

Rate Rationalisation, Refund Reforms & Compliance Measures

The 56th meeting of the GST Council, held on September 3, 2025, at Sushma Swaraj Bhavan in New Delhi, was a significant event chaired by the Union Finance & Corporate Affairs Minister, Smt. Nirmala Sitharaman. The Council's recommendations focused on adjusting GST tax rates, providing relief to individuals, common citizens, and the aspirational middle class, and implementing measures for trade facilitation. To address common questions, a set of FAQs has also been issued.

I. Measures for Facilitation of Trade

The Council has adopted several process reforms and other measures to streamline the GST law and procedures.

- a) **Sanction of risk-based provisional refund for Zero-Rated supplies and Inverted Duty Structure (IDS)** – The Council has recommended amending Rule 91(2) of the CGST Rules, 2017 and Section 54(6) of the CGST Act, 2017, to allow 90% provisional refunds based on system-driven risk evaluation, with detailed scrutiny in exceptional cases. A notification will issue to identify categories of registered persons ineligible for provisional refunds.
- b) **GST refund in case of low value export consignments** – The Council has recommended an amendment to Section 54(14) of the CGST Act, 2017, to remove the threshold limit for refunds on exports made with tax payment.
- c) **Simplified registration for small and low risk business** – The Council has recommended a simplified, optional GST registration scheme, allowing low-risk applicants with an estimated output tax liability of up to Rs. 2.5 lakh per month to receive registration within three working days. Applicants can voluntarily opt in and out of the scheme.
- d) **Simplified GST registration scheme for small suppliers via E-Commerce operators** - The Council approved a simplified registration mechanism for small suppliers selling through e-commerce operators across multiple states.
- e) **Amendment to Place of Supply (POS) provisions for Intermediary Services** - The Council recommended omitting clause (b) of Section 13(8) of the IGST Act, 2017, making the POS for intermediary services based on the recipient's location. This change will enable Indian exporters to claim export benefits.

- f) **Amendment in respect of Post Sale discount** - The Council recommended omitting Section 15(3)(b)(i) of the CGST Act, 2017, eliminating the need to establish discounts through pre-supply agreements and invoices. It also proposed amending Section 15(3)(b) to allow discounts via credit notes under Section 34, with corresponding amendments for reversing input tax credit when post-sale discounts are given. Additionally, Circular No. 212/6/2024-GST, ensuring compliance with Section 15(3)(b)(ii), is to be rescinded. In order to remove ambiguities, the Council recommends issuing various circulars on Post Sale discount.
- g) **Retail Sale Price (RSP) based valuation** - The Council recommended implementing retail sale price-based valuation for products like Pan Masala, Cigarettes, Gutkha, Chewing Tobacco, Zarda, Scented Tobacco, and Unmanufactured Tobacco.

The recommendations mentioned in point (a) and (c) above will be operationalized w.e.f 1st November 2025.

II. Changes in GST Rates: A Phased Implementation

The Council agreed that most changes in GST rates for goods and services would be implemented from September 22, 2025. However, specific goods—Pan Masala, Gutkha, Cigarettes, Unmanufactured tobacco, Chewing tobacco products like Zarda, and Bidi—will continue at existing rates until loan and interest payment obligations under the compensation cess account are fully discharged. The Union Finance Minister will decide the actual transition date for these goods. Many goods and services will see a reduction in GST rates, benefiting various sectors and consumers. A brief sector wise bifurcation of such reductions are as follows:

a) Healthcare & Insurance:

- **Exemption:** Life & health insurance (all types, incl. ULIP, endowment, family floater, senior citizen).
- **Drugs & medicines:** All at 5%, except lifesaving/cancer/rare disease drugs at Nil.
- **Medical devices:** All devices (medical, surgical, dental, veterinary) at 5%.
- **Clarification:** Medicines not fully exempt to preserve ITC chain and avoid higher cost.

b) Food & FMCG:

- **Nil rate:** UHT milk, paneer (pre-packaged), all Indian breads.
- **5% rate:** Packaged foods (namkeens, noodles, chocolates, sauces, coffee, ghee, butter), soaps, shampoos, toothpaste.

