based taxation.
- **Multi-stage:** it is levied at every step of the supply chain where value is added to goods or services, from the purchase of raw materials to the final sale to the consumer and ensured that tax is levied only on the value addition at each stage by allowing to effect the taxes paid up to the previous stage.
- **Input Tax Credit:** Before GST, the input tax credit system was fragmented, with multiple taxes levied by both the Centre and states, each having separate input tax credit (ITC) rules. This caused cascading taxes, as credits paid on one tax couldn't be offset against another, which leads to increase the final costs for businesses and consumers. Additionally, ITC was often blocked across different states and tax types, complicating compliance and limiting efficiency. GST resolved these issues by creating a unified tax structure that allows seamless input tax credit across all goods and services nationwide, which ensured reduction in cost of supply.
- **Uniformity in Tax-rates:** Prior to GST, different states imposed their own different indirect taxes, such as VAT etc., with different-different rates on the same goods or services or both, leading to a lack of uniformity and complexity in the tax system. GST resolved this issue by subsuming all these state-level taxes into a single unified tax structure, where both the Centre and states levy taxes at standardized rates on a common base. Now, goods or services or both are majorly taxed under fixed GST slabs (such as 0%, 5%, 12%, 18%, and 28%) that ensures uniformity of tax rates across all states.

Taxes Subsumed under GST

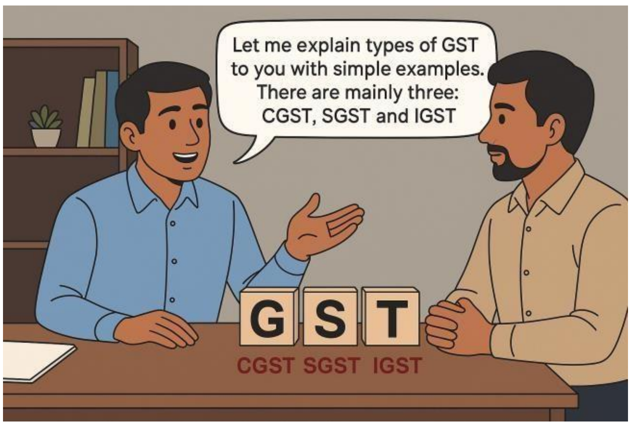
GST subsumed a wide range of central and state indirect taxes for simplifying the tax structure. A summary of the major taxes subsumed under GST is given below:

Certain taxes like Basic Customs Duty, taxes on petroleum products, alcohol for human consumption, and stamp duties on immovable properties remain outside the purview of GST framework, as on date.

Types of GST

India follows a dual Goods and Services Tax (GST) structure, similar to federal countries like Canada and Brazil, where both the central and state/union territory governments (or provinces as they are known) have the authority to levy and collect GST independently on the same taxable supply. India has a multi-tier tax system which is structured around four main types which are described below:

A. **<u>CGST (Central Goods and Services Tax)</u>:** Levied by the Central Government on the intra-state supply of goods or services or both (i.e., sales within the same state). The revenue from CGST goes to the Central Government.



- Example: If a business in Maharashtra sells to a customer in Maharashtra, both CGST and SGST apply.

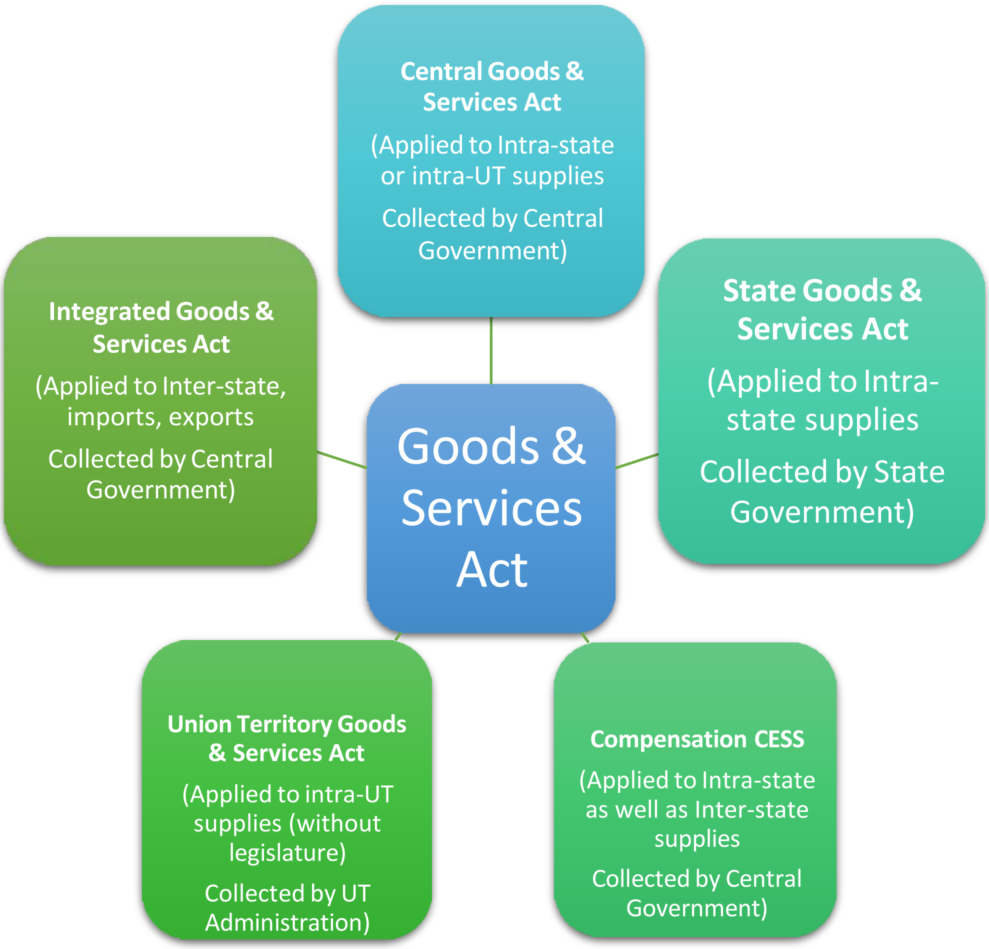
B. **<u>SGST (State Goods and Services Tax)</u>**: Collected by the State Government on the intra-state supply of goods and services. The revenue stays with the state where the sale occurs. Using the same example, this tax would go to the Maharashtra state government.

In both above cases it can be seen that both the supplier and the recipient are in the same state.

C. **UTGST (Union Territory Goods and Services Tax)**: Similar to SGST but applicable to Union Territories (UTs) that do not have their own legislatures, such as Chandigarh or Lakshadweep. It is imposed along with CGST on intra-UT supplies, and the revenue goes to the UT administration, as in the case with SGST.

D. **IGST (Integrated Goods and Services Tax)**: Levied by the Central Government on inter-state supply of goods and services (i.e., transactions between different states or UTs, as well as imports and exports). The collected IGST is eventually split between the Centre and the destination state or UT where it is generally consumed, to ensure fair revenue distribution in comparison to the previous indirect tax system, where state's share revenue went to the origin state.

In this case, the supplier will be one state while the buyer will be in another state or Union Territory.



E. **<u>Compensation CESS:</u>** Goods and Services Tax (Compensation to States) Act, 2017, "Compensation Cess" is a levy imposed to compensate States for the loss of revenue on account of the implementation of GST, for a period of 5 years (July 1, 2017 – June 30, 2022, later extended for 5 years till June 30, 2026). Irrespective of the nature of supply whether interstate or intrastate, Compensation CESS is collected with a singular rate on notified supplies which goes in to the Compensation CESS fund to be used for intended purpose.

The implementation of GST is crucial for every sector in India because it helps simplify taxes and brings more transparency and certainty. However, this study specifically focuses on the **Education Sector and Healthcare Sectors,** which are widely regarded as services in the interest of common public designed to promote social welfare rather than generate Government revenue. Despite their fundamental role in nation building and public well-being, GST policies affecting these sectors must be carefully examined due to their unique societal importance rather than purely commercial objectives. In the coming chapters, we will be discussing impact of GST on Education Sector in Part A and on Healthcare Sector in Part B.

Part A

Education Sector

Chapter 2
Evolution and Role of Education in India

Education in India is not merely a service sector, it is a civilizational pillar rooted in the country's cultural, philosophical, and spiritual ethos. From ancient Gurukuls to modern ed-tech startups, the Indian education system has traversed a dynamic trajectory influenced by social norms, political regimes, economic shifts, and technological revolutions. Understanding the historical evolution of education is essential for evaluating the legitimacy and applicability of tax laws like GST in this sector. The rationale for tax exemption or concessional treatment to educational services finds its roots in the traditionally non-commercial and nation-building role of education in Indian society, including the Right to Education as enshrined by the Constitution of India under Article 21A.

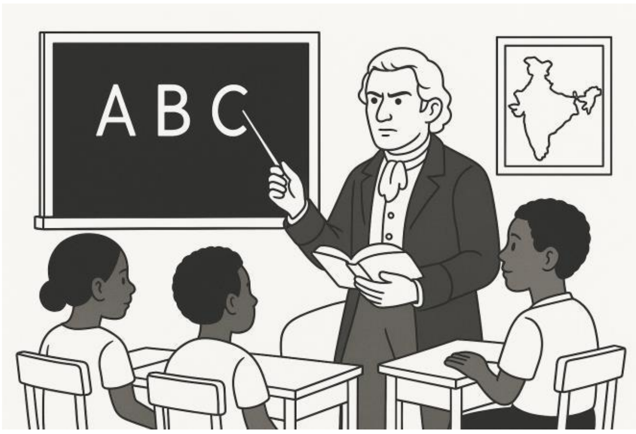
(a) Ancient Indian Education System:

• Gurukul Tradition: The Gurukul system, prevalent during the Vedic period (1500–500 BCE), was the earliest form of organized education in India. Education was imparted by a Guru to a small group of students (shishyas) who resided at the Guru's home (ashram). Curriculum included Vedas, grammar, logic, astronomy, music, and martial arts. Pedagogy was oral and experiential. Fee structure was voluntary (guru dakshina), reinforcing education as a sacred, not-for-profit activity. *This structure mirrors today's idea of residential schooling but it functioned entirely outside any commercial or revenue model.*

• Centers of Higher Learning: Prominent ancient universities such as: Takshashila (6th century BCE) – Focused on economics, warfare, law, medicine, and the arts whereas Nalanda (5th century CE) – Hosted over 10,000 students and 2,000 teachers; supported by royal endowments. These institutions were free of tuition fees, supported by state patronage or philanthropy, and *their mission was knowledge dissemination rather than revenue generation.*

(b) Medieval and Islamic Period: With the advent of Islamic rulers, Madrasas became significant centers of education, focusing on theology, mathematics, philosophy, and medicine. Education remained state-funded or charitable in most cases. Teachers were held in high regard, and learning was linked to community development and governance. *Though the pedagogical approach changed, the non-commercial ethos remained intact, justifying why education was traditionally seen as a public good and not a taxable commodity.*

(c) Colonial Period and the British Impact: The colonial period marked a paradigm shift in Indian education, primarily due to the policies of the British East India Company and later the Crown. Thomas Babington Macaulay advocated for English-based education, aimed at creating a class of intermediaries "Indian in blood and color, but English in taste." Vernacular education was systematically discouraged. Literary and liberal education replaced traditional vocational and



spiritual learning. Introduction of private schooling with fees, which laid the foundation for commercialization of education. From 1857 onwards, the establishment of universities in Calcutta, Bombay, and Madras formalized higher education along Western lines. While access widened, fees were introduced, and private unaided institutions began to emerge, gradually creating a market for education. In result, the colonial legacy left behind a dual structure that is Government-run subsidized schools and colleges, and Fee-based private institutions. This dualism continues today and is central to debates on taxing education under GST.

(d) Post-Independence Reforms: After 1947, education became a constitutional priority. Article 21A of the Indian Constitution gave the Right to Free and Compulsory Education for children aged 6–14 years. Also, Directive Principles (Articles 41, 45, 46) encourages for free education and removal of illiteracy. Further, the issue of Education has been kept in Concurrent List i.e. both Centre and States can legislate on education. Major initiatives in this regard by Government are:

<u>(i) University Grants Commission (UGC) Act, 1956</u> – Regulates university education.

<u>(ii) National Policy on Education (1968, 1986, 2020)</u> – Shifted focus towards access and equity, vocationalisation, public-private partnerships

(iii) Sarva Shiksha Abhiyan (SSA) and RTE Act (2009) – Universalised elementary education.

Education became central to **social justice**, empowering even historically marginalized groups (Dalits, women, rural poor). Initiatives like **mid-day meals, Sarva Shiksha Abhiyan, NEP 2020** reinforced education as a tool of equity, and unity.

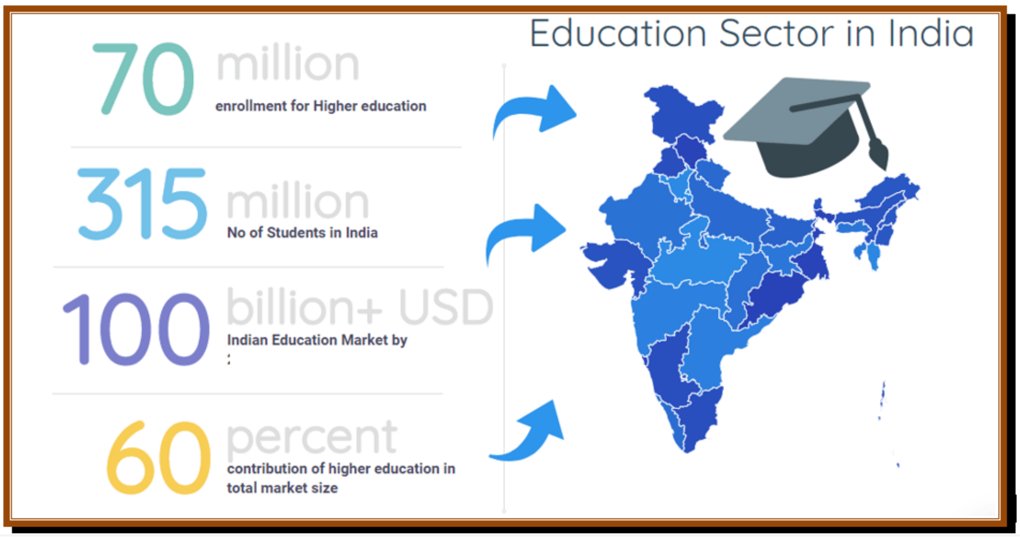
(e) Growth of Private Sector in Education: In the 1990s, liberalisation encouraged proliferation of private schools and deemed universities, Coaching centres and exam preparation institutes, Vocational training by NGOs and private players. These changes blurred the boundary between charitable education and for-profit learning, posing challenges for tax authorities to classify educational services under GST.

(f) The Rise of Digital and Hybrid Education in the past decade, and especially post-2020 pandemic, India has witnessed an unprecedented boom in digital education platforms. Startups like Byju's, Unacademy, Vedantu, and PhysicsWallah have redefined education delivery. Education is now offered in subscription models, bundled services, and international collaborations. NEP 2020 acknowledges online learning as a legitimate educational mode. Government platforms like SWAYAM and DIKSHA offer free digital content.

