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Advancing Simplicity and Affordability: **Key Outcomes of the 56th GST Council Meeting.**

Forward:

1. In the 56th GST Council meeting held on 3rd September 2025, the following changes and reforms were introduced. The same is popularly called as GST 2.0. The said reforms are welcome step and shows government's commitment towards making "BHARAT" a developed country by 2047. Major reliefs and simplification in the Law are proposed which will become effective from 22nd September 2025. It will significantly boost economy and sentiment of Trade and Industry. Its bold step of MODI GOVERNMENT 3.0. Reduction in GST rate on health insurance is a big relief of almost all citizens of the country.
2. The reforms target reduced costs for essential items, increased consumer spending, and strengthened competitiveness across industries leading to ease of living and trade.
3. We have tried to cover all aspects of the announcement and its likely effects on the economy in our note.

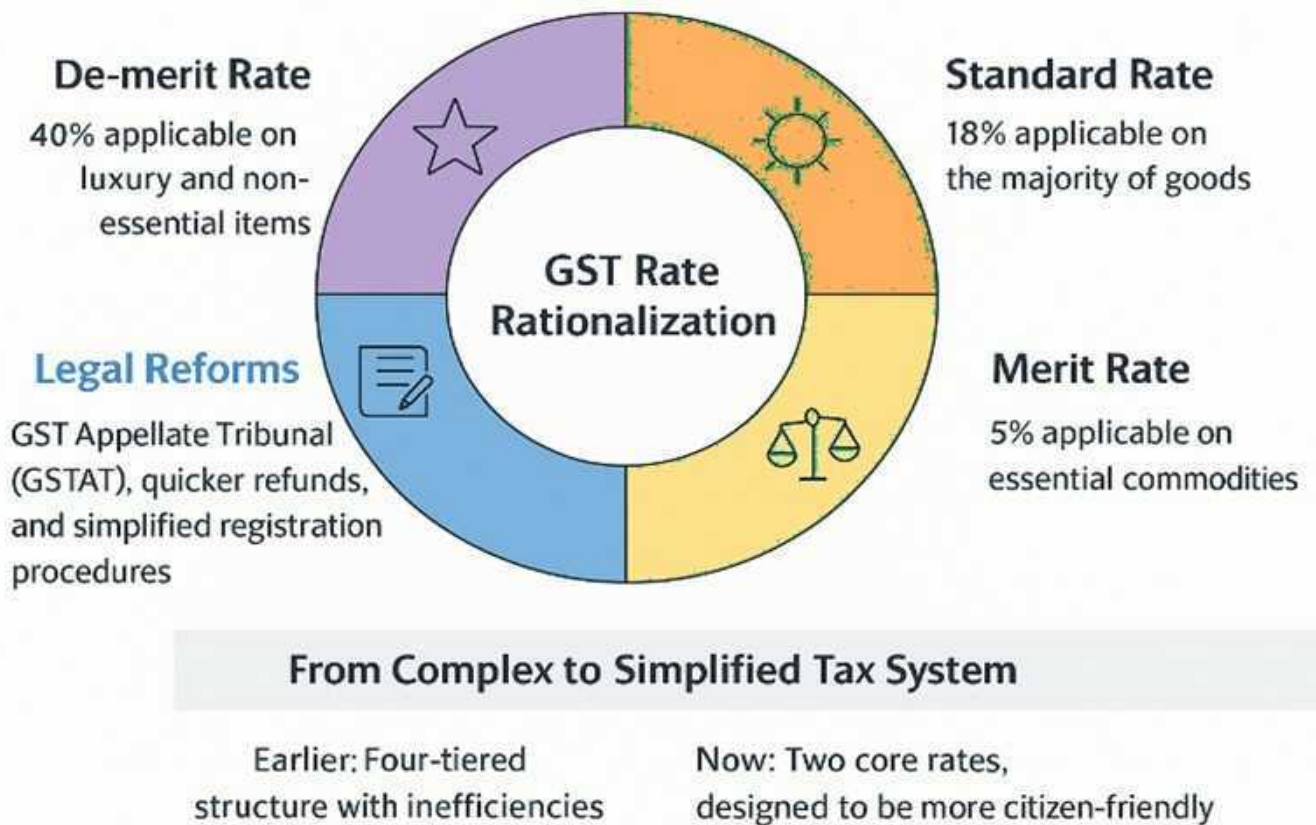
Happy reading

Dipen D Shah & Associates

INDEX

Sr. No	Particulars	Page No.
1	Pillar 1: Rate Rationalization	2
2	Pillar 2: Structural Reforms	13
2.1	Provisional Refunds for Inverted Duty Structure	
2.2	Refunds for Low-Value Export Consignments	
2.3	Simplified Registration for E-Commerce Suppliers	
2.4	Intermediary Services – Place of Supply	
2.5	Post-Sale Discounts – Clarifications & Amendments	
2.6	Operationalization of the GST Appellate Tribunal (GSTAT)	
2.7	Valuation Changes – Retail Sale Price for Tobacco	
3	Pillar 3: Compensation Cess – Rationalization & Transition	17
3.1	Continuation of Existing Rates for Select Sin Goods	
3.2	GST Rate on Mid-Size and Big Cars	
3.3	Why 40% is Called a 'Special Rate	
3.4	GST Rate on Coal	
4	Macroeconomic Impact: Growth, Inflation & Revenue	18
5	Important Compliance Update for Manufacturers, Importers & Packers of Pre-Packaged Commodities	19

GST Council Streamlines Tax Framework



The government announced three pillars of focus for new-gen GST reforms on 15th August 2025, namely

Rate rationalisation: Rationalizing GST rates to enhance affordability particularly on essential and aspirational goods for the common man, students, farmers, and MSMEs.

Structural reforms: Streamlining of product classification rules to minimize disputes and ensure consistency across sectors

