

Indirect Tax Alert

04 September 2025

Recommendations of 56th GST Council Meeting

1. Measures pertaining to law and procedure

a. Amendment in Section 15 and Section 34 of the CGST Act 2017 in respect of post-sale discount

- Recognising the persisting challenges, the GST Council has introduced a significant reform. It has been recommended to amend Section 15(3)(b) and Section 34 of the CGST Act to streamline the law with respect to post-sale discounts. The requirement of having a pre-supply agreement and linking discounts to specific supply invoices will be omitted, i.e., Section 15(3)(b)(i). Instead, it is proposed that a post-sale discount must be granted through a credit note under Section 34, for which a corresponding ITC reversal by the recipient will be required. Further, Circular No. 212/6/2024-GST will be rescinded, removing the need for CA/CMA certificates to establish ITC reversal by the recipient. It may be relevant to note that a Section 34 credit note can be issued under certain specified circumstances such as (a) the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, (b) where the goods supplied are returned by the recipient, or (c) where goods or services or both supplied are found to be deficient
- A fresh circular/clarification will be issued pertaining to post sale discount to address three long-standing disputes:
 - (i) Whether ITC reversal is needed when discounts are given via financial/commercial credit notes without issuing GST credit notes.
 - (ii) Whether manufacturer-to-dealer discounts should be treated as additional consideration in dealer-to-customer transactions.
 - (iii) Whether discounts instead of promotional activities by dealers amount to consideration for services.

Aurtus Comments:

The treatment of post-sale discounts under GST has been a matter of recurrent disputes. Under Section 15(3)(b) of the CGST Act, post-supply discounts could be excluded from the taxable value only if:

- (i) The discount is established in terms of an agreement at or before the time of supply;
- (ii) The discount is linked to relevant invoices,
- (iii) The recipient reverses ITC attributable to such discount.

Establishing the pre-existence of a discount policy in form of a written contractual form between manufacturers and dealers was a challenge, especially in case of seasonal or market driven discounts. Further, since there was no mechanism for suppliers to verify ITC reversal by recipients, field officers often disallowed such discounts, leading to litigation.

Circular No. 92/11/2019 – GST, dated 07 March 2019 elucidated the provisions contained under section 15(3)(b) of the Act. The Circular simply went on the premise that secondary discounts comprise of discounts, where the supplier reduces the value of the goods, initially supplied to the buyer, at a later stage [i.e. post supply]. It went on to state that such discounts, since are typically unknown to the buyers would not warrant deductions under the law. This view created a challenge for the suppliers in claiming value deductions for all post-sale discounts. Further, the issue of substantiating reversal of ITC by buyers, compelled many industry players to completely forego the GST adjustment, in spite of providing the value adjustment to buyers.

The CBIC, vide Circular No. 212/6/2024-GST dated 26.06.2024, in order to provide a stop gap mechanism clarified the mechanism for proving ITC reversal. It required suppliers to obtain a CA/CMA certificate (for ITC above ₹5 lakh) or an undertaking (for ITC below ₹5 lakh) from recipients as proof. Although this clarification provided a temporary compliance mechanism, it created practical difficulties as suppliers had to depend on the cooperation of recipients, and in many cases, disputes continued because notices were being issued to both suppliers (disallowing GST adjustment on credit notes) and on recipients (for non-reversal of ITC), leading to dual exposure and further litigation.

The trajectory of post-sale discounting clarifications shows a shift from a compliance-heavy, certificate-driven mechanism to a simplified, statutory amendment-based framework. By linking post sale discounting strictly to credit notes under Section 34 and issuing clarifications on common disputes, the Council aims to reduce litigation, bring uniformity, and align commercial practices with GST compliance.

Also, once the new clarification is issued, hopefully, it will also settle current controversies relating to GST demands on discounts offered either by treating them as additional consideration or a separate consideration towards promotion / marketing.

b. Amendment in place of supply provision for intermediary services under Section 13(8) of the IGST Act

GST Council has recommended to omit clause (b) of Section 13(8) of the IGST Act, 2017, which presently deems the place of supply ('POS') for intermediary services to be the location of the supplier in India, even if the recipient is located overseas. With its omission, the place of supply for intermediary services will instead fall under the default rule in Section 13(2) of the IGST Act, i.e., the location of the recipient.

