



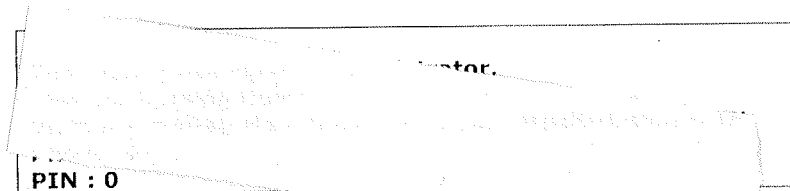
COMMERCIAL TAXES DEPARTMENT

Commissioner of Commercial Taxes
Integrated Commercial Taxes Building,
Nandanam, Chennai – 600035

File No. 54 /2025 (SAW/TRU)

Date: 13.11.2025

Advisory Letter to Medical Colleges /Institutions and Hospitals



Sub: Advisory to ensure compliance with provisions of the Goods and Services Tax Act, 2017 to Medical Colleges /Institutions and Hospitals – reg.

Sir/Madam,

It has come to the notice of this office that your institution is engaged in medical treatment/medical education services and ancillary services. While medical treatment/medical education services provided by medical colleges /institutions and Hospitals are exempt under the Goods and Services Tax (GST) Act, 2017, it is observed that some related activities or supplies undertaken by such institutions may fall within the ambit of taxable supplies under the said law.

This communication is being issued in the nature of an advisory with the objective of sensitizing your institution about possible instances of taxable activities and to promote voluntary compliance.

Health institutions such as hospitals, nursing homes, diagnostic centres, and medical colleges provide a mix of **pure healthcare services** and **ancillary commercial services**.

Under GST, "**healthcare services**" are generally **exempt**, but certain **essential medical support services and other auxiliary supplies** attract **tax liability**.

Definition of "Healthcare Services"

As per **Notification No. 12/2017–Central Tax (Rate)** dated 28.06.2017 (Entry No. 74):

"Healthcare services" means any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicine in India, and includes services by way of transportation of the patient to and from a clinical establishment, but does not include hair transplant, cosmetic or plastic surgery, except when undertaken to restore or reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury, or trauma.

GST Applicability

Pure Healthcare Services (Exempt)	GST Applicability	Remarks / Notification Reference
In-patient diagnosis, treatment and care by hospitals, clinics, or doctors	Exempt	Entry 74, Notif. 12/2017
Services by authorised medical practitioners (Allopathy, Ayurveda, Unani, Homeopathy, Siddha, Naturopathy, Yoga)	Exempt	Healthcare service [Circular No. 32/06/2018-GST]
Services by paramedics such as nurses, physiotherapists, midwives, lab technicians	Exempt	Para-medical service covered
Ambulance services for transporting patients	Exempt	Explicitly included in the definition of health care services- Entry No. 74(b)
Room rent for admitted in-patients	Exempt	Part of composite healthcare service
Medicines, consumables, implants provided as part of in-patient treatment package	Exempt	Considered composite healthcare supply
Diagnostic services (lab tests, X-ray, ECG, MRI) performed as part of healthcare	Exempt	Part of healthcare

Essential Medical Support Services	GST Applicability	Remarks / Notification Reference
Diagnostic tests or reports provided to other hospitals / labs on commercial basis	Taxable	B2B taxable service
Outsourced ambulance services provided by third party	Taxable	If provided independently
Hospital providing insurance claim assistance to patients	Taxable	Not healthcare; business support
Room rent provided to attendants or visitors	Taxable	Not healthcare service
Cosmetic or aesthetic surgery (unless reconstructive/medically necessary)	Taxable	Specifically excluded from exemption
Rent of hospital space to diagnostic centre / pharmacy / canteen	Taxable	Renting - taxable supply
Medical certificate issuance for employment/visa	Taxable	Not healthcare treatment
Supply of medicines from pharmacy to out-patients (OPD)	Taxable	Treated as sale of goods
Canteen or cafeteria services	Taxable	Restaurant service
Sale of old equipment / scrap	Taxable	Supply of goods

Taxable Supply of Health Services

- 1) Disposal of medical waste – Services of treatment or disposal of bio-medical waste is taxable.
- 2) Plastic surgery or Cosmetic surgery (unless reconstructive /medically necessary), beauty treatment and Hair transplant services are Taxable.
- 3) GST is applicable on outsourced canteen supply if operating within the hospital premises. If the Canteen in hospital run by a separate entity and either supplied foods to inpatients directly or to the Hospital for subsequent supply to inpatients, then such supply of Food is a taxable service.

