Update on 56th GST Council Meeting

The GST Council in its 56th meeting held on 3rd September 2025, marked a **significant milestone by carrying out major reform** to the GST Law. Although originally scheduled for two days, the council successfully concluded all deliberations on the first day itself, reflecting consensus on critical reforms. The meeting addressed long standing issues such as the reduction and **rationalisation of GST rates, the removal of compensation cess, the operationalisation of the GST Appellate Tribunal (GSTAT) and the simplification of registration and refund processes**. These decisions collectively aim to stimulate economic growth, enhance ease of doing business and bring greater certainty, transparency, and fairness to the GST framework, while balancing revenue considerations with the consumer and business welfare.

The proposals that were announced by the GST Council and its impact are discussed below:

GST Rate Rationalisation

The rationalisation from five different slabs to two principal rates of **5% (merit/essential goods)** and **18% (standard rate)** represents a structural overhaul of the GST framework. This simplification reduces classification disputes, fosters certainty in taxation, and facilitates easier compliance, particularly for **Micro, Small and Medium Enterprises (MSMEs)**. Special rates may continue for selective products, while the **12% and 28% slabs are proposed** to be phased out, thereby consolidating the tax base.

Essential Goods under 5% Rate

1. Retaining **essential commodities and healthcare-related items in the 5% or nil** category ensures protection of the common man from inflationary pressure.

Aspirational Goods under 18%

1. The **18% bracket** is carefully preserved for **aspirational, luxury, and value-added goods**, balancing revenue considerations with progressive taxation.
2. **Automobiles parts** will now have **single rate of 18%.**
3. By taxing **higher-end consumption at standard rates**, the Government safeguards fiscal stability while leaving essentials affordable.

Special rate of 40%

1. Goods such **aerated drinks, non-alcoholic drinks, tobacco and tobacco related products, medium and high-end cars** have been moved from **28% to 40%.**
2. Certain services such entry into **casinos, IPL events, specified actionable claims** are now covered under **40% GST rate**.

GST rate on Services Sector

1. **Services mostly continue to be taxed at 18%,** ensuring uniformity and predictability in service taxation.
2. Rate reduction has been proposed for **hotel accommodation services** for tariff up to **Rs.7,500/- and beauty and physical well-being services to 5%.**
3. Individual **health and life insurance** are now exempted.

Anticipated Impact of the changes

1. **Reduction of taxes** on common-man goods lowers end prices and improves affordability for essential and aspirational commodities.
2. Simplified slabs **stimulate demand**, leading deeper penetration of goods and services in the domestic market.
3. **Reduced compliance burden** and simplified tax structure empower MSMEs, encouraging formalisation of businesses and employment generation.
4. With fewer slab rates, litigation over classification is expected to reduce, leading to a **more stable tax regime.**

The category of goods and services that have been reduced from the higher slab rate to lower slab rate is enclosed as **Annexure -1**.

Sectoral Implications of the Changes

1. Automotive (Cars, 2-wheelers, CVs, Tractors)

- Small cars, two-wheelers, and commercial vehicles are **reduced from 28% to 18%.** OEMs are cited as primary beneficiaries. Tractors and agriculture goods are reduced from 12% to 5%.
- Automotive demand is expected to rise as retail prices **likely to fall by 8–10%, benefiting both buyers and manufacturers**.

2. Household Appliances & Electronics

- Air conditioners, refrigerators, televisions, and other **large household appliances currently in the 28% slab are being moved to 18%,** making them cheaper and boosting demand.

3. Consumer Goods, FMCG, and Processed Foods

- Most goods in the 12% slab, including **packaged foods, dairy, and beverages, will move down to 5%,** benefiting companies in the food, beverage, and FMCG sectors.
- **GST on personal care items** such as hair oil and toothpaste are also **reduced.**

4. Cement and Construction Materials

- **Cement's GST dropped from 28% to 18%,** with a predicted major revenue impact but a positive effect for infrastructure, housing developers, and related firms.

5. Insurance, Financial Services, and Retail Lending

- **Reduction in GST rates on insurance premiums** (health and general insurance) from 18% to NIL. It is expected to improve affordability and potentially expand retail insurance penetration.

6. Apparel, Footwear, and Hotel Accommodation

- Products and services in the **12% slab including apparel, footwear, and hotel rooms are expected to join the 5% category,** making them more affordable and benefiting the retail and hospitality industries.