Aurtus Comments:

Intermediary services have been the subject of many disputes. The exception created by POS provisions led the department to allege and recategorise all subcontracting transactions as 'intermediary services'. In *Dharmendra M. Jani v. Union of India*, the Bombay High Court recognised that services provided by intermediaries to foreign principals are essentially export of services, since the consumption and beneficiary lie outside India. The Court emphasised that deeming such services as intra-state supply through Section 13(8)(b) creates absurd results, double taxation, and contradicts the destination-based nature of GST. Although the provision was upheld as constitutionally valid only within the IGST framework, the ruling acknowledged its inequitable consequences for exporters.

Against this backdrop, the Council's recommendation to omit Section 13(8)(b) and revert to the general rule under Section 13(2) (place of supply = recipient's location) is not just a policy reform but a corrective measure aligning GST with judicial reasoning. It brings Indian GST in line with the destination-based taxation principle, removes ambiguity for IT/ITES, BPO, marketing support, and consultancy sectors, and prevents dual taxation. However, on the flip side, all imports of intermediary services which was outside the GST net will now become liable to GST on a reverse charge basis in the hands of the importer of services. This will create challenges for the exempt sectors [like financial services], where tax so paid would become a cost in the supply chain.

2. Measures for streamlining compliances in GST

a. GST refund in respect of low value export consignment

The GST Council has recommended to remove the threshold limit of Rs 1,000 prescribed under Section 54(14) of the CGST Act in case of refunds arising out of export with payment of tax to help the small exporters making export through courier, postal mode etc.

b. Risk based provisional refund arising out of zero-rated supplies and inverted duty structure w.e.f. 01.11.2025

The GST Council has recommended to amend Rule 91(2) to provide for sanction of 90% of the refund claimed as provisional refund on the basis of identification and evaluation of risk by the system. However, in exceptional cases, the proper officer may for reasons to be recorded in writing proceed ahead with detailed scrutiny instead of

granting the provisional refund. The Council has also recommended to notify the category of registered persons who may not be granted refund on provisional basis.

Furthermore, the GST council has also recommended providing for sanction of 90% refund on provisional basis arising out of inverted duty rate structure on similar lines as is presently available to refund in respect of zero-rated supply. In this regard, the Central Government has decided to issue necessary instructions to the Central Tax field formations for granting refund on provisional basis post identification and evaluation of risk by the system.

Aurtus Comments: Earlier, the grant of provisional refund was subjected to detailed scrutiny of the claim and evidence submitted in support of the claim by the proper officer. The proper officer had discretion not to grant provisional refund unless he was satisfied with the amount of refund claimed by the applicant. Given this, provisional refund was denied to the applicant in most of the cases, without providing any suitable reasons for the denial.

The recommendation of the GST council to grant provisional refund on the basis of identification and evaluation of risk by the system is a more practical and fair approach, as it lessens the discretionary powers of the authorities to deny the provisional refund.

Further, the grant of provisional refund to the applicants applying for refund under inverted duty structure is a welcome recommendation as it ensures similar benefits which are granted to applicants applying for refund under zero rated supplies.

c. Simplified GST registration for small and low risk business w.e.f. 01.11.2025

The GST Council has recommended to introduce an optional simplified GST registration scheme wherein registration shall be granted on an automated basis within three working days from the date of submission of application in case of low-risk applicants and applicants who based on their own assessment, determine that their output tax liability on supplies to registered persons will not exceed Rs. 2.5 lakh per month (inclusive of CGST, SGST/UTGST and IGST). The scheme will provide for voluntary opting into and withdrawal from the scheme.

Aurtus Comments: The GST law currently requires all businesses to undergo a detailed and often time-consuming registration procedure. From furnishing extensive documentation to complying with strict verification protocols, applicants must navigate multiple steps to obtain a valid GST number. While aimed at ensuring transparency and curbing misuse of the law, the complexity of the process has often posed challenges for small businesses and first-time registrant. Given this, the recommendation of the GST council to introduce a simplified GST registration process for small and low risk business would lessen the hardships faced by small taxpayer to obtain GST registration and encourage them to comply with the law in a timely manner.

d. Simplified GST registration scheme for small suppliers supplying through e-commerce operator

The GST Council has approved in-principle, the concept of a simplified GST registration mechanism for small suppliers making supplies through e-commerce operators (ECOs). The detailed modalities for operationalizing the said scheme would be placed before the GST Council.