- **Clarifications:**
 - Paneer exempted separately to support cottage industry.
 - All Indian breads now uniformly exempt, earlier different slabs.
 - Plant-based milk (incl. soya) reduced to 5%.
 - Carbonated fruit beverages increased to maintain pre-cess incidence.
 - Soap bars at 5%; liquid soaps remain at higher rate.
- c) **Agriculture & Fertilisers:**
 - **Machinery:** Tractors, threshers, harvesting machinery, sprinklers, drip irrigation at 5%.
 - **Inputs:** Fertiliser inputs (Sulphuric acid, Nitric acid, Ammonia) at 5%.
 - **Clarification:** Full exemption avoided to preserve ITC chain; otherwise, costs would rise for farmers.
- d) **Textiles & MSMEs:**
 - **Rates:** Man-made fibre 5% (from 18%), yarn 5% (from 12%).
 - **Handicrafts:** Broad artisan products across wood, leather, brass, toys, décor at 5%.
 - **Clarifications:**
 - Articles of apparel and clothing < 2,500 will be taxed at earlier rate i.e., 5% and > 2,500 will be taxed at 18% (from 12%).
 - Cotton kept taxable under RCM to avoid ITC chain breakage.
 - Technical textiles still eligible for inverted duty refunds despite deeper inversion.
 - Restriction continues on ITC refund for imitation zari (from earlier Council decision).
- e) **Automobiles & Mobility**
 - **Small cars:** Petrol/LPG/CNG $\leq 1200\text{cc}$ & $\leq 4000\text{mm}$; Diesel $\leq 1500\text{cc}$ & $\leq 4000\text{mm}$ → 18%.
 - **Large cars/SUVs:** Engine >1500cc or length >4000mm, SUVs with $\geq 170\text{mm}$ clearance → 40%.
 - **Motorcycles:** $\leq 350\text{cc}$ → 18%; >350cc → 40%.
 - **3-wheelers:** 18% (from 28%).
 - **Buses/10+ seater vehicles:** 18% (from 28%).
 - **Ambulances:** 18% (from 28%).
 - **Goods transport trucks:** 18% (from 28%).
 - **Trailers:** Small tractors at 5%; road tractors >1800cc at 18%.
 - **Clarification:** Mid-size/big cars earlier 28% + cess now flat 40% GST.
- f) **Hospitality & Services**
 - **Hotels $\leq ₹7,500/\text{per unit per day or equivalent}$:** 5% (from 12%).

- **Wellness services:** Salons, barbers, gyms, yoga, fitness at 5% (from 18%).
- g) Transport:**
- **Passenger non-air:** 5% (no ITC) or 18% (with ITC).
 - **Air travel:** Economy 5%, other classes 18%.
 - **Goods transport (GTA):** 5% (no ITC) or 18% (with ITC).
 - **CTO multimodal:** 5% (no ITC) or 18% (with ITC).
- h) Renewables & Energy :**
- **Equipment:** Solar, wind, biogas, tidal devices at 5% (from 12%).
 - **Batteries (HS 8507):** Uniform 18%.
 - **Clarification: Inversion already existed;** refund mechanism continues to neutralise.
- i) Construction & Materials**
- **Cement:** 18% (from 28%).
 - **Marble, granite, travertine blocks:** 5% (from 12%).
- j) Defence & Strategic Imports**
- **IGST exemptions:** Military simulators, drones, missiles, aircraft parts, batteries, communication devices, naval systems.
 - Ad hoc exemption: Presidential armoured car.
- k) Consumer Electronic**
- **Reduction of GST from 28% to 18%:** Air conditioning machines, all TVs, Dishwashing machines.
- l) Footwear Industries**
- Footwear of sale value < 2,500 will be taxed at the rate of 5% instead of 12%.
 - Rate of tax on Footwear of sale value > 2,500 will be the same i.e., 18%.
- m) Paper Industries**
- **Reduced to Nil (from 12%):** Uncoated paper and paperboard used for exercise books, graph books, laboratory notebooks, and notebooks.
 - **Reduced to 5% (from 12%):** Wood pulps (mechanical, soda/sulphate chemical, sulphite chemical, combination chemical/mechanical, and from recovered paper/paperboard), paper stationery, cartons/boxes/cases of paper/paperboard, paper pulp moulded trays, paper splints for matches, asphaltic roofing sheets, paper sacks/bags, and biodegradable paper bags.

- **Increased to 18% (from 12%):** Chemical wood pulp (dissolving grades) and various other uncoated, kraft, greaseproof, glassine, composite, corrugated, and coated papers and paperboards.
- n) **De-Merit/Sin Goods & Actionable Claims & Strategic Imports**
- **Pan masala, gutkha, cigarettes, zarda, tobacco:** RSP-based levy; rates unchanged until cess repayment.
 - **Actionable claims:** Betting, casinos, gambling, horse racing, online gaming at 40%.
 - **Sporting events:** IPL admission at 40%; recognised sporting events exempt ≤₹500, else 18%.

III. Key Clarifications issued through FAQ's

- a) **Time of supply (Section 14):** Invoice/payment timing determines applicable rate.
- b) **ITC reversal:** Required for supplies turning exempt post 22 September 2025.
- c) **Stock on hand:** Supplies on/after 22 September 2025 attract new rates.
- d) **E-way bills:** No need to cancel/regenerate for goods in transit.
- e) **Coal:** GST merged with cess; no additional burden.
- f) **Spectacles/goggles:** Corrective vision 5%, others 18 %