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GST Rate Changes and impact under Regulatory laws:

Retail sector

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Effective from 22 September 2025, the 56th GST Council's (Council) recommendations on rate reductions across categories, will be implemented. The overhaul of multiple rate slabs has been touted as "next generation Goods and Service Tax reforms" and a transformative milestone in India's indirect tax journey. Aimed with the objective to lower consumer costs and boost demands, we examine the rate changes across the Indian Retail spectrum covering the expanse of consumer goods, luxury items, FMCGs, cars and electrical appliances, etc. and aspects that businesses will need to be cognizant of.

GST Rate revisions relevant for the Retail sector

One of the headline overhauls of rates has been witnessed in the everyday 'Personal Care and Grooming Products' category. Items such as *hair oil, shampoos, combs, hair pins and allied essential, shaving cream, shaving lotions, toilet soaps, toothpaste, brush, floss* which were earlier taxed at 18%/12%, will now attract the lower tax rate of 5%. However, the rates of other items like *hair creams/fixers/dyes/conditioner/serum, liquid soaps, body oils, body wash, etc.* have not seen any reductions but remain consistent at 12%. A similar stance is seen in certain skin care products as well where *face powder, talcum powder* has seen a rate reduction from 18/12% to 5%; while *face cream, sunscreen, moisturizing lotion, serum, lip balms, etc.* have seen no rate changes which continue to be at 18%. The selective rate reductions appear to be geared towards a policy intent to distinguish between "essential" personal care items and "discretionary/ premium" products.

The 'apparels' category continues to buck the above trend of reduced tax incidence as a measure of public welfare. Where *articles of apparel, made up textiles* have a value of less than or equal to INR 2,500 the GST rates have come down from 12% to 5%. On the contrary, for this item where value exceeds INR 2,500 have seen an increase in GST rates from 12% to 18%. Further, rate incidences on *handbags of cotton and jute* have also been reduced from 12% to 5%. The same stance is also seen in footwear products where below INR 2,500 is subject to 5% and above it is subject to 18%. Thus, tax reliefs have been extended to items catering to lower and middle income households. The value of INR 2,500 appears to have been taken as a threshold for luxury consumption whereafter progressive taxation in the form of increased rates have been applied.

Also, noteworthy is the category of motor vehicles and electronic appliances. Motor vehicles (*petrol ≤ 1200cc and of length ≤ 4000 mm and diesel ≤ 1500 CC and of length ≤ 4000mm*) and *motorcycles upto 300 CC*, which were earlier taxed at 28% have witnessed rate reductions to 18%. Other motor vehicles not covered by the above have seen a rate increase to 40% from earlier 28% but for these motor vehicles, the GST compensation cess which earlier stood at 15% has been removed. Similarly, '*aircrafts for personal use*' and '*yachts and other vessels for pleasure*' have seen a GST rate increase from 28% to 40%, with the simultaneous removal of Compensation Cess on such items. In the 'electrical appliances' category, *air conditioners, dish washers, televisions* have seen a rate reduction from 28% to 18%.

Points to ponder for businesses

In summary, it appears that the Council's rate revisions run on a fundamental thread, i.e., easing the burden on goods that enter every household, while placing a justifiable premium on what is deemed luxury. While what is deemed luxury is ever evolving and there are likely to be amendments in the future, at this juncture certain aspects that business would require to consider are set out below:

- **Anti-profiteering:** Section 171 of the Central Goods and Services Tax Act, 2017 (CGST Act) mandates commensurate reduction in pricing of goods where the rate of tax has reduced. While new complaints of profiteering are currently not being entertained by the Authority under Section 171 of the CGST Act, nothing stops the Tax Authority from initiating *suo motu* investigation on profiteering. Further, Governmental expectation remains that benefits of rate reduction must flow to the end consumer. Therefore, supply chains must be mapped and carefully studied so that rate reduction is passed on to the end consumers and businesses do not profit out of taxes.

- **Input tax credit (ITC):** For existing inventory, where there is a rate reduction i.e., output liability drops, but input tax already paid at higher rate remains intact then businesses may need to evaluate the availability of ITC refunds on such accumulations. Further, items on which Compensation cess was previously levied, transition of cess credit has not been allowed for payment of GST on outward supply. As such, compensation cess on unsold inventory lying with dealers and depots would become a cost.

- **Discounts and combos:** Given the proposed amendment to post-sale discounts and Circulars clarifying thereto, businesses can explore viable models for floating discount schemes to pass on rate reductions. However, where combo packs are being provided like 'a soap and hand-wash' involving multiple rates of GST, cognizance must be taken of the concepts of 'composite supply' and 'mixed supply'.

- **Labelling and packaging requirements:** The Legal Metrology Act, 2009 and the Legal Metrology (Packaged Commodities) Rules, 2011 (LM Rules) governs display of mandatory declarations (including the maximum retail price (MRP)) on pre-packaged products. The LM Rules provides that the MRP of a pre-packaged product should be inclusive of all taxes. With the change in the MRP of packaged products (pursuant to changes in GST rates), corresponding compliances will also need to be adhered. For Products manufactured before the effective date of 22 September 2025, the Ministry of Consumer Affairs issued an advisory on 18 September 2025 clarifying that:

    - Manufacturers, packers and importers will not be mandatorily required to affix revised MRP stickers on unsold pre-packaged goods manufactured before the effective date of 22 September 2025. However, they may voluntarily choose to affix revised MRP stickers provided that the original price declaration on the package is not obstructed.
    - Businesses may continue to use old packaging materials or wrappers until 31 March 2026 or until such material is exhausted, whichever is earlier.
    - To communicate the revised pricing across the supply chain, businesses are required to promptly issue circulars to wholesalers and retailers, with copies endorsed to the Director, Legal Metrology (Centre) and Controllers of Legal Metrology in all states and union territories.

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