

Greetings to all our readers!

The GST Council held its' 56<sup>th</sup> Meeting on 03.09.2025 and announced the much awaited set of reforms titled as GST 2.0. This advisory provides a quick review of the policy announcements, most of which are expected to be effective from 22.09.2025. This advisory is based on the Press Release and some FAQs issued by the CBIC. Detailed notifications are awaited and we shall keep you posted with the said developments as and when they are issued.

## **I. Executive Summary**

The 56th GST Council meeting, led by Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman, approved significant "next-generation GST reforms" aimed at enhancing the quality of life for citizens and ensuring ease of doing business. These reforms include a substantial rate rationalization, transitioning from a four-tiered structure to a "citizen-friendly 'Simple Tax' - a 2 rate structure with a Standard Rate of 18% and a Merit Rate of 5%," alongside a "special de-merit rate of 40% for a select few goods and services." The changes are broadly categorized into reductions for common goods, labor-intensive industries, agriculture, health, and key economic drivers, alongside increased rates for certain luxury and "sin goods," and strategic adjustments to address inverted duty structures. Most changes are effective September 22, 2025, with specific tobacco products deferred until compensation cess liabilities are discharged.

## **II. Key Themes and Major Changes**

### **1. Rate Rationalization and Simplified Tax Structure**

- **New Tax Structure:** The GST Council is moving to a simplified two-rate structure:
- **Standard Rate:** 18%
- **Merit Rate:** 5%
- **Special De-Merit Rate:** 40% (for select goods and services, predominantly "sin goods and few luxury goods")
- **Rationale:** The principle behind this rationalization is "to keep similar goods at the same rate to avoid issues of misclassification and disputes." The special 40% rate aims to maintain the pre-rationalization tax incidence on goods that previously attracted both GST and compensation cess, as the compensation cess levy is ending.

### **2. Benefits for the Common Man and Essential Sectors**

The reforms emphasize relief for various segments of the population and key industries:

- **Common-Man Items (18% or 12% to 5%):** Many daily use items will see reduced GST, including "hair oil, toilet soap bars, shampoos, toothbrushes, toothpaste, Bicycles, Tableware, kitchenware, other household articles, et al." (Press Release). This is "intended to lower the monthly expenditure for the lower middle class and the poorer sections of society." (FAQs, Q.44).
- **Food Items (12% or 18% to 5%; some 5% to Nil):** **Nil Rate:** "Ultra-High Temperature (UHT) milk, Prepackaged and labelled chena or paneer; All the Indian Breads will see NIL rates

(Chapati or roti, paratha, parotta, etc)" (Press Release). UHT milk was exempted "to provide same tax treatment to similar goods." (FAQs, Q.13).

- **5% Rate:** "almost all of the food items such as packaged namkeens, Bhujia, Sauces, Pasta, Instant Noodles, Chocolates, Coffee, Preserved Meat, Cornflakes, Butter, Ghee, etc." (Press Release).
- **Health Sector: Exemption (18% to Nil):** "All individual life insurance policies whether term life, ULIP or endowment policies and reinsurance thereof" and "All individual health insurance policies (including family floater policies and policies for senior citizens) and reinsurance thereof" (Press Release). This is to "make insurance affordable for the common man and increase the insurance coverage in the country." (Press Release).
- **Reduction to Nil (12% to Nil; 5% to Nil):** "33 lifesaving drugs and medicines" (from 12%) and "3 lifesaving drugs & medicines used for treatment of cancer, rare diseases and other severe chronic diseases" (from 5%) (Press Release).
- **Reduction to 5% (12% or 18% to 5%):** "All other drugs and medicines" and "various medical apparatus and devices used for medical, surgical, dental or veterinary usage or for physical or chemical analysis" (Press Release). This measure "is intended to lower the cost of healthcare and thereby benefit patients, particularly the poor." (FAQs, Q.25). Spectacles and goggles for correcting vision also fall to 5% (FAQs, Q.53).
- **Agriculture Sector (12% or 18% to 5%):** "tractors, agricultural, horticultural or forestry machinery for soil preparation or cultivation, harvesting or threshing machinery, including straw or fodder balers, grass or hay mowers, composting machines etc" (Press Release).
- Sulphuric acid, Nitric acid, and Ammonia, used in fertilizers, reduced from 18% to 5% to correct inverted duty structure (Press Release).
- Raw cotton continues to be taxed on a reverse charge basis (5%) to avoid breaking the input credit chain (FAQs, Q.40).
- **Renewable Energy (12% to 5%):** "renewable energy devices and parts for their manufacture" (Press Release). This aims "to promote renewable energy goods." (FAQs, Q.51).
- **Labor-Intensive Industries (12% or 18% to 5%):** "Handicrafts, Marble and travertine blocks, granite blocks, and Intermediate leather goods" (Press Release).

