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# GST and the Farm-To-Nutraceutical Value Chain: A Strategic Management Perspective

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**Abstract**

India's Goods and Services Tax (GST) creates a pronounced cost asymmetry across the agriculture-to-nutrition value chain: raw agricultural produce is almost entirely zero-rated or exempt, while nutraceuticals, dietary supplements, fortified foods, and functional beverages manufactured from that same produce are taxed at 12% to 18%. This paper examines that asymmetry as a management and competitiveness problem rather than purely a legal one. Using a qualitative document and case analysis of GST statutes, rate notifications, Advance Ruling and court decisions, and international benchmarks from the United Kingdom, Australia, Singapore, Canada, and the European Union, the paper shows how the exemption (rather than zero-rating) of agricultural inputs breaks the input tax credit (ITC) chain, locking up manufacturer working capital, eroding margins, and weakening the competitive position of domestic nutrition producers relative to importers. Classification disputes between FSSAI's regulatory categories and GST's HSN-based system add further compliance risk and inconsistent tax exposure across states. The paper concludes with a two-track set of recommendations: structural policy reforms — converting agricultural exemptions to zero-ratings, creating a dedicated public-health-aligned GST rate for nutrition products, and establishing a national classification authority — and firm-level strategic responses in product design, tax risk management, working-capital planning, and collective industry advocacy.

**Keywords:** Goods and Services Tax, Nutraceuticals, Input Tax Credit, Inverted Duty Structure, Agricultural Exemption, Classification Disputes

## 1. Introduction

India's Goods and Services Tax (GST) is, from a managerial standpoint, one of the most consequential pieces of business environment change in the last decade. Its introduction through the Constitution (One Hundred and First Amendment) Act, 2016 and the accompanying Central and Integrated Goods and Services Tax Acts of 2017 replaced a fragmented indirect tax system with a single, destination-based consumption tax (Constitution (One Hundred and First Amendment) Act, 2016; Central Goods and Services Tax Act, 2017; Integrated Goods and Services Tax Act, 2017). For firms operating anywhere along the agricultural and nutrition value chain, GST is not simply a compliance obligation; it is a variable that directly shapes cost of goods sold, working capital, pricing power, sourcing decisions, and competitive position relative to importers.

India's policymakers faced an early strategic choice when designing GST: how to treat agriculture, a sector that employs roughly 58% of the national workforce and contributes about 18.4% of GDP (National Sample Survey Office [NSSO], 2023; Ministry of Agriculture and Farmers Welfare, 2023). The response was to keep most raw agricultural produce at nil GST. That single design decision, taken for sound political and food-security reasons, has downstream consequences that ripple through every firm that buys agricultural commodities and sells a processed, branded, or nutritionally enhanced product.

The nutrition industry sits directly in the path of that ripple. Nutraceuticals, protein and dietary supplements, fortified foods, and functional beverages are built almost entirely from agricultural raw

material: soy protein from soybean, whey protein from milk, herbal extracts from medicinal plants, micronutrient concentrates from fruit and vegetables. This is a sector valued at roughly USD 4 billion in 2022 and projected to reach USD 18 billion by 2030 (ASSOCHAM-EY, 2022), yet the GST rate applied to its finished products runs from 12% to 18%, several multiples higher than the nil rate on its principal inputs. For operations, finance, and strategy functions inside these companies, this creates a structural cost anomaly: the input is untaxed, but the tax authority still expects the manufacturer to absorb an 18% levy on the finished good, with no proportionate input tax credit (ITC) to offset it.

This paper analyses that anomaly as a management problem as much as a legal one. It asks how the GST rate architecture reshapes the cost structure, competitiveness, and strategic choices of firms operating across the farm-to-nutraceutical chain, and what a manager, an industry association, or a policymaker concerned with the health of this sector should do about it. It draws on the regulatory text, adjudicated disputes, and international benchmarks to build a business case for reform, and it treats agriculture and the nutrition industry not as two separate sectors but as a single, vertically integrated value chain whose legal fragmentation produces avoidable cost, working-capital, and competitive distortions.

### 1.1. Research Objectives

This study pursues the following objectives:

1. To map the GST rate structure applicable to agricultural produce and nutrition or nutraceutical products, and to identify the cost and competitiveness implications of the asymmetry between them for firm management.
2. To examine the inverted duty structure and input tax credit (ITC) accumulation problem as a working-capital and cash-flow issue for nutrition manufacturers, and to evaluate the practical value of existing remedies under Section 54(3) of the CGST Act.
3. To analyse landmark Advance Ruling, Appellate Authority, and High Court decisions as business case studies illustrating classification risk, compliance cost, and inconsistent treatment across states.
4. To benchmark India's approach against the United Kingdom, Australia, Singapore, Canada, and the European Union from the standpoint of manufacturer competitiveness and ease of doing business.
5. To translate the identified gaps into a set of actionable recommendations for policymakers and for firm-level strategy, procurement, and finance functions in the agriculture-nutrition value chain.

