

Taxient Special Edition I Key GST Changes Announced at 56th GST Council Meeting

The GST Council ('Council'), in its 56th meeting on September 3, 2025, took landmark decisions aimed at simplifying India's GST structure, providing relief to individuals and the middle class, and facilitating trade.

This update is intended to apprise you of the key changes introduced as follows:

A. General rate rationalization

1. GST rate changes for goods (other than tobacco and related products)

- The Council rationalized GST's previous four-tier rate system to a simpler and more citizen-friendly framework with primarily two tax rates:
 - A standard rate of 18%
 - A merit rate of 5% for essential goods and services
- In addition, a special demerit rate of 40% has been revamped for select sin and luxury goods.
- These changes, covering most goods, will take effect from September 22, 2025. The detailed HSN-wise and sector-wise rate changes are in the [official annexures](#).

Taxient Comment: *The recent GST rate rationalization represents the most significant overhaul of the GST framework since its inception, effectively eliminating the 12% and 28% slabs. Most goods have now moved into either the 5% or 18% tax brackets, thereby simplifying the tax structure considerably. The government's primary objective with this reform is to boost consumption, stimulate economic growth, and provide relief to both the common man and the aspirational middle class by easing inflationary pressures.*

From a business perspective, these changes present major transitional challenges. Companies will need to align their pricing strategies with the government's expectation of passing on the benefits of reduced GST rates to consumers.

*In addition, businesses dealing in packaged commodities for retail sale must **also consider the implications under the Legal Metrology regulations**, as tax rate changes have historically necessitated updates in MRP labelling. This was evident during the previous GST rate revisions in 2017 and 2022. **Notably, Legal Metrology provisions have always allowed businesses to affix a reduced MRP on labels without overriding the old MRP. However, any increase in MRP requires suitable clarifications from the authorities, as seen in earlier rate changes.** Businesses will therefore need to plan their production and distribution carefully to minimize disruption.*

Overall, this sweeping reform demands proactive planning and coordination across multiple departments like operations, finance, marketing, legal, and compliance to ensure a smooth transition, maintain compliance, and reduce the risks of inadvertent lapses.

That said, some sectors, such as textiles, may not experience the intended benefits of these rate cuts. Textile businesses, which often have relatively low input costs but significant input service costs like marketing, advertising, and logistics, will continue to face the burden of 18% GST on many services. This is likely to result in the accumulation of ITC on services that are either non-refundable or not fully utilizable. Such mismatches are expected to drive affected businesses to seek government relief or broader refund provisions for unutilized ITC on input services. If not addressed, this situation may force businesses to raise prices instead of lowering them, which would run contrary to the Government's intended outcome.

2. Tobacco and Related Products

- Tobacco products such as pan masala, gutkha, cigarettes, chewing tobacco like zarda, unmanufactured tobacco, and bidi will continue to be taxed at existing GST rates plus compensation cess until the loan and interest obligations under the compensation cess account are fully discharged.
- The date for transition to the new GST rate structure for these products will be decided by the Union Finance Minister and GST Council Chairperson.
- A key change is that GST on these tobacco products will now be levied on the Retail Sale Price ('RSP') printed on the packaging, instead of the transaction value (the price actually paid).

Taxient Comment: *For tobacco manufacturers and distributors, the move to RSP-based taxation will significantly alter cost structures. Since GST will now be calculated on the printed retail price rather than the transaction value, the tax incidence is expected to be higher, particularly in supply chains where trade discounts and below-MRP sales are common. This will require recalibration of pricing models, tighter alignment of packaging and invoicing practices, and enhanced vigilance in RSP disclosures to avoid disputes. While the continuation of existing GST and cess rates until compensation cess obligations are*

liquidated offers short-term stability, businesses should prepare for a sharper compliance regime and higher working capital outflows once the RSP-based levy is enforced.