Ease of doing business: Phasing out the compensation cess to create fiscal room for sustainable rate alignment



1

Pillar 1: Rate Rationalisation

Rate rationalisation under the new GST reforms streamlines multiple tax slabs into primarily 5% and 18%, addressing inverted duty structures to reduce input tax credit accumulation and improve liquidity.

This simplification enhances affordability of essential goods, minimizes compliance complexities, and promotes a more efficient tax environment. Key sectors affected include automotive, textiles, pharmaceuticals, food and agriculture, electronics, construction, FMCG, and services such as IT and telecom etc.

Following is an Industry/ Sector Wise breakup of the commodities and goods which are impacted by the new GST reform.

FOOD AND BEVERAGES INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Ultra-High Temperature (UHT) milk	5%	<i>Nil</i>
2.	Butter, Ghee, Oil	12%	5%
3.	Cheese	12%	5%
4.	Fish and Caviar, prepared and preserved	12%	5%
5.	Shrimps and pawns, prepared and preserved	12%	5%
6.	Chocolates and other food preparations	18%	5%
7.	Confectionary	18%	5%
8.	Pasta	12%	5%
9.	Jams and fruit jellies	12%	5%
10.	Pastry, Cakes, Biscuits, Bread	18%	5%
11.	Pizza bread, Khakra, Chappati, Roti	5%	<i>Nil</i>
12.	Mustard and mayonnaise	12%	5%
13.	Namkeens	12%	5%
14.	Soups and Broths	18%	5%
15.	Coffee	12%	5%
16.	Drinking Water	12%	5%
17.	Plant- Based Milk	18%	5%

AUTOMOBILE INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Motorcycles of engine capacity not exceeding 350 cc (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars	28%	18%
2.	Diesel driven motor vehicles of engine capacity not exceeding 1500 cc and of length not exceeding 4000 mm.	28%	18%
3.	Petrol, Liquefied petroleum gases (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000 mm.	28%	18%
4.	Road tractors for semi-trailers of engine capacity more than 1800 cc	28%	18%

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
5.	Three wheeled vehicles	28%	18%
6.	Seats of a kind used for motor vehicles	28%	18%
7.	Parts and accessories of the motor vehicles		
8.	Motor vehicles for the transport of goods [other than Refrigerated motor vehicles]	28%	18%
9.	Rowing boats and canoes	28%	18%
10.	Motor vehicles for the transport of ten or more persons,including the driver [other than buses for use in public transport, which exclusively run on Bio fuels]	28%	18%

