ERGO

KEY HIGHLIGHTS | 56TH GST COUNCIL MEETING

Introduction

The 56th meeting of the GST Council was held in New Delhi under the chairpersonship of the Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman. The GST Council convened on 3 September 2025, marks a transformative milestone in India's indirect tax journey. This session unveiled a sweeping rationalisation of GST rates with the adoption of a new two-tier structure, offering substantial relief to consumers, MSMEs, key sectors like healthcare and agriculture, and strengthening the institutional fabric of GST through the operationalisation of the GST Appellate Tribunal. Alongside significant rate changes effective, the GST Council introduced trade facilitation measures, compliance simplifications, and clarified several longstanding ambiguities.

Measures for Facilitation of Trade

Proposed amendment in 'place of supply' provisions for intermediary services:

KCO Comments: Section 13(8)(b) of the IGST Act, which deems the place of supply of intermediary services to be the supplier's own location effectively placed cross-border supplies by intermediaries within the realm of domestic transactions. Consequently, affected taxpayers have faced significant competitive disadvantages owing to higher costs, lost export benefits, and blocked working capital due to ineligibility for zero-rating and associated refunds. The provision had also witnessed a fair share of divergent judicial interpretation on its constitutionality[1].

Taking cue from the aggrieved sectors such as IT, consultancy, BPOs, market research, etc., the GST Council has proposed omission of Section 13(8)(b) to harmonize the place of supply for intermediary services with the default rule in Section 13(2), which is based on the recipient's location. For intermediaries providing services globally, this omission opens gate to claim export status and associated benefits, most importantly, zero-rated GST treatment, refund eligibility for tax paid on inputs, and improved cash flow.

Although the omission of Section 13(8)(b) of the IGST Act, rectifies the previous legal fiction and is beneficial for taxpayers at large, it remains unclear whether this amendment will have retrospective effect. If so, any on-going dispute denying such refund may not survive. On the other hand, to avoid any litigation pertaining to refund for the past period, the amendment may come along with 'as is where is' clause.

System based risk assessment for sanctioning of the provisional refund arising out of (i) Inverted Duty Structure; and (ii) Zero rated supply of goods or services or both:

KCO Comments: For refund on account of IDS, the GST Council has recommended amending of Section 54(6) of the CGST Act, to provide for sanction of 90% of refund claimed on provisional basis. In the interim period and effective from 1 November 2025, until these amendments are enacted, the CBIC has been instructed to issue detailed instructions sensitising field formations or granting provisional refund equivalent to 90% of amount claimed basis identification and evaluation of risk by the system.

Requisite amendments have been proposed to Rule 91(2) of the CGST Rules, to transition the sanctioning of 90% of provisional refunds from manual scrutiny by the proper officer to a system-based process

---

[1] Material Recycling Association of India vs. Union of India, [(2020) 118 taxmann.com 75/81 GST 164 (Guj.).]; Dharmendra M. Jani vs. Union of India, [(2023) 151 taxmann.com 91/98 GST 503 (Bom.)]

involving identification and evaluation of risk, applicable to both Zero Rated Supply (i.e. export of goods or services or both or supply to a Special Economic Zone developer/unit for authorised operations).

By automating the identification of low-risk refund claims and reserving manual scrutiny for exceptional or high-risk cases, the new system is expected to significantly reduce processing delays, improve taxpayer's liquidity, and minimize subjective decision-making by tax officers. However, its success will critically depend on the transparency of risk evaluation parameters, the clarity in notification of excluded categories, and the ability of the system to detect and deter fraud, thereby safeguarding government revenue.

With respect to refund on account of IDS, FAQ 10[2] relies on Circular No. 135/05/2020-GST dated 31 March 2020 (as amended by Circular No. 173/05/2022-GST dated 6 July 2022) to, inter alia, clarify that cases where similar inputs and outputs are taxed at different rates before and after a rate change are not eligible for a refund of accumulated ITC under the inverted duty structure as per Section 54(3)(ii) of the CGST Act. However, it is pertinent to note that the contents of the Circular dated 31 March 2020 have been read down by the Hon'ble Courts[3] for overreaching the provisions contained in the Act. Hence, taxpayer facing accumulation of ITC and unable to utilise the same towards outward tax liabilities may consider taking appropriate measures by way of judicial intervention to overcome the challenge posed by the Circular.