4) As per Notification No. 03/2022-CT (Rate) read with Notification No. 04/2022-CT (Rate) both dt. 13.07.2022 w.e.f. 18.07.2022 the services provided by a clinical establishment by way of providing room [other than Intensive Care Unit (ICU)/Critical Care Unit (CCU)/Intensive Cardiac Care Unit (ICCU)/Neo natal Intensive Care Unit (NICU)] having room charges exceeding Rs. 5,000/day to a person receiving health care services shall be liable to tax @ 5% (without ITC).

5) Pharmacy run by hospital dispensing medicine to outpatient or by standers or others is individual supply and hence Taxable.

6) However, GST is payable on supply of Medicines, implants, consumables to out-patients through hospital owned pharmacy to outpatients.

7) GST is leviable on rent paid/payable for premises, given on lease by hospital. E.g. Medical Shops on rent in Hospital Premises, pathology on rent in hospital.

Reverse Charge Mechanism (RCM) Obligations

Health institutions are liable to pay GST under **RCM** on the following services (if applicable):

Nature of Service	Recipient's Liability
Legal services from advocates	GST payable under RCM
Security services from unregistered person	GST payable under RCM
Services from goods transport agency (GTA)	GST payable under RCM
Import of services (consultancy, IT, etc.)	GST payable under RCM

Input Tax Credit (ITC) – Applicability

Scenario	ITC Eligibility
Inputs/input services used exclusively for exempt healthcare services	Not eligible
Inputs/input services used exclusively for taxable supplies (pharmacy, rent, etc.)	Fully eligible
Common inputs/services used for both exempt and taxable activities	Proportionate ITC as per Rule 42 & 43, CGST Rules
Separate books to be maintained for identifying exempt and taxable turnover	Mandatory for accuracy in ITC reversal

Input Tax Credit (ITC) Implications

If an institution is engaged in both exempt and taxable activities, the proportionate credit of input tax may need to be determined as per the **Input Tax Credit provisions under Section 17 of the CGST Act and Rule 42/43 of the CGST Rules.**

Illustration 1: Common Credit Reversal (Rule 42 of CGST Rules)

Scenario:

“ABC Medical Colleges/institutions and Hospitals” provides —

- Outward supply of non-taxable services (exempt under GST)
- Outward supply of taxable services (exempt under GST) (taxable under GST)

They receive various input services (like medicines used for inpatient and outpatient, security services, Housekeeping, etc.) used commonly for both exempt and taxable courses.

Data for a given month:

Total input tax on common services : ₹1,00,000

- Outward supply values:
 - Exempt services : ₹60,00,000
 - Taxable Services : ₹40,00,000

Step-by-step calculation:

Identify Common Credit	Compute taxable and exempt turnover ratio	Ineligible ITC to be reversed	Eligible ITC to be claimed
Total common ITC (C2) = ₹1,00,000	$\frac{\text{Exempt turnover} \times 100}{\text{Total Turnover}}$ $= \frac{60,00,000 \times 100}{100,00,000}$ <p>Ratio = 60%</p>	$\frac{\text{Common ITC} \times \text{Exempt turnover}}{\text{Total turnover}}$ $= \frac{1,00,000 \times 60,00,000}{100,00,000}$ <p>= 60,000</p>	$= (\text{₹}1,00,000) - (\text{₹}60,000)$ <p>= ₹40,000</p>

Hence, ₹60,000 should be reversed in Table 4(B)(1) of GSTR-3B (ineligible ITC) and ₹40,000 can be claimed and utilized.

Illustration 2: IGST Input Tax Credit on Interstate inward Supplies

Scenario:

“ABC Medical Colleges/institutions and Hospitals” (registered in Tamil Nadu) procures housekeeping services, medical equipments, stationery, and doctor’s services from a registered supplier in Karnataka. These are interstate supplies, and the supplier charges IGST on the invoice.

The goods and services are used commonly for:

- Non taxable services (exempt), and also
- Taxable services (taxable).

Data:

- Total IGST charged on interstate invoices during the month: ₹1,00,000
- Usage pattern (based on turnover ratio):
 - Exempt activities: 60%
 - Taxable activities: 40%

Incorrect Practice (to be avoided):

Some Medical Colleges/Institutions or Hospitals do not claim the IGST ITC at all, thinking that since part of their activity is exempt, they are not eligible. However, this results in the IGST credit not being captured in the GST system, and therefore the corresponding revenue is not correctly apportioned to the consuming State (Tamil Nadu).