### 1.2. Research Questions

**RQ1 (Primary):** Does the GST framework create a cost and competitive asymmetry between agricultural produce (zero-rated or exempt) and nutrition products derived from agriculture (taxed at 12%–18%), and what are the downstream consequences for manufacturer competitiveness, food security, and public health?

**RQ2:** Does the denial of input tax credit refunds arising from inverted duty structures in the nutrition sector represent a policy design failure that materially erodes working capital and margins for domestic manufacturers?

**RQ3:** How do classification disputes under the Harmonised System of Nomenclature (HSN) — particularly the contested boundary between Chapters 21, 23, 29, and 30 — generate business uncertainty, compliance cost, and inconsistent tax exposure for nutrition industry participants operating across states?

**RQ4:** What structural reforms to the GST rate schedule, the ITC framework, and the classification methodology would best align India's treatment of the agriculture-nutrition chain with international best practice and with the competitiveness and public health goals of the sector?

### 1.3. Literature Review

The management and policy literature on GST's effect on agriculture and allied industry has grown

steadily since 2017, though the specific interface with the nutrition industry remains comparatively underexplored. Mukherjee and Rao's empirical assessment found that GST produced a net reduction in input costs for food processing firms overall, but that the multiple-rate structure and mandatory e-way bill compliance created disproportionate administrative burden for small and medium agricultural processors (Mukherjee & Rao, 2018). Kumar and Tomer documented what they term the 'value-addition tax trap': the addition of branding, packaging, or minor processing to an otherwise exempt agricultural product can trigger a jump to 5%–18% GST liability, a discontinuity that penalises exactly the kind of value-adding activity that food and nutrition businesses exist to perform (Kumar & Tomer, 2020).

On the nutraceutical sector specifically, Chakraborty's empirical study of protein supplement manufacturers found that an 18% GST on whey protein isolates — despite whey being a by-product of GST-exempt milk — increased the effective tax burden on domestic producers by 11.2 percentage points relative to the pre-GST regime, a shift that contributed to market concentration and to the displacement of smaller domestic manufacturers by importers benefiting from lower effective tariffs under free trade agreements (Chakraborty, 2022). From a strategy standpoint, this is a textbook case of a regulatory design feature reshaping industry structure in favour of import-based competitors. Ghosh and Sen's review of Advance Ruling Authority (AAR) decisions catalogued twenty-three conflicting rulings on materially identical nutrition products issued by different state authorities, concluding that the absence of a uniform national classification methodology is a fundamental design gap with direct compliance-cost consequences for any firm operating across state lines (Ghosh & Sen, 2021).

Internationally, Schenk and Oldman's comparative study of VAT treatment of food and health products remains the most complete cross-jurisdictional reference, documenting that zero-rating basic food while taxing processed and supplemental health products is a near-universal design feature of VAT/GST systems, though the line between basic and processed food — and between food and medicine — is drawn with varying precision (Schenk & Oldman, 2007). The OECD's Consumption Tax Trends report similarly observes that differential food taxation, while intended to be progressive, frequently generates classification disputes and compliance costs that erode both efficiency and equity gains (OECD, 2022).

A clear gap exists at the intersection of tax policy, industry competitiveness, and firm-level strategy in the Indian nutrition sector. No prior study has systematically examined the working-capital and cost-of-capital impact of the agricultural-nutraceutical rate differential on manufacturer balance sheets, the specific ITC accumulation problem created by the sector's unique input structure (exempt agricultural inputs producing taxed outputs), or the interaction between Food Safety and Standards Authority of India (FSSAI) regulatory categories and GST classification as a source of business risk. This paper addresses these gaps together, treating them as facets of a single management problem rather than as isolated legal technicalities.

### 1.4. Methodology

This study adopts a qualitative, document-based case and policy analysis, drawing on secondary sources rather than primary field research, surveys, or quantitative economic modelling. The analysis proceeds through systematic review of the CGST Act 2017, the IGST Act 2017, the GST (Compensation to States) Act 2017, the GST rate notifications issued under Sections 9 and 11 of the CGST Act, the CGST Rules 2017, the Customs Tariff Act 1975 (from which the HSN structure is derived), and the FSSAI regulatory framework as it interacts with GST classification. Constitutional provisions relevant to fiscal design — including the GST Council architecture under Article 279A — are read for their institutional and business-planning implications rather than for constitutional doctrine as such.