Aurtus Comments: The GST law has prescribed categories of persons who are mandatorily required to be registered under the Act, irrespective of any turnover limit which *inter alia* includes persons supplying goods or services through e-commerce operator ('ECO'). The introduction of simplified GST registration scheme would fasten the registration process. However, the compliance requirements would remain the same which would still pose challenges for small businesses.

3. Other legislative measures

- The GSTAT will be operationalised to accept appeals before the end of September 2025 and commence hearings before the end of December 2025, with a special limitation window provided for filing backlog appeals up to 30th June 2026.
- The Principal Bench of GSTAT will also function as the National Appellate Authority for Advance Ruling (NAAAR), ensuring consistency and uniformity in advance rulings.

Aurtus Comments: The definitive timelines set for the operationalisation of the GSTAT, if adhered to, will help create a fully functional second level of appellate authority, the absence of which has led to a burden on the High Courts in India and delays in resolving everyday disputes.

Furthermore, the dual role (as the NAAAR) is expected to ensure uniformity and consistency in advance rulings nationwide, which has so far been a significant source of conflicting interpretations. By establishing GSTAT as a fully functional appellate body, the GST Council seeks to create a robust dispute resolution mechanism within the GST framework.

A key concern remains the current backlog of cases that are yet to be filed, and how long it will take to achieve closure of issues once an appeal is filed before the GSTAT.

4. Changes and Clarifications in GST tax rates

a. Supply of Goods

(i) Healthcare sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	28	Anaesthetics, Potassium Iodate, Steam	12	5
2	2801 20	Iodine	12	5

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
3	2804 40 10	Medical grade oxygen	12	5
4	2847	Medicinal grade hydrogen peroxide	12	5
5	30	Agalsidase Beta, Imiglucerase, Eptacog alfa activated recombinant coagulation factor VIIa	5	Nil
6	30	Onasemnogene abeparvovec, Asciminib, Mepolizumab, Pegylated Liposomal Irinotecan, Daratumumab, Daratumumab subcutaneous, Teclistamab, Amivantamab, Alectinib, Risdiplam, Obinutuzumab, Polatuzumab vedotin, Entrectinib, Atezolizumab, Spesolimab, Velaglucerase Alpha, Agalsidase Alfa, Ruriocetocog Alpha Pegol, Idursulphatase, Alglucosidase Alfa, Laronidase, Olipudase Alfa, Tepotinib, Avelumab, Emicizumab, Belumosudil, Miglustat, Velmanase Alfa, Alirocumab, Evolocumab, Cystamine Bitartrate, CI-Inhibitor injection, Inclisiran	12	Nil
7	30	All Drugs and medicines including i. Fluticasone Furoate + Umeclidinium + Vilanterol FF/UMEC/VI ii. Brentuximab Vedotin iii. Ocrelizumab iv. Pertuzumab v. Pertuzumab + trastuzumab vi. Faricimab	12	5
8	3001	Glands and other organs for organo-therapeutic uses, dried, whether or not powdered; extracts of glands or other organs or of their secretions for organo-therapeutic uses; heparin and its salts; other human or animal substances prepared for therapeutic or prophylactic uses, not elsewhere specified or included	12	5
9	3002	Animal blood prepared for therapeutic, prophylactic or diagnostic uses; antisera and other blood fractions and modified immunological products, whether or not obtained by means of biotechnological processes; toxins, cultures of micro-organisms (excluding yeasts) and similar products	12	5
10	3003	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale, including Ayurvedic, Unani, Siddha, homoeopathic or Bio-chemic systems medicaments	12	5
11	3004	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale, including Ayurvedic, Unani, homoeopathic siddha or Bio-chemic systems medicaments, put up for retail sale	12	5