7. Renewable Energy, Fertilizer, and Agriculture

- GST reforms may benefit **renewable energy and fertilizer producers** by lowering rates and simplifying compliance.
- Agriculture-related businesses, especially those dealing in **Agri-inputs and machinery,** are mentioned as likely beneficiaries due to easier compliance and potential rate cuts.

8. MSMEs and Startups

- **Pre-filled returns and automated refunds** are designed to reduce compliance burdens and enhance ease of doing business for MSMEs and startups.

9. Medical Devices and Healthcare

- GST reductions on **medical devices, medicines, and healthcare supplies** as part of the essential goods moving to lower tax bracket to 5%.

Intermediary

Under the GST Law an "intermediary" is defined as a broker, an agent or any other person who arranges or facilitates the supply of goods or services or both between two or more persons but does not include a person who supplies such goods or services or both on his/her own account.

The place of supply of services with respect to intermediary was taken as the location of the supplier of such services and accordingly, services wherein an Indian service provider was interacting with customers of its clients in industries such as BPO, KPO and ITeS, were denied export benefit and were classified as intermediary service provider. Accordingly, refund on exporter were denied and in turn GST at the rate of 18% was demanded from them.

Proposed Change by GST Council

The Council has proposed an amendment whereby the determination of the place of supply for intermediary services will follow the default rule under Section 13(2) – i.e., the location of the recipient of services.

This change effectively recognises intermediary services supplied to foreign entities as exports of services, thus making them eligible for zero-rated benefits, including refund of input tax credit.

Implications of the Amendment

1. Indian service providers acting as intermediaries for global businesses will gain export status, thereby becoming more competitive internationally.
2. This aligns with the Government's policy of encouraging services exports and enhances India's attractiveness as a global outsourcing hub.
3. The move corrects an anomaly that has been the subject of repeated representations and litigation, ensuring consistency with the principle of destination-based taxation.

Enforceability and Limitations

The amendment will come into effect only after legislative change in the IGST Act, 2017. Until the amendment is notified through the Finance Act and subsequently brought into force, the existing provisions will continue to apply. Therefore, disputes may continue with the GST Authorities on classification of services.

Goods and Services Tax Appellate Tribunal (GSTAT)

The Council has resolved the long-pending issue of GSTAT by recommending its functionalisation in a time-bound manner. Appeals are proposed to be accepted before the end of September 2025, with hearings commencing before December 2025. The Council also recommended the date of 30.06.2026 for limitation of filing of backlog appeals. This gives ample time to the taxpayers to list out the pending disputes and prepare appeals for filing.

Anticipated Impact:

1. Provides a **dedicated appellate forum** for uniform interpretation of GST provisions.
2. **Reduces the burden on High Courts** by diverting GST-specific disputes to a specialised body.
3. Enhances **certainty, consistency, and predictability** in the application of GST law.
4. **Strengthens investor and taxpayer confidence** in the rule of law and the efficiency of the indirect tax regime.

Risk- Based Provisional Sanction of Refunds

Amendment to Section 54(6) of the CGST Act, 2017:

Extension of benefit of **90% provisional refunds** to cases involving refunds arising out of an inverted duty structure, not limited to exports alone.

Amendment to Section 54(14) of the CGST Act, 2017:

Removal of the threshold limit for refunds in respect of exports made with payment of tax.

1. Ensures **faster settlement of export-related refunds** without arbitrary restrictions.

Anticipated Impact:

1. Enhances liquidity for businesses suffering from inverted duty accumulation.
2. Strengthens India's position as an **export-friendly jurisdiction**, reducing working capital blockages.
3. Risk-based processing ensures balance between **ease of refund and fraud prevention**.
4. Collectively, these reforms **reinforce the principles of ease of doing business, fiscal transparency, and growth-oriented taxation**.

The process will be operationalized **from 01st November 2025.**

Amendment on valuation of supply qua post sale discount

The GST Council has recommended to **omit valuation provision on post sale discount** offered by suppliers to their dealers/ customers. Section 15(3)(b)(i) of CGST Act, 2017 required establishment of **discount in terms of an agreement** entered **into before or at the time of such supply and linking of the same with relevant invoices**.

The present provision mandated that written documentation to be maintained and correlated with GST credit notes issued by supplier. This had to be completed in a **time bound manner i.e. before 30th November of the following year**. This created practical trade related issues for the industry as various discounts are offered to meet the trade requirement.

