

# UPDATE

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## GST reforms – Beginning of GST 2.0

### 1. Introduction

The Goods and Services Tax Council ('GST Council') in its 56<sup>th</sup> Meeting held in the National Capital on 3 September 2025 has proposed various measures involving rate rationalization, trade facilitation, resolution of certain teething issues for the industry. Such reforms have been proposed with the primary objective to boost up consumption in domestic markets, amidst the current economic slowdown triggered due to certain geo-political factors.

### 2. 56th GST Council Meeting at a Glance

#### A. Rate Rationalisation

- The current four-tier GST structure will be streamlined to a two-tier system, with Standard Rate remaining at 18% (covering goods and services including non-essential consumer products, automobiles, and industrial items), Merit Rate at 5% (covering essential goods, daily necessities and items promoting social welfare) and De-merit rate of 40% applicable on sin and luxury items, including tobacco products, high-sugar beverages, luxury vehicles, yachts, and pan masala.
- Complete exemption granted to individual life and health insurance policies and on 33 lifesaving medicines and 3 cancer/rare disease drugs.
- Anti-profiteering provisions not re-introduced.

#### B. Implementation Timeline

- 22 September 2025 for all services and goods excluding Tobacco Products. New rate for Tobacco Products will be effective once compensation cess obligations are cleared.

#### C. Institutional Changes

- GST Appellate Tribunal (GSTAT) becomes operational from September 2025. Hearings to commence by December 2025
- Change in the concept of intermediary services
- Streamlined issues pertaining to post sale discounts

### 3. *Rate Rationalisation for Select Industries*

Sector Name	From	To
<b>FMCG</b>		
Hair Oil, Shampoo, Toothpaste, Toilet Soap Bar, Toothbrushes, Shaving Cream	18%	5%
Butter, Ghee, Cheese & Dairy Spreads	12%	5%

Sector Name	From	To
<b>FMCG</b>		
Pre-packaged Namkeens, Bhujia & Mixtures	12%	5%
Utensils	12%	5%
Other non-alcoholic beverages	28%	40%
All goods (including aerated waters), containing added sugar or flavoured	28%	40%
Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice	28%	40%
Caffeinated Beverages	28%	40%
<b>Automobile Sector</b>		
Petrol & Petrol Hybrid, LPG, CNG Cars (not exceeding - 1200 cc & 4000mm)	28% + Cess	18%
Diesel & Diesel Hybrid Cars (not exceeding - 1500 cc & 4000mm)	28% + Cess	18%
3 Wheeled Vehicles	28% + Cess	18%
Motorcycles (350 cc & below)	28% + Cess	18%
Motor Vehicles for transport of goods	28% + Cess	18%
Others	28% +Cess	40%
<b>Consumer Durables</b>		
Air Conditioners	28%	18%
Television (above 32") (including LED & LCD TVs)	28%	18%
Monitors & Projectors	28%	18%
Dish Washing Machines	28%	18%
<b>Hospitality</b>		
Hotel accommodation ( $\leq$ ₹7,500/night)	12% (with ITC)	5% (no ITC)
Hotel rooms $>$ ₹7,500/night	18%	18%
Stand-alone Restaurants - Cannot declare itself as a 'specified premises' hence cannot charge 18% GST (with ITC)		
<b>Healthcare Sector</b>		
Individual Health & Life Insurance	18%	Nil
Medical Grade Oxygen, All Diagnostic Kits & Reagents	12%	5%
Thermometer	18%	5%
Glucometer & Test Strips, Corrective Spectacles	12%	5%
<b>Construction Sector</b>		
Granite, marble blocks, stone inlay, and sand-lime bricks	12%	5%
Cement	28%	18%
Works contracts with $>$ 75% earthwork for government entities	12%	18%
Job work related to bricks	12%	5%
<b>Transport of Pasengers</b>		
Supply of air transport of passengers other than in economy class	12% with ITC	18% with ITC
Supply of passenger transport by any motor vehicle, where the cost of fuel is included in consideration	5% with ITC of services (in same business)	5% with ITC of services (in same business)
OR		

Sector Name	From	To
Transport of Pasengers		
Renting of any motor vehicle (with operator) designed to carry passengers, where the cost of fuel is included in consideration	12% with ITC	18% with ITC
Energy Sector		
Coal	5% GST + ₹400/tonne cess	18%
Solar PV cells and modules cookers, water heaters, Biogas plants, Windmills and waste-to-energy systems Tidal/ocean energy devices Solar lanterns and lamps	12%	5%
Works contract services pertaining to drilling services and offshore services	12%	18%
Transport of Goods		
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
Supply of transportation of natural gas, petroleum crude, motor spirit, high-speed diesel or aviation turbine fuel (ATF) through pipeline	5% without ITC	5% without ITC
	12% with ITC	18% with ITC
Supply of Transport of goods by goods transport agency (GTA)	5% without ITC (RCM or FCM)	5% without ITC (RCM or FCM)
	12% with ITC	18% with ITC
Supply of multimodal transport of goods within India	12% with ITC	5% (no air transport)
		18% with ITC
Supply of renting of goods carriages (with operator), where fuel cost is included in consideration	12% with ITC	5% with ITC of services (same line of business)
		18% with ITC
Leather and Textile		
Leather of bovine, buffalo, equine, sheep, lamb, and others	12%	5%
Job Work Related to Hides, Skins, and Leather	5%	12%
Apparel and accessories priced above ₹2,500 per piece	18%	12%
Chamois, patent and patent-laminated leather, and metallised leather	12%	5%
Covers composition leather, leather dust, powder, and flour	12%	5%
Man-made fibres	18%	5%
Apparel priced between ₹1,000 and ₹2,499	5%	12%
Man-made yarns	12%	5%