Proposed amendment in Section 15 and Section 34 of CGST Act with respect to post-sale discount.

KCO Comments: The proposed omission of Section 15(3)(b)(i) of the CGST Act, moves away from the rigid requirement that post-sale discounts must be established by prior agreement and specifically linked to relevant invoices. Currently, only those post-supply discounts agreed before the sale and referenced in relevant invoices could reduce the transaction value for GST calculation, denying tax benefits for genuine trade discounts given after supply under evolving market conditions. This amendment enables more commercial flexibility, as businesses can now grant legitimate post-sale discounts through credit notes without being constrained by pre-existing agreements.

The proposed amendment to Section 15(3)(b) and Section 34 of the CGST Act, ensures that any reduction in transaction value due to post-sale discounts must be reflected by the supplier issuing a GST credit note, and the recipient must reverse ITC attributable to such discounts. Mandating credit note-based adjustment, integrated via Section 34 of the CGST Act, tightens audit trails and directly links the supply chain's tax accounting, reducing risk of revenue leakage.

Accordingly, it has been recommended to rescind circular No.212/6/2024-GST dated 26th June 2024 which provided a mechanism ensuring compliance of conditions of Section 15(3)(b)(ii) of the CGST Act, by the suppliers; and issue appropriate circular clarifying (i) non-reversal of ITC 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; and (iii) treatment of post-sale discount as consideration lieu of promotional activities etc. performed by the dealer.

Empowering small businesses by introduction simplified GST registration scheme and removal of minimum refund thresholds:

[2] Press Release:Press Information Bureau

[3] BMG Informatics (P.) Ltd. vs. Union of India, [(2021) 88 GST 368 (Gauhati)]; Baker Hughes Asia Pacific Ltd. vs. Union of India [(2022) 93 GST 4 (Rajasthan)]

KCO Comments: The introduction of optional simplified GST registration system for low-risk applicants, especially, those estimating monthly taxable supplies to registered entities below INR 250,000, marks a significant reform. By granting registration on an automated basis within three working days from the date of submission of application, the move not only ensures inclusivity but also underscores Government's commitment towards ease of doing business. With modalities yet to be notified, the scheme shall be operational from 1 November 2025.

The GST Council has also given an in-principle approval to scheme for facilitating simplified and streamlined GST registration for small suppliers selling via E-commerce platforms across states. The initiative intends to address the major bottlenecks faced by small time suppliers of maintaining a principal place of business in every state of supply. The detailed modalities and the implementation thereof for operationalizing the said scheme will be placed before the GST Council.

Lastly, the removal of the minimum refund threshold under Section 54(14) of the CGST Act, will be transformative for small micro-exporters, especially those dispatching frequent, low-value consignments via courier and postal modes. By allowing refunds on all export transactions, regardless of value, the reform seeks to empower small businesses to participate more readily in international trade, supports e-commerce exporters.

Other Measures

Operationalization of the Goods and Services Tax Appellate Tribunal (GSTAT):

KCO Comments: The GSTAT is set to begin accepting appeals by the end of September, with hearings commencing before the close of December this year. The GST Council has further recommended that taxpayers may file any backlog appeals until June 30, 2026. Notably, the Principal Bench of GSTAT will also function as the National Appellate Authority for Advance Ruling, bringing consistency to advance ruling decisions. In addition, the Principal Bench of GSTAT has started taking up appeals against orders passed by the National Anti-Profiteering Authority and is also likely to hear matters remanded by various High Courts on anti-profiteering disputes.

Retail sale price-based valuation for Cigarettes and other Tobacco products:

KCO Comment: Pursuant to various representation, the GST Council has proposed to do away with the existing multi-layered GST structure and recommended amendments for retail sale price-based valuation for cigarettes and other tobacco products.

Key recommendations relating to GST rates on goods

KCO Comments:

FMCG Sector - In respect of the pre-packaged commodities, the Legal Metrology Department had, by way of notification, permitted businesses to declare a reduced MRP on pre-packaged commodities through an additional sticker, stamping, or online printing, provided that the original label remained visible. This relaxation was initially allowed up to 31 December 2017 (Notification No. WM-10(31)/2017 dated 16 November 2017) and was later extended until 31 March 2018 (Notification No. WM-10(31)/2017 dated 23 December 2017). In light of the proposed rate rejig, it remains to be seen whether a similar notification will once again be issued under Rule 33(1) of the Legal Metrology (Packaged Commodities) Rules, 2011.