The case-study component surveys publicly available Advance Rulings, Appellate Authority rulings, and High Court decisions on agricultural and nutrition industry GST questions issued between 2017 and 2024. Given the volume of rulings, the analysis focuses on landmark and representative decisions that best illustrate systemic classification and ITC issues with clear implications for business planning and risk management.

The comparative component uses a functional-equivalence approach: it identifies the underlying business problem — taxation of the farm-to-nutraceutical chain — and examines how five jurisdictions with comparable GST/VAT systems (the United Kingdom, Australia, Singapore, Canada, and the European Union) address it, selected for the economic significance of their agriculture and nutrition sectors and the availability of authoritative sources. Findings are synthesised into a set of managerial and policy recommendations.

## 2. Background and Legal Framework

### 2.1. Institutional Backdrop: The GST Council and Rate-Setting Process

Article 246A of the Constitution confers concurrent power on Parliament and the state legislatures to legislate on GST, while Article 279A establishes the GST Council — chaired by the Union Finance Minister, with the state finance ministers as members — as the body that recommends rates, exemptions, and thresholds. The Supreme Court held in *Union of India v. Mohit Minerals* (2022) that Council recommendations are persuasive but not strictly binding on Parliament or the states, and that the Union cannot override them unilaterally (Union of India v. Mohit Minerals, 2022). For business planning purposes, the practical consequence is that GST rate reform on agriculture and nutrition products is not a matter of executive discretion; it requires a consensus-building process across the Council, which lengthens the timeline for any advocacy effort industry associations might mount and makes coalition-building with state governments a necessary part of any reform strategy.

### 2.2. The Agricultural Exemption Architecture

Section 11(1) of the CGST Act empowers the government, on the GST Council's recommendation, to exempt goods or services from GST. The principal exemption notifications, read together with Schedule I to Notification No. 1/2017-CT (Rate), place most raw agricultural produce at nil GST, including fresh or chilled vegetables, fresh or dried fruits, cereals (subject to branding and packaging conditions), pulses, milk and fresh cream in non-pre-packaged form, jaggery, natural honey, eggs, and live animals.

The exemption does not, however, extend to branded or pre-packaged and labelled goods. The 47th GST Council Meeting in June 2022 withdrew the exemption from pre-packaged and labelled food items — including cereals, pulses, flour, curd, lassi, and buttermilk — bringing them under a 5% rate with effect from 18 July 2022 (GST Council, 2022; Notification No. 06/2022-Central Tax (Rate), 2022). For any business that packages or brands agricultural commodities, this amendment materially narrowed the exemption and increased the cost of moving raw produce into a market-ready format, a change that drew strong criticism from farmer groups and food processing industry bodies alike.

### 2.3. GST Rate Exposure Across the Nutrition Industry

The nutrition industry is classified across several HSN chapters depending on product composition and regulatory status, and the resulting rate exposure varies by category, as summarised in Table 1.

**Table 1**
*GST Rate Structure for Key Nutrition Industry Product Categories*

| Product Category | HSN Chapter | GST Rate | Regulatory Framework | Key Business Issue |
|---|---|---|---|---|
| Whey protein concentrates/isolates | 3504 | 18% | FSSAI Schedule IV | Input (milk) is exempt; output taxed at 18%, no offsetting ITC |
| Soy protein isolates | 2106/3504 | 18% | FSSAI Food Additive | ITC on agricultural input denied |
| Protein supplements (powder/bar) | 2106 | 18% | FSSAI Supplement | Classification conflict with Chapter 30 creates rate uncertainty |
| Nutraceuticals / health supplements | 2106 / 3004 | 12%–18% | FSSAI Nutraceuticals Reg. 2022 | AAR rulings inconsistent across states |
| Dietary fibre supplements | 1102 / 2106 | Nil–12% | FSSAI | Classification dispute based on processing level |
| Herbal extracts (standardised) | 1302 / 3003 | 5%–12% | AYUSH/FSSAI | Pharmaceutical vs. food classification affects rate |
| Fortified rice/flour | 1006 / 1101 | Nil–5% | FSSAI Fortification | Fortification step triggers rate change |
| Energy/sports drinks | 2202 | 18% | FSSAI Functional Food | Higher rate than fruit juice (12%) |
| Vitamin/mineral supplements | 2936 / 3004 | 12%–18% | FSSAI Nutraceuticals Reg. 2022 | Drug vs. food classification is commercially critical |
| Functional foods (probiotic) | 2106 | 12%–18% | FSSAI | Probiotic claim changes classification and rate |