Sector Name	From	To
<b>Leather and Textile</b>		
Handbags, trunks, suitcases, vanity cases, executive cases, briefcases, travel bags, pouches, purses, etc. with outer surfaces of leather or similar material.	12%	5%
<b>Insurance Sector</b>		
Individual life insurance (term life, ULIPs, endowment policies, and reinsurance)	18%	Nil
Individual health insurance (family floater, senior citizen policies, and reinsurance)	18%	Nil

#### **AQUILAW Comments**

1. With Compensation Cess on automobiles, aerated water, etc. discontinued on and from 22 September 2025, the balance of compensation cess in electronic credit ledger for the month of September 2025, requires reversal. Accordingly, industry should account for such cost while computing the final price of the product.
2. With GST on coal rising to 18%, by merging the existing INR 400 per tonne cess into GST, there is a likely chance that the cost of power generation may increase. On the other hand, the increase in the rate of GST from 12% to 18% for Goods Transport Operators (GTA) discharging GST under forward charge, would also impact heavily on the cost of power generation and disposal of fly ash.
3. For goods/services, which would be subjected to inverted duty structure post rate rationalization there is a probable chance of blocked ITC as refunds are not allowed on input services or capital goods.

## **4. Institutional Changes**

### **A. Operationalisation of GST Appellate Tribunals**

- Filing of appeals are expected to start from the end of September 2025 with hearings set to start from December 2025
- Last date to file backlog of appeals extended to June 2026
- Principal Bench of GSTAT to also function as National Appellate Authority of Advance Rulings (NAAAR)

#### **AQUILAW Comments**

1. Being the last fact-finding authorities, assessees should file before the GSTAT, all the primary and secondary documentation relevant to the issue at the time of filing or during the course of hearing to strengthen the claim.
2. Assessee should assess whether the matters which were filed before various High Courts in the absence of GSTAT should be withdrawn or not and transferred to GSTAT.

## **B. Amendment in case of intermediary services**

- Specific provision dealing with determination of place of supply for intermediary services is proposed to be omitted implying that the same shall be covered under the default rule which states that place of supply for services shall be determined basis the location of recipient of services. This shall help exporter of such services to claim export benefits.

### **AQUILAW Comments**

1. The omission of S 13(8)(b) of the Integrated Goods and Services Tax Act, 2017 (“IGST Act”) would ideally impact the exemption granted on import of service on intermediary services which in our view may attract GST under reverse charge once the law comes into effect.
2. This amendment is expected to be prospective in nature.

## **C. Streamlining of issues pertaining to Post-Sale Discounts**

- Removes the requirement that post-sale discounts must be pre-agreed (through an agreement made before or at the time of supply) and specifically linked to the relevant invoice.
- Post-sale discounts must now be granted only through a credit note issued under S 34 of the Central Goods and Services Tax Act, 2017 (“CGST Act”) with a requirement of reversal of corresponding input tax credit by the recipient
- To rescind Circular No. 212/6/2024-GST dated 24 June 2024, which provided obtaining certificate from CA/Cost Accountants on reversal of ITC by customer to satisfy the stated condition.
- Fresh circular will be issued for
  - No requirement for reversal of ITC for post-sale discount provided through financial/commercial credit note.
  - Value of post-sale discount provided by manufacturer to dealer to be treated as additional consideration for supply by said dealer to their end-customer and treatment of post-sale discount to dealer as value of supply for promotion activities by said dealer to principal supplier. It is not known whether Circular No. 105/24/2019-GST, dated 28-Jun-2019, which provided for similar requirement, but which was rescinded, would now get re-introduced

### **AQUILAW Comments**

Institutional related changes are supposed to come into effect from a date to be notified

## **5. Trade Facilitation**

### **A. Simplified registration scheme**

- Low-risk applicants with expected monthly B2B tax liability less than or equal to INR 2.5 Lakhs, GST registration will be automatically granted within three working days.
- Simplified registration scheme for small suppliers making supplies through E-com operators across multiple states facing challenge in maintaining principal place of business in each state has been proposed. Detailed modalities to follow.

### **B. Refunds**

- Proposal for release of risk-based provisional refunds on account of zero-rated supplies and inverted duty structure made wherein pending requisite amendments, instructions shall be passed on to the field formations to release the pending refunds.
- Above proposal will be effective from 1 November 2025.

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