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
12	3005	Wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes	12	5
13	3006	Pharmaceutical goods specified in Note 4 to this Chapter [i.e. Sterile surgical catgut, similar sterile suture materials (including sterile absorbable surgical or dental yarns) and sterile tissue adhesives for surgical wound closure; sterile laminaria and sterile laminaria tents; sterile absorbable surgical or dental haemostatics; sterile surgical or dental adhesion barriers, whether or not absorbable; Waste pharmaceuticals] [other than contraceptives and Ostomy appliances]	12	5
14	3822	All diagnostic kits and reagents	12	5
15	4015	Surgical rubber gloves or medical examination rubber gloves	12	5
16	90 or any other Chapter	Blood glucose monitoring system (Glucometer) and test strips, Patent Ductus Arteriosus / Atrial Septal Defect occlusion device	12	5
17	9004	Spectacles and goggles for correcting vision	12	5
18	9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments	12	5
19	9019	Mechano-therapy appliances; massage apparatus; psychological aptitude-testing apparatus; ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus	12	5
20	9020	Other breathing appliances and gas masks, excluding protective masks having neither mechanical parts nor replaceable filters	12	5
21	9022	Apparatus based on the use of X-rays or of alpha, beta or gamma radiations, for medical, surgical, dental or veterinary uses, including radiography or radiotherapy apparatus, X-ray tubes and other X-ray generators, high tension generators, control panels and desks, screens, examinations or treatment tables, chairs and the light	12	5
22	9025	Thermometers for medical, surgical, dental or veterinary usage	18	5
23	9027	Instruments and apparatus for medical, surgical, dental or veterinary uses for physical or chemical analysis.	18	5
24	9804	Other Drugs and medicines intended for personal use	12	5

Aurtus Comments: To make healthcare more affordable, the GST rate on all medicines/drugs, medical devices/ instruments, except those already exempt, is proposed to be reduced to 5%. For medical devices, a refund will be available to the manufacturer due to the inverted duty structure.

(ii) Transportation and Automobiles Sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	4011	New pneumatic tyres, of rubber [other than of a kind used on/in bicycles, cycle-rickshaws and three wheeled powered cycle rickshaws; rear tractor tyres; and of a kind used on aircraft]	28	18
2	8701	Road tractors for semi-trailers of engine capacity more than 1800 cc	28	18
3	8702	Motor vehicles for the transport of ten or more persons, including the driver [other than buses for use in public transport, which exclusively run on Bio-fuels]	28	18
4	8702 or 8703	Motor vehicles cleared as ambulances duly fitted with all the fitments, furniture and accessories necessary for an ambulance from the factory manufacturing such motor vehicles	28	18
5	8703	Petrol, Liquefied petroleum gases (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000 mm.	28	18
6	8703	Diesel driven motor vehicles of engine capacity not exceeding 1500 cc and of length not exceeding 4000 mm.	28	18
7	8703	Three wheeled vehicles	28	18
8	8703 40, 8703 60	Motor vehicles with both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, of engine capacity not exceeding 1200cc and of length not exceeding 4000 mm	28	18
9	8703 50, 8703 70	Motor vehicles with both compression-ignition internal combustion piston engine [diesel-or semi diesel] and electric motor as motors for propulsion, of engine capacity not exceeding 1500 cc and of length not exceeding 4000 mm	28	18
10	8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars, [This entry includes other than those mentioned at Sr. No.4,5,6,7,8 and 9 above wherein GST rate is reduced from 28% to 18%]	28	40
11	870340, 870360	Motor vehicles with both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for	28	40

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
		propulsion, of engine capacity exceeding 1200cc or of length exceeding 4000 mm		
12	870350, 870370	Motor vehicles with both compression-ignition internal combustion piston engine [diesel-or semi diesel] and electric motor as motors for propulsion, of engine capacity exceeding 1500cc or of length exceeding 4000 mm	28	40
13	8704	Motor vehicles for the transport of goods [other than Refrigerated motor vehicles]	28	18
14	8706	Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705	28	18
15	8707	Bodies (including cabs), for the motor vehicles of headings 8701 to 8705	28	18
16	8708	Parts and accessories of the motor vehicles of headings 8701 to 8705 [other than specified parts of tractors]	28	18
17	8711	Motorcycles of engine capacity (including mopeds) and cycles fitted with an auxiliary motor, with or without sidecars, of an engine capacity not exceeding 350cc; side cars	28	18
18	8711	Motorcycles of engine capacity exceeding 350 cc	28	40
19	8714	Parts and accessories of vehicles of heading 8711	28	18
20	8802	Aircraft for personal use	28	40
21	8903	Rowing boats and canoes	28	18
22	8903	Yacht and other vessels for pleasure or sports	28	40
23	9401 20 00	Seats of a kind used for motor vehicles	28	18

Aurtus Comments: To boost the consumption theme, the Council has proposed reducing rates on the majority of automobiles from the current 28% to 18%.