3. GST rate changes for services

S. No.	Service	Old Rate	New Rate	Change Summary
1	Works contracts (earthwork, subcontracts, offshore oil & gas)	12% with ITC	18% with ITC	Rate Increased
2	Hotel accommodation of less than or equal to INR 7,500/day	12% with ITC	5% without ITC	Rate Reduced, No ITC
3	Air transport (non-economy)	12% with ITC	18% with ITC	Rate Increased
4	Passenger transport by motor vehicle (fuel included)	5% with ITC (same line) OR 12% with ITC	5% with ITC (same line) OR 18% with ITC	Option for 18% with ITC
5	Goods transport by GTA	5% without ITC	5% without ITC OR 18% with ITC	New 18% ITC option
6	Container rail transport (non-Indian Railway)	12% with ITC	5% without ITC OR 18% with ITC	Dual Option
7	Pipeline transport of petroleum products	12% with ITC	18% with ITC (5% without ITC continues)	Rate Increased
8	Multimodal transport (non-air legs)	12% with ITC	5% with restricted ITC OR 18% with ITC	Dual Option
9	Renting of passenger motor vehicle (with fuel)	12% with ITC	5% with ITC (same line) OR 18% with ITC	Dual Option
10	Renting of goods carriage (with fuel)	12% with ITC	5% with ITC (same line) OR 18% with ITC	Dual Option
11	Job work - umbrellas, printing, bricks, pharma, leather	12% with ITC	5% with ITC	Rate Reduced
12	Job work - residual entry	12% with ITC	18% with ITC	Rate Increased
13	Third-party insurance of goods carriage	12% with ITC	5% with ITC	Rate Reduced

14	Effluent/biomedical waste treatment	12% with ITC	5% with ITC	Rate Reduced
15	Cinema tickets of less than or equal to INR 100	12% with ITC	5% with ITC	Rate Reduced
16	Beauty & well-being (salons, gyms, yoga)	18% with ITC	5% without ITC	Rate Reduced, No ITC
17	Exploration/mining & support services	12% with ITC	18% with ITC	Rate Increased
18	Casinos, race clubs, IPL, licensing bookmakers	28% with ITC	40% with ITC	Rate Increased
19	Leasing/rental of goods without operator	28% with ITC	40% with ITC	Rate Increased
20	Actionable claims (betting, gambling, lottery, online gaming)	28% with ITC	40% with ITC	Rate Increased
21	Individual health insurance (including reinsurance)	18% with ITC	Exempt	Exempted
22	Individual life insurance (including reinsurance)	18% with ITC	Exempt	Exempted

- In addition to above, The Council has proposed to insert an Explanation into the definition of 'specified premises to clarify that stand-alone restaurants cannot classify themselves as such, and therefore cannot opt to pay GST at 18% with input tax credit.
- The Council has recommended corresponding amendments to the GST Valuation Rules to align with the revised GST rate structure for lottery tickets and to ensure consistency in application.

Taxient Comment: *The revised rate structure reflects a calibrated approach by the Council. Consumer-facing services such as accommodation, beauty, health insurance, small-ticket cinema, and effluent treatment have been granted significant relief through lower rates or exemptions, directly easing costs for end-users. Conversely, high-value or luxury services, including casinos, betting, non-economy air travel, offshore contracts, and exploration/mining, have been moved to higher slabs to enhance revenue mobilisation. The transport sector has been given dual-rate flexibility, allowing providers to choose between a concessional 5% without input tax credit and a standard 18% with full credit, depending on their business model.*

It is important to note that opting for the 5% rate without ITC will trigger ITC reversal requirements, which need to be factored in while passing on the benefit of lower rates to customers. Among all changes, the exemption of life and health insurance stands out as the most impactful measure for individuals, with a direct benefit in reducing financial protection costs.

In addition, the Council has clarified that stand-alone restaurants cannot be treated as 'specified premises' and therefore cannot choose to pay GST at 18% with ITC. This ensures consistency in how restaurant services are taxed and avoids scope for disputes. The Council has also proposed changes to the GST Valuation Rules to reflect the revised rate for lottery tickets, so that tax is computed uniformly. Restaurants and lottery operators should review their current practices and make necessary adjustments to stay compliant with these changes.

B. Measure for facilitation of trade

The GST Council has also approved a set of facilitation measures aimed at easing compliance, simplifying procedures, and providing relief to exporters and small businesses. Key changes are as follows:

1. Operationalization of the Goods and Services Tax Appellate Tribunal ('GSTAT')

- The GSTAT will start accepting appeals before the end of September and is expected to begin hearings by December this year.
- The Council has set June 30, 2026 as the deadline for filing backlog appeals.
- The Principal Bench of GSTAT will also function as the National Appellate Authority for Advance Ruling ('NAAAR').