Proposal by GST Council & its Impact

The GST Council has **proposed omission** of **Section 15(3)(b)(i) of the CGST Act**, thus doing away with the requirement to match post sale discount with agreement and **GST credit notes.**

This is a welcomed move as this allows trade to have **commercial freedom in deciding the nature and timing of post-sale discount** without taking any recourse of the GST Law.

Further, the announcement on issuance of **circular on clarifying certain facets** such as, is a welcomed move:

i. non-reversal of Input Tax Credit on account of **post-sale discount** through financial/commercial credit note;

ii. treatment of the **post-sale discount provided by manufacturer** to the dealer as additional consideration, in the transaction between dealer and end-customer;

iii. treatment of post-sale discount as consideration **lieu of promotional activities etc. performed by the dealer** and Direct reduction in treatment costs, **especially for patients suffering from cancer, rare, and chronic diseases**.

Health Insurance and Exemption on Medical Goods

Complete exemption of GST on all individual life insurance policies to make financial and health security affordable for the common man.

Objective: Expand insurance coverage and promote inclusive access to risk protection.

1. Reduction of GST on **33 life-saving drugs from 12% to NIL**.
2. Reduction of GST on **3 critical drugs** used in the treatment of cancer, rare diseases, and chronic ailments **from 5% to NIL**.
3. GST on **all other drugs and medicines reduced from 12% to 5%,** ensuring affordability of essential healthcare.

Medical Equipment and Devices:

GST reduced from 18% to 5% on various medical apparatus and devices, including those used for medical, surgical, dental, and veterinary purposes, as well as instruments for physical and chemical analysis.

Anticipated Impact on Society:

- Direct **reduction in treatment costs**, especially for patients suffering from cancer, rare, and chronic diseases.
- **Encourages accessibility and affordability** of healthcare, ensuring better quality of life and health outcomes.

Simplified GST Registration for Small and Low Risk Businesses

Simplified Registration Scheme for Small and Low-Risk Businesses Framework:

1. GST registration to be **granted on an automated basis** within **three working days** from the date of application.
2. Eligibility restricted to applicants falling within the **low-risk category**.
3. **Self-assessment criterion**: output tax liability on supplies to a registered person not exceeding ₹2.5 lakh per month.
4. **Voluntary option to opt into or withdraw** from the scheme.

Anticipated Impact:

1. **Eases compliance burden** for small taxpayers and enhances the ease of doing business.
2. Expected to **benefit nearly 96%** of new applicants for GST registration.
3. **Supports MSME sector growth**, reduces entry barriers, and strengthens formalisation of the economy.
4. Simplified compliance **encourages entrepreneurship, supports MSMEs, and lowers entry costs** for formalisation under GST.

The Simplified GST registration scheme for small and Low-Risk Businesses to be operationalised from 1st November 2025.

Compensation Cess

The **GST Compensation Cess was introduced under the Goods and Services Tax (Compensation to States) Act, 2017,** to compensate States for revenue shortfalls during the transition to the GST regime. Originally intended to lapse by June 2022, its tenure was **extended until March 2026** to repay borrowings undertaken during the pandemic to cover extraordinary shortfalls.

Policy Rationale for Ending the Cess

1. The move to **continue cess with only specific products** indicates that its cessation is now being planned. This creates sustainable GST structure, paving the way for rationalisation of tax rates without the additional burden of multiple levies. This enhances long-term predictability and investor confidence in the Indian tax regime.

Impact on Revenue and Taxpayers

1. Removal of cess will contribute to a **broad-based revenue stream** aligned with core GST principles.
2. The discontinuation **reduces the cascading effect** on goods such as luxury and sin items, potentially lowering costs in some segments.

Potential Legal and Fiscal Disputes

1. **Unresolved Refunds/Balance Issues**: A contentious issue arises regarding the unutilised or balance compensation cess credits, particularly where taxpayers have accumulated balances in their electronic credit ledgers.
2. **No clear statutory declaration** has been issued on the manner of apportionment or refund of such balances.
3. **Absence of clarity** may give rise to disputes on whether such balances are refundable to the registered persons or absorbed by the Government.