Under GST, Education Services are exempted under Notification 12/2017-CT® dated 27.06.2017 under S.No. 66. In today's era, various edu-tech based companies offer mixed services like live teaching, recorded content, testing, and certification. Hence, the challenge lies in determining whether these services qualify as "education" under Notification No. 12/2017, or are they commercial services liable to standard GST at 18%. The details are summarised in the following table :

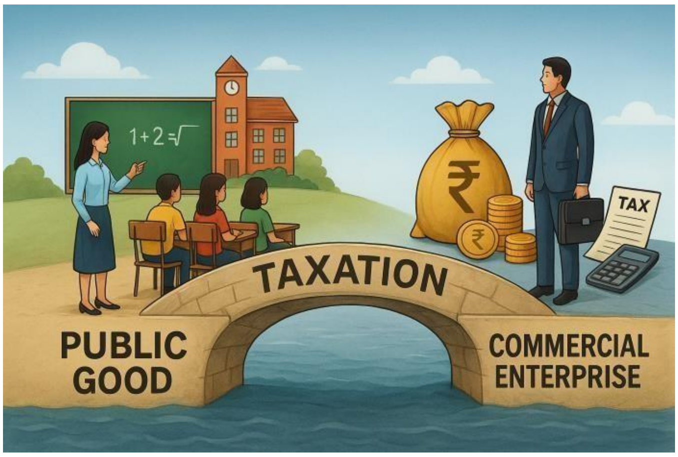
Period	Mode of Education	Revenue Model	Tax Relevance
Ancient	Gurukuls, Universities	Philanthropic, Royal	Non-commercial; **Not taxable**
Medieval	Madrasas, Pathshalas	Charitable, State	Not revenue-driven; **Not taxable**
Colonial	Schools, Universities	State + Private Fees	Dual model; **Taxable for private sector**
Post-1947	Public + Private Institutes	Government + Tuition	Exemption needed for non-profits
Digital Age	Ed-tech, Hybrid Models	Commercial subscriptions	Complex tax treatment under GST

The Indian education system has transitioned from being a sacred, community-oriented pursuit to a highly diversified and increasingly market-driven sector. While education remains a constitutional right and a public good, the emergence of commercial players and bundled services introduces complex questions about taxation policy. Therefore, classification of services for the purposes of exemption or taxation provides the legislative lens through which the sector is assessed.



Chapter 3
Education in the Tax Net

In today's world, Indian education system is one of the largest, comprising a wide network of government and private institutions spanning from pre-primary to higher education. From primary schools in rural areas to world-class universities in urban centers, the sector is vast and diverse. However, policy changes like the implementation of the Goods and Services Tax (GST) have introduced new dynamics. While much of the core educational services remain tax-exempt under the Goods and Services Tax (GST) framework, the broader ecosystem including training services, digital platforms, infrastructure development, transportation, and other ancillary supplies is impacted by GST. This introduces a complex interplay between policy, affordability, and access, especially in private education settings. As India strives toward inclusive and quality education for all understanding how taxation structures like GST affect the sector becomes crucial in shaping the future of learning in the country.

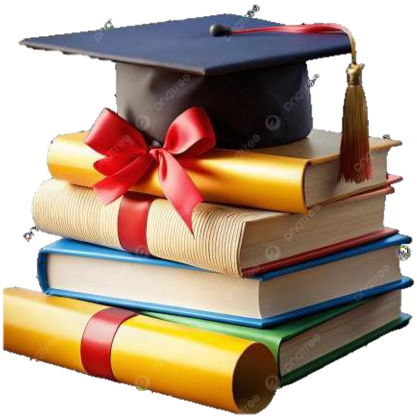


Taxing the Education Sector: A delicate balance between Public Right and Commercial Enterprise

The taxation of the education sector has long been a matter of delicate consideration. In India, the government bears a constitutional obligation to provide free and compulsory elementary education to every child under Article 21A of the Constitution. This reflects a broader societal consensus: that access to education should not be hindered by economic barriers. To encourage and preserve this ethos, it is both logical and desirable that core educational services be exempt from taxation. Tax exemptions on these services serve to promote inclusivity, ensure affordability, and uphold the principle that education is a public good rather than a profit-driven commodity.

However, the landscape of education has evolved significantly in recent decades. The line between education as a noble pursuit and as a commercial venture is increasingly blurred.

Today, education is not only delivered through traditional institutions but also through a complex ecosystem of coaching centers, online platforms, consultancy services, and infrastructure providers. Many of these operate with significant revenues, structured business models, and marketing strategies more akin to corporate enterprises than academic ones.



In recognition of these dual realities- education as both a right and an industry- the Goods and Services Tax (GST) Act attempts to strike a pragmatic and balanced approach. Under the GST framework, core educational services such as those provided by schools, colleges, and universities that lead to the issuance of a qualification recognized by law are fully exempt from tax. These include teaching services and most inputs directly linked to classroom learning. At the same time, ancillary services that fall outside the core definition and being ancillary in nature such as catering, transportation, security, housekeeping, and the leasing of premises are taxed at the standard GST rate of 18%. This distinction is designed to ensure that commercial activities associated with the education sector contribute their fair share to public revenues, without overburdening the core function of imparting knowledge.

The growing commercialization of higher education, skill development programs, coaching centers, and online education platforms has prompted the government to devise a more nuanced tax framework within the GST system. Now, the discussion turns to a more technical domain—understanding how the Goods and Services Tax defines, classifies, and regulates educational services in India. To gain the concept, meaning of Education in the eyes of law is to be understood.

What is Education?

While the term education is not explicitly defined in the Central Goods and Services Tax (CGST) Act, 2017, it is interpreted in the broader context of structured learning. The Supreme Court in its decision to "Loka Shikshana Trust vs. Commissioner of Income Tax" has defined Education as the *"Process of training and developing knowledge, skill and character of students by normal schooling"*. It is necessary that the role of any school or educational institution extends to teach good character and other skills and not restrict by providing only the technical education.

Whether Education is a supply of Service??

Under Section 7 of the CGST Act, 2017, all forms of supply of goods or services made for consideration in the course or furtherance of business are taxable. Since education involves the provision of instruction, training, or knowledge transfer for a fee, it qualifies as a **supply of service**.

Education Services are classified under Services Accounting Code in Heading 9992 (as per Notification No. 11/2017-Central Tax (Rate)) (taxable at 18% -CGST 9% & SGST 9%) and are further sub-divided into six groups (as per the Annexure to the same notification) comprising of Pre-primary, primary, secondary, higher, specialized and other educational & support services as below:

Heading 9992	Service Code	Education services
Group 99921		**Pre-primary education services**
	999210	Pre-primary education services
Group 99922		**Primary education services**
	999220	Primary education services
Group 99923		**Secondary Education Services**
	999231	Secondary education services, general
	999232	Secondary education services, technical and vocational
Group 99924		**Higher education services**
	999241	Higher education services, general
	999242	Higher education services, technical
	999243	Higher education services, vocational
	999249	Other higher education services
Group 99925		**Specialised education services**
	999259	Specialised education services

Group 99929		**Other education and training services and educational support services**
	999291	Cultural education services
	999292	Sports and recreation education services
	999293	Commercial training and coaching services
	999294	Other education and training services nowhere else classified
	999295	services involving conduct of examination for admission to educational institutions
	999299	Other educational support services

Educational Services- Exempted or Taxable:

Educational services are broadly divided into two categories: exempt and taxable. The GST law, vide **Notification No. 12/2017-Central Tax (Rate), dated 28 June 2017**, grants exemption to certain services provided by and to "educational institutions."

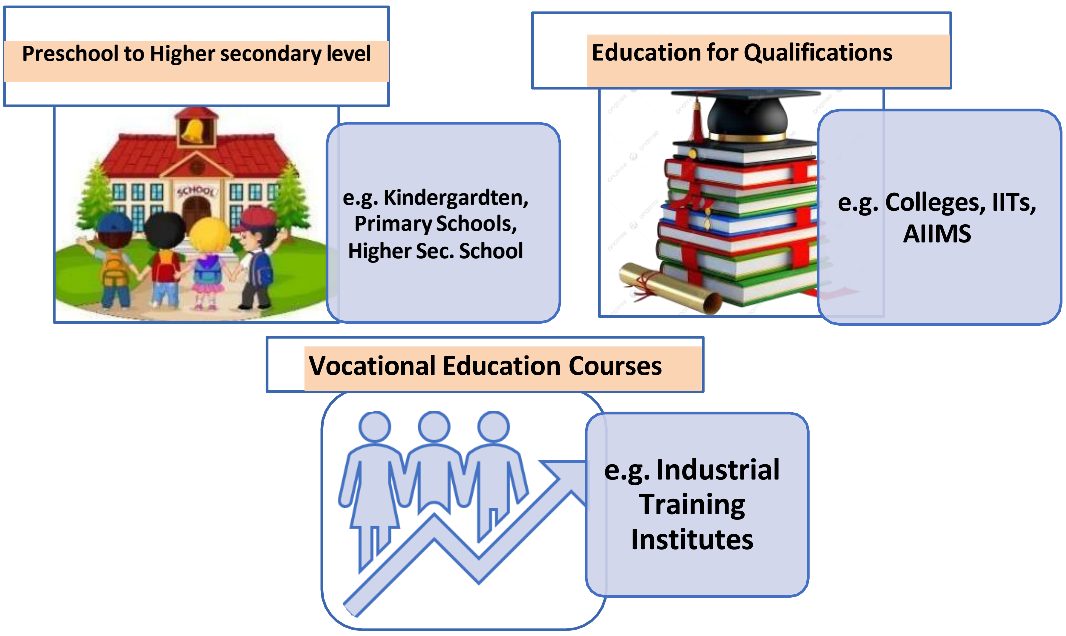
What is an Educational Institution?

As per definition 2(y) mentioned in Notification No. 12/2017 Central Tax (Rate), dated 28th June 2017, an "educational institution" means and institution providing services by way of:

(1) pre-school education and education up to higher secondary level or equivalent,

(2) education as part of a curriculum leading to qualifications recognized by law in India, or

(3) vocational education courses approved by national or state-level councils.



In (2) above, the qualifications recognized by law in India is a very wide one. The judgment in the case of Indian Institute of Aircraft Engineering v. Union of India* [[2013] 34 taxmann.com 191 (Delhi)] clarified that the legislature has not used the expression "conferred by law" or "conferred by statute". Thus, even if the certificate/degree/diploma/qualification is not the product of a statute but has approval of some kind in 'law', would be exempt.

In (3) above, the meaning of approved vocational education course is defined in Definition 2(h) of Notification 12/2017-Central Tax (Rate) which means-

(i) a course run by an industrial training institute or an industrial training centre affiliated to the National Council for Vocational Training or State Council for Vocational Training offering courses in designated trades notified under the Apprentices Act, 1961 (52 of 1961); or

(ii) a Modular Employable Skill Course, approved by the National Council of Vocational Training, run by a person registered with the Directorate General of Training, Ministry of Skill Development and Entrepreneurship;

Under the GST regime, core educational services have been exempted vide Notification No. 12/2017-CT(R) dated 28 June 2017/ Notification No. 09/2017-IT(R) as amended from time to time. The rates of GST on education services (as per Notification No. 11/2017-Central Tax (Rate), Notification No. 11/2017-Central Tax (Rate) and Notification No. 12/2017-Central Tax (Rate) all dated 28.06.2017 as amended) are as below:

Chapter/ Section/ Heading	**Description of Service**	**Rate / Notification**
9992	Education Services	18% (9% Central Tax + 9% State Tax) Serial No. 30 of Notification No. 11/2017-Central Tax (Rate) dated 28th June, 2017
9992	Services provided –	NIL

	(a) by an educational institution to its students, faculty and staff; (aa) by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee. (b) to an educational institution, by way of, - (i) transportation of students, faculty and staff; (ii) catering, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory; (iii) security or cleaning or housekeeping services performed in such educational institution; (iv) services relating to admission to, or conduct of examination by, such institution; (v) supply of online educational journals or periodicals. Provided that nothing contained in (i), (ii) and (iii) of item (b) shall apply to an educational institution providing services by way of pre-school education and education upto higher secondary or equivalent. Provided further that nothing contained in sub-item (v) of item (b) shall apply to an institution providing services by way of – (i) Preschool education and education upto higher secondary school or equivalent. (ii) Education as a part of an approved vocational education course	Serial No. 66 of Notification No. 12/2017- Central Tax (Rate) dated 28th June, 2017
90 or any chapter	Technical aids for education, rehabilitation, vocational training and employment of the blind such as Braille typewriters, braille watches, teaching and learning aids, games and other instruments and	5% Serial No. 257 of Schedule I of the

	vocational aids specifically adapted for use of the blind Braille instruments, paper etc.	Notification No. 1/2017-Central Tax (Rate) dated 28th June, 2017
9023	Instruments, apparatus and models, designed for demonstrational purposes (for example, in education or exhibitions), unsuitable for other uses	28 % Serial No. 191 of Schedule IV of the Notification No. 1/2017-Central Tax (Rate) dated 28th June, 2017

From above, it is clear that under **Entry 66 of Notification 12/2017**, the following services are exempt:

- Services provided **by an educational institution** to its students, faculty, and staff.
- Service provided by an educational institution of conducting entrance examination against consideration in the form of entrance fee to any person.
- Services **to an educational institution** for pre-school to higher secondary:
    - Transportation of students, faculty & staff
    - Catering (including mid-day meal)
    - Security, cleaning, or housekeeping
    - Services relating to admission or examination

Educational services which are part of Academic Curriculum like painting, drawing and other Arts activities which are extra-curricular activities are also exempted. However, such services which are not part of curriculum like cricket coaching, computer coaching etc are not exempted even if the fees are collected by educational institutions.

GST applicability across Educational Institutions

Different types of educational institutions fall under varied GST treatment, depending on their **recognition status**, **level of education**, and **nature of services**. The classification directly affects their tax liability and ability to claim Input Tax Credit (ITC).

S.No.	Type of Educational Services	GST Applicability	Rate of tax	Remarks
1	Creche, Daycare	Applicable	18%	Creche/ Daycare is not meant for imparting any kind of skill, knowledge. Technically, creche is a place where young children are taken care of during the day while their parents do something else especially work, study, or shop. Hence, they are not covered under the definition of educational institutions.
2	Pre School	Exempt	NIL	It is an educational establishment or learning space offering early childhood education to children before they begin compulsory education at primary school. It includes pre-nursery classes. Hence, they are covered under the definition of educational institutions.
3	Kindergarten, Montessori	Exempt	NIL	It includes Lower and Upper Kindergarten. It is also a kind of preschool educational approach based on playing, singing, practical activities such as

				drawing, and social interaction as part of the transition from home to school. Hence, they are covered under the definition of educational institutions.
4	Primary & Secondary Schools	Exempt	NIL	Covered under the definition of Educational Institutions mentioned in Notification 12/2017 Central Tax (Rate), dated 28th June 2017. Hence, exempted.
5	Higher Secondary Schools	Exempt	NIL	
6	Colleges & Universities	Exempt/ Taxable	NIL/ 18%	Recognised degree/diploma courses – Exempt. Unrecognised certificate courses – Taxable at 18%. Sale of prospectus, form fees – Exempt if incidental.
7	Premier Institutions like IITs, IIMs, AIIMS, PGIMS, IISc etc	Exempt/ Taxable	NIL/ 18%	Recognised degree/diploma programs – Exempt. Executive education programs (non-recognised) – Taxable at 18%.

				Specific exemption for certain IIM programs (Refer to Case Study).
8	Vocational and Skill Institutions	Exempt/ Taxable	NIL/ 18%	"Approved vocational education courses" as defined – Exempt. Private skill centres without approval – Taxable.
9	Coaching Centres (Private, Group, Tuition Classes)	Taxable	18%	**Not** covered under "educational institution" definition – Fully taxable @ 18%.
10	Online Education Platforms, Edtech, Youtube channels	Exempt/ Taxable	NIL/ 18%	The GST law introduced the concept of OIDAR (Online Information and Database Access or Retrieval) services, which includes streaming recorded lectures, downloadable content, online test series, and interactive classes. These services attract 18% GST if they are not linked to a recognized academic curriculum. Foreign service providers like Coursera or Google

				Classroom offering services in India are also subject to IGST unless tied to a recognized Indian educational institution or provided without consideration.

Ancillary Services – Institution-Wise Impact

Service	Pre-school to Class XII	Higher Education	Coaching Centres
Transport of students (Outdoor)	Exempt	Taxable (unless covered by entry 66) @12%	Taxable @12%
Catering (including mid-day meal)	Exempt	Taxable 5%	Taxable @5%
Sale of uniforms/stationery	Taxable unless part of composite supply	Taxable @12%	Taxable @12%

Services Provided to Educational Institutions

GST also provides exemptions for services provided to eligible educational institutions, but primarily for institutions up to higher secondary level. Exemptions include transport of students and staff, catering (such as mid-day meals), housekeeping, security, cleaning services, conduct of entrance exams, and renting of immovable property under certain conditions. However, these benefits do not extend to colleges and private coaching centres, which are treated as commercial entities under GST.