EDUCATION INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Maps, Charts and Globes	12%	<i>Nil</i>
2.	Pencils, Sharpners, Crayons & Pastels	12%	<i>Nil</i>
3.	Exercise Books & Notebooks	12%	<i>Nil</i>
4.	Eraser	5%	<i>Nil</i>

ELECTRONIC INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Air Conditioners	28%	18%
2.	Monitors and Projectors	28%	18%
3.	Dish Washing Machines	28%	18%
4.	Televisions (above 32")	28%	18%

HEALTH CARE INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Individual Health and Life Insurance	18%	Nil
2.	Thermometer	18%	Nil
3.	Medical Grade Oxygen	12%	5%
4.	All Diagnostics and Kits	12%	5%
5.	Glucometer & Test Strips	12%	5%
6.	Corrective Spectacles	12%	5%

AGRICULTURE INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Tractors Tyres and parts	18%	5%
2.	Tractors	12%	5%
3.	Specified Bio Pesticides, Micro Nutrients	12%	5%
4.	Drip Irrigation System and Sprinklers	12%	5%
5.	Agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports-ground rollers	12%	5%

RENEWABLE ENERGY INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Solar cookers	12%	5%
2.	Solar water heater and system	12%	5%
3.	Bio-gas plant	12%	5%
4.	Solar power generator	12%	5%
5.	Solar power-based devices	12%	5%
6.	Wind mills, Wind Operated Electricity Generator (WOEG)	12%	5%
7.	Renewable energy device's parts for their manufacture	12%	5%
8.	Fuel Cell Motor Vehicles including hydrogen vehicles based on fuel cell technology and of length not exceeding 4000mm.	12%	5%

SERVICE INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Supply of Service of third-party insurance of "goods carriage"	12%	5%
2.	Supply of "hotel accommodation" having value of supply of a unit of accommodation less than or equal to seven thousand five hundred rupees per unit per day or equivalent	12%	5%
3.	Beauty and physical well-being services	18%	5%
4.	exploration, mining or drilling of petroleum crude or natural gas or both.	12%	18%
5.	Treatment or disposal of biomedical waste or the processes incidental thereto by a common bio-medical waste treatment facility to a clinical establishment.	12%	5%

JOB WORK INDUSTRY

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Job work in relation to manufacture of bricks	12%	5%
2.	Job-work in relation to manufacture of goods falling under Chapter 30 (pharmaceutical products)	12%	5%
3.	Job-work not elsewhere covered	12%	18%

MISCELLANEOUS ITEMS

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
1.	Paintings, drawings and pastels, executed entirely by hand	12%	5%
2.	Statues and other ornamental articles	12%	5%
3.	Original engravings, prints and lithographs	12%	5%
4.	Handbag pouches and purses; jewellery box	12%	5%
5.	Granite blocks	12%	5%

Sr. No	Description of goods	Earlier Rates	Effective Rates with effect from 22nd Sept 2025
6.	Live horses	12%	5%
7.	Tableware and kitchenware of clay and terracotta, other clay articles	12%	5%
8.	Photographic plates and film for x-ray for medical use	12%	5%
9.	Plastic beads, Latex Rubber Thread, Rubber bands	12%	5%
10.	Milk cans made of Iron, Steel, or Aluminium	12%	5%
11.	Contact lenses; Spectacle lenses	12%	5%
12.	Slide fasteners and parts thereof	12%	5%
13.	Gloves specially designed for use in sports	12%	5%
14.	Playing cards, chess board, carom board and other board games, like ludo, etc.	12%	5%
15.	Fishing rods, and other line fishing tackle	12%	5%
16.	Toys like tricycles, scooters, pedal cars etc	12%	5%

1. Provisional Refunds for Inverted Duty Structure:

Starting 1 November 2025, taxpayers will receive 90% of their refund claim upfront, conditional upon system-based risk assessment—similar to the existing process for zero-rated supplies.

- Proper officers can withhold provisional refund in exceptional cases.
- Certain categories of taxpayers may be excluded via notification.

Key Benefits:

- Boosts Liquidity by freeing working capital that's often stuck due to accumulated input tax credits.
- Supports MSMEs and Exporters, especially those burdened by delayed refunds under the IDS system.
- Enhances Ease of Doing Business by aligning IDS refund practices with those for exporters.