Tax rate is hiked to 40% only in case of automobiles exceeding a particular size and / or capacity, which were previously subject to an additional Compensation Cess. Also, the Compensation Cess levy is being phased out, and the base GST rate for these luxury products has been standardised at 40%.

One key issue that has arisen is as to what happens to the Compensation Cess credit after the automobiles become liable to a 18/40% tax without Compensation Cess. The Government should clarify this matter promptly and either permit a refund of Compensation Cess or allow an adjustment against the output tax of 18/40%.

(iii) Food & Beverage sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	1804	Cocoa butter, fat and oil	18	5
2	1805	Cocoa powder, not containing added sugar or sweetening matter	18	5
3	1806	Chocolates and other food preparations containing cocoa	18	5
4	1901	Malt extract, food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of heading 0401 to 0404, not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis not elsewhere specified or included	18	5
5	1904 [other than 1904 10 20]	All goods i.e., Corn flakes, bulgar wheat, prepared foods obtained from cereal flakes, Fortified Rice Kernel (FRK)	18	5
6	2201	Drinking water packed in 20 litre bottles	12	5
7	2201	Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavoured	18	5
8	2202 10	All goods [including aerated waters], containing added sugar or other sweetening matter or flavoured	28	40
9	2202 99 10	Soya milk drinks	12	5
10	2202 99 20	Fruit pulp or fruit juice-based drinks [other than Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice]	12	5
11	2202 99 30	Beverages containing milk	12	5
12	2202 99	Plant-based milk drinks, ready for direct consumption as beverages	18	5
13	2202 91 00, 2202 99	Other non-alcoholic beverages	18	40
14	2202 99 90	Caffeinated Beverages	28	40
15	2202	Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice	28	40

Aurtus Comments: While the reduction in the rate of tax is a welcome step, there are specific practical challenges that need to be dealt with:

- 1) The reduction in the rate of output could lead to an increase in the inverted duty structure refund claims. Hence, it becomes essential that refunds are cleared expeditiously; otherwise, this will create a working capital blockage. The GST Council has, as part of its simplification measures, assured that this will be addressed.
- 2) Companies will have to calculate the net effective rate of tax after considering credits available and those that are getting blocked or accumulated. This will determine how much of the benefit can be passed on to consumers as part of a price reduction.
- 3) Dealers / Distributors may be sitting with inventory that has been purchased at a higher rate of tax. A reduction in the GST rate could lead to accumulation issues on their end.
- 4) Companies need to adhere to the legal metrology provisions as regards any reduction/increase in the MRP, and the MRP for goods lying at different stages of the supply chain will have to be altered.
- 5) The time of supply will have to be determined appropriately for paying the right GST after the changes come into effect. One issue that arises here is the rate of GST for advances received for goods. The FAQ issued mentions that the GST rate linked with the advance received in certain scenarios. However, as per Notification No. 66/2017- CT dated November 15, 2017, GST does not apply to advances received for supply of goods. Hence, the FAQ may not be stating the correct legal position in this regard and has failed to consider the amendment made vide Notification No. 66/2017- CT (*supra*).

(iv) Tobacco sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	1404 90 10	Bidi wrapper leaves (tendu)	18	5
2	1404 90 50	Indian katha	18	5
3	2401	Unmanufactured tobacco; tobacco refuse [other than tobacco leaves]*	28	40
4	2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes*	28	40
5	2403	Other manufactured tobacco and manufactured tobacco substitutes; “homogenised” or “reconstituted” tobacco; tobacco extracts and essences*	28	40
6	2404 11 00	Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion*	28	40
7	2404 19 00	Products containing tobacco or nicotine substitutes and intended for inhalation without combustion*	28	40
8	2106 90 20	Pan masala*	28	40

**To be effective from a date to be notified based on discharging of entire loan and interest liability on account of compensation cess.*

Aurtus Comments: The increase in GST rates on tobacco and pan masala is intended to discourage consumption of harmful products while safeguarding government revenue. As a 'sin goods,' these items are kept in the highest tax slab.