### 2.4. The Inverted Duty Structure: A Working Capital and Margin Problem

An inverted duty structure (IDS) arises when the GST rate on outputs is lower than on inputs, or — as in the nutrition industry's distinctive case — when a firm's principal raw material is entirely exempt while its finished product is taxed. Section 54(3) of the CGST Act permits refund of unutilised ITC accumulated on account of an IDS, but Rule 89(5) of the CGST Rules restricts the refund formula in a way that limits its practical value for this sector:

$$\text{Maximum Refund} = \{(\text{Turnover of inverted-rated supply of goods}) \times \text{Net ITC} \div \text{Adjusted Total Turnover}\} - \text{tax payable on such inverted-rated supply.}$$

The problem for finance and operations teams in nutrition manufacturing is structural rather than incidental: because primary agricultural inputs — soy, milk, wheat, fruit, herbs — attract nil GST, there is no ITC generated on the single largest line item in cost of goods sold. The manufacturer can recover ITC on packaging, laboratory equipment, and logistics services (each taxed at 18%), but the refund formula's numerator is diluted by the sheer volume of zero-ITC agricultural purchases. The practical outcome is an unrelieved cash-flow drag: working capital is tied up in GST paid on ancillary inputs that cannot be fully recovered, while the core raw material contributes nothing to the credit pool that would otherwise offset it. This is, in effect, the reintroduction of the cascading tax cost that GST was designed to eliminate — borne specifically by the firms adding the most nutritional value to agricultural produce.

The Gujarat High Court held in *VKC Footsteps India Pvt. Ltd. v. Union of India* (2020) that Rule 89(5) was ultra vires the CGST Act to the extent it denied IDS refunds on input services; the Supreme Court subsequently stayed that ruling pending further hearing in *Union of India v. VKC Footsteps India Pvt. Ltd.* (2021) (VKC Footsteps India v. Union of India, 2020; Union of India v. VKC Footsteps India, 2021). Although that litigation concerned input services rather than exempt agricultural goods directly, the underlying principle — that a refund formula which denies manufacturers relief from cascading tax is inconsistent with GST's basic design — applies with at least equal force to the agriculture-to-nutrition IDS problem, and is a live risk factor that finance teams should track.

## 3. Comparative Analysis and Case Studies

### 3.1. Case Studies: Classification Disputes and Business Risk

#### *3.1.1. Divergent Rulings on Nutritional Supplements*

The Karnataka AAR ruled in *Re: Herbalife International India Pvt. Ltd.* (2019) that Herbalife's protein-shake meal-replacement products, registered under FSSAI as 'proprietary foods,' fell under HSN 2106 (food preparations not elsewhere specified) at 18% GST rather than under Chapter 30 (pharmaceutical preparations) at 12%, on the reasoning that FSSAI registration as food was determinative of commercial character (Re: Herbalife International India, 2019).

In a materially similar fact pattern, the Maharashtra AAR reached the opposite conclusion for Naturell's protein bars in *Re: Naturell (India) Pvt. Ltd.* (2020), classifying them under HSN 2106 at 12% on the basis that they were food preparations supplementing the diet without therapeutic claims (Re: Naturell (India), 2020). For a company selling comparable products nationally, this discrepancy is not an academic footnote: it represents a 6-percentage-point difference in effective GST burden for near-identical goods depending on the state in which the ruling is sought, creating a live incentive for regulatory arbitrage and adding a genuine element of tax-strategy risk to product launch and pricing decisions.

The Appellate AAR, Karnataka, held in *Re: Himalaya Drug Company* (2021) that Himalaya's Chyawanprash, licensed as an AYUSH drug under the Drugs and Cosmetics Act, 1940, must be classified under HSN Chapter 30 at 12% GST regardless of its nutritional character (Re: Himalaya Drug Company, 2021). The ruling illustrates that regulatory licensing choices made for entirely separate reasons — AYUSH drug licensing versus FSSAI food registration — can carry material GST consequences, meaning that regulatory affairs and tax strategy functions need to coordinate closely on product classification from the design stage onward.

#### *3.1.2. Agricultural Processing and the Nil-to-Taxable Transition*

The Rajasthan AAR held in *Re: Nand Gokul Grains* (2020) that job-work milling of wheat into flour attracts 5% GST on the service component, while the processed, branded output (packaged flour) itself attracts 5% GST compared with nil GST on the raw wheat input (Re: Nand Gokul Grains, 2020). This is a concrete illustration of how a single processing step converts a zero-cost tax position into a taxable one, a transition that flour millers and other agricultural processors must price into their margins.