Accounting / Return Impact

Step	Particulars	Amount (₹)
1	Claim of IGST ITC	1,00,000
2	Reversal of common credit (ineligible portion)	60,000
3	Net eligible ITC retained	40,000

Hence, it is advised that the taxpayer claims the entire ITC related to their inward supplies as per their Books of Account in their monthly returns and reverse the ineligible ITC in Table 4(B)(1) of GSTR-3B without lapsing the same.

Registration and Return Filing

1. Registration Requirement

- GST registration mandatory if aggregate turnover (taxable + exempt) exceeds ₹20 lakh (₹40 lakh for goods).
- Even if the majority of services are exempt, registration is required if taxable outward supplies exist (e.g., pharmacy, rental, or canteen, etc).
- TDS under GST becomes applicable when a Government department or Government body makes payments exceeding ₹2.5 lakhs under a single contract. In such cases, TDS at the rate of 2% shall be deducted on the contract value.

2. Return Compliance

- File GSTR-1 (outward supplies) and GSTR-3B (summary and payment).
- Nil returns to be filed for the months, if there is no outward supply.
- Nil returns to be filed for non-taxable months.
- Regular reconciliation of books with GSTR-2B and financial statements.

3. Document Issuance

- For exempt healthcare services → issue Bill of Supply (no GST).
- For taxable supplies → issue Tax Invoice with GST.

Common Non-Compliance Observed

- Non-disclosure of taxable pharmacy and rental income in GSTR-3B.
- Claiming full ITC without proportionate reversal for exempt healthcare.
- Incorrect classification of diagnostic and cosmetic services.
- Failure to issue proper tax invoices / bills of supply.
- Non-payment of RCM liability on applicable inward services.
- ITC on Machineries/equipment (Capital Goods) if available and used for exempted outward supply of health services shall be reversed.
- ITC on expired medicines to be reversed

While healthcare remains largely exempt under GST, institutions must ensure that ancillary commercial activities are duly reported and tax-compliant. This advisory is issued to promote voluntary compliance and to prevent avoidable disputes during audit or scrutiny.

Recognised Systems of Medicine in India

Sl. No	System of Medicine	Commonly Known As	Administered Under
1	Allopathy	Modern / Conventional Medicine	National Medical Commission (NMC) Act, 2019
2	Ayurveda	Traditional Indian system using herbs and natural therapies	The Indian Medicine Central Council Act, 1970
3	Yoga	System focusing on physical, mental, and spiritual well-being	Ministry of AYUSH
4	Naturopathy	Drugless system using natural healing	Ministry of AYUSH
5	Unani	Greco-Arabic system using natural remedies	The Indian Medicine Central Council Act, 1970
6	Siddha	Ancient Tamil medical system using herbs, minerals, and diet	The Indian Medicine Central Council Act, 1970
7	Homeopathy	Based on "like cures like" principle	The Homeopathy Central Council Act, 1973 (now replaced by the National Commission for Homeopathy Act, 2020)

GST Applicability on Services by Diagnostic Laboratories / Scan Centres

Legal Provision – Entry 74 of Notification No. 12/2017-CT (Rate)

Exemption:

"Services by way of healthcare services by a clinical establishment, an authorised medical practitioner, or paramedics are exempt from GST."

Key Definitions:

- Clinical establishment includes a hospital, nursing home, clinic, sanatorium, or any other institution that offers services for diagnosis or treatment or care for illness, injury, deformity, abnormality, or pregnancy in any recognised system of medicine in India.
- Healthcare services include diagnosis or treatment or care for illness, etc.

Therefore, diagnostic services (laboratory tests, X-rays, MRI, CT scans, blood analysis, etc.) fall under healthcare services if done for diagnosis of illness/disease.

Exemption for Diagnostic and Scan Services (Pure Healthcare Purpose)

Service Type	Example	GST Applicability	Remarks
Pathology / diagnostic lab testing for patients	Blood test, urine test, biopsy, etc.	Exempt	Falls under healthcare services
X-ray, ECG, CT, MRI, ultrasound scans for diagnosis	Diagnostic purposes prescribed by doctors	Exempt	Covered under healthcare
Diagnostic or imaging services provided directly to patients	Walk-in lab or doctor referral	Exempt	Healthcare service
Diagnostic services provided to hospitals for in-patient treatment	Tests done for admitted patients	Exempt	Composite part of healthcare

Hence, you are advised to:

- Review your activities and receipts in light of the above points;
- Maintain proper documentation and accounting for exempt and taxable supplies; and
- For any queries or assistance, contact the concerned Jurisdictional Officer of the Commercial Taxes Department or reach out contact the help line No.1800-202-1015

Your cooperation in ensuring voluntary and timely compliance under the GST law is appreciated.


 Additional Commissioner (ST)
 Tax Research Unit.