ANNEXURE- 1

GOODS

FOOD SECTOR

(5% To Nil)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	0401	Ultra-High Temperature (UHT) milk
2.	0406	Chena or paneer, pre-packaged and labelled
3.	1905	Pizza bread
4.	1905 or 2106	Khakhra, chapati or roti

(28% to 40%)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	2106 90 20	*Pan masala
2.	2202 10	All goods [including aerated waters], containing added sugar or other sweetening matter or flavoured
3.	2202 99 90	Caffeinated Beverages
4.	2202	Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice

(28% to 40%)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	2401	*Unmanufactured tobacco; tobacco refuse [other than tobacco leaves]
2.	2402	*Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

3.	2403	*Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences
4.	2404 11 00	*Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion
5.	2404 19 00	*Products containing tobacco or nicotine substitutes and intended for inhalation without combustion

3. **Health Sector**

(5% to Nil)

S. No.	**Chapter / Heading / Sub-heading / Tariff item**	**Description of Goods**
1.	30	1. Agalsidase Beta 2. Imiglucerase 3. Eptacog alfa activated recombinant coagulation factor VIIa

(12% to Nil)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	30	2. Onasemnogene abeparvovec 3. Asciminib 4. Mepolizumab 5. Pegylated Liposomal Irinotecan 6. Daratumumab 7. Daratumumab subcutaneous 8. Teclistamab 9. Amivantamab 10. Alectinib 11. Risdiplam 12. Obinutuzumab 13. Polatuzumab vedotin 14. Entrectinib 15. Atezolizumab 16. Spesolimab 17. Velaglucerase Alpha 18. Agalsidase Alfa

		19. Rurioctocog Alpha Pegol 20. Idursulphatase 21. Alglucosidase Alfa 22. Laronidase 23. Olipudase Alfa 24. Tepotinib 25. Avelumab 26. Emicizumab 27. Belumosudil 28. Miglustat 29. Velmanase Alfa 30. Alirocumab 31. Evolocumab 32. Cystamine Bitartrate 33. CI-Inhibitor injection 34. Inclisiran

3.Common Man Goods

(18% to 5%)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	3304	Talcum powder, Face powder
2.	3305	Hair oil, shampoo
3.	3306	Dental floss, toothpaste
4.	3307	Shaving cream, shaving lotion, aftershave lotion
5.	3401	Toilet Soap (other than industrial soap) in the form of bars, cakes, moulded pieces or shapes
6.	96032100	Tooth brushes including dental-plate brushes

4. CONSUMER ELECTRONICS

(28% TO 18%)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	8415	Air-conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated
2.	8422	Dish washing machines, household [8422 11 00] and other [8422 19 00]
3.	8528	Television sets (including LCD and LED television); Monitors and projectors, not incorporating television reception apparatus; reception apparatus for television, whether or not incorporating radio-broadcast receiver or sound or video recording or reproducing apparatus, set top box for television and Television set (including LCD and LED television).

5.Defence

(12% to 5%)

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description of Goods
1.	8525 60	Two-way radio (Walkie talkie) used by defence, police and paramilitary forces etc
2.	8710	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons, and parts of such vehicles

SERVICES

TRANSPORTATION SECTOR

S.NO	ENTRY	FROM	TO
1.	Supply of Air transport of passengers in other than economy class	12% with ITC	18% with ITC

2.	Supply of Passenger transport by any motor vehicle where fuel cost is included	5% with ITC of input services (in the same line of business) 12% with ITC	5% with ITC of input services (in the same line of business) 18% with ITC
3.	Supply of transport of goods in containers by rail by any person other than Indian Railways	12% with ITC	5% without ITC 18% with ITC
4.	Supply of transportation of natural gas, petroleum crude, motor spirit, high speed diesel or ATF through pipeline	5% without ITC 12% with ITC	5% withot ITC 18% with ITC
5.	Supply of Transport of goods by GTA	5% without ITC 12% with ITC	5% withot ITC 18% with ITC
6.	Supply of Renting of any motor vehicle (with operator) of any motor vehicle designed to carry passengers where the cost of fuel is included in consideration	5% with ITC 12% with ITC	5% with ITC 18% with ITC
7.	Supply of Renting of goods carriage (with operator) where fuel cost is included in consideration	12% with ITC	5% with ITC of input services (in the same line of business) 12% with ITC
8.	Supply of Multimodal transport of goods within India	12% with ITC	5%, where no leg of transport is through air, with restricted ITC (i.e. 5% of input services of goods transportation). 12% with ITC

Services proposed to be exempted

Life and health insurance1

S.NO	ENTRY	FROM	TO
1.	All individual health insurance, along with reinsurance thereof	**18% with**	**Exemption**
2.	All individual health insurance, along with reinsurance thereof	**18% with**	**Exemption**