### 3. Transportation Sector Adjustments

- **Small Cars & Motorcycles (28% to 18%):** "Small cars" (petrol/LPG/CNG up to 1200cc, length up to 4000mm; diesel up to 1500cc, length up to 4000mm) and "Motorcycles equal to or less than 350 CC" (Press Release).
- **Commercial & Public Transport Vehicles (28% to 18%):** "buses, trucks, ambulances etc" (Press Release). Three-wheelers also reduced from 28% to 18% (FAQs, Q.28).
- **Mid-size and Large Cars & Luxury Vehicles (28% with cess to 40%):** Vehicles exceeding 1500cc or 4000mm length, and Utility Vehicles (SUV, MUV, MPV, XUV) with specific engine capacity, length, and ground clearance criteria, will attract a 40% GST rate with no

compensation cess (FAQs, Q.27, Q.35). Personal use aircraft and yachts also move from 28% to 40% (Annexure-II).

- **Auto Parts:** Uniform rate of 18% on all auto parts irrespective of their HS code (Press Release).
- **Passenger Transport Services:** Generally taxed at a "merit rate of 5% with no ITC," with an option for 18% with full ITC. Air travel in economy class is 5%, otherwise 18% (FAQs, Q.58, Q.59).
- **Goods Transport Agency (GTA) Services:** Will continue at 5% with no ITC, with an option for 18% with full ITC (FAQs, Q.60). Multimodal transport is 5% with restricted ITC if no air transport is involved, otherwise 18% with full ITC (FAQs, Q.62).

#### 4. Other Significant Rate Changes

- **Coal (5% + cess to 18%):** The rate on "Coal; briquettes, ovoids and similar solid fuels manufactured from coal" has been increased to 18% (from 5% GST + Compensation Cess of Rs 400/ton) as the compensation cess is being merged with GST, resulting in "no additional burden." (FAQs, Q.48).
- **Consumer Electronics (28% to 18%):** Air conditioners, dishwashers, and all TVs and monitors (previously varied rates based on size) will now be uniformly taxed at 18% (FAQs, Q.55, Press Release).
- **Batteries (Varied to 18%):** All batteries under heading 8507 will be uniformly taxed at 18% (previously lithium-ion at 18%, others at 28%) (FAQs, Q.54).
- **Cement (28% to 18%):** Portland cement and similar hydraulic cements (Press Release).
- **Plant-based Milk Drinks (18% or 12% to 5%):** Plant-based milk drinks (except soya milk) previously 18%, soya milk drinks 12%, now both 5% (FAQs, Q.13).
- **Food Preparations N.E.S. (Not Elsewhere Specified) (18% to 5%):** "Food preparations not elsewhere specified will attract a GST rate of 5%." (FAQs, Q.15).
- **"Other Non-Alcoholic Beverages" (18% to 40%):** This is due to a "principle behind the recent rate rationalisation exercise is to keep similar goods at the same rate to avoid issues of misclassification and disputes." (FAQs, Q.14).
- **Carbonated Beverages of Fruit Drink/Juice (Increased):** The tax has been increased to maintain pre-rate rationalization levels following the end of compensation cess (FAQs, Q.17).
- **Betting, Gambling, Lottery, Online Money Gaming (28% to 40%):** "for all specified actionable claims including betting, casinos, gambling, horse racing, lottery and online money gaming, GST rate of 40% will apply." (FAQs, Q.73).
- **Admission to Sporting Events:** IPL and similar events at 40%, but not for "recognized sporting events." Other sporting events up to Rs. 500 ticket price remain exempt, over Rs. 500 taxed at 18% (FAQs, Q.74, Q.75).
- **Job Work Services:** Generally reduced from 12% to 5% for pharmaceutical products, hides, skins, and leather. Residuary job-work services (not specifically notified) will

increase from 12% to 18%. Full exemption is avoided to maintain the ITC chain (FAQs, Q.64, Q.65, Q.68, Q.69).

- **Hotel Accommodation:** Services with a value up to Rs. 7500 per unit per day reduced from 12% to 5% without ITC (FAQs, Q.71).
- **Beauty and Physical Well-being Services:** Services of health clubs, salons, barbers, fitness centers, yoga, etc., reduced from 18% to 5% without ITC (FAQs, Q.72).