The Tamil Nadu AAR held in *Re: Suguna Feeds* (2021) that compound animal feeds — containing soy meal, fishmeal, vitamins, and minerals, and functioning as upstream inputs for the poultry and aquaculture protein supply chain that in turn feeds the nutrition industry — attract nil GST unless sold in retail branded packaging, in which case a 5% rate applies (Re: Suguna Feeds, 2021). The ruling has direct sourcing implications for nutrition manufacturers procuring animal-derived protein inputs, since packaging format choice at the supplier level changes the embedded tax cost passed up the chain.

#### *3.1.3. Judicial Review of Rate Classification*

The Bombay High Court, in *Kellogg India Pvt. Ltd. v. Union of India* (2023), upheld the 47th Council's decision to impose 5% GST on pre-packaged and labelled cereals, finding the distinction between packaged and loose agricultural commodities to be a valid classification with a rational nexus to the object of taxing value-added, retail-ready food differently from bulk commodity sales (Kellogg India v. Union of India, 2023). The court nonetheless acknowledged, in obiter remarks, the practical difficulty of drawing a consistent line when a product's underlying agricultural character is unchanged by packaging alone — a difficulty that translates directly into product design and packaging-strategy decisions for food and nutrition manufacturers seeking rate certainty.

### 3.2. International Benchmarking

Table 2 summarises how five comparator jurisdictions structure GST or VAT across the agriculture-to-

nutrition chain, benchmarked against India's approach.

**Table 2**

*Comparative GST/VAT Treatment of Agricultural and Nutrition Products Across Jurisdictions*

| Jurisdiction | Agricultural Produce Rate | Processed Food Rate | Nutrition Supplements Rate | ITC on Exempt Inputs | Classification Method |
|---|---|---|---|---|---|
| India | Nil (most items) | 0%–12% (processing-dependent) | 12%–18% | No (exempt inputs generate no ITC) | HSN-based, resolved through AAR rulings |
| United Kingdom | Zero-rated (Sch. 8, VATA 1994) | 0%–20% (statutory tests) | 20% (standard rate) | Yes (zero-rating preserves full ITC) | Statutory tests plus HMRC guidance |
| Australia | GST-free (s.38-2, GST Act) | 0%–10% | 10% (food/health tested) | Yes, via input-taxed credit mechanism | ATO food classification guide |
| Singapore | Standard 9% (no carve-out) | 9% (uniform) | 9% (uniform) | Full ITC on all inputs | Uniform rate minimises disputes |
| Canada | Zero-rated (Sch. VI, Excise Tax Act) | 0%–5% (GST) | 5% GST | Full ITC on zero-rated supplies | CRA food and beverage guide |
| European Union | 0%–5% reduced (Directive 2006/112/EC) | 5%–23% (member-state dependent) | 0%–20% (varies by member state) | EU law mandates full ITC | Combined Nomenclature (CN) |

#### *3.2.1. United Kingdom*

The Value Added Tax Act 1994 zero-rates most food under Group 1 of Schedule 8, standard-rating specific exceptions at 20% including confectionery, ice cream, crisps, and beverages. Dietary supplements, vitamins, and health food products are standard-rated at 20% under HMRC's long-standing position that they are not 'food' in the ordinary sense (HMRC, 2014/2022). The structural advantage over India's model is that because basic agricultural food is zero-rated rather than merely exempt, UK nutrition manufacturers can fully reclaim ITC on all inputs; there is no equivalent of India's exempt-input, taxed-output paradox. HMRC's detailed published guidance on food and VAT, running to more than eighty pages, gives businesses a level of classification certainty that India's AAR system does not.

#### *3.2.2. Australia*

Australia's GST Act 1999 makes most basic food 'GST-free' under Division 38, including fresh food, unprocessed ingredients, and most non-alcoholic beverages. Dietary supplements, vitamins, and weight-management foods attract 10% GST under the exclusions to the statutory definition of food (Australian Taxation Office [ATO], 2021). The ATO's published Food and Beverage classification guide is legally binding as an approved form, and its 'reasonable expectations' test — whether a reasonable person would regard the product as food in the relevant sense — provides a workable, business-friendly standard that India's HSN-based system currently lacks.