(v) Coal sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	2701	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	5	18
2	2702	Lignite, whether or not agglomerated, excluding jet	5	18
3	2703	Peat (including peat litter), whether or not agglomerated	5	18

Aurtus Comments: Coal was previously taxed at 5% GST plus a compensation cess of ₹400 per ton. The GST Council has now withdrawn the cess and merged it into GST, ensuring no additional tax burden on the sector.

(vi) Renewable sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old %	New %
1	84, 85 or 94	Following renewable energy devices and parts for their manufacture:- (a) Bio-gas plant; (b) Solar power-based devices; (c) Solar power generator; (d) Windmills, Wind Operated Electricity Generator (WOEG); (e) Waste to energy plants / devices; (f) Solar lantern / solar lamp; (g) Ocean waves/tidal waves energy devices/plants; (h) Photo voltaic cells, whether or not assembled in modules or made up into panels	12	5

Aurtus Comments: The GST rate cut is intended to promote renewable energy goods and support the green energy transition.

(vii) Textiles sector

Sr. No	HSN Code	Description of Goods	Tax Rate (%)	
			Old	New
1	5401	Sewing thread of manmade filaments, whether or not put up for retail sale	12	5
2	5402, 5403, 5404, 5405, 5406	Synthetic or artificial filament yarns	12	5
3	5508	Sewing thread of manmade staple fibres	12	5
4	5509, 5510, 5511	Yarn of manmade staple fibres	12	5
5	5601	Wadding of textile materials and articles thereof; such as absorbent cotton wool (except cigarette filter rods)	12	5
6	5602	Felt, whether or not impregnate, coated, covered or laminated	12	5
7	5603	Nonwovens, whether or not impregnated, coated, covered or laminated	12	5
8	5604	Rubber thread and cord, textile covered; textile yarn, and strip and the like of heading 5404 or 5405, impregnated, coated, covered or sheathed with rubber or plastics	12	5
9	5605	Metallised yarn, whether or not gimped, being textile yarn or strip or the like of heading 5404 or 5405, combined with metal in the form of thread, strip or powder or covered with metal [other than-(i) real zari thread (gold) and silver thread combined with textile thread (ii) imitation zari thread or yan known by any name in trade parlance]	12	5
10	5606	Gimped yarn, and strip and the like of heading 5404 or 5405, gimped (other than those of heading 5605 and gimped horsehair yarn); chenille yarn (including flock chenille yarn); loop wale-yarn	12	5
11	5607	Twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated, coated, covered or sheathed with rubber or plastics [other than jute twine, coir cordage or ropes]	12	5

Sr. No	HSN Code	Description of Goods	Tax Rate (%)	
			Old	New
12	5609	Articles of yarn, strip or the like of heading 5404 or 5405, twine, cordage, rope or cables, not elsewhere specified or included	12	5
13	5701	Carpets and other textile floor coverings, knotted, whether or not made up	12	5
14	5702	Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including “Kelem”, “Schumacks”, “Karamanie” and similar handwoven rugs	12	5
15	5703	Carpets and other textile floor coverings (including Turf), tufted, whether or not made up	12	5
16	5704	Carpets and other textile floor coverings, of felt, not tufted or flocked, whether or not made up	12	5
17	5705	Other carpets and other textile floor coverings, whether or not made up; such as Mats and mattings including Bathmats, where cotton predominates by weight, of Handloom, Cotton Rugs of handloom	12	5
18	5802	Terry towelling and similar woven terry fabrics, other than narrow fabrics of heading 5806; tufted textile fabrics, other than products of heading 5703	12	5
19	5803	Gauze, other than narrow fabrics of heading 5806	12	5
20	5804	Tulles and other net fabrics, not including woven, knitted or crocheted fabrics; lace in the piece, in strips or in motifs, other than fabrics of headings 6002 to 6006	12	5
21	5805	Hand-woven tapestries of the type Gobelins, Flanders, Aubusson, Beauvais and the like, and needle-worked tapestries (for example, petit point, cross stitch), whether or not made up	12	5
22	5807	Labels, badges and similar articles of textile materials, in the piece, in strips or cut to shape or size, not embroidered	12	5
23	5808	Braids in the piece; ornamental trimmings in the piece, without embroidery, other than knitted or crocheted; tassels, pompons and similar articles [other than saree fall]	12	5
24	5809	Woven fabrics of metal thread and woven fabrics of metallised yarn of heading 5605, of a kind used in apparel, as furnishing fabrics or for similar purposes, not elsewhere specified or included; such as Zari borders	12	5
25	5810	Embroidery in the piece, in strips or in motifs, Embroidered badges, motifs and the like	12	5