Following are few illustrative rate change in the FMCG sector:

FMCG Sector		
Items	**From**	**To**
Cheese	12%	5%
Dental floss, toothpaste	18%	5%
Talcum powder, Face powder	18%	5%
Hair oil, shampoo	18%	5%
Condensed milk	12%	5%

Automobile Sector - The proposed rate cut is expected to bring both relief and challenges for the automotive sector. On the positive side, classification-related disputes arising from differential GST rates across vehicle categories are expected to be resolved. Further, with GST on automobile parts being reduced to 18%, the cost of vehicle repairs and maintenance is also likely to come down, benefitting consumers directly. However, certain challenges persist. ITC on motor vehicles used for personal or employee transportation remains blocked under Section 17(5) of the CGST Act, unless used for specified taxable supplies (such as further supply, passenger transport or driver training). This results in ITC accumulation for manufacturers who deploy vehicles for R&D, demo, testing and similar purposes. In the EV and spare parts segment, GST on inputs (such as batteries, parts and electronic components) often exceeds the GST on the final product (EVs taxed at 5%), leading to blocked refunds and working capital pressures. Additionally, complexities continue in relation to dealer margins, post-sale discounts, incentives, and bundled packages (including free services), as well as valuation disputes in exchange of old vehicles under scrappage or buyback programmes.

Following are few illustrative rate change in the Automotive sector:

Automotive Sector		
Items	**From**	**To**
Petrol & Petrol Hybrid, LPG, CNG Cars (not exceeding 1200 cc & 4000mm)	28%	18%
Diesel & Diesel Hybrid Cars (not exceeding 1500 cc & 4000mm)	28%	18%
3 Wheeled Vehicles	28%	18%
Motor Cycles (not exceeding 350 cc)	28%	18%
Motor Vehicles for transport of goods	28%	18%

On the issue of compensation cess already paid on existing stock held by dealers, it may be noted that such cess cannot be utilised in any manner on or after 22 September 2025, even if GST liability gets adjusted. Accordingly, the industry will need to either pass on the incidence of such cess to consumers

or explore the option of claiming refund of the non-utilisable cess. The industry has already flagged this issue before the Government by way of representation, and a clarification on the matter is awaited.

Textile Sector: The textile sector is set for significant GST rate changes. Goods such as manmade filaments, nonwovens, carpets, labels, badges, textile fabrics, and articles for technical textiles, along with apparel and clothing accessories priced up to INR 2,500 per piece, are proposed to be reduced from 12% to 5%. Similarly, GST on synthetic filament yarn and waste of manmade fibres would fall from 18% to 5%. However, apparel and clothing accessories priced above INR 2,500 per piece are proposed to attract 18% GST, up from the current 12%.

While these changes aim to address the long-standing inverted duty structure, particularly in the manmade fibre segment, challenges remain. Refund of ITC on input services continues to be restricted under Rule 89(5) of the CGST Rules. The Finance Minister has emphasised that the rate cuts on fibre and yarn correct anomalies and align with the objective of a fibre-neutral policy.

FAQ 42 clarifies that technical textiles, including geotextiles and agro-textiles, continue to fall under the inverted duty structure; however, refunds of accumulated ITC on inputs will remain admissible, with an assurance of expedited processing. Given the sector’s employment intensity, any rate increase on higher-value apparel could adversely affect an industry already under strain from U.S. import tariffs.

Following are few illustrative rate change in the Textile sector:

Textile Sector		
Items	**From**	**To**
Manmade filaments	12%	5%
Nonwovens	12%	5%
Carpets	12%	5%
Labels, badges and similar articles of textile materials	12%	5%
Textile fabrics	12%	5%
Textile products and articles for technical uses	12%	5%
Articles of apparel and clothing accessories of sale value not exceeding Rs. 2500 per piece	12%	5%
Synthetic filament yarns	18%	5%
Waste of manmade fibers	18%	5%
Articles of apparel and clothing accessories of sale value exceeding Rs. 2500 per piece	12%	18%

Pharmaceutical Sector: The recent tax reductions are expected to lower the cost of essential medicines, thereby improving affordability and access, particularly for patients with chronic or critical care needs. Similarly, the reduction in GST on medical equipment and supplies is likely to ease cost pressures for

hospitals, clinics, and diagnostic service providers, which may stimulate demand volumes though with potential margin implications for manufacturers. Companies may accordingly need to revisit their pricing and cost structures.