Case Examples for Better Understanding

To illustrate the distinction, a school affiliated with CBSE that delivers formal curriculum-based education is GST-exempt. In contrast, a private coaching centre for NEET preparation is subject to 18% GST since it does not provide recognized formal education. Similarly, a UGC-recognized MBA program offered by a university is exempt, whereas a private institute offering a data analytics certificate would be taxable. When a school operates its own transport services, it is exempt; however, if a college hires a third-party bus service, GST is applicable as Rent-a-cab supply.

Category	Description	Taxable/Exempt	GST Rate (if Taxable)	Remarks/Conditions
Fixed Assets (Furniture)	Benches, desks, chairs, blackboards, etc.	Taxable	18% (HSN 9403)	Not covered under service exemptions (Notification No. 12/2017).
Fixed Assets (Electronics)	Projectors, computers, smart boards, printers	Taxable	18% (HSN 8471/8528)	Taxable unless part of a composite exempt service (rare for goods).
Stationery (Writing Materials)	Pens, pencils, erasers, sharpeners	Taxable	12% (HSN 9608/9609)	
Stationery (Notebooks)	Exercise books, graph books, drawing books	Taxable	12% (HSN 4820)	
Uniforms and Accessories	School uniforms, ties, belts, bags, shoes	Taxable	12% (if value < ₹1000), 18% (if value ≥ ₹1000) (HSN 6109/4202)	
Printed Books	Textbooks, NCERT books, reference books	Exempt	-	Exempt under Notification No. 2/2017-Central Tax (Rate) (HSN 4901).
Workbooks/Study Materials	Printed workbooks, question	Taxable	12% (HSN 4820)	

	banks, guides			
Laboratory Equipment	Test tubes, chemicals, microscopes, etc.	Taxable	18% (HSN 9023/3822)	Taxable unless part of exempt educational services (e.g., lab practicals).
Sports Equipment	Cricket bats, footballs, gym equipment	Taxable	12% (HSN 9506)	Exempt if supplied as part of physical education curriculum (composite supply).
Musical Instruments	Guitars, pianos, harmoniums for music classes	Taxable	18% (HSN 9202)	Exempt if part of exempt music education services.
Food Supplies	Snacks, meals, or raw food materials for canteens	Taxable	5–18% (HSN 2106/0713)	Exempt if part of exempt catering services for students (Entry 66, Notification No. 12/2017).
Medical Supplies	First-aid kits, medical equipment for infirmary	Taxable	12% (HSN 3005/9018)	Taxable unless bundled with exempt health services for students.
Software/Hardware for Education	Educational software, tablets, laptops	Taxable	18% (HSN 8523/8471)	Taxable unless part of exempt online education services.
Goods under Reverse Charge Mechanism (RCM)	Goods supplied by unregistered suppliers (e.g., local stationery vendors)	Taxable (RCM)	As per HSN (5–18%)	Educational institution liable to pay GST under RCM if supplier is unregistered.
Goods for Charitable Trusts	Goods supplied to trusts for orphans, elderly in rural areas, etc.	Exempt	-	Exempt under Notification No. 12/2017 for specific charitable institutions.

Intent Behind GST Exemptions in Education

The overarching policy objective behind GST exemptions in education is to ensure widespread access, reduce financial burdens on families, and prevent taxes from becoming barriers to learning. The government also aims to promote vocational and employability-enhancing training. However, the GST framework deliberately distinguishes between non-commercial institutions serving public interest and private entities or coaching centres operating with profit motives, and imposes taxes accordingly.

Impact Analysis

The implementation of GST has led to several positive outcomes for the education sector. Institutions offering formal education benefit from broad tax exemptions, keeping the cost of education relatively low and shielding students and parents from additional financial pressures. However, challenges remain. The definition of "recognized curriculum" is often ambiguous. There is a grey area between formal education and commercial services like test preparation, and the regulation of EdTech platforms is still evolving. Furthermore, services outsourced by institutions such as canteens and housekeeping can inadvertently increase operating costs due to GST applicability.

Tax Impacts on the Education Sector in the Pre-GST Era and Post the GST Regime- Comparative Study

The taxation of the education sector in India has undergone a significant transformation with the introduction of the Goods and Services Tax (GST) in July 2017. In the pre-GST era, the education sector enjoyed a wide range of exemptions under various indirect taxes such as service tax, VAT, and excise duty. Core educational services provided by schools, colleges, and universities were largely exempted under service tax. Additionally, the procurement of goods such as laboratory equipment, library books, and other essential teaching materials attracted varied VAT rates across states, making the overall tax structure complex and non-uniform.

Despite the exemptions, institutions faced a cascading tax effect. For example, while tuition fees might have been tax-exempt, the input services or goods used—such as construction of buildings, transportation, catering, or security services—were taxed without the benefit of input tax credit (ITC). This resulted in hidden tax costs that ultimately raised the operational expenses of educational institutions. Furthermore, non-core or auxiliary services, like coaching centers, vocational training, and private tutorial institutions, were subject to service tax, thus creating a fragmented approach in taxing the education sector.

With the advent of the GST regime, the government aimed to simplify and streamline the indirect tax structure by introducing a unified tax system across the country. Under GST, core educational services provided by government-recognized institutions continued to be exempt from tax, maintaining the constitutional mandate to make education accessible and affordable. However, the impact of GST has been dual-edged. On one hand, GST has brought transparency and consistency in taxation across states.On the other hand, it has broadened the tax base by bringing several auxiliary and support services within the GST net, such as transportation, canteen services, digital education platforms, and outsourced services to educational institutions, all of which attract tax rates ranging from 5% to 18%.

From a research perspective, the GST regime has led to increased compliance requirements for private and semi-autonomous institutions. These institutions now need to maintain detailed documentation to segregate exempt and taxable services, and ensure appropriate filing of returns. While the provision of input tax credit (ITC) theoretically reduces the tax burden on taxable services, its unavailability for exempt services (like classroom teaching in recognized institutions) continues to raise the effective cost of education delivery. This cost is often passed on to students in the form of higher fees, especially in private institutions.

In summary, while the GST has aimed at simplifying the indirect taxation system in India, its implications for the education sector have been mixed. Core education remains tax-free in principle, but the rising cost of taxable ancillary services and the inability to claim ITC on many essential inputs have led to financial challenges for educational service providers.

Future research should focus on quantifying these impacts across different types of educational institutions and exploring policy alternatives that strike a balance between revenue generation and the constitutional goal of promoting inclusive and affordable education.

Core vs. Ancillary Services

- Core educational services (teaching by recognized schools, colleges, universities, and approved vocational courses) are generally exempt from GST if they meet the definition under GST law. This includes activities necessary for a recognized educational curriculum up to higher secondary school or equivalent.
- Ancillary services are supportive/non-instructional services that help institutions deliver educational activities, such as campus transportation, catering, security, rental of premises, supply of books/uniforms, coaching, and vocational training not recognized by law.

<u>Ancillary Services: Types, GST Impact, and Examples</u>

*Up to higher secondary, most auxiliary services to recognized institutions are exempt. For colleges/universities and private/commercial providers, GST is generally applicable.

- Detailed GST Impact and Illustrative Examples

Input services (Supplied by educational institutions)	**Exempted/Taxable**	**Output services (Supplied to educational institutions)**	**Exempted/Taxable**	**Availability of Input Tax Credit (ITC)**
supply of food and beverages by an educational institution to its students, faculty and staff, where such supply is made by the educational institution itself	Exempt	Transportation services provided to educational institutions for their students, faculty, and staff upto higher secondary level	Exempted	Not Applicable
Supply of food and beverages by	Taxable @ 5%	Transportation services provided to	Taxable	Not Available

any person other than the educational institutions based on a contractual arrangement with such institution		educational institutions for their students, faculty, and staff above higher secondary level		
Educational institutions rents out its premises for marriage and Other commercial purpose .	Taxable	Services received by education institution of printing question paper, OMR sheets	Exempt	Not Available
Hostel services directly provided by educational institutions to its students	Exempt	Security or cleaning or house-keeping services provided to educational institutions upto higher secondary level	Exempt	Not Available
Hostel services provided by third party after entering into a contract with educational institutions and If fees paid by students separately to the third party	Taxable@12%	Services relating to admission to, or conduct of examination by, such institution;	Exempt	Not Available
Supplies like musical instruments, sports activities,	Taxable	Manpower supply to Educational Institutions	Taxable	ITC available proportionate to taxable supply by

swimming, dancing, computers and other extra curricular activities provided by third parties after school activities				Educational Institution
Supplies like musical instruments, sports activities, swimming, dancing, computers and other extra curricular activities if it are a part of curriculum and no separate fee is levied	Taxable	Catering service provided to an educational institution which is a primary school whether it is provided through contract or through outsourcing caterers staff	Exempt	Not Available

Economic Impact

- Due to GST, costs of ancillary services have risen for schools and universities, leading to a possible increase in tuition and fees. Operational challenges for compliance (filings, record-keeping) have especially affected smaller private institutions.
- As exempt bodies cannot claim input tax credits (ITC) on GST they pay on these services, their costs have gone up, as they cannot offset this GST against output tax.

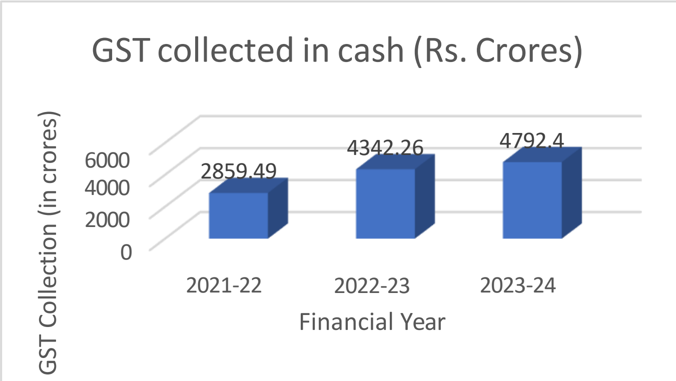
Summary

- Core education (recognized teaching up to higher secondary) — almost fully GST exempt
- Ancillary services — partially or fully taxable, with rates mostly at 5% or 18%
- Cost to institutions and students — increased for ancillary services and materials, potentially making education less affordable, especially in the private sector.
- Purpose of GST approach — to protect essential education while taxing supplementary/commercial activity, balancing revenue with accessibility

Collection of GST through Educational Sector

The collection of GST from the education sector in India plays a modest but notable role in the country's overall GDP and tax revenue dynamics. In FY 2023-24, the government earned ₹4,792.4 crore in GST from educational services not exempt under GST (such as private coaching, vocational training, and commercial educational services at an 18% GST rate). Core educational services provided by recognized institutions remain largely exempt to keep basic education affordable and accessible. The data for GST collected on education services, which are not exempted, for the following 3 FYs is tabulated below:

Financial Year	GST collected in cash (Rs. Crores)
2021-22	2859.49
2022-23	4342.26
2023-24	4792.40



Impact on GDP

- **Direct Impact:** The contribution of GST from education to national GST revenue is under 0.5% of the total GST collection. In FY 2023-24, total GST receipts stood at ₹20.18 lakh crore, with education sector GST collections representing a very small fraction.
- **Indirect Impact:** Although the direct fiscal contribution of education sector GST to India's GDP is limited, the sector absorbs considerable input tax credits, affecting private and non-profit institutions' operational budgets and fee structures. Higher GST on coaching and allied services can lead to increased costs for students and institutions, which may reduce educational accessibility and indirectly impact human capital formation—one of the long-term drivers of GDP growth,

Chapter 4
Education by Religious and Alternative Institutions

In India, education isn't confined to the walls of schools, colleges, and universities. Alongside the mainstream system, there are institutions like Madarsas, Gurukuls, Pathshalas, Vedic or Gita learning centers, and even religious trusts that run schools. These places don't just focus on academics, they blend spiritual, cultural, and traditional values with learning. Under GST, however, how they are taxed which largely depends on what they primarily do. If their main role fits the definition of an "educational institution" under GST, they

may enjoy exemptions. But if their activities lean more towards religious or spiritual teaching, they fall under a different tax treatment.

The taxability of the education imparted by these religious institutions are tabulated as below:

<table>
<tr><th>S.No.</th><th>Type of Institute</th><th>Types of Education</th><th>Analysis</th></tr>
<tr><td>1</td><td>Gurukuls</td><td>Vedic knowledge, Sanskrit, spiritual teachings, and occasionally formal subjects.</td><td rowspan="2">If Madarsas/Gurukuls offer formal education recognized by statutory boards (CBSE, State Boards, etc.), they qualify as "educational institutions" and hence are qualified for claiming exemption from GST. However, if they only provide religious/spiritual teachings without statutory recognition, the activity is not considered as "education" under GST but a religious service. Hence, those services will be taxable.</td></tr>
<tr><td>2</td><td>Madarsas</td><td>Primarily provide Islamic education (Quran, Hadith, Fiqh, Arabic)

But, in many cases also integrate modern subjects such as Mathematics, Science, and Social Studies.</td></tr>
</table>

3	Gita learning Centres	Bhagavad Gita, Vedic chanting classes, meditation/ yoga shiksha, spiritual philosophy etc.	These courses mainly focus on character-building, philosophy, and religious/ spiritual knowledge. However, they don't form the part of statutory education. Hence, they can not be considered as educational institutions and hence not covered under exemptions of Entry No. 66 of Notification 12/2017-CTR. If the same services are conducted by charitable trusts/ religious trusts registered under section 12AA/ 12AB of Income Tax Act, 1961, then these services qualifies as religious activities and hence same are exempted from GST.
4	Yoga world	Yoga (all forms)	Yoga instruction when provided by charitable institutions is exempt; however, commercial yoga studios charge GST.

Key Points:

a) Many religious institutions straddle the line between education and religion. GST treatment hinges on recognition status and charitable registration.

b) The government intends to preserve the charitable and non-commercial nature of religious/alternative education but also curb misuse where commercial coaching is disguised as spiritual teaching.

1. Case Study 12.1- Indian Institutes of Management vs. GST

The Indian Institutes of Management (IIMs), established as premier institutions of national importance under the Indian Institutes of Management Act, 2017, represent a unique intersection of higher education and public policy. Their dual role as academic institutions conferring recognized degrees and as providers of executive development and consultancy services makes them an important case in understanding the scope of GST in the education sector.

- Initially, vide Entry No. 67 of Notification 12/2017-Central Tax (Rate) dated 28.06.2017, the following services provided by IIM's were exempted from GST under Heading 9992:

"Services provided by the Indian Institutes of Management, as per the guidelines of the Central Government, to their students, by way of the following educational programmes, except Executive Development Programme: -

- *two year full time Post Graduate Programmes in Management for the Post Graduate Diploma in Management, to which admissions are made on the basis of Common Admission Test (CAT) conducted by the Indian Institute of Management;*
- *fellow programme in Management;*
- *five year integrated programme in Management."*

- However, the said Entry No. 67 was omitted by Notification No. 28/2018-Central Tax (Rate), dated 31-12-2018, w.e.f. 1-1-2019.
- Further, a **Circular bearing No. 82/01/2019 dated 01.12.2019** was issued exclusively to clarify the applicability of GST on various programmes conducted by the Indian Institutes of Managements (IIMs). The key points of the said circular are as followed:

As per the IIM Act, 2017; all IIMs are "institutions of national importance". With effect from 31st January, 2018, all the IIMs are "educational institutions" as defined under notification No. 12/ 2017- Central Tax (Rate) dated 28.06.2017.

For the period from 31st January, 2018 to 31st December, 2018, two exemptions, i.e. under Sl. No. 66 and under Sl. No. 67 of notification No. 12/ 2017- Central Tax (Rate), dated 28.06.2017 are available to the IIMs. The legal position in such situation has been clarified by Hon'ble Supreme Court in many cases that if there are two or more exemption notifications available to an assessee, the assessee can claim the one that is more beneficial to him. Therefore, from 31st January, 2018 to 31st December, 2018, IIMs can avail exemption either under Sl. No 66 or Sl. No. 67 of the said notification for the eligible programmes.