Sr. No	HSN Code	Description of Goods	Tax Rate (%)	
			Old	New
26	5811	Quilted textile products in the piece, composed of one or more layers of textile materials assembled with padding by stitching or otherwise, other than embroidery of heading 5810	12	5
27	5901	Textile fabrics coated with gum or amylaceous substances, of a kind used for the outer covers of books or the like; tracing cloth; prepared painting canvas; buckram and similar stiffened textile fabrics of a kind used for hat foundations	12	5
28	5902	Tyre cord fabric of high tenacity yarn of nylon or other polyamides, polyesters or viscose rayon	12	5
29	5903	Textile fabrics impregnated, coated, covered or laminated with plastics, other than those of heading 5902	12	5
30	5904	Linoleum, whether or not cut to shape; floor coverings consisting of a coating or covering applied on a textile backing, whether or not cut to shape	12	5
31	5905	Textile wall coverings	12	5
32	5906	Rubberised textile fabrics, other than those of heading 5902	12	5
33	5907	Textile fabrics otherwise impregnated, coated or covered; painted canvas being theatrical scenery, studio backcloths or the like	12	5
34	5908	Textile wicks, woven, plaited or knitted, for lamps, stoves, lighters, candles or the like; incandescent gas mantles and tubular knitted gas mantle fabric therefor, whether or not impregnated	12	5
35	5909	Textile hose piping and similar textile tubing, with or without lining, armour or accessories of other materials	12	5
36	5910	Transmission or conveyor belts or belting, of textile material, whether or not impregnated, coated, covered or laminated with plastics, or reinforced with metal or other material	12	5
37	5911	Textile products and articles, for technical uses, specified in Note 7 to this Chapter; such as Textile fabrics, felt and felt-lined woven fabrics, coated, covered or laminated with rubber, leather or other material, of a kind used for card clothing, and similar fabrics of a kind used for other technical purposes, including narrow fabrics made of velvet impregnated with rubber, for covering weaving spindles (weaving beams); Bolting cloth, whether or Not	12	5

Sr. No	HSN Code	Description of Goods	Tax Rate (%)	
			Old	New
		made up; Felt for cotton textile industries, woven; Woven textiles felt, whether or not impregnated or coated, of a kind commonly used in other machines, Cotton fabrics and articles used in machinery and plant, Jute fabrics and articles used in machinery or plant, Textile fabrics of metalised yarn of a kind commonly used in paper making or other machinery, Straining cloth of a kind used in oil presses or the like, including that of human hair, Paper maker's felt, woven, Gaskets, washers, polishing discs and other machinery parts of textile articles		
38	6501	Textile Caps	12	5
39	6505	Hats (knitted/crocheted) or made up from lace or other textile fabrics	12	5
40	9404	Products wholly made of quilted textile material not exceeding Rs. 2500 per piece	12	5
41	61	Articles of apparel and clothing accessories, knitted or crocheted	5*	5**
42	62	Articles of apparel and clothing accessories, not knitted or crocheted	5*	5**
43	63 (other than 63053200, 63053300, 6309)	Other made-up textile articles,	5*	5**
44	9404	Cotton quilts	5*	5**
45	5402, 5404, 5406	All goods	18	5
46	5403, 5405, 5406	All goods	18	5
47	5501, 5502	Synthetic or artificial filament tow	18	5
48	5503, 5504, 5506, 5507	Synthetic or artificial staple fibres	18	5
49	5505	Waste of manmade fibres	18	5
50	61	Articles of apparel and clothing accessories, knitted or crocheted, of sale value exceeding Rs. 2500 per piece	12	18
51	62	Articles of apparel and clothing accessories, not knitted or crocheted, of sale value exceeding Rs. 2500 per piece	12	18

Sr. No	HSN Code	Description of Goods	Tax Rate (%)	
			Old	New
52	63	Other made-up textile articles, sets of sale value exceeding Rs. 2500 per piece [other than worn clothing and other worn articles; rags]	12	18
53	9404	Cotton quilts of sale value exceeding Rs. 2500 per piece	12	18
54	9404	Products wholly made of quilted textile material exceeding Rs. 2500 per piece	12	18

* Sale value not exceeding Rs. 1000 per piece

** sale value not exceeding Rs. 2500 per piece

Aurtus comments: The reduction of GST rates on textiles helps resolve the issue of inverted duty structure, where inputs were taxed at higher rates than finished goods, leading to accumulation of unutilized ITC and refund complications. By aligning the input and output tax rates, it minimizes the refund burden and ensures smoother credit flow.