## 5. Input Tax Credit (ITC) and Inverted Duty Structure

- **General ITC Rule:** A registered person is "entitled to take credit of the input tax charged on his inward supplies" if tax was duly charged at the prevailing rate at the time of supply (FAQs, Q.6).
- **ITC on Reduced Rates:** If GST on outward supply is reduced, previously accumulated ITC from higher rates can still be used to discharge any output tax liability (FAQs, Q.8).
- **Exempt Outward Supply:** If outward supply becomes exempt, ITC for supplies made on or after September 22, 2025, must be reversed (FAQs, Q.9).
- **Inverted Duty Structure (IDS) Refunds:** While some measures (e.g., medical devices, renewable energy equipment) may deepen existing IDS, "refund of accumulated input tax credit arising on account of inverted duty structure is available to manufacturers." (FAQs, Q.25, Q.51). The GST Council has also recommended process reforms for "expedited refunds." (FAQs, Q.25, Q.51).
- **Restriction on ITC:** Full exemption for goods like agriculture machinery or medicines is avoided because it would force manufacturers/dealers to reverse ITC, increasing costs that would then be passed on to consumers (FAQs, Q.21, Q.23, Q.37).
- **Imitation Zari:** ITC on plastic/polyester film in imitation zari remains restricted, a decision from the 52nd Council meeting (FAQs, Q.43).

## 6. Implementation and Procedural Details

- **Effective Date:** Changes in GST rates on most services and goods are effective from **September 22, 2025**.
- **Exceptions for Tobacco Products:** For "cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and beedi," existing rates of GST and compensation cess will continue. New rates will be implemented "at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess." (FAQs, Q.1, Press Release, Part A.III.c).
- **Retail Sale Price (RSP)-based Valuation:** GST will be levied on Retail Sale Price instead of transaction value for "Pan Masala, Gutkha, Cigarettes, Unmanufactured tobacco, Chewing tobacco like Zarda." (Press Release, Part A.2.i).
- **Time of Supply:** If goods/services were supplied before the rate change but invoices issued later, the time of supply is the date of payment receipt or invoice issue (whichever is earlier) if payment is received after the change. If payment was received before the change, time of supply is the date of payment receipt (FAQs, Q.4).
- **Advances:** GST rate determined by time of supply provisions (FAQs, Q.5).

- **Stock on Hand:** New GST rates apply to goods supplied on or after the revised rates are notified (FAQs, Q.11).
- **E-way Bills:** No mandatory cancellation or fresh generation for goods in transit; existing e-way bills remain valid (FAQs, Q.12).
- **GST Appellate Tribunal (GSTAT):** To be operationalized for appeals before end of September 2025 and commence hearings before end of December 2025. This aims to "significantly strengthen the institutional framework of GST by providing a robust mechanism for dispute resolution." The due date of filing the pending appeals is proposed to be 30.06.2026. (Press Release).
- **Process Reforms (Effective November 1, 2025): Risk-based Provisional Refund:** 90% provisional refund for zero-rated supplies and inverted duty structure claims, based on system identification and risk evaluation (Press Release, Annexure V.1, V.2).
- **Refunds for Low Value Export Consignments:** Removal of threshold limit for refunds from exports with tax payment, benefiting small exporters (Press Release, Annexure V.3).
- **Simplified GST Registration Scheme:** Automated registration within three working days for low-risk applicants and those with output tax liability to registered persons not exceeding Rs. 2.5 lakh per month. This benefits "around 96% of new applicants" (Press Release, Annexure V.4).
- **Simplified Registration for Small Suppliers through ECOs:** In-principle approval for a simplified mechanism for small suppliers using e-commerce operators across multiple states (Press Release, Annexure V.5).
- **Place of Supply for Intermediary Services:** Omission of section 13(8)(b) of IGST Act, 2017, meaning the place of supply for intermediary services will be the recipient's location. This helps Indian exporters claim benefits (Press Release, Annexure V.6).
- **Post-Sale Discount Amendments:** Simplification of rules for post-sale discounts by omitting the requirement for a pre-existing agreement and linking discounts to relevant invoices (section 15(3)(b)(i) of CGST Act, 2017). Credit notes under section 34 will be used, with corresponding ITC reversal by recipients. A previous circular is rescinded, and new clarifications will be issued to remove ambiguities (Press Release, Annexure V.7.1, V.7.2).

This newsletter is for general public information and knowledge sharing. In case any clarifications required, you may connect with us at:

- Sunil Gabhawalla @ [sunil@sbgco.in](mailto:sunil@sbgco.in)
- Yash Parmar @ [yash@sbgco.in](mailto:yash@sbgco.in)
- Parth Shah @ [parth@sbgco.in](mailto:parth@sbgco.in)
- Darshan Ranavat @ [darshan@sbgco.in](mailto:darshan@sbgco.in)
- Aman Haria @ [aman@sbgco.in](mailto:aman@sbgco.in)