2. Refunds for Low-Value Export Consignments:

An amendment to Section 54(14) of the CGST Act will eliminate the existing minimum refund limit of ₹1,000 for exports with tax payment.

Key Benefits:

- This change ensures that even small consignments sent via courier or post qualify for GST refunds.
- Boosting liquidity for micro exporters, artisans, and startups.

3. Simplified Registration for E-Commerce Suppliers:

- Automated Registration within 3 Working Days: E-commerce suppliers identified as low-risk, or those who self-assess that their monthly output tax liability does not exceed ₹2.5 lakh (covering CGST, SGST/UTGST, and IGST), will receive registration automatically within three working days.
- Voluntary Opt-In and Opt-Out: Suppliers can choose to join or exit this simplified scheme flexibly, depending on their evolving business needs.
- Wide Applicability: The scheme is expected to benefit around 96% of new applicants, reflecting its broad relevance for small and low-risk e-commerce players.
- The simplified process will become operational from 1 November 2025

Key Benefits:

- Ultra-Fast Registration in just 3 working days—no delays.
- Reduced paperwork with simple self-assessment for eligibility. Nearly 96% of new applicants are expected to qualify.
- Businesses can opt in or out anytime based on their evolving needs.
- Simplifies expansion across states—particularly important for e-commerce sellers.
- Encourages small sellers and artisans to join e-commerce platforms confidently.

4. Intermediary Services – Place of Supply:

The GST Council has recommended omitting clause (b) of Section 13(8) in the IGST Act, 2017. As a result, the place of supply for intermediary services will now follow the default rule under Section 13(2)—which means the recipient's location determines the place of supply. This change enables Indian intermediary service providers to qualify for export status and associated benefits, significantly enhancing their competitiveness in global markets.

Key Benefits:

- Intermediary services can now be classified as exports when rendered to foreign recipients.
- Eliminates the need to levy GST (CGST/SGST) on such services—lowering cost and tax burden.
- Aligns India's tax framework with the destination-based GST principle, boosting service exporters' global competitiveness.

5. Post-Sale Discounts – Clarifications & Amendments:

- Omission of Section 15(3)(b)(i) of the CGST Act removes the requirement that a post-sale discount must be linked via a pre-supply agreement or invoice connection.
- Discounts must now be issued through a credit note under Section 34 of the CGST Act, ensuring formal documentation and compliance.
- Circular No. 212/6/2024-GST, which provided interim compliance guidance (such as CA/CMA certification for ITC reversal), will be rescinded.

Key Benefits:

- Legal Clarity: Eliminates ambiguity around pre-supply documentation and linking requirements.
- Standardises the treatment of post-sale discounts via credit notes, improving audit readiness.
- Litigation Reduction, the circular simplifies compliance and removes additional procedural burdens.
- Streamlined Input Tax Credit (ITC) Treatment: Clearer mechanisms around credit note issuance and adjustments help ease compliance for both suppliers and recipients.

6. Operationalization of the GST Appellate Tribunal (GSTAT)

- The GST Appellate Tribunal (GSTAT) will be operational by the end of September 2025, accepting appeals, with hearings scheduled to begin by the end of December 2025
- A firm deadline of 30 June 2026 has been set for the filing of all backlog appeals, ensuring pending cases are addressed in a time-bound manner
- The Principal Bench of GSTAT will serve as the National Appellate Authority for Advance Ruling, promoting greater clarity and consistency in tax rulings.
- This represents a major institutional upgrade, significantly streamlining the GST dispute resolution process—a long-standing pain point for taxpayers.

Key Benefits:

- Faster Dispute Resolution: GSTAT's operational launch will curb long delays in the appellate process, speeding up legal closure for taxpayers.
- Time-Bound Relief: The June 2026 deadline for backlog appeals ensures historic cases don't drag on indefinitely, delivering long-awaited justice.
- Enhanced Uniformity and Taxpayer Confidence: Functions as the National Advance Ruling authority—helping harmonize interpretations and instilling predictability in tax rulings.
- Pressure Off Traditional Courts: GSTAT's structure offers a dedicated forum to handle GST litigation, alleviating burden on High Courts and improving overall judicial efficiency.

