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Bridging the Gap Between GST Rate Cuts and Legal Metrology Compliance

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Introduction

The Indian consumer market is again undergoing tax rate changes across a wide array of goods, reflecting policy efforts to control inflation and stimulate demand. While these revisions benefit consumers by making products more affordable, they also trigger significant compliance and operational challenges for manufacturers, distributors, and retailers under the Legal Metrology (Packaged Commodities) Rules, 2011 ('LMPC Rules').

A critical, often overlooked dimension in this process is the connection between Maximum Retail Price ('MRP') labelling requirements under Legal Metrology and the impact of tax rate cuts, particularly for high-volume consumer sectors such as FMCG, home appliances, and consumer durables.

The MRP Dilemma and Practical Challenges

Since the MRP printed on each package is all-inclusive, any reduction in taxes logically leads consumers to expect a corresponding drop in prices. However, complications arise with existing inventory already bearing the old MRP.

Key challenges include:

- Passing on the benefit of GST rate cuts on old stock: Printed MRPs cannot be altered, obliterated, or cut directly under LMPC Rules. Instead, reduction in MRP must be communicated by affixing an additional sticker or stamp showing the revised price. This sticker must not cover the previously declared MRP.
- Charging below the printed MRP: Companies can instruct retailers and distributors to sell products below the declared MRP (without affixing a revised price sticker), which is allowed by LMPC Rules. This, however, complicates effective communication and uniform enforcement throughout the supply chain.

Inconsistent Departmental Instructions

A recurring issue has been conflicting departmental guidance regarding who may affix revised MRP stickers:

- Initial departmental instructions during July 2017 around GST implementation also permitted wholesalers or retailers in addition to manufacturer, packer or importer to declare and affix new stickers with revised MRPs.
- Subsequent instructions (August 2022) limited this authority strictly to manufacturers, packers, or importers.

Such inconsistencies have led to confusion and operational bottlenecks, especially where the rapid transmission of tax benefits to consumers is required. The lack of clarity over permitted actors has repeatedly caused compliance uncertainty across the supply chain.

The Unit Sale Price (USP) Complication

Beyond MRP labelling, the mandatory USP declaration introduced under the Legal Metrology (Packaged Commodities) Amendment Rules, 2022, has added new layers of complexity.

Rule 6(11) stipulates, 'The unit sale price in rupees, set out to the nearest two decimal places, shall be declared on every pre-packaged commodity.' When the MRP changes, the USP must also be updated, compounding compliance challenges.

Example:

- **Original:** Net Qty 200 g, MRP ₹60, USP ₹0.30 per gram
- **Post rate cut:** Net Qty 200 g, MRP ₹54, USP ₹0.27 per gram

Any revision sticker must now additionally show the updated USP. The USP requirement, introduced in 2022, did not feature in earlier instructions making current compliance significantly more challenging.

The Challenge of Increased MRP

If rate changes result in a higher MRP, such as withdrawal of tax exemptions or upward price adjustments the legal hurdles become steeper. The law does not permit affixing or stamping a sticker for increased MRP over existing packaging. The only compliant remedies are to:

- Withdraw old stock from the market, or
- Replace the original packaging with a new one listing the revised MRP

This necessity is especially daunting for high-volume FMCG businesses, with implications of increased compliance costs and supply chain disruptions.

Rule 18(3) does allow retail dealers to sell goods at a higher price (post formal manufacturer/packer notification), but solely by way of publication in at least two newspapers and issuance of notices to relevant authorities and dealers. Notably, the Rule is silent on mechanisms for sticker application for increased prices.

Circulars and Regulatory Interventions

Historically, regulatory authorities respond to each round of GST or rate changes with temporary relaxations or specific circulars. Common features include:

- Allowing consumer intimation *via* newspaper advertisements
- Mandating notice of revised MRPs to relevant legal metrology authorities at Centre and State level
- Permitting use of additional stickers or stamps, subject to safeguards for transparency

However, these interventions are time-bound and tailored to each situation, generating uncertainty in operational execution. Departments consistently rely on Circulars rather than establishing a proactive compliance framework, leaving businesses waiting for guidance at every rate revision.

The Way Forward

Given persistent regulatory ambiguities and evolving market realities, industry stakeholders especially FMCG and retail would benefit from:

- Codified provisions in LMPC Rules specifically addressing MRP and USP revisions linked to tax changes.
- Uniform authorization on who can affix revised MRP and USP stickers, eliminating supply chain confusion.
- Digital declaration and notification systems, leveraging Government portals for faster compliance and accurate USP calculation.
- Buffer transition periods, permitting continued sale of stickered stock and mitigating disruption and waste.

Conclusion

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The primary objective behind GST rate cuts is to deliver consumer benefits, yet the interplay with Legal Metrology requirements especially the new USP mandate renders compliance a complex landscape for FMCG and retail companies. The repeated, inconsistent instructions and the absence of a uniform, prospective mechanism within LMPC rules mean each rate revision remains a compliance flashpoint. The need for proactive, standardized guidance is clear only then can policy benefits truly and efficiently reach consumers, while reducing operational hurdles for businesses.

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