The proposal to introduce quicker GST refunds is a welcome step, as it will ease working capital constraints for pharma exporters—an important relief given the sector's high refund backlog and capital-intensive operations. However, the long-standing inverted tax structure challenge remains unresolved. In fact, with reduced GST rates on finished products, the accumulation of unutilised ITC could intensify, since credit utilisation against outward tax liability may be limited. The industry is therefore likely to seek relief through representations, particularly for enabling refunds of accumulated ITC on input services.

Following are few illustrative rate change in the Pharmaceutical sector:

Pharmaceutical Sector		
Items	**From**	**To**
Empty cachets of a kind suitable for pharmaceutical use	18%	5%
Other Drugs and medicines intended for personal use	12%	5%
Medicinal grade hydrogen peroxide	12%	5%
All diagnostic kits and reagents	12%	5%
Anaesthetics	12%	5%

Anti-profiteering: While Section 171 of the CGST Act is not expected to be revived, the Government has reiterated that industry is expected to transmit the benefit of GST rate reductions to consumers. As per the Revenue Secretary, several major sectors have publicly committed to passing on such benefits, with market forces and competition also likely to ensure this outcome. Administratively, CBIC and State tax authorities will continue to engage with industries to monitor effective transmission of benefits to end consumers. Nevertheless, it is advisable for businesses to maintain robust costing and pricing data to substantiate the pass-through of benefits, thereby safeguarding themselves against any potential action under Sections 18, 19 and 20 of the Consumer Protection Act, 2019.

Way Forward: The implementation of GST rate changes poses complex challenges as well as opportunities for businesses across India. Such changes are often the result of policy decisions aimed at streamlining the GST framework, rationalizing rate slabs for goods and services, addressing anomalies like inverted duty structures, and boosting wider economic objectives such as consumption and competitiveness. Businesses must act quickly and methodically to ensure full compliance, avoid inadvertent errors, and maintain transparency with both authorities and customers. This may *inter alia* require an integrated approach involving:

- **Review and Reconciliation**: Conduct a detailed review of all open invoices, customer advances, and ongoing service delivery schedules to ensure correct tax application as of the new effective date.

- **System Readiness**: Update ERP and accounting systems in advance to reflect the revised GST rates, ensuring automation of tax application across transactions and minimizing manual errors.
- **Capacity Building**: Organize comprehensive training sessions for finance, sales, procurement, and compliance teams to help them understand rate change scenarios and identify affected contracts, billing cycles, and compliance obligations.
- **Standard Operating Procedure (SOP)**: Develop and implement a clear SOP to guide the organization through the transition, with standardized processes and robust internal controls for handling GST rate changes.
- **Stakeholder Communication**: Communicate proactively with customers, vendors, and other stakeholders regarding the impact of revised rates, contractual adjustments, and invoicing timelines to maintain transparency and trust.
- **Monitoring & Compliance**: Set up an internal monitoring mechanism to periodically review implementation, flag discrepancies, and ensure smooth compliance during the transition phase.

With effect from 22 September 2025, several goods and services are proposed to be exempted. In cases where inward supplies have been received earlier but the corresponding ITC is availed on or after this date, businesses may be required to reverse proportionate credit under Section 17(2) and Section 17(3) of the CGST Act, since the outward supplies would fall under the exempt category. To mitigate this, companies in food, pharmaceuticals, stationery, hospitality (hotel accommodation), and beauty & wellness sectors may consider availing all eligible ITC in the August 2025 return (due by 20 September 2025), thereby limiting reversals only to credits relating to supplies received and claimed on or after 22 September 2025.

Key recommendations relating to GST rates on Services

KCO Comments:

Transportation: The GST rate on passenger transport services by motor vehicles (where fuel cost is included) is proposed to be increased from 12% to 18%, while the concessional option of paying 5% without ITC continues. A similar rate change has also been proposed for renting of passenger motor vehicles, transportation of goods by GTA, carriage of goods in containers by rail, and transportation of natural gas, petroleum crude, motor spirit, high speed diesel, or ATF through pipelines. This upward revision, particularly for businesses opting to avail ITC, is expected to have an inflationary impact across the transport sector, as higher tax costs may eventually get passed on to end consumers.