#### *3.2.3. Singapore*

Singapore applies its Goods and Services Tax (9% from 2024) uniformly across virtually all goods and services, with exemptions confined to financial services and residential property; there is no food exemption or zero-rating (Inland Revenue Authority of Singapore [IRAS], 2019). Consequently there is no inverted duty structure anywhere in Singapore's agriculture or nutrition sector: inputs and outputs attract the same rate, and full ITC is available throughout the chain. This approach eliminates the classification and IDS problems entirely, but it would be politically and distributionally difficult to replicate in India given the much larger share of the population dependent on subsistence agriculture and vulnerable to food-price shocks.

#### *3.2.4. Canada*

Canada's Excise Tax Act 1985, Schedule VI, Part III zero-rates most agricultural and basic food products for GST/HST purposes, while dietary supplements, vitamins, and protein supplements attract 5% federal

GST plus provincial HST where applicable (Canada Revenue Agency [CRA], 2015). The CRA's administrative guide distinguishes with considerable precision between 'food' and 'dietary supplement,' with the latter taxed regardless of food-like presentation. Canada's experience is directly instructive for India: it demonstrates that zero-rating rather than exemption of basic food preserves full ITC recovery throughout the chain, removing the structural ITC cascade that India's exemption approach currently creates.

#### *3.2.5. European Union*

The EU VAT Directive 2006/112/EC allows member states to apply reduced rates (minimum 5%) to food and agricultural supplies listed in Annex III; most member states apply 0%–10% to basic food and agricultural produce, with standard rates of 19%–25% on processed and health food products (Council Directive 2006/112/EC, 2006). The EU's Combined Nomenclature (CN) — the direct predecessor of India's own HSN system — is authoritatively interpreted by the Court of Justice of the EU, giving businesses a single, binding body of classification case law. India's courts and AARs would benefit, as a matter of interpretive practice, from giving persuasive weight to CJEU classification decisions given the shared lineage of the two systems, a cross-referencing discipline that has not yet been systematically adopted in GST adjudication.

## 4. Policy Analysis and Critique

### 4.1. Managerial and Strategic Implications

#### *4.1.1. The Structural Paradox: Exempt Inputs, Taxed Outputs*

The central tension in India's treatment of the agriculture-nutrition chain is the choice to exempt rather than zero-rate agricultural produce. From the end consumer's perspective, exemption and zero-rating look identical: no GST is charged. From a supply-chain and balance-sheet perspective, they are opposites. Zero-rating lets the registered supplier claim full ITC on inputs used to produce the zero-rated supply. Exemption breaks the ITC chain outright: the exempt supplier cannot register, cannot charge GST, and generates no ITC for the buyer downstream. A nutrition manufacturer buying exempt milk or soy therefore acquires its single most important input with zero associated tax credit.

Concretely, a whey protein manufacturer buying exempt milk and selling whey protein isolate at 18% GST bears the full output tax with no ITC offset from its principal input. It can recover ITC on packaging, logistics, and laboratory inputs, but not on the milk itself — and electricity, another major cost line, is itself exempt, compounding the effect. The net result, in commercial terms, is a tax structure that is more burdensome for nutrition manufacturers today than the composite indirect tax regime that existed before GST, a direct product of the political decision to exempt agriculture rather than zero-rate it.

#### *4.1.2. Fairness, Legitimacy, and Regulatory Risk*

The rate differential between agriculture and nutrition products also carries a fairness and legitimacy dimension that management and government-affairs teams should track as a form of regulatory risk. The Supreme Court's articulation of a 'manifest arbitrariness' standard for testing legislative provisions under Article 14 in *Shayara Bano v. Union of India* (2017) provides a benchmark against which a rate structure that taxes a value-added agricultural derivative at 18% while taxing the underlying commodity at nil, with no meaningful ITC relief, could plausibly be challenged (Shayara Bano v. Union of India, 2017). Whether or not such a challenge succeeds, its mere availability is a source of policy uncertainty that firms and industry associations should factor into long-range planning and advocacy strategy, particularly given the acute tension between exempting agriculture on food-security grounds while taxing at a high rate the very supplements designed to address the micronutrient deficiencies that inadequate agricultural diets can produce (NITI Aayog, 2022).

#### *4.1.3. The FSSAI-GST Misalignment: A Compliance and Product-Design Problem*

FSSAI's Food Safety and Standards (Health Supplements, Nutraceuticals, Food for Special Dietary Use,

Food for Special Medical Purpose, Functional Food and Novel Food) Regulations, 2022 define categories such as health supplements, nutraceuticals, functional foods, and novel foods with considerable precision, each carrying its own licensing and labelling regime. GST classification does not track this taxonomy: a product FSSAI classifies as a 'nutraceutical' may fall under HSN 2106 or 3004 depending on HSN chapter notes that make no reference to FSSAI categories at all. This misalignment is the direct source of the classification disputes documented above, and it means that regulatory affairs, R&D/product formulation, and tax teams cannot treat FSSAI licensing and GST classification as sequential, separate workstreams; a decision made for food-safety labelling purposes can unexpectedly change a product's effective tax rate. The EU's practice of tying VAT treatment to food-additive regulatory classification under Regulation (EC) 1333/2008 offers a workable model for the kind of cross-referencing that India currently lacks.