7. Valuation Changes – Retail Sale Price for Tobacco

- For items such as pan masala, gutkha, and cigarettes, the GST assessment will now be based on the Retail Sale Price (RSP) printed on the package, rather than the previously used transaction value.
- This shift ensures a uniform tax calculation tied to the final retail price, helping curb tax evasion and stabilizing revenue from these products. It also plays a vital role in sustaining the compensatory cess fund.

COMPENSATION CESS – RATIONALIZATION & TRANSITION

1. Continuation of Existing Rates for Select Sin Goods

- For goods like cigarettes, chewing tobacco (e.g., zarda), unmanufactured tobacco, and beedis, the current GST and Compensation Cess rates will remain unchanged.
- New rates for these items will be notified later, only after all loan and interest liabilities funded by the Compensation Cess are fully repaid.

2. GST Rate on Mid-Size and Big Cars

- At present, mid-size and big cars are taxed at 28% GST + 17–22% Compensation Cess, making total tax incidence 45–50%.
- Under the revised structure, these vehicles will attract a flat GST rate of 40%, with no additional Compensation Cess.
- This ensures revenue neutrality while simplifying the tax structure.

3. Why 40% is Called a 'Special Rate'

- The 40% rate is a 'special rate' applied to a limited category of goods, primarily sin goods (like tobacco, aerated drinks) and luxury goods (like high-end automobiles).
- These goods previously attracted both GST and Compensation Cess due to their non-essential or high-revenue nature.
- Now, with the Compensation Cess being phased out, the cess is merged into the GST rate to maintain the existing tax burden, without increasing it.
- In other cases, goods already taxed at 28% (highest slab) have been moved to a special rate to retain effective taxation post-cess.

4. GST Rate on Coal

- Previously, coal was taxed at 5% GST + ₹400/ton Compensation Cess.
- Post-rationalization, the Compensation Cess has been merged into the GST rate, keeping the overall tax incidence unchanged.
- Hence, this change is revenue-neutral and is not expected to increase electricity costs, as there is no additional tax burden.

Macroeconomic Impact: **Growth, Inflation & Revenue**

Tax policy plays a critical role beyond revenue generation – it shapes economic growth, inflation trends, and the fiscal autonomy of states. Here's a breakdown of the anticipated macroeconomic effects:

- **Inflation:** Economists project a ~0.2% reduction in CPI inflation, driven by lower prices for essential goods and insurance premiums.
- **GDP Growth:** Simplified tax slabs are expected to reduce compliance burdens, promote formalisation among SMEs, and contribute an estimated 0.3–0.4% boost to GDP in FY26.
- **State Revenue:** While there may be a short-term dip in state revenues, this is likely to be offset by an extended cess mechanism. Over the long term, revenue buoyancy is expected through increased consumption volumes.
- **Consumer Spending:** Reduced costs of mid-range vehicles, mobile phones, and insurance products are anticipated to unlock an additional ₹40,000 crore in consumer demand annually.

Important Compliance Update for Manufacturers, Importers & Packers of Pre-Packaged Commodities

The Department of Consumer Affairs (Legal Metrology Division) has issued a circular dated 09.09.2025, allowing businesses to revise the MRP on unsold stock of pre-packaged commodities due to GST rate reductions.

This permission is granted under the Legal Metrology (Packaged Commodities) Rules, 2011, and is applicable till 31st December 2025.

Key Highlights:

- Revised MRP can be declared on unsold stock through stamping, online printing, or stickers, without overwriting the original MRP.
- The price change must be solely due to the reduction in GST, and not reflect any increase in base price or additional charges.
- Manufacturers or packer or importer shall make atleast two advertisements in one or more newspapers. Also to circulate notice to dealers and intimation should be sent to the Director of Legal Metrology and relevant state authorities.

This move aims to ease the transition for businesses while maintaining transparency and consumer protection.

Further Clarification on Packaging Material : Businesses may continue to use old packaging material or wrappers printed with pre-revised MRP, which were manufactured before the GST change, up to 31st December 2025 or until existing stock is exhausted—whichever is earlier.

However, such packaging must carry the corrected MRP reflecting the revised GST by way of stamping, sticker, or online printing.



THANK YOU...

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