Following are few illustrative rate change in the Transportation sector:

Transportation Sector		
Entry	**From**	**To**
Supply of Air transport of passengers in other than economy class	12% with ITC	18% with ITC

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)	No change
	12% with ITC	18% with ITC
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 ATF through pipeline	5% without ITC	No change
	12% with ITC	18% with ITC
Supply of Transport of goods by GTA	5% without ITC (RCM/FCM)	No change
	12% with ITC	18% with ITC

Job work: The proposed increase in GST on job work services under the residual category from 12% to 18% could adversely impact sectors such as textiles, footwear, electric vehicles, printing & packaging, electronics, and consumer durables, which are significantly reliant on the job work model. Since a large portion of their final output attracts GST at 5%, the higher tax on job work is likely to result in accumulation of ITC. This poses an additional burden, as refunds of unutilised ITC relating to input services are currently disallowed under Rule 89(5) of the CGST Rules, owing to the restrictive definition of 'Net ITC' used in the refund formula.

Following are few illustrative rate change in the Job work sector:

Job Work Sector		
Entry	**From**	**To**
Supply of services by way of job work in relation to umbrella	12% with ITC	5% with ITC
Supply of job work in relation to bricks which attract GST at the rate of 5%	12% with ITC	5% with ITC
Supply of job-work services in relation goods falling under Chapter 30 in the First Schedule to the Customs Tariff Act, 1975 (51of 1975) (pharmaceutical products)	12% with ITC	5% with ITC

Supply of job-work services in relation to Hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975	12% with ITC	5% with ITC
Supply of job-work not elsewhere covered (residual entry)	12% with ITC	18% with ITC

Travel: The proposed increase in GST on air passenger transport (other than economy class) from 12% to 18% is expected to raise the cost of premium travel, which could dampen discretionary demand and put pressure on airlines' premium cabin occupancy. At the same time, the higher rate may facilitate better utilisation of ITC by airlines and aligns with GST's principle of imposing higher taxes on luxury services.

Hotel accommodation: The GST rate on supply of hotel accommodation priced at up to INR 7,500 per unit per day (or equivalent) is proposed to be reduced from 12% to 5%, with withdrawal of the option to claim ITC. However, once the ITC chain is broken, the effective 7% (12–5) tax benefit may not fully flow to consumers, as hotels may face unrecoverable input costs, potentially leading to an increase in base tariffs

Delivery charges: The supply of local delivery services through an ECO, including restaurant deliveries, is proposed to be notified under Section 9(5) of the CGST Act, where the individual service provider is not liable for GST registration. These services are also proposed to be excluded from the ambit of GTA. This change is likely to increase the cost of such delivery services. Similar to cab aggregators, the tax treatment may vary depending on whether the platform operates under a SaaS-based or commission-based model, and the applicability of forward charge or reverse charge may hinge on whether the supply is regarded as being made by the delivery partner or by the ECO.

For Specific rate movements, please refer to the below:

HSN wise rate changes (Goods)	Appendix 1
Sector wise rate changes (Goods)	Appendix 2
HSN wise rate changes (Services)	Appendix 3
Sector wise rate changes (Services)	Appendix 4

List of abbreviations

Abbreviation	**Meaning**
CBIC	Central Board of Indirect Taxes and Customs
CGST Act	Central Goods and Services Tax Act, 2017
CGST Rules	Central Goods and Services Tax Rules, 2017
ECO	Electronic Commerce Operator
IDS	Inverted Duty Structure

Abbreviation	**Meaning**
GST	Goods and Services Tax
GST Council	Goods and Services Tax Council
GTA	Goods Transport Agency
ITC	Input Tax Credit
IGST Act	Integrated Goods and Services Tax Act, 2017
SGST Act	State Goods and Services Tax Act, 2017
SaaS	Software as a Service

- *Sudipta Bhattacharjee (Partner); Brijesh Kothary (Partner) and Chitrartha Gupta (Principal Associate)*

About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with over 1300+ legal professionals, including 300+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.

To know more, visit www.khaitanco.com |

Ahmedabad · Bengaluru · Chennai · Delhi-NCR · Kolkata · Mumbai · Pune · Singapore