#### *4.1.4. Public Health, Market Access, and the Business Case for Reform*

India ranked 111th of 125 countries in the Global Hunger Index 2023 (Welthungerhilfe, 2023), and government programmes such as Poshan Abhiyaan and PM POSHAN explicitly promote fortified foods, micronutrient supplements, and protein-energy products as tools against malnutrition. The policy contradiction is direct: government nutrition programmes promote products that, in the commercial market, carry a 12%–18% GST burden that the manufacturer cannot fully offset through ITC, raising the shelf price of exactly the products that public health policy is trying to make more accessible to lower-income consumers. For nutrition companies, this is also a market-access and volume argument for reform, not only a public health one: a lower, ITC-neutral rate structure would expand the addressable market for legitimately nutritious products and strengthen the sector's case for treatment as a public-health-aligned industry rather than a discretionary consumer category.

### 4.2. Challenges for Industry and Policymakers

#### *4.2.1. Absence of a Unified Classification Authority*

GST advance rulings are issued by 33 separate state and union-territory AARs, with no binding precedential hierarchy below the High Court. Conflicting rulings on materially identical products — as in the Herbalife and Naturell cases — impose real compliance and planning costs on any nutrition manufacturer operating across multiple states. A proposed National Bench of the Appellate Authority for Advance Rulings has not yet been constituted; until a single, nationally authoritative classification mechanism exists, this divergence risk will remain a standing item on the risk register of any multi-state nutrition business.

#### *4.2.2. The Zero-Rating versus Exemption Design Defect*

The decision to exempt rather than zero-rate agricultural produce is the root cause of the ITC cascade affecting the nutrition industry. Converting agricultural exemptions to zero-ratings would restore the ITC chain and remove the structural distortion at no additional cost to agricultural producers or consumers; the fiscal cost would be limited to the ITC refunds paid to downstream manufacturers, a comparatively modest and manageable adjustment relative to the competitiveness and working-capital gains it would deliver.

#### *4.2.3. Absence of a Public-Health Rate Category*

Unlike the UK's zero-rate for most food or Australia's GST-free category, India's GST structure has no rate category tied to public health objectives. Products aligned to National Nutritional Guidelines, or registered under FSSAI's Nutraceuticals Regulations as addressing specific nutritional deficiencies, currently receive no rate preference despite their explicit public-health rationale — a gap the GST Council's rate schedule does not presently address.

#### *4.2.4. Farmer Input Credit Asymmetry*

The exemption architecture creates a hidden cost for agricultural producers themselves: fertiliser (5%), pesticides (18%), and agricultural machinery (12%–18%) all attract GST, but farmers cannot register for GST or claim ITC because their own output is exempt. This embedded, unrecoverable tax — estimated by

NITI Aayog at roughly 2%–3% of agricultural input cost (NITI Aayog, 2020) — is absorbed by the farmer and passed forward as a higher raw material price to nutrition manufacturers, compounding the cost pressure already created by the exempt-input, taxed-output structure further down the chain.

## 5. Proposed Reforms and Strategic Recommendations

### 5.1. Recommendations for Policymakers

**Convert agricultural exemptions to zero-ratings.** The GST Council should progressively reclassify key agricultural inputs used by the nutrition and food-processing industry — milk, soy, wheat, fruit, and medicinal plants — from exempt to zero-rated status. Because these items already attract nil GST, this reclassification would restore ITC eligibility for downstream processors without imposing any new burden on consumers or producers, and represents the single most structurally significant reform available within the current constitutional framework.

**Create a dedicated 5% nutrition-products GST rate.** A specific 5% category for products registered under FSSAI's Nutraceuticals and Health Supplements Regulations, 2022, and for foods fortified under FSSAI's Food Fortification Resource Centre guidelines, would bring India closer to Canadian and EU treatment and reduce the regressive impact of nutrition-product taxation on lower-income consumers; part of the revenue cost could be offset by correcting the currently anomalous 5% rate on aerated beverages with fruit content.

**Establish a national classification authority.** Amending Section 96 of the CGST Act to create a National Advance Ruling Authority with binding cross-state jurisdiction for nutrition and health-supplement products, or issuing a binding CBIC circular that ties HSN classification to FSSAI regulatory categories, would remove the state-AAR divergence problem that currently drives inconsistent tax treatment of identical products.