Following summary table may be referred to while determining eligibility of various programs conducted by Indian Institutes of Managements for exemption from GST.

S. No.	Period	Programmes offered by Indian Institutes of Management	Whether exempt from GST
1	1st July, 2017 to 30th January, 2018	i. two-year full time Post Graduate Programmes in Management for the Post Graduate Diploma in Management, to which admissions are made on the basis of Common Admission Test (CAT) conducted by the Indian Institute of Management, ii. fellow programme in Management, iii. five years integrated programme in Management.	Exempt
		i. One- year Post Graduate Programs for Executives, ii. Any programs other than those mentioned at Sl. No. 67 of notification No. 12/2017- Central Tax (Rate), dated 28.06.2017.	Not Exempt

		iii. All short duration executive development programs or need based specially designed programs (less than one year).	
2	31st January, 2018 onwards	All long duration programs (one year or more) conferring degree/ diploma as recommended by Board of Governors as per the power vested in them under the IIM Act, 2017 including one-year Post Graduate Programs for Executives.	Exempt
		All short duration executive development programs or need based specially designed programs (less than one year) which are not a qualification recognized bylaw.	Not exempt.

The treatment of IIMs under GST demonstrates the nuanced approach of the law in distinguishing between education as a public good and education as a commercial service. While core degree and diploma programmes are shielded from GST to preserve accessibility and affordability, executive programmes and consultancy activities which are commercial in nature and benefit professionals/corporates are subject to taxation.

2. Coaching Institutes vs. Goods & Services Tax

Scenario: A reputed coaching institute in Kota provides intensive training for competitive exams like JEE and NEET. Along with academic coaching, it offers hostel accommodation and mess services for enrolled students.

S.No.	GST Issues involved	Analysis
1	Whether education provided by Coaching Institutes/ Centres,	Coaching is not considered “education as part of curriculum recognized by law,”. Hence the same is taxable at 18%.

	Home Tutions etc comes under the GST taxability	
2	Whether hostel accommodation provided to students is exempt as part of educational services or taxable as a separate supply.	Prior to 18.07.2022, vide Entry No. 14 of Notification 12/2017-Central Tax (Rate), Hostel accommodation up to ₹1,000/day was exempt from GST. (Clarified by Circular No. 32/06/2018 dated 12.02.2018). However, w.e.f. 18.07.2022, the said exemption was withdrawn vide Notification No. 04/2022-Central Tax (Rate) dated 13.07.2022. The same is now uniformly taxable at 12%. Further, another circular bearing no. 228/22/2024 dated 15.07.2024 issued clarification that accommodation form mimimum of 90 days and having value less than or equal to Rs.20000 per month per person.
3	In some cases, hostels and PGs may offer bundled services, such as accommodation, meals, laundry, and other amenities, as a package. Whether, it is naturally bundled.	When services like meals and laundry are bundled with accommodation, GST is applied based on the principal supply, which is the accommodation service in this case. This means that the entire composite supply attracts GST at the rate applicable to the accommodation service, which is currently 12%.
4	Whether mess facility (food supply) is taxable at 5% (without ITC) or can be considered composite supply with education.	If the mess facility is optional to avail and separate billing is raised for the same instead of package system then, mess facility is treated as a supply of food service and hence taxable at 5% without ITC.

3. Maritime Training Institutes of India vs. Goods and Services Tax

Central Board of Indirect Taxes vide Circular No. 117/36/2019- GST dated 11.10.2019 has clarified that Maritime Institutes are covered under educational institutions under GST Law as Maritime Training Institutes and their training courses are approved by the Director General of Shipping which are duly recognised under the provisions of the Merchant Shipping Act, 1958 read with the Merchant Shipping (standards of training, certification and watch-keeping for Seafarers) Rules, 2014. Hence, the courses conducted by them are exempt from levy of GST. The exemption is subject to meeting the conditions specified at Sl. No. 66 of the notification No. 12/ 2017- Central Tax (Rate) dated 28.06.2017.

Chapter 06
Composite or Mixed ?- The Education Puzzle..!!

Let us understand this concept with a practical scenario:

It is the beginning of a new academic session at Delhi Public School, a reputed residential school. Parents are called for the orientation, and the administration presents the fee structure. The package includes:

- Tuition fees for the academic year
- Hostel accommodation
- Mess facility for all meals
- Transport facility for day scholars
- Uniforms and books provided at the time of admission

Mr. Sharma, a parent, looks puzzled. He asks the school administrator:
"If tuition is exempt under GST, what about hostel, mess, and uniforms? Will I have to pay tax separately for them, or are they all included?"

The administrator replies:

"Under GST, if these services are naturally bundled with education, we can treat them as a composite supply, with education as the principal service. But if we club unrelated items into a single price, like tuition plus a branded tablet, it becomes a mixed supply, and the highest tax rate applies."

This simple conversation reflects a complex issue: How do we classify bundled supplies in education under GST? The answer lies in the concepts of composite supply and mixed supply, which this chapter explores in detail.

Educational institutions rarely supply a service in isolation. Instead, they frequently offer a combination of services and goods, such as teaching, hostel facilities, transportation, study materials, uniforms, meals, or digital devices. The classification of such bundled offerings either as a composite supply or a mixed supply is not merely a theoretical exercise but a matter with substantial financial and compliance consequences. The concept of these types of supplies has been elaborated in the below table:

Aspect	Composite Supply	Mixed Supply
Definition	Two or more supplies that are **naturally bundled** and supplied together in the ordinary course of business, with one being the **principal supply**.	Two or more supplies that are **artificially bundled** and offered together for a **single price**, without being naturally bundled.
Principal Supply	Present – One supply gives the bundle its essential character (e.g., education).	Absent – No principal supply; all supplies are independent in nature.
Tax Treatment	Tax rate of the **principal supply** applies to the entire bundle.	Tax rate of the **highest-rated supply** applies to the entire bundle.
Example (School)	Boarding school: education + lodging + meals → education is principal → exempt.	School offers tuition + laptop for one price → laptop attracts 18% → whole bundle taxed @18%.
Example (Coaching)	Coaching + study material + tests (study material naturally bundled) → taxed as coaching.	Coaching + branded bag + tablet → treated as mixed, taxed at highest rate (tablet).
Example (EdTech)	Online course + digital content access (naturally bundled) → taxed as course.	Online course + free tablet for one price → tablet is unrelated → taxed at 18%.
Impact on Education	Usually favorable (education remains principal and often exempt).	Unfavorable; can significantly raise cost of education packages.

Practical Challenges for Educational Institutions

i. Determining Principal Supply- In residential schools, education is clear, but in extracurricular camps, ambiguity arises.

ii. Fee Structuring Issues- Lump-sum fees without break-up may inadvertently convert a composite supply into mixed supply.

iii. Exemption Misuse and Confusion- Exemption applies to recognized institutions, not to private coaching centers.

iv. Risk of Litigation- Incorrect classification may attract demands, penalties, and litigation

Implications for Different Types of Institutions

- **Residential/Boarding Schools:** Benefit as their composite nature makes education the principal supply → exemption.
- **Private Coaching Centres:** More vulnerable to mixed supply classification → higher taxes.
- **EdTech Platforms:** Often offer digital courses with tablets, leading to mixed supply → taxed at higher rates.
- **Vocational Institutes:** Exempt when government-approved, but mixed supply issues arise when devices or extra services are bundled.

Key CBIC Circulars and Guidelines

- CBIC Clarification for Coaching Institutes: CBIC has specifically clarified that if coaching institutes provide study materials, bags, t-shirts, etc., bundled with the coaching service, these are composite supplies with coaching service as the principal supply. GST is to be charged at the rate applicable to the principal supply, not separately on each item.

  Non-Core Bundling: Auxiliary courses (e.g., hobby classes) offered naturally with main education may still be composite supplies, whereas clubbing unrelated courses or goods merely for sale is a mixed supply.

- **Affiliation Services Provided by Universities/Boards-** Circular No. 234/28/2024-GST dated 11th October 2024 clarifies that Affiliation services provided by universities to colleges are not exempt under GST. These are subject to 18% GST. The process of affiliation involves assessment of infrastructure, faculty, and eligibility for the college to conduct certain courses or programs. This service does not directly pertain to student admission or conduct of exams, hence not falling under exemption notifications for educational services. Similarly, affiliation services provided by Central or State boards/councils to schools are also taxable at 18% GST, except that affiliation services provided to government schools have been exempted from 10.10.2024 by Notification No. 08/2024–Central Tax (Rate). Previous periods (01.07.2017 to 17.06.2021) are to be regularized on an "as is where is" basis for affiliation services offered to schools

Exempt Services Remain Unchanged- Services provided by educational institutions to students, faculty, or staff (such as teaching or conducting exams) continue to be exempt under GST notification No. 12/2017-CT(R).

Composite and Mixed Supplies- If educational institutions provide goods or ancillary services (like exam forms, stationery) as a composite supply where teaching is the principal supply, GST exemption may still apply, but non-ancillary or unrelated bundling may be taxed as a mixed supply at the highest rate among the components.

S.No.	Service Type	GST Applicability	CBIC Reference
1	Teaching Services to students/ faculty/ staff	Exempt	Notification 12/2017-CT(R), Circular No. 151/07/2021
2	University affiliation services to colleges	Taxable @18%	Circular No. 234/28/2024- GST
3	Board affiliation to private schools	Taxable @18%	Circular No. 234/28/2024- GST
4	Board affiliation to government schools	Exempt	Notification No. 08/2024-CT(R)

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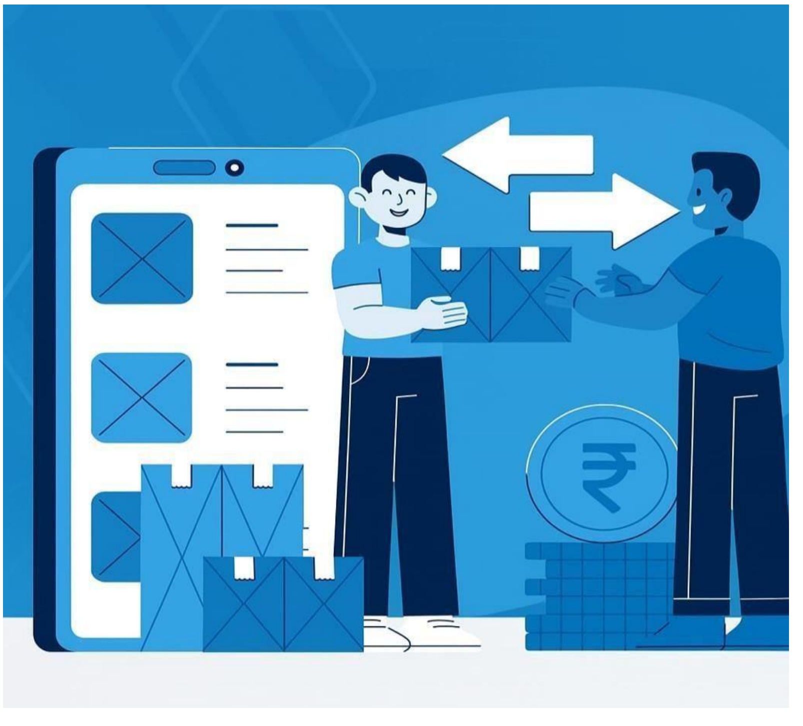
Chapter 07-
Education Exemptions under the Scanner: India vs Global

Education is widely recognized as a fundamental human right and a cornerstone of societal development. The idea that education is a right, rather than a privilege or commodity, is anchored in international conventions. The **United Nations Convention on the Rights of the Child (CRC),** accepted by virtually all countries, obliges states to make primary education

"compulsory and available free to all" (Article 28). The **Universal Declaration of Human Rights (1948), in Article 26,** proclaims that "everyone has the right to education," emphasizing that elementary education should be free and compulsory. However, There is no single UN convention or treaty that **universally mandates** that all education services must be tax free in every country but Countries across the world view education as a public good rather than a revenue generating sector and also support it by giving tax exemptions to **core education providers/non-profit providers** considering education as both a human right and a driver of social progress. In this discussion, we will explore how GST and similar indirect taxes are applied to educational services across the world, highlighting key exemptions, variations in tax treatment, and the rationale behind these policies.

The structure of indirect tax systems such as GST (Goods and Services Tax) and VAT (Value Added Tax) within the education sector plays a pivotal role in ensuring accessibility, equity, financing, and adaptability of learning systems. Most countries, particularly those in the developed world, adopt a common framework where core education, delivered by public or government-recognized institutions, is exempt from GST/VAT. However, non-core services like private coaching, commercial training courses, e-learning from unrecognized platforms, and services like transportation or catering are usually taxed at standard rates similar to India. For example, **the European Union and Australia** grant VAT/GST exemptions to accredited schools and universities, while taxing private coaching and commercial training at standard rates. Further, **The Netherlands** innovatively exempts educational services delivered online provided that they involve accredited content and live engagement with educators. **Singapore** also exempts education by government-registered institutions but taxes private tuition and enrichment programs at a single low rate, ensuring easy in compliance. In **the UK**, from 1 January 2025 private schools have been charged under 20 % VAT on tuition and boarding fees with removing their previous tax exemption.

In India, while core education is GST-exempt, private coaching and ancillary services are taxed at 18%, but the regime is comparatively complex with multiple slabs and partial exemptions. Drawing from these global experiences, India could streamline GST for education by focusing on simple, accreditation-based exemptions, incentivizing digital and equity-focused education, and ensuring that only genuine, profit-oriented services are taxed.



Here is a detailed comparative analysis in tabular form on education taxation provisions across key countries and regions, incorporating actual VAT/GST rates, policy details, and special features relevant to the education sector in these countries.

Country/ Region	Core Public/Recognized Education	Private/Vocational/Ancillary Education	VAT/GST Rates & Details	Unique Feature & Recent Developments
EU (Sample: Germany, France, Spain,	- Almost all recognized state and private educational institutions	VATable at standard rates: - Private/commercial tuition, unaccredited courses, for-profit	Standard VAT: - Germany: 19% - France: 20% - Spain: 21%	- EU VAT Directive mandates standard rules, but each country applies its own rates.

Netherlands, UK)	(schools, universities) are VAT-exempt, as per Art. 132(1)(i)(j) EU VAT Directive	institutions, and ancillary services (canteen, accommodation above basic education) - UK: Private school tuition taxed at 20% as of Jan 2025.	- Netherlands: 21% (Reduced 9% for some goods) - UK: 20%	- Some nations (Netherlands, Denmark, others) extend exemption to digital/accredited e-learning. - Multiple reduced rates within countries; e.g., France (5.5% & 2.1% for some publications). - Recent: Private education becoming taxable in UK.
Canada	Exempt - Public and most recognized K-12 and post-secondary education is GST/HST exempt.	GST/HST applies: - Most private/commercial courses and non-accredited training or seminars. - Ancillary services (housing, private tuition, catering) generally taxable unless specifically exempt.	GST: Federal 5% HST: Varies (13-15%) by province	- Clear division: accredited = exempt, non-accredited = taxable. - High exemption threshold for small providers. - Unique dual federal-provincial system.
Singapore	Exempt - Only courses by registered/approved schools (MOE/Skills Future-certified) are exempt.	8% GST: - Private/enrichment tuition, unregistered entities, and most non-approved courses. - Ancillary services by non-exempt entities taxable.	GST:8% (rising to 9% in 2024/25)	- Simplicity: single rate, broad registration/approval focus. - High registration threshold (SGD 1 million annual turnover).