***Taxient Comment:** The operationalisation of the GSTAT is a long-awaited reform that will fill a critical gap in the GST dispute resolution framework. The cut-off date of June 30, 2026 for filing backlog appeals provides a one-time opportunity to consolidate pending disputes and bring finality to long-standing matters. Equally significant is the dual role of the Principal Bench as the NAAAR, which will ensure uniformity in advance rulings across jurisdictions. Importantly, the GSTAT's functioning will also ease the heavy burden currently borne by High Courts, which in the absence of the Tribunal had become the de facto forum for GST litigation. Taxpayers are advised to review their ongoing disputes, evaluate the merits of appeal, and prepare documentation in anticipation of the Tribunal becoming fully functional.*

2. Risk-based provisional refunds – Zero Rated Supplies (To be operational from November 1, 2025)

- Refund claims for exports and SEZ supplies will now be provisionally sanctioned up to **90%** on a system-driven risk evaluation.

- Proper officers may still withhold provisional sanction in exceptional cases with recorded reasons, and certain categories of taxpayers (to be notified) may be excluded.

***Taxient Comment:** Exporters have long struggled with refund delays that tie up working capital and erode competitiveness. By shifting to automated risk-based assessment, compliant taxpayers should see much quicker release of funds. However, businesses should track upcoming notifications closely to understand which categories will be excluded and what 'risk parameters' the system will apply.*

3. Provisional refunds – Inverted Duty Structure ('IDS') (To be operational from November 1, 2025)

- The 90% provisional refund facility will also be extended to IDS refund claims. Until the statutory amendment is carried out, CBIC will issue instructions to implement the process on similar lines as export refunds.

***Taxient Comment:** IDS refunds are often one of the most delayed and create significant cash flow strain. Extending provisional sanction to IDS claims provides much needed parity and relief. In the interim, reliance on CBIC instructions may lead to uneven implementation across jurisdictions, but once the law is amended, taxpayers can expect consistency and predictability. Businesses should also monitor whether any additional conditions are prescribed in practice.*

4. Refunds for low-value export consignments

- Section 54(14) will be amended to remove the threshold restriction for export refunds with payment of tax to enable exporters of small consignments, often using courier and postal modes, to claim GST refunds.

***Taxient Comment:** For small exporters, artisans, and startups, low-value shipments are common, but the inability to claim refunds significantly increased costs. This change levels the playing field and encourages participation in global E-commerce and cross-border trade. The real test will be how efficiently courier and postal refunds are processed in practice, as system integration and field level execution will be critical.*

5. Simplified GST registration for small and low-risk businesses (To be operational from November 1, 2025)

- A new optional scheme will provide **automated GST registration within 3 working days** for low-risk applicants, including those self-assessing their B2B output liability at not more than ₹2.5 lakh per month.

***Taxient Comment:** This measure directly addresses complaints of long registration delays, which stall business operations. Automated clearance will accelerate onboarding for compliant businesses, particularly MSMEs.*

6. Simplified registration for E-commerce suppliers

- A simplified registration framework will be introduced for small suppliers selling through E-commerce operators. They will not be required to maintain a principal place of business in every State.

***Taxient Comment:** This is a major compliance relief for small sellers, many of whom were deterred from E-commerce due to the burden of multi-state registrations. By lowering entry barriers, the measure is expected to expand seller participation and boost digital trade. However, the finer details such as eligibility limits, compliance obligations, and how state revenue interests are safeguarded remain to be finalized. Stakeholders should anticipate draft rules in the coming months.*

7. Intermediary services – Place of supply amendment

- Clause (b) of Section 13(8) of the IGST Act will be omitted.
- Consequently, intermediary services will follow the general rule under Section 13(2), making the **recipient's location** the place of supply.

***Taxient Comment:** Currently, Indian intermediaries providing services to foreign clients are taxed in India, which undermines their global competitiveness. This amendment allows such services to qualify as exports, unlocking tax free treatment and access to export incentives. It also removes a long-standing source of litigation. Businesses in consulting, outsourcing, and brokerage should review contracts and invoicing structures to align with the new regime and maximize benefits.*

8. Post-sale discounts – amendments and clarifications

- Discounts will no longer need to be pre-agreed or linked to invoices. They must, however, be passed through GST credit notes with ITC reversal by the recipient.

- **Circular No. 212/6/2024** dated **June 26, 2024**, which provided the mechanism for ensuring that recipients reverse proportionate ITC in respect of discounts given by suppliers through GST credit notes, will be rescinded.
- CBIC will also issue clarifications to cover credit notes, dealer incentives, promotional discounts, and treatment of commercial notes.

***Taxient Comment:** The earlier rigid conditions around discounts created unnecessary disputes and compliance burdens. The revised framework seems more realistic. The upcoming clarifications will be critical in resolving grey areas such as whether dealer promotions count as 'consideration' and how financial credit notes are treated. Businesses should expect transitional challenges but, overall, a more pragmatic environment.*

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