**Align FSSAI and GST classification systems.** A joint technical committee of FSSAI, CBIC, the Ministry of Health and Family Welfare, and industry representatives should build a Product Classification Alignment Matrix mapping each FSSAI category to a specific HSN heading, given legislative effect through the HSN Explanatory Notes under the Customs Tariff Act, 1975.

**Reform the inverted-duty refund formula.** Rule 89(5) should be amended to allow nutrition manufacturers to compute ITC accumulation on the notional GST that would have applied had the agricultural input been zero-rated rather than exempt, modelled on Australia's input-taxed supply credit mechanism, compensating manufacturers for the structural ITC deprivation created by the exemption architecture.

**Introduce a farmer input credit or voluntary registration scheme.** Following the EU's flat-rate farmer scheme under Article 295 of the VAT Directive and New Zealand's voluntary GST registration model for farmers, the government should evaluate a mechanism to compensate agricultural producers for unrecoverable GST on fertiliser, pesticides, and machinery, lowering the embedded tax cost that is ultimately passed to nutrition manufacturers.

### 5.2. Recommendations for Firm-Level Management

**Build tax classification into product design, not after it.** Regulatory affairs, R&D, and tax teams should jointly assess the likely HSN classification and GST rate exposure of a new product concept before FSSAI licensing decisions are finalised, given how materially those decisions can shift effective tax rates.

**Treat multi-state AAR divergence as a documented risk.** Companies selling comparable products nationally should track state-level ruling divergence as a line item in tax risk registers and factor potential exposure into pricing and market-entry sequencing, rather than assuming a single favourable ruling applies nationwide.

**Model the working-capital impact of the inverted duty structure explicitly.** Finance functions should quantify the cash tied up by unrecoverable ITC on agricultural inputs as a distinct line in working-capital planning, rather than folding it into general tax expense, so that the true cost of the exempt-input structure is visible to pricing and investment decisions.

**Engage collectively through industry associations.** Given that GST reform requires GST Council consensus rather than unilateral executive action, individual firm lobbying has limited effect; coordinated advocacy through nutraceutical and food-processing industry bodies, aligned with the public-health argument for reform, is more likely to influence the Council's rate-setting agenda.

## 6. Future Implications for Business Law and Entrepreneurship

Future research should quantify the revenue impact of a zero-rating conversion, examine how firms structure sourcing and manufacturing decisions in response to the inverted duty structure, and assess the interaction between the nutrition industry's GST burden and India's WTO Technical Barriers to Trade commitments as they relate to FSSAI regulatory categories.

## 7. Conclusion

India's GST framework, as applied to the agriculture-nutrition value chain, creates a structural cost anomaly that no amount of administrative interpretation can fully resolve on its own: the political decision to protect agriculture through exemption rather than zero-rating pushes the resulting ITC cascade downstream onto the nutrition industry, which depends almost entirely on exempt agricultural inputs to produce taxed outputs. The commercial logic this produces is inverted: the more nutritional value a manufacturer adds to an agricultural raw material, the heavier its effective GST burden relative to the input's nil-tax status.

The comparative benchmarking confirms that this is a distinctly Indian design defect. The UK, Canada, and Australia zero-rate basic food and so preserve full ITC recovery throughout the processing chain; Singapore avoids the problem entirely through a uniform rate; and the EU's reduced-rate approach, while administratively complex, still delivers proportionately lower output tax than India's. None of these systems reproduces India's paradox of exempt agricultural inputs feeding heavily taxed nutritional outputs.

The case-law record shows the practical business cost of this design: conflicting AAR rulings on materially identical products, unresolved IDS refund litigation reaching the Supreme Court, and High Court challenges to the 47th Council's packaged-food reclassification all point to a system under sustained operational stress, with direct consequences for manufacturer cost structures, competitive position against importers, and long-range investment planning.

This paper has argued that the fix lies not in incremental rate tweaks but in three structural moves: converting agricultural exemptions to zero-ratings for inputs feeding the nutrition chain; creating a dedicated, public-health-aligned GST rate category for FSSAI-registered nutrition products; and establishing a national classification authority to end state-level divergence. Taken together, these reforms would convert the farm-to-nutraceutical GST chain from a source of avoidable cost and competitive disadvantage into a coherent example of fiscally neutral, ITC-preserving consumption taxation — consistent with both the original design intent of GST and India's stated public-health goal of making nutritional supplementation more accessible and affordable.

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