Australia	GST-free - Preschool, primary, secondary, and most accredited vocational/higher education. - Listed in specific Schedules.	10% GST: - Short/non-accredited courses, private coaching, overseas study, and most ancillary services.	GST:10%	- Exemption based on outcomes: GST-free if course leads to recognized qualification. - Ancillary services (catering, accommodation) commonly taxable even for exempt providers.
Netherlands	Exempt - Recognized schools, universities, certain e-learning platforms with teacher interaction. - Weighted funding for equity.	VATable at 21%: - Private, non-accredited coaching, and some online/private training. - Some goods/services reduced rate at 9%.	Standard VAT:21% Reduced: 9%	- Digital/ interactive e-learning rewarded with exemption. - Weighted public funding addresses disadvantaged groups. - Ancillary commercial services often taxed at full rate.
Africa/Asia (select: Ghana, Kenya, Uganda, Pakistan)	Exempt (with conditions): - Public/recognized education generally not taxed.	VAT/GST applies: - Private schools, luxury or international educational services. - Ancillary services often taxable.	VAT: - Ghana: 12.5% - Kenya: 16% - Uganda: 18% - Pakistan: 17%	- Progressive/targeted VAT on luxury/for-profit used to earmark funds for public education. - Conditional exemptions reviewed regularly for compliance and revenue needs.

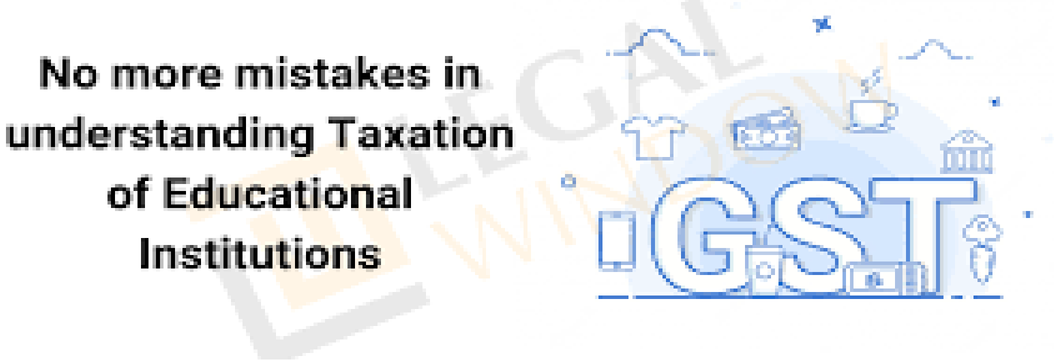
India	Exempt (recognized providers): - Pre-school, school, and degree-level by boards/universities, government/funded institutions.	18% GST applies: - Private tuition, coaching centres, vocational/non-recognized training, commercial e-learning apps, and ancillary services (rentals, canteen, hostels).	GST: Multi-slab system - 0% (core education) - 5%, 12%, 18%, 28% on relevant ancillaries/services	- Partial/complex exemptions; core public institutions tax-free, but line blurs for coaching/online/private players. - Only tuition directly linked to recognized qualification exempt. - Ancillary/commercial providers see full 18% GST. - Multiple slabs add compliance challenges.
Brazil	Planned Reduced Rate (Education): The 2023–2024 reforms introduce a dual VAT: federal CBS and state/municipal IBS. Education services will be taxed at only 40% of the standard VAT rate.	Taxable: Private/non-recognized/commercial education and training, and most ancillary services will generally be taxable at the reduced rate (unless specific additional exemptions are legislated).	Standard VAT rate expected 25-28% (CBS 8.8% + IBS 17.7%) Education: ~10–11% (i.e., 40% of standard) Pilot from 2025; full rollout 2026–2033	Brazil is moving from a fragmented "origin-based" system to a dual VAT, destination-based collection, removing cumulative taxes. Most complex system being unified into two VATs; education among sectors guaranteed reduced rate (40% of headline). Aimed at aligning Brazil with global VAT practice, facilitating input credits, and formally exempting/differentiating education as a public good. Colleges/universities

				previously faced a patchwork of state/local taxes, now to unify under new regime with federal and state authority.

In Conclusion, A global look at how countries apply GST or VAT in the education sector shows a common trend: most governments don't tax core education (like schooling and university degrees) from recognized institutions. In the EU, such services are tax-free, but private coaching and support services are taxed, usually at 19–21%. Some EU countries like The Netherlands even exempt certain accredited digital learning, keeping up with online education trends. The UK, however, will start taxing private school fees at 20% from 2025.

Canada and Brazil have a dual GST system like India, where taxes are shared between central and local governments. Canada clearly separates accredited education (exempt) and non-accredited education (taxable), making rules simple. Brazil is overhauling its tax system and giving education a 60% discount on VAT, keeping the tax around 11%, to make learning more affordable.

In Singapore, only government-registered schools are exempt, while private coaching is taxed at 8%. Australia exempts only education that leads to official qualifications. In India, core education is GST-free, but private coaching and ancillary services are taxed at 18%. Learning from these countries, India can simplify its GST and promote access, fairness, and digital education.



Chapter 07
GST Pain Points Unplugged: Expert Q&A

Q1. What are the main differences between core educational services and ancillary/commercial educational services under GST?

A. Core educational services, as defined under GST law, include services provided by educational institutions for pre-school education, education up to higher secondary school or equivalent, education as part of a curriculum for a recognized qualification, and approved vocational education courses. These services are exempt from GST to ensure affordability and accessibility, aligning with India's Right to Education Act. Examples include tuition fees, library services, and lab facilities provided to students, faculty, and staff.

Ancillary or commercial educational services, on the other hand, encompass non-exempt activities such as private coaching, vocational training not leading to recognized qualifications, online courses, and short-term professional programs (e.g., executive development programs by IIMs). These services attract an 18% GST rate, as they are considered commercial in nature. Additionally, ancillary services like transportation, catering, or hostel facilities, when outsourced or provided to non-students, are taxable at 18%. The key difference lies in the purpose and recognition: core services are essential for formal education and recognized by law, while ancillary/commercial services are supplementary or profit-driven.

Key difference: Core services are considered public/merit goods and exempt to promote affordability, while ancillary services are seen as commercial activities and taxed to prevent misuse.

Q2. What are the challenges in classifying digital and hybrid education models under GST?

A2. Classifying digital and hybrid education models under GST is challenging due to their diverse delivery mechanisms and lack of clear definitions. Key issues include:

- **Ambiguity in Defining "Education"**: The CGST Act does not explicitly define "education," leading to uncertainty about whether online courses qualify as core educational services or commercial training. For instance, courses offered by private ed-tech platforms are taxed at 18%, while government-run platforms may be exempt.
- **Mixed Supply Issues**: Hybrid models often bundle online content, live sessions, and physical resources, complicating classification as a composite or mixed supply. The taxability depends on the principal supply, which is hard to determine when digital and physical components are intertwined.
- **Software vs. Service**: Determining whether digital education tools are software licenses (goods) or SaaS (services) affects tax rates and compliance.
- **Place of Supply**: For online education, identifying the place of supply (interstate vs. intrastate) is complex, especially for unregistered students, impacting whether CGST/SGST or IGST applies.

These challenges lead to compliance burdens and disputes over tax applicability, particularly for ed-tech providers.

Q3. How can GST exemptions be refined to better support affordable education while preventing misuse by commercial entities?

A3. To balance affordability and prevent misuse, GST exemptions can be refined as follows:

- **Stricter Definition of "Educational Institution"**: Limit exemptions to institutions offering recognized qualifications under UGC, AICTE, or NSDC frameworks, excluding purely commercial entities like coaching centers unless they serve marginalized groups.
- **Audit and Certification**: Mandate regular audits for institutions claiming exemptions, ensuring they meet social welfare criteria (e.g., serving orphans, rural elderly, or disabled students).
- **Cap on Commercial Activities**: Restrict exemptions for ancillary services (e.g., hostels, canteens) to non-profit institutions, preventing commercial entities from exploiting exemptions for profit-driven services.

These measures would target exemptions to support affordability while curbing misuse by profit-oriented entities.

Q4. How did GST impact the operational costs of educational institutions compared to the pre-GST era?

A4. In the pre-GST era, educational institutions faced a complex tax structure with Value Added Tax (VAT), service tax, central excise duty, and octroi, leading to cascading tax effects and higher compliance costs. GST streamlined these into a unified system, with the following impacts:

- **Cost Reduction via Input Tax Credit (ITC)**: Institutions providing taxable services (e.g., private coaching) can claim ITC on inputs like computers and software, reducing operational costs. However, exempt institutions cannot claim ITC, increasing costs for inputs like infrastructure and utilities.
- **Increased Costs for Ancillary Services**: Outsourced services like transportation, catering, and security now attract 18% GST, raising operational expenses compared to the pre-GST era, where some services were exempt or taxed at lower rates.
- **Compliance Burden**: GST introduced simplified tax filing but increased administrative costs for institutions offering mixed (exempt and taxable) supplies due to complex classification and record-keeping requirements.
- **Higher Education Impact**: Private higher education institutions face higher costs due to 18% GST on professional courses, which are passed on to students, unlike the pre-GST partial exemptions under service tax.

Overall, while GST reduced some costs through ITC for taxable services, exempt institutions and those relying on ancillary services face higher operational costs.

Q5. Should India move towards a simpler, single-rate GST for educational services? Why or why not?

A5. A single-rate GST for educational services has pros and cons:

Arguments For:

- **Simplification**: A uniform rate (e.g., 5% or 12%) would reduce classification disputes and compliance burdens, especially for digital and hybrid education models.
- **Revenue Stability**: A single rate ensures consistent revenue for the government, which can be reinvested in public education.
- **Fairness**: It eliminates the disparity between exempt core services and taxable commercial services, creating a level playing field.

Arguments Against:

- **Affordability Concerns**: A single rate, even if low, would tax currently exempt core services (e.g., school education), increasing costs for low-income families, contradicting India′s Right to Education Act.
- **Social Impact**: Taxing essential education could reduce access for marginalized groups, undermining national development goals.

Given India′s socio-economic context, a single-rate GST may not be ideal, as it risks making basic education less affordable. A tiered system with exemptions for core services and a reduced rate for commercial services is more balanced.

Q6. Could introducing a reduced GST rate (rather than full exemption) for certain private educational services strike a better balance between revenue generation and accessibility?

A6. Introducing a reduced GST rate (e.g., 5% or 12%) for private educational services could strike a balance:

- **Revenue Generation**: A reduced rate ensures government revenue from private institutions (e.g., coaching centers, ed-tech platforms) without the full 18% burden, supporting fiscal goals.
- **Improved Accessibility**: Lower taxes reduce fee hikes, making private education more affordable for middle- and lower-income students compared to the current 18% rate.
- **Incentive for Compliance**: A lower rate encourages private institutions to register under GST and claim ITC, reducing tax evasion and improving transparency.
- **Challenges**: Determining eligibility for reduced rates requires clear criteria to prevent misuse, and it may not fully address affordability for the poorest segments.

A reduced rate could be effective if paired with strict eligibility (e.g., institutions serving low-income students or offering recognized courses), balancing revenue and accessibility.

Q7. Why doesn't the CGST Act explicitly define "education," and what implications does that have for tax interpretation?

A7. The CGST Act does not define ″education″ explicitly to maintain flexibility in its application across diverse educational models, avoiding rigid constraints that could exclude emerging formats like online or hybrid learning. This aligns with the GST Council′s approach to adapt definitions through notifications as the education sector evolves.

Implications:

- **Ambiguity in Classification**: Without a clear definition, institutions face uncertainty in determining whether their services qualify as exempt (e.g., online courses vs. recognized degrees), leading to disputes and litigation.
- **Inconsistent Application**: Tax authorities may interpret ″education″ differently, causing variations in tax treatment across states.
- **Compliance Burden**: Institutions must rely on GST Council notifications and judicial rulings (e.g., NIBM case) to classify services, increasing administrative costs.

A clear definition could reduce ambiguity but risks obsolescence as education models evolve.

Q8. What criteria could be used to clearly separate "recognized" from "non-recognized" educational services in law?

A8. To distinguish ″recognized″ from ″non-recognized″ educational services, the following criteria could be legislated:

- **Accreditation**: Services leading to qualifications recognized by statutory bodies like UGC, AICTE, or NSDC (e.g., degrees, diplomas) are ″recognized.″ Non-accredited courses (e.g., private coaching, short-term certifications) are ″non-recognized.″
- **Curriculum Approval**: Courses with a curriculum approved by a government authority (e.g., NCERT for schools) qualify as recognized.
- **Social Welfare Focus**: Services targeting marginalized groups (e.g., orphans, rural elderly) under charitable trusts registered u/s 12AA/12AB are recognized.
- **Duration and Structure**: Long-term, structured programs (e.g., two-year PGDM via CAT) are recognized, while short-term, commercial programs (e.g., executive courses) are not.

These criteria would clarify tax exemptions and reduce misclassification risks.

Q9. Is the inability to claim ITC for exempt services pushing institutions to raise fees?

A9. Yes, the inability to claim Input Tax Credit (ITC) for exempt services significantly impacts institutions:

- **Increased Input Costs**: Exempt institutions (e.g., schools, colleges offering recognized courses) cannot claim ITC on inputs like infrastructure, utilities, or software, leading to higher operational costs. These costs are often passed on to students via fee hikes.
- **Mixed Supply Challenges**: Institutions offering both exempt and taxable services must maintain separate accounts, increasing compliance costs and potentially necessitating fee increases to cover administrative expenses.

Data from the education sector indicates that private institutions have raised fees by 3-5%(approx.) post-GST to offset these costs, particularly in higher education

Q10. Why are services like school transport exempt when provided in-house, but taxable when outsourced?

A10. In-house school transport services are exempt under GST because they are considered part of the core educational services provided by an educational institution to its students, faculty, and staff, as per Notification No. 12/2017-Central Tax (Rate). This exemption aligns with the goal of keeping essential education affordable.

Outsourced transport services, however, are taxable at 18% because they are provided by third-party vendors, classified as commercial services under GST. The distinction arises from the GST framework′s focus on the service provider: in-house services are integral to the institution′s exempt activities, while outsourced services are separate taxable supplies. This creates a cost disparity, as institutions relying on third-party providers face higher expenses, often passed on to students.

Q11. Should ancillary services like canteen or hostel facilities always be exempt if operated by the institution itself?

A11. Ancillary services like canteen or hostel facilities should not always be exempt, even if operated in-house, due to the following considerations:

- **Support for Affordability**: Exempting in-house ancillary services ensures lower costs for students, especially in non-profit institutions serving low-income groups. For example, in-house catering under mid-day meal schemes is exempt to support accessibility.
- **Risk of Misuse**: Blanket exemptions could allow commercial institutions to bundle high-cost services (e.g., luxury hostels) as ″in-house″ to evade GST, undermining revenue goals.
- **Revenue Needs**: Taxing certain in-house services, especially in private institutions, ensures government revenue for public education funding. A balanced approach could involve a reduced GST rate (e.g., 5%) for in-house services in non-profit institutions.

A conditional exemption tied to non-profit status or social welfare criteria would better align with affordability and revenue objectives.

Part B

Healthcare Sector

Chapter 09
Background and Context of GST on Healthcare Services

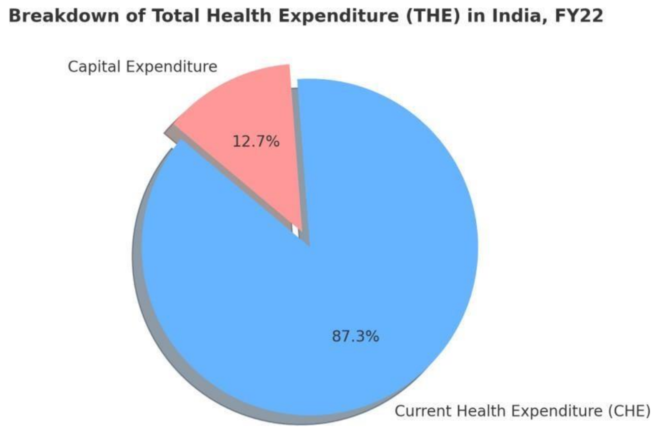
Health is a crucial component of human capital and a valuable asset for a prosperous and stable economy. It boosts productivity, reduces healthcare needs, enhances life expectancy, and supports social development. Furthermore, good health is foundational for the young generation to achieve their aspirations and contribute to society. The emphasis on health is important given that India is emerging as an economic powerhouse driven by its youthful population.

