

Coconut Oil Taxation in India

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Context :

For over **15 years**, the classification of **coconut oil** under India's tax regime—whether as an **edible oil** or a **haircare product**—remained unresolved. This ambiguity led to varied interpretations, disputes, and higher tax rates for certain uses.

On **December 18, 2024**, the **Supreme Court of India** delivered a landmark verdict, classifying **coconut oil** as an **edible oil** and applying a lower **GST rate of 5%**, compared to **18%** for haircare products. The decision was based on coconut oil's **predominant use** as a cooking medium, particularly when sold in small quantities.

Coconut Oil Taxation in India: Key Points

Historical Taxation

1. Pre-GST Era (CET Act, 1985)

- **Edible Oil Classification:** Taxed at **8%** under “Animal or Vegetable Fats and Oils.”
- **Haircare Classification:** Taxed at **16%** under “Preparations for use on the hair.”
- **HSN Norms:** Followed international **Harmonised System of Nomenclature (HSN)** guidelines.

2. 2009 CBEC Circular

- Classified coconut oil in containers under **200 ml** as **hair oil**, taxed at **16%**.
- **2015 Withdrawal:** Circular rescinded after court rulings emphasized **usage** over packaging size.

3. GST Era (2017 Onwards)

- **Edible Oils:** Taxed at **5%**.
 - **Haircare Products:** Taxed at **18%**.
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Legal Disputes and Challenges

1. 2007 Madhan Agro Case

- **Issue:** Central Excise authorities issued notices proposing a higher tax rate by classifying coconut oil as a **haircare product**.
- **CESTAT Ruling:** Declared coconut oil as **edible oil** based on **predominant use**, ignoring packaging size.

2. Similar Cases

- Producers in **Puducherry** faced similar disputes. **CESTAT** ruled in favor of **edible oil** classification.
- Appeals by tax authorities reached the **Supreme Court**.

Supreme Court Verdicts

1. 2018 Split Verdict

- **Justice Ranjan Gogoi:** Supported **edible oil classification** regardless of packaging.
- **Justice R. Banumathi:** Applied the “**Common Parlance Test**,” linking small packages to hair oil perception.

2. 2024 Final Ruling

- **Bench Composition:** Chief Justice Sanjiv Khanna, Justice Sanjay Kumar, Justice R Mahadevan.
- **Key Highlights:**
 - **Rejection of Common Parlance Test:** Deemed unnecessary since **coconut oil** is clearly defined in **legal and HSN norms**.
 - **Legal Headings Prevail:** Coconut oil’s **dual use** (edible and haircare) doesn’t disqualify it from the **edible oil category**.
 - **Packaging Size:** Declared **irrelevant**, as small containers are common for both **edible oils and hair oils**.

Conclusion

The **Supreme Court's 2024 ruling** resolves a long-standing ambiguity in India's tax regime, ensuring **coconut oil** is classified and taxed as **edible oil** at **5% GST**. This decision aligns taxation with **legal norms** and coconut oil’s **primary use**, providing clarity and consistency for **producers** and **consumers** alike.