The healthcare sector, also referred to as the medical industry or health economy, encompasses a diverse array of companies and non-profit entities focused on delivering medical services, producing medical devices, and developing pharmaceuticals. It comprises various sub-sectors and relies on collaborative efforts from multidisciplinary teams of professionals and support staff to address the healthcare needs of individuals and communities. The Indian healthcare industry comprises key segments including pharmaceuticals, medical imaging, health insurance, telemedicine, biotechnology, and hospitals. Among these, the pharmaceutical sector holds a pivotal position within India’s healthcare framework. Research-driven pharmaceutical firms significantly influence the nation’s economy by creating innovative treatments that surpass traditional, less effective methods. A substantial share of healthcare funding is consistently directed towards advancing the pharmaceutical industry. Consequently, the introduction of GST has had a profound effect on the pharmaceutical sector compared to other healthcare segments.

The Universal Immunisation Programme (UIP) is one of India’s most impactful public health initiatives, providing life-saving vaccines to millions of newborns and pregnant women annually. Currently, the UIP offers 11 vaccines free of cost, protecting against 12 vaccine-preventable diseases. With full immunisation coverage for FY24 at 93.5 per cent nationally, the UIP continues to safeguard public health and ensure equitable access to essential vaccines. E-Sanjeevani - the National Telemedicine Service, has emerged as the world's largest telemedicine implementation in primary healthcare.

9.2 Contribution of Healthcare in India's GDP:

India's public expenditure on healthcare is expected to be 1.9% of GDP in FY26, compared to 2.5% in FY25, as per the Economic Survey 2024-25.According to the latest National Health Accounts statistics for 2021-22, released in September 2024, the Total Health Expenditure (THE) in FY22 is estimated to be ₹9,04,461 crore (3.8 per cent of GDP and ₹6,602 per capita at current prices). THE per capita (at constant prices) has shown an increasing trend since FY19. Out of the THE, current health expenditure (CHE) is ₹7,89,760crore (87.3 per cent of THE), and capital expenditure is ₹1,14,701 crore (12.7 per cent of THE). An increase in the share of capital expenditure in THE from 6.3 per cent in FY16 to 12.7 per cent in FY22 is a positive sign as it will lead to broader and better health infrastructure.



9.3 EVOLUTION OF TAX ON HEALTHCARE SECTOR IN INDIA:

Healthcare services, given their pivotal role in public welfare, have historically received special treatment under India's indirect tax laws. Under the service tax regime, most healthcare services were exempt, signaling government intent to shield the sector from additional fiscal burdens. The roll-out of GST in July 2017 saw a continuation of this policy, with comprehensive exemptions designed to maintain affordability and prevent barriers to access. Analyzing the trajectory from service tax to GST reveals the underlying policy priorities and provides a foundation for rigorous study into the impact of tax structure on the healthcare sector's performance and accessibility.

9.4 TAX APPLICABILITY ON HEALTHCARE SECTOR IN PRE-GST ERA:

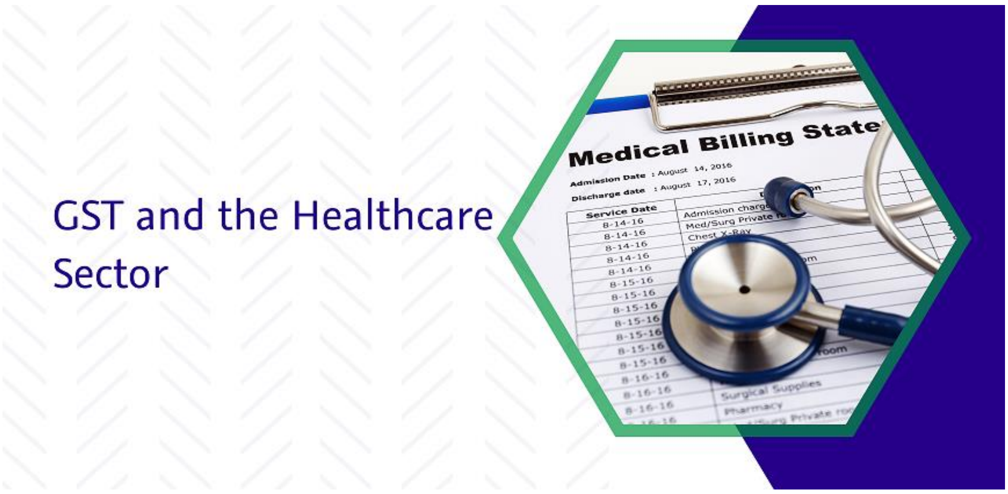
Under India's earlier Service Tax regime (pre-July 2017), healthcare services provided by hospitals, nursing homes, multi-specialty clinics, or clinical establishments were generally exempt from service tax. The government recognized the essential role of healthcare and extended a “negative list”—a set of services explicitly kept outside the purview of service tax via exemption notifications (notably Notification No. 25/2012-ST dated 20.06.2012, effective from 01.07.2012). Only limited services, such as medical check-ups paid by corporate employers or covered by insurance schemes, were sometimes taxed. However, in most cases, healthcare provided to individual patients, either by clinical establishments or independent practitioners, remained untaxed under service tax regulations.

9.5 TRANSITION TO GOODS AND SERVICES TAX REGIME:

With the implementation of the GST regime on July 1st, 2017, the structure for taxing healthcare services evolved. The GST law continues to exempt healthcare services provided by clinical establishments, authorised medical practitioners, and paramedics. The rationale centers on making essential healthcare affordable and accessible, recognizing its public welfare dimension.

GST Notification No. 12/2017-Central Tax (Rate), and subsequent amendments, clarify that diagnosis, treatment, or care for illness, injury, deformity, abnormality, or pregnancy under recognized systems of medicine (including Allopathy, Ayurveda, Homeopathy, etc.) are not subject to GST. However, services such as cosmetic surgery (unless medically required due to trauma, congenital defects, etc.), and certain ancillary medical products or business-related services, may attract GST in specific cases.

In the healthcare sector, GST has introduced exemptions for essential services while taxing certain non-essential services and goods, influencing costs and operational efficiency.



Chapter 10
GST and Healthcare Services

10.1 Types of Services in the Health Sector:

The health sector encompasses a wide range of services, including:

- **Clinical Services**: Diagnosis, treatment, surgical procedures, and hospitalization provided by hospitals, clinics, and authorized medical practitioners.
- **Diagnostic Services**: Medical tests, imaging (e.g., X-rays, MRIs), and laboratory services.
- **Ancillary Services**: Ambulance services, food supply to inpatients, and biomedical waste management.
- **Preventive Services**: Vaccinations, health check-ups, and wellness programs.
- **Non-Essential Services:** Cosmetic surgeries, hair transplants, and fitness services provided by gyms or wellness centers.
- **Pharmaceutical and Medical Supplies**: Medicines, implants, consumables, and medical equipment.

Each service type has distinct GST implications, with essential services often exempt and non-essential services taxable.

The Golden Rule: Healthcare Services are Exempt.

Examples of GST-Free Services: Doctor consultations, In-patient surgeries, Pathology tests (X-rays, MRIs, blood work), Emergency services, ICU treatment.**Notification No. 12/2017** – Central Tax (Rate), Entry No. 74: "Services by way of healthcare services by a clinical establishment, authorized medical practitioner, or paramedics are exempt".

10.2 IMPORTANT DEFINITIONS:

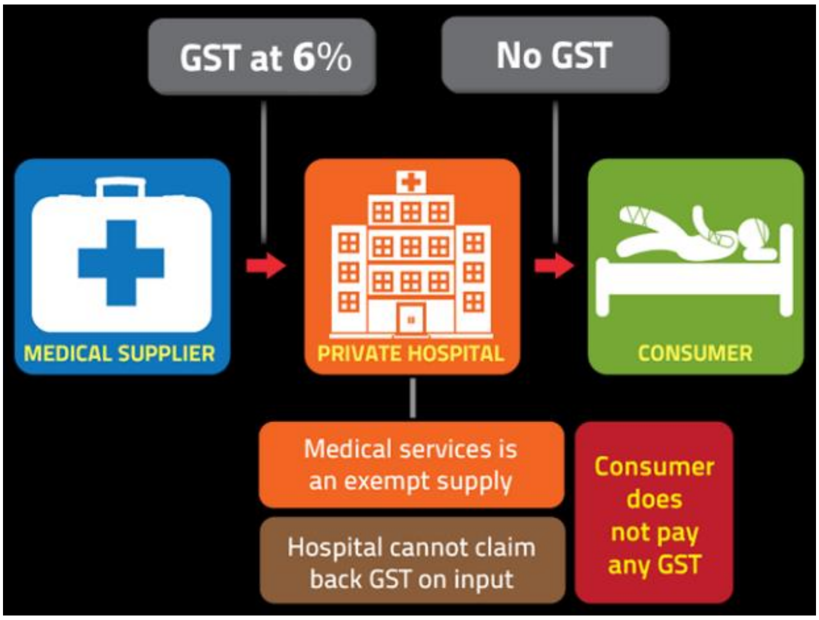
Term	Definition
Healthcare Services	service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India and includes services by way of transportation of the patient to and from a clinical establishment, but does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma
Clinical Establishment	A hospital, nursing home, clinic, sanatorium or any other institution by, whatever name called, that offers services or facilities requiring diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India, or a place established as an independent entity or a part of an establishment to carry out diagnostic or investigative services of diseases
Authorised Medical Practitioner	A medical practitioner registered with any of the councils of the recognised system of medicines established or recognised by law in India and includes a medical professional having the requisite qualification to practice in any recognised system of medicines in India as per any law for the time being in force
Paramedics	Qualified staff, like nurses, technicians, and physiotherapists involved in patient care.

10.3 EXEMPTED AND TAXABLE HEALTHCARE SERVICES:

Type of Healthcare Service	GST Applicability	GST Rate	Remarks
Medical treatment (hospitals, clinics, nursing homes)	Exempt	0%	Includes hospitalization and surgery

Doctor consultations (diagnosis, treatment)	Exempt	0%	Includes consultation and medical tests in clinical establishments
Paramedical, nursing & physiotherapy services	Exempt	0%	Provided by registered/authorized professionals
Ambulance services	Exempt	0%	No GST on patient transport
Blood bank/organ donation & stem cell storage	Exempt	0%	
Diagnostic tests (within hospital/clinic)	Exempt	0%	If performed by the establishment
Diagnostic tests (independent labs)	Taxable	18%	If not operated as part of a clinical establishment
Cosmetic/plastic surgery (non-essential)	Taxable	18%	If not for restoring or reconstructing anatomy or function
Hair transplant & botox treatment	Taxable	18%	
Medical/health insurance premiums	Taxable	18%	
Healthcare consulting (not core medical care)	Taxable	18%	
Hospital room rent (except ICU/CCU/NICU) above ₹5,000/day	Taxable	5%	Effective 18 July 2022; applies to non-ICU/CCU/NICU rooms
Medicines & medical Consumables during hospitalization	Exempt	0%	Treated as part of overall healthcare service

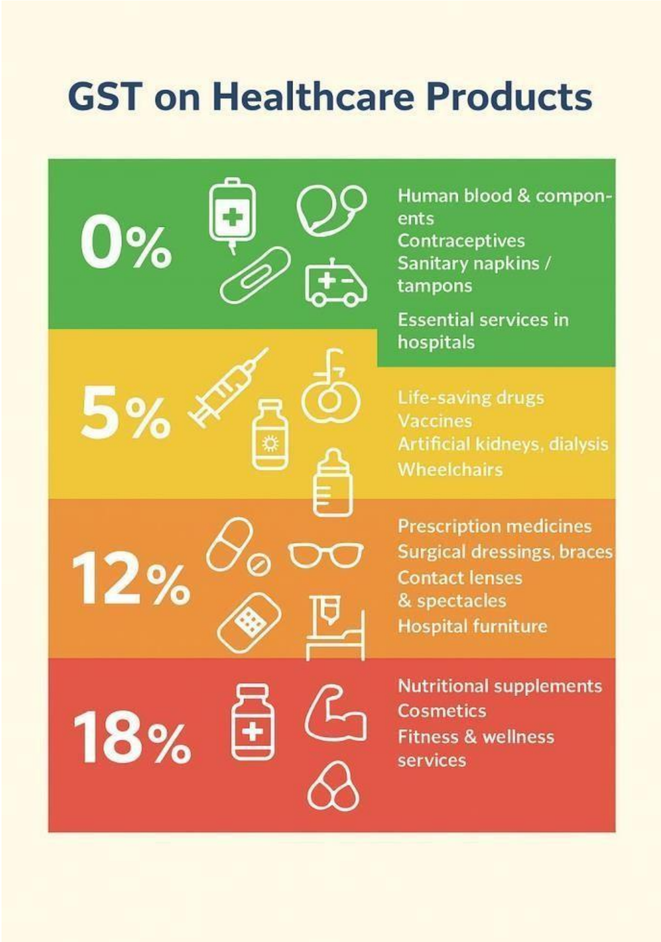
Sale of medicines & medical supplies (retail)	Taxable	5%/12%	Essential medicines at 5%, others at 12%
Services by veterinary clinics	Taxable	18%	For animal healthcare



Chapter 11
Applicability of GST Rates on Healthcare Products and Services

11.1 GST rates on Medicines and Medical Services:

Under the Goods and Services Tax (GST) regime in India, several essential healthcare-related goods and services are exempted and fall under the nil-rated category. Human blood and its components used in medicine, contraceptives, sanitary napkins, and tampons are specifically placed under this category to ensure accessibility and affordability.



Initially, there was considerable ambiguity regarding the GST applicability on medicines, implants, diagnostic supplies, and other consumables administered during hospitalization. However, the Authority of Advance Ruling (AAR) in Kerala clarified that such supplies, when provided in the course of treatment during hospitalization, attract nil GST, as they are considered integral to healthcare services.

Furthermore, medical services provided by authorized medical practitioners, licensed medical and paramedical clinics, and services rendered during the transportation of patients by ambulance are also exempt from GST. The exemption extends to veterinary healthcare services provided to animals and birds at authorized clinics.

A concessional 5% GST rate is levied on several essential medicines and medical devices to ensure affordability and accessibility. This includes vaccines, insulin, oral rehydration salts, diagnostic kits, and critical drugs specified under Central Excise Notification No. 12/2012. Medical devices such as artificial kidneys, dialysis equipment, orthopaedic appliances, artificial limbs, ostomy appliances, and assistive aids for persons with disabilities also fall within this category. Furthermore, coronary stents, infant milk food, COVID-19 test kits, and certain cancer drugs are taxed at 5%, reflecting the government's intent to minimize healthcare costs for patients.

Medical products attracting a 12% GST rate include a wide range of therapeutic and diagnostic items, traditional and modern medicines, and essential healthcare equipment. This category covers animal blood derivatives, antisera, toxins, mixed medicaments across allopathic and alternative systems, and consumables such as bandages, gauze, and surgical gloves. It also extends to diagnostic and therapeutic instruments like X-ray machines, scintigraphic apparatus, and glucometers, as well as feeding bottles, diabetic foods, enzymes, spectacle lenses, and medical-grade oxygen. The 12% rate reflects a balanced taxation approach for commonly used but non-critical healthcare products.

An 18% GST, the highest slab applicable to pharmaceutical products, is levied on a limited set of items, largely considered ancillary or non-essential. These include nicotine- based preparations for tobacco cessation, hygienic articles such as teats, hot water bottles, and ice bags, along with oral and dental hygiene products sold in retail packages. Hospital and medical furniture with mechanical fittings, including operating tables, beds, and dentists' chairs, are also taxed at this rate. Additionally, razors, surface-active skin preparations, and diagnostic instruments like infrared thermometers and hygrometers fall within the 18% bracket.No pharmaceutical products or medicines are taxed at 28% GST.

11.2 GST on Ambulance Services:

0% (exempt) for ambulance services provided by hospitals, clinical establishments, authorized medical practitioners, or paramedics when used for emergency or critical care (e.g., trauma, accident victims, or patient transfers) are non-taxable, as these are considered part of "healthcare services." This includes services outsourced by state governments to private providers for free or subsidized patient transport. Up to 18% GST may apply to ambulance services provided by standalone or commercial operators not linked to healthcare services (e.g., ambulances used for event standby, non-emergency transport, or luxury services without medical supervision).

11.3 GST on Food Supply to Inpatients:

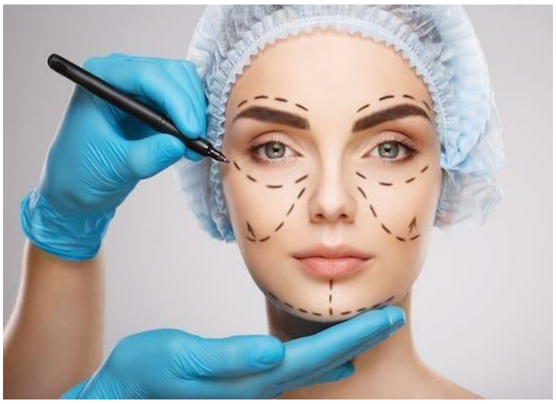
Food supplied to inpatients by hospitals or clinical establishments is considered part of a **composite supply** of healthcare services, which are exempt from GST under the definition of "healthcare services." This includes meals provided during hospitalization for medical treatment, such as for patients with Diabetes, Malaria, TB, or HIV-AIDS. The exemption applies when food is provided as an integral part of inpatient treatment under medical supervision, not as a standalone restaurant or catering service. If food is supplied to outpatients, visitors, or hospital staff through canteens or standalone restaurants within hospital premises, it is taxable at **5% GST** (without input tax credit, ITC) or **18% GST** (with ITC) if located in hotels with room tariffs exceeding ₹7,500 per day, as per the restaurant service GST structure.

11.4 GST on Biomedical Waste Management:

Biomedical waste management services, such as collection, transportation, treatment, and disposal of waste generated by hospitals, clinics, or laboratories, are taxable at **12% GST**.

Exemption: Biomedical waste management services supplied to Central/State/Union Territory governments or local authorities for public health functions (e.g., under Swachh Bharat Mission or municipal contracts) are **exempt (0% GST)** if they include composite services with up to 25% of non-exempt services.

11.5 GST on Cosmetic Surgeries:



Cosmetic surgeries, such as aesthetic procedures (e.g., facelifts, liposuction, breast augmentation), are considered non-essential healthcare services and are taxable at 18% GST.Cosmetic surgeries are exempt (0% GST) only when undertaken to restore or reconstruct anatomy or bodily functions impaired due to congenital defects, developmental abnormalities, injuries, or trauma. For example, reconstructive surgery post-accident or for congenital deformities is exempt as part of healthcare services.

11.6 GST on Hair Transplants:

Hair transplant procedures, such as hair restoration for aesthetic purposes (e.g., treating baldness), are classified as cosmetic treatments and are subject to 18% GST. Hair transplants are exempt (0% GST) if performed to restore hair loss due to medical conditions, such as burns, trauma, or congenital defects, as these qualify as healthcare services under the GST exemption for reconstructive procedures.

11.7 GST on Fitness Services Provided by Gyms or Wellness Centers:

Fitness services provided by gyms, health clubs, yoga centers, and wellness centers (e.g., gym memberships, personal training, yoga classes) are taxable at 18% GST, as they are classified as physical well- being services, not essential healthcare services. Wellness services provided by hospitals or clinical establishments under medical supervision (e.g., physiotherapy or diet counseling for medical conditions) are exempt (0% GST) as healthcare services. For example, yoga therapy prescribed by a doctor for medical treatment may be exempt.

11.8 GST Rates on Vaccinations, Health Check-ups, and Wellness Programs:

The GST framework in India adopts a differentiated approach to the taxation of vaccines, health check-ups, and wellness services to balance public health priorities with revenue needs. Vaccines are classified as life-saving drugs and taxed at a concessional rate of 5%, covering widely administered vaccines such as those for COVID-19, Hepatitis, Influenza, and BCG, while rare-disease medicines, including Dinutuximab (Quarziba), are exempt from IGST when imported for personal use or through recognized Centres of Excellence.

Vaccination services, along with health check-ups and diagnostic services provided by hospitals, clinical establishments, or authorized practitioners, are fully exempt from GST, ensuring no tax burden on preventive healthcare. In contrast, diagnostic kits and reagents used in health screenings attract 12% GST (HSN 3822), unless specifically categorized as essential, such as certain tuberculosis diagnostic kits taxed at 5%. Wellness programs are taxed based on their classification: those provided within healthcare settings (e.g., physiotherapy, counseling, or diet therapy under medical supervision) are exempt, while commercial wellness services such as gym memberships, yoga centers, and corporate wellness packages attract 18% GST under SAC 9993. Similarly, goods associated with wellness programs are taxed variably—12% for Ayurvedic, Unani, Siddha, Homeopathic, or Biochemic medicines, and 18% for non- medicinal supplements or products such as modern nutritional aids and nicotine gums.

The Economic Survey 2024-25 highlights the role of GST exemptions in reducing out-of-pocket expenditure for healthcare services, including vaccinations and health check-ups under Ayushman Bharat. It notes the growth of telemedicine and mental health programs (e.g., Tele MANAS), which benefit from GST exemptions when provided as healthcare services.

11.9 Healthcare Services and related SAC codes:

Below is a summary of various healthcare services along with their corresponding SAC (Service Accounting Code) and applicable GST rates. This table provides a quick reference for identifying the nature of service and the taxability status under GST provisions

Healthcare Service	SAC Code	GST Rate	Input Tax Credit (ITC)	Remarks
Inpatient hospital services	999311	Exempt	Not	Core healthcare services

(IPD)		(0%)	Available	exempt
Outpatient consultation (OPD) by doctors	999312	Exempt (0%)	Not Available	Includes general & specialist consultations
Childbirth & related services	999313	Exempt (0%)	Not Available	Includes maternity packages
Nursing & physiotherapy services	999314	Exempt (0%)	Not Available	Provided by registered practitioners
Ambulance services (Govt/NGO/Clinical Establishment)	999315	Exempt (0%)	Not Available	Exempt if by hospital/NGO; private ones taxable
Ambulance services (Private operators)	999315	5%	Not Available	ITC blocked
Diagnostic services (within hospital)	999316	Exempt (0%)	Not Available	Linked to treatment
Diagnostic services (Standalone labs)	999316	5%	Not Available	If independent (not part of hospital)
Organ/blood bank services	999317	Exempt (0%)	Not Available	Donation-related services exempt
AYUSH (Ayurveda, Yoga, Unani, Siddha, Homeopathy)	999319	Exempt (0%)	Not Available	When provided by recognized practitioners
Hospital accommodation (non-ICU ≤ ₹5,000/day)	9993	Exempt (0%)	Not Available	Room tariff within limit
Hospital accommodation (non-ICU > ₹5,000/day)	9993	5%	Not Available	ITC blocked
ICU room charges	9993	Exempt (0%)	Not Available	Always exempt
Cosmetic/Plastic surgery (non-essential)	9993	18%	Available	If not for reconstructive/medical necessity
Biomedical waste treatment services	9994	12%	Available	Provided to hospitals/clinics
Health insurance	9964 /	18%	Available	Not healthcare, classified

premium	9972		(for insurer)	as insurance
Wellness programs, medical camps, fitness packages	9993 / 9983	18%	Available	Not considered essential healthcare

11.10 Mixed and Composite supplies in Indian Healthcare Sector:

Under the GST framework, the classification of supplies as either *composite* or *mixed* has significant implications for tax liability. As defined in Section 2(30) of the CGST Act, a composite supply involves two or more taxable or exempt goods or services that are naturally bundled and supplied together in the ordinary course of business, with one supply identified as the principal supply determining the applicable tax rate. In contrast, Section 2(74) defines a mixed supply as a combination of two or more independent goods or services, not naturally bundled, but offered for a single price. In such cases, the highest applicable GST rate among the items applies to the entire supply.

In the healthcare sector, composite supplies arise when hospitals provide naturally bundled services, such as surgery packages that include the surgeon's fee, anaesthesia, nursing, room charges, and implants. As per Circular No. 51/25/2018-GST, these are treated as composite supplies with healthcare as the principal supply, making the entire package GST-exempt. For example, a heart surgery involving stent insertion is exempt in totality, even though stents attract 12% GST when sold separately. However, stents purchased independently from a hospital pharmacy remain taxable.

Composite Supply	Principal Supply	GST Applicability
Hospital services package (treatment, room, diagnostics, nursing)	Health service	Exempt under Notification No. 12/2017-

		Central Tax (Rate)
Doctor consultation with minor diagnostics	Doctor consultation	Exempt
Surgical package (operation, medicines, nursing)	Surgical procedure	Exempt
Outpatient treatment with diagnosis and pharmacy supply (non-separate billing)	Medical treatment	Exempt
Health insurance with wellness rider (minor services)	Health insurance	18% GST on the full amount
Ambulance service with medical personnel	Transportation	Exempt if part of hospital care

Health check-up packages with gym membership and diet products	Health check-up (12%) + gym service (18%) + dietary supplements (18%)	18% GST applies
Medical kits sold with a consultation voucher	Medicine (5%) + Consultation voucher (exempt)	5% or 18% depending on the dominant element and pricing
Gift hampers (BP monitor + Thermometer + Food supplement)	Devices (12–18%) + Supplement (18%)	18% GST
Cosmetic surgery + post-care therapy package	Cosmetic surgery (taxable at 18%) + therapy (possibly exempt)	18% GST
Dental kit + preventive dental camp access	Kit (taxable) + Camp (possibly exempt)	Taxable at the highest rate (likely 18%)

11.10.1 Impact of Composite and Mixed Supply:

In the context of healthcare services under GST, the concept of supply plays an important role in determining tax liability. **Composite supply** ensures that essential healthcare services provided to inpatients, such as medicines, implants, and other necessary items supplied as part of the treatment, remain exempt from tax. This helps reduce the overall cost burden on patients and supports affordability of critical care. On the other hand, **mixed supply** can increase treatment costs, as when taxable services—such as cosmetic or elective procedures—are bundled with otherwise exempt healthcare services, the entire supply becomes taxable at the higher applicable rate. This creates a significant difference in patient expenses depending on how services are categorized. However, distinguishing between composite and mixed supplies is not always straightforward. The classification requires careful analysis of the nature of services provided, which in turn creates **compliance challenges** for hospitals and healthcare providers, as it demands additional administrative effort and accurate documentation.

11.11 Who pays what? How much? - A few case studies

Under the GST framework, the taxability of different hospital services has been clarified through various circulars and notifications, ensuring greater transparency for both healthcare providers and patients. For instance, **room rent charges** have been specifically addressed in *Circular No. 177/09/2022-GST*. In general, room rent is treated as part of the overall inpatient healthcare service and is exempt from GST. However, an exception applies in the case of non-ICU rooms where the rent exceeds ₹5,000 per day per patient; such charges attract GST at 5%, without the benefit of input tax credit (ITC). In contrast, ICU, CCU, and ICCU charges remain completely exempt from GST, regardless of the amount charged. This means that a shared non-ICU room priced at ₹4,800 per day is GST-free, whereas a deluxe non-ICU room at ₹6,500 per day is taxable at 5%. Yet, an ICU room priced at even ₹9,000 per day remains exempt. It is also important to note that these exemptions apply only when the hospital is registered under the relevant clinical establishment laws.

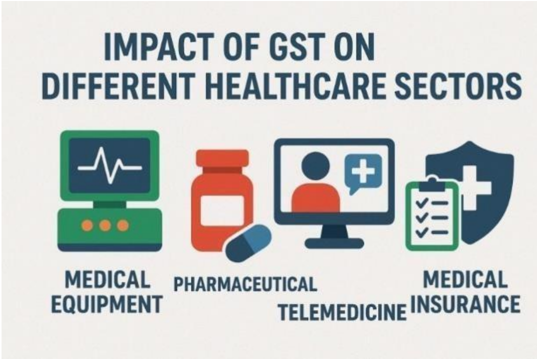
Another area of clarity concerns **hospital food services**, as per *Circular No. 32/06/2018- GST*. Food supplied to admitted patients as part of their prescribed diet is considered integral to healthcare and is exempt from GST. On the other hand, food sold through hospital cafeterias or canteens to visitors, attendants, or outpatients is treated as a taxable supply, attracting GST at 5% (without ITC). To ensure compliance, hospitals are required to maintain separate records distinguishing taxable food sales from exempt in-patient meals. Further, while ITC may be claimed on inputs used for preparing taxable canteen food, no such credit is available in respect of exempt in-patient meals, in line with Section 17(5) of the CGST Act.

Similarly, **pharmacy sales within hospitals** are taxed differently depending on who makes the purchase. Medicines, implants, syringes, and consumables supplied to admitted patients as part of their treatment are considered bundled with healthcare services and are exempt from GST. However, sales made to outpatients or walk-in customers through the hospital pharmacy attract GST at standard rates—5% on drug formulations, 12% on most medical devices, and 0% on certain essential life-saving drugs such as insulin. To maintain compliance, hospitals may need to keep separate accounts or even obtain separate GST registrations for such taxable pharmacy operations.

Finally, **cosmetic procedures** stand clearly outside the scope of healthcare exemptions under GST. Purely aesthetic treatments, such as hair transplants or teeth whitening, are treated as taxable services at 18%. However, when such procedures are medically justified and form part of essential treatment—for example, breast reconstruction after mastectomy, scar revision, or gender-affirming surgeries backed by medical documentation—they are exempt from GST. This distinction helps ensure that medically necessary interventions remain affordable, while elective or luxury procedures bear the appropriate tax burden.

Chapter 12
Impact of GST on Healthcare Providers and Healthcare Sector

The implementation of the Goods and Services Tax (GST) in India marked a significant reform in indirect taxation, bringing uniformity and simplifying compliance across sectors, including healthcare. While core healthcare services—such as consultations, surgeries, inpatient treatment, and critical care—remain exempt from GST, its impact on ancillary aspects like medical equipment, pharmaceuticals, diagnostics, digital health services, and medical education has been profound.



Medical equipment illustrates both benefits and challenges: essential devices including implants, assistive aids, wheelchairs, and dialysis equipment are taxed at a concessional 5%, but high-end diagnostic instruments and many imported devices fall under the higher 12–18% slabs, increasing procurement costs. Since hospitals cannot claim Input Tax Credit (ITC) on inputs used for exempt services, this directly raises financial strain, especially for small and mid-sized hospitals that rely on costly imports.

Pharmaceutical procurement follows a similar pattern: essential drugs such as insulin and vaccines attract 5% GST, most formulations fall under the 12% slab, and specialized or high-value medicines are taxed at 18%. Although GST eliminated multiple state-level levies and created a streamlined structure, the inability of exempt healthcare providers to avail ITC escalates procurement costs, ultimately burdening patients.

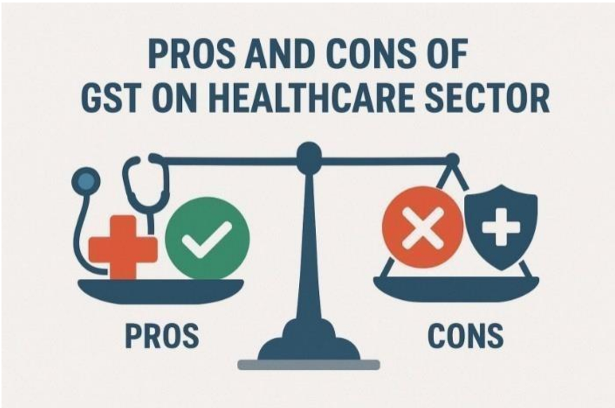
Diagnostics has emerged as a dual structure, with hospital-based labs exempt from GST, while standalone diagnostic centers face 5% GST without ITC, raising operational expenses and resulting in higher patient charges. Telemedicine, a rapidly growing field after COVID-19, reflects similar complexities: while consultations by registered practitioners are exempt, digital platforms, aggregators, and e-pharmacies incur 18% GST on service charges, commissions, and software tools, creating barriers to widespread adoption. In addition, procurement of telemedicine devices and digital infrastructure also attracts GST, further increasing costs.

Medical education under GST is also treated unevenly: recognized degree programs such as MBBS, BDS, and nursing courses remain exempt, but private training institutes, paramedical diploma providers, continuing medical education (CME) programs, and workshops are taxed at 18%, raising participation costs and potentially limiting skill development among younger professionals and paramedics.

Beyond these sectoral impacts, GST has introduced both advantages and drawbacks for healthcare providers as a whole. On one hand, the replacement of multiple indirect taxes like VAT, excise, and service tax has reduced cascading effects, improved transparency, and streamlined compliance. For certain taxable procurements, seamless flow of ITC on capital goods has lowered costs and enabled wider access to advanced technologies. On the other hand, since the majority of healthcare services are exempt, hospitals and clinics cannot offset taxes on inputs such as equipment, consumables, and medicines, leading to higher operational costs and reduced financial efficiency.

Additional burdens include taxation on non-essential services such as hospital room rents above ₹5,000 per day (5% GST without ITC) and health insurance premiums at 18%, both of which increase patient out-of-pocket expenditure. Consequently, GST has created a paradox in the healthcare sector: while it has simplified taxation, ensured uniformity, and reduced tax multiplicity, its uneven rate structure and restrictions on ITC have inadvertently raised costs in equipment procurement, pharmaceutical purchases, diagnostics, and skill training. These rising costs ultimately affect affordability, accessibility, and innovation, with smaller providers bearing a disproportionate burden. Thus, GST has emerged as a double-edged sword for Indian healthcare—promoting efficiency and transparency on one side, but constraining affordability and financial sustainability on the other.

12.1 Pros and Cons of GST Implementation



The GST framework in healthcare plays a significant role in balancing patient welfare with hospital sustainability. By granting exemptions on essential healthcare services, such as inpatient treatment and life-saving medicines, the system directly contributes to the **affordability of critical**

care, ensuring that patients are not burdened with additional tax costs during times of medical need. At the same time, the availability of input tax credit (ITC) on taxable supplies improves **operational efficiency** for hospitals by reducing their overall capital and procurement costs. The adoption of uniform tax rates and well-defined compliance requirements has also brought greater **transparency** into the system, making it easier for healthcare providers to manage taxation while giving patients clarity about what is and isn't taxable. Furthermore, the streamlined approach to taxation enhances India's **medical tourism potential** by making healthcare costs more predictable and internationally competitive, thereby attracting patients from abroad who seek high-quality yet affordable medical treatment.

While GST has streamlined many aspects of taxation, certain challenges remain for the healthcare sector. One of the key issues is **blocked input tax credit (ITC)**, as hospitals and clinics cannot claim ITC on exempt healthcare services. This raises their operational costs, which are often indirectly passed on to patients. Smaller clinics also face **compliance complexity**, since regular GST filing, service classification, and record-keeping require administrative capacity that many smaller establishments struggle to manage. Additionally, the **taxation of non-essential services** such as high-value non-ICU room rents or health insurance premiums increases the financial burden on patients who opt for premium facilities. Another concern is the **inverted duty structure**, where taxes on inputs such as medical equipment and supplies are higher than those on final healthcare services. This mismatch discourages domestic production of medical devices and consumables, ultimately leading to greater dependence on imports and higher costs in the long run.

12.2. Difficulties Faced by Taxpayers and Solutions to Taxpayer Difficulties

The introduction of GST has created several challenges for the healthcare sector, particularly for smaller hospitals and clinics. One major difficulty is the **compliance burden**, as these providers struggle with requirements such as e-invoicing, filing multiple GST returns like GSTR-1 and GSTR-3B, and maintaining separate records for taxable and exempt supplies. This becomes even more complicated because of **restrictions on input tax credit (ITC)**, where hospitals cannot claim ITC on exempt services. For facilities that deal with a mix of taxable and exempt supplies, this significantly raises operational costs. Another pressing issue is the **ambiguity in classification**, especially in distinguishing between composite and mixed supplies, which often leads to confusion and potential tax disputes with authorities. The problem is compounded by the **high taxes on medical consumables and equipment**, which directly increases the cost of treatment and reduces affordability for patients. Smaller providers also face higher **administrative costs**, since they often lack the resources to maintain dedicated tax teams and must instead depend on external consultants, further adding to their financial strain. These factors together highlight the need for a more simplified and supportive GST framework in healthcare.

To make GST more manageable for the healthcare sector, especially smaller providers, several reforms can be introduced. **Simplified compliance measures**, such as user-friendly GST software and training programs, would help small clinics handle filings with ease. At the same time, reforms in the **input tax credit (ITC) system**, allowing partial claims even on exempt services, could reduce the cost burden on hospitals and prevent hidden expenses from being passed on to patients. The government can also improve clarity by issuing **detailed CBIC circulars** that clearly explain supply classifications, thereby minimizing confusion and disputes. Rationalizing **tax rates on essential medical consumables** would make treatment more affordable for patients, while additional **support for small healthcare providers**, in the form of subsidies or tax holidays, would help them offset compliance costs and remain financially sustainable. Together, these measures can create a fairer, more transparent, and patient-friendly GST framework for healthcare.

Chapter 13
CBIC Circulars Specific to the Healthcare Sector and Important case laws

13.1 CBIC Circulars Specific to the Healthcare Sector

The Central Board of Indirect Taxes and Customs (CBIC) has issued the following circulars clarifying GST applicability in the healthcare sector:

1. Circular No. 27/01/2018–GST (04.01.2018)

This circular provided much-needed clarity regarding the taxability of hospital room rents, which form a significant component of healthcare expenditure. It reaffirmed that **room rent charged by hospitals for in-patients is exempt from GST**, as it falls within the definition of "composite supply of healthcare services." However, it introduced a crucial threshold: while most in-patient room charges remain exempt, **rooms with tariffs exceeding ₹5,000 per day per patient (non-ICU)** are carved out of this exemption and taxed at **5% GST (without ITC)**. This change was introduced to balance affordability for patients with the need for revenue mobilization, but it has been criticized for disproportionately affecting middle-class patients who opt for private hospital care.

2. Circular No. 32/06/2018–GST (12.02.2018)

This circular addressed ambiguities around the scope of "healthcare services" and clarified two major issues:

- **Consultants and Paramedics**: Services rendered by senior doctors, consultants, and technicians—irrespective of whether they are employees of the hospital or engaged on a consultancy basis—are to be treated as part of exempt healthcare services. This recognition ensured that hospitals could continue hiring specialist consultants without facing GST complications.
- **Food Supplied to Patients**: The circular also clarified that food supplied to in- patients, when advised by doctors or nutritionists, constitutes an **integral part of treatment** and is therefore exempt as part of composite healthcare services. In contrast, food supplied to **visitors, attendants, or outpatients** is not part of treatment and hence is taxable. This distinction reinforced the principle that only services directly linked to patient care qualify for exemption.

3. Circular No. 51/25/2018–GST (31.07.2018)

This circular extended the scope of GST exemption to ambulance services provided under **public health schemes**, particularly those run by the government. Specifically, it exempted ambulance services supplied to the **Central Government, State Governments, and Union Territories under the National Health Mission (NHM)**. The rationale was that such services are integral to emergency healthcare delivery and should not be burdened with additional costs that could hinder accessibility. By exempting NHM ambulance services, the government reinforced its commitment to affordable emergency healthcare, while still keeping private, profit-oriented ambulance operators outside the exemption framework.

13.2 Important Case laws:

Ruling / AAR	Key Holding
Shalby Limited	Bundled healthcare packages are composite and exempt.
CMC Vellore	In-patient supplies are ancillary to exempt healthcare services.
Baby Memorial Hospital	In-patient supplies are exempt; supplies to out-patients are taxable.
Spandana Centre	Medicines and food to in-patients are part of composite exempt service.
Royal Care Hospital	Hospital services plus supplies form exempt composite supply.
Kota Eye Hospital (RHC)	Predominant supply determines classification; bundled healthcare services exempt.

13.3 Latest Updates:

- **Stem Cell Banking, part of "Health Care Services", qualifies for Service Tax Exemption: Supreme Court.**

The case arose from a dispute involving M/s.Stemcyte India Therapeutics Pvt. Ltd., a company engaged in stem cell banking. The dispute centers around a legal battle concerning the applicability of service tax on stem cell banking services, which culminated in this Supreme Court ruling (Civil Appeal Nos.: 3816-3817 of 2025). Stem cell banking has been affirmed by the Supreme Court as a part of "health care services," making it exempt from service tax.

Chapter 14
Global Perspective and India’s Adaptation for Medical Tourism

Globally, **medical tourism** has emerged as a rapidly growing industry, with countries like **Thailand, Singapore, South Korea, Turkey, and Mexico** positioning themselves as hubs by offering advanced medical infrastructure, affordable treatment packages, and supportive tax policies to attract international patients. These nations have integrated healthcare with allied services such as hospitality, wellness, and travel, creating comprehensive ecosystems that contribute significantly to their national economies. In this competitive landscape, India has steadily built a strong reputation as a leading medical tourism destination, driven by its highly skilled doctors, internationally accredited hospitals, and cost-effective treatments that are often a fraction of the price charged in developed nations.

The introduction of **GST in India** has brought mixed implications for medical tourism. On one hand, the exemption of **core healthcare services** such as surgeries, hospitalization, and consultations has helped preserve affordability for foreign patients seeking treatment. On the other, the taxation of allied services such as hospital room rents above ₹5,000 per day, health insurance premiums, and certain consumables has marginally increased the cost of care. Moreover, hospitals providing largely exempt services face challenges in availing **Input Tax Credit (ITC)**, which increases operational costs and can indirectly affect pricing for international patients. Despite these challenges, India has adapted by leveraging its strengths—offering **holistic treatment packages** that combine advanced medical care with traditional wellness systems like **Ayurveda and Yoga**, enhancing its global appeal.

In essence, while GST has introduced both opportunities and constraints, India’s healthcare sector continues to attract international patients by capitalizing on its **affordability, quality of care, and cultural integration of modern and traditional medicine**. Going forward, aligning tax policies with global best practices and reducing cost burdens on hospitals could further strengthen India’s position as a global medical tourism hub.

When comparing international taxation models, clear differences emerge in how countries balance affordability with revenue generation in healthcare. **India follows a slab-based GST approach**, where essential medicines are taxed at lower rates to keep them affordable, but services like diagnostics, hospitalization, and insurance often attract higher tax burdens, making them relatively more expensive for patients. In contrast, **Canada provides one of the most supportive tax environments for healthcare**, with many essential services being zero-rated. This not only minimizes financial burdens on consumers but also allows suppliers to claim input tax credits, reducing overall system costs. On the other hand, **Brazil is moving toward a more regressive value-added tax (VAT) structure**, where uniform taxation across goods and services could significantly raise healthcare costs, particularly for low- and middle-income patients, unless compensatory policies or exemptions are introduced.

Country	**Essential Drugs**	**Hospital Services**	**Insurance**	**Provider Tax Credit**
India	5% (life-saving); others are higher	0–28% (depending on room cost)	18%	Allowed on inputs, but inverted duty issues exist
Canada	0% (zero-rated, creditable)	Exempt	Exempt	No credits for exempt; credits allowed for zero-rated
Brazil	8.65% (current cumulative); ~26–28% new VAT	Similar high rate	~9.65% current; ~26–27% future	Expected under VAT, but tax burden rises

Chapter 15
Miscellaneous

15.1 Common Ethical Dilemmas:

The enforcement of GST in healthcare raises not only legal but also ethical considerations. For example, taxing **critical medicines and emergency medical devices** presents moral challenges for officers, since even small changes in price can affect the affordability of life-saving treatments. Similarly, the **seizure of goods during medical emergencies**, such as oxygen cylinders or blood units, requires careful ethical judgment, as such actions could put lives at immediate risk. There are also difficulties faced by **small-scale healthcare providers**, especially in rural or charitable setups, where strict compliance requirements must be balanced against the need to keep their services financially sustainable. Finally, it is important to emphasize that tax authorities must **avoid over-enforcement**, ensuring that the pursuit of revenue targets never comes at the expense of fair, just, and humane taxation practices in the healthcare sector.

15.2 Building Ethical Culture in GST Administration:

For taxation in the healthcare sector to be both effective and compassionate, it is important that enforcement officers are adequately prepared for the sensitive nature of their role. **Training and sensitization programs** can help officials understand the unique functioning of the medical industry, the rights of patients, and the ethical dimensions involved in healthcare. Establishing clear **standard operating procedures (SOPs)** further ensures that cases are handled in a uniform, fair, and transparent manner, leaving less room for arbitrary decisions. In addition, stronger **inter-departmental coordination** between tax authorities and health regulators can enable more informed decisions, where enforcement is carried out without disrupting patient care. Together, these measures can foster a system that balances compliance with compassion Ethical enforcement is not a compromise on law; it is a commitment to just law. In the medical field, GST officers are not only guardians of revenue but also silent stakeholders in public health. A humane, proportionate, and transparent approach strengthens compliance while preserving the dignity and purpose of the healthcare profession.

15.3 GST in Healthcare – Myths vs Facts

Even in hospitals, GST is often misunderstood. Let’s bust some common myths:

MYTH	FACT
All hospital services are taxed under GST	Essential healthcare services like doctor consultations, surgeries, diagnostic tests, ICU care, and inpatient treatment are GST-exempt under Notification No. 12/2017-CT (Rate)
If a hospital charges GST, the whole bill is taxable	Only the taxable components (like premium non-ICU rooms above ₹5,000/day, cosmetic procedures, or visitor meals) attract GST. The rest of the bill can remain exempt if properly classified
Cosmetic procedures are always taxable	They are taxable only when done for purely aesthetic purposes. If performed to resfore function or appearance due to injury, congenital defect, or trauma, they are exempt as healthcare services
Medicines in hospitals are always GST-free	Only medicines supplied to admitted patients as part of treatment are GST-exempt. Walk-in pharmacy sales to OPD patients are taxed at applicable rates (5-12%)

Chapter 15
Conclusion

To make GST more responsive to the needs of the healthcare sector, several policy and practical reforms can be considered. The **GST Council could revisit current rules** by allowing input tax credit (ITC) even on exempt healthcare services and by lowering tax rates on essential medical supplies, thereby easing the cost burden on both hospitals and patients. Greater emphasis on **technology adoption** is also necessary, with user-friendly GST compliance tools and training programs that can help healthcare providers reduce administrative strain and focus more on patient care. At the same time, **public awareness campaigns** can play a vital role in educating patients about which services are exempt and which are taxable, ensuring clarity and transparency in billing. To further reduce confusion, **regular clarifications from CBIC** in the form of circulars would help address emerging challenges and minimize disputes. Finally, **support for small healthcare providers**, especially rural clinics and charitable hospitals, is essential—through tax incentives or simplified compliance schemes for establishments with turnover below ₹50 lakh—so that these facilities can remain sustainable while continuing to serve vulnerable populations.

"Tax is the backbone of a welfare state. Healthcare is its heart."

The implementation of GST in India's healthcare sector has streamlined taxation and enhanced affordability for essential services through exemptions. GST exemptions on essential healthcare services mean that treatment is never denied because of tax. GST collections help the government finance large-scale programs like Ayushman Bharat, Universal Immunisation Programme, and mental health missions. Policy reforms keep affordability at the core, ensuring that India's healthcare system balances both economics and empathy.

For officers, doctors, and administrators, GST is not just about invoices and returns — it is about accountability. It is about ensuring that the system runs fairly, efficiently, and transparently, so that patients can focus on recovery, not paperwork.

However, challenges like blocked ITC, compliance complexity, and taxation of non-essential services have increased costs for providers and patients. By addressing these issues through policy reforms, simplified compliance, and clearer guidelines, the GST framework can better support the healthcare sector's growth and accessibility. Future research should investigate the long-term effects of GST on medical tourism and public health expenditures.

"In every hospital bill, there lies a story — of compliance, care, and contribution to the nation's well-being."

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