(viii) Paper sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	4807	Composite paper and paperboard (made by sticking flat layers of paper or paperboard together with an adhesive), not surface-coated or impregnated, whether or not internally reinforced, in rolls or sheets	12	18
2	4808	Paper and paperboard, corrugated (with or without glued flat surface sheets), creped, crinkled, embossed or perforated, in rolls or sheets, other than paper of the kind described in heading 4803	12	18
3	4810	Paper and paperboard, coated on one or both sides with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets of any size	12	18

(ix) Construction sector

Sr. No	HSN Code	Description	Tax Rate (%)	
			Old	New
1	2523	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	28	18

b. Supply of Services

(i) The recommendation with respect to changes in rate of services is highlighted below:

HSN	Service Description	Old Rate	New Proposed Rate	Impact
CONSTRUCTION SECTOR				
9954	(i) Composite Supply of works contract services involving predominantly earth work (that is constituting more than 75% of the value of the works contract) provided to the Government	12% with ITC	18% with ITC	The amendment will resolve classification disputes regarding whether the contract is subject to a 12% or an 18% rate of tax. Further, it may also lead to an optimum credit utilisation scenario.
	(ii) Composite supply of works contract provided by a sub-contractor providing services at (i) above to the government	12% with ITC	18% with ITC	
	(iii) Composite supply of works contract and associated services, in respect of offshore works contract relating to oil and gas exploration and	12% with ITC	18% with ITC	

HSN	Service Description	Old Rate	New Proposed Rate	Impact
	production in offshore area			
TRANSPORTATION SECTOR				
9964	(i) Supply of Air transport of passengers in other than economy class	12% with ITC	18% with ITC	-
	(ii) 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)	5% with ITC of input services (in the same line of business)	No change
		12% with ITC	18% with ITC	A 12% GST rate has enabled suppliers of such services to take credit for procurement and for services, thereby reducing the overall cost burden. However, an 18% GST rate could result in the supplier of such services opting for a 5% rate. Clearly, a net effective rate analysis will have to be carried out.
9965	(i) Supply of Transport of goods by GTA	5% without ITC (RCM/ FCM)	5% without ITC (RCM/ FCM)	No Change
		12% with ITC	18% with ITC	Considering that many goods have now shifted to a 5% category, transporters may find it difficult to convince such customers to agree to an 18% GST rate, thereby forcing them to opt for a 5% GST. Where the customer is paying GST and is in a net payout situation, an 18% GST rate may not create a concern.

HSN	Service Description	Old Rate	New Proposed Rate	Impact
				However, opting for multiple rates may not be possible.
	(ii) Supply of transport of goods in containers by rail by any person other than Indian Railways	12% with ITC	5% without ITC	The net effective rate could be higher than 5% considering reversals on account of ITC.
			18% with ITC	Whether the service provider can opt for an 18% GST will depend on its ability to pass on the cost to the customer, which in turn will depend on whether the customer can take credit.
	(iii) Supply of transportation of natural gas, petroleum crude, motor spirit, high-speed diesel or ATF through pipeline	5% without ITC	5% without ITC	No change
		12% with ITC	18% with ITC	Considering that credit may not be available to some end customers, an 18% rate may not be accepted by them, leading service providers to opt for a 5% rate.
	(iv) 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)	A multimodal transporter is someone who provides transportation services by both vessels and road. Currently, complete services credit is available for transportation by vessel, whereas for transportation by road, it is restricted. A multi-modal transportation system, whose dominant activity is
			18% with ITC	

HSN	Service Description	Old Rate	New Proposed Rate	Impact
				transportation by vessel and road transport, is being offered only for last-mile connectivity and is being put at a disadvantageous position. To bring parity, credit should have been allowed for all input services. Also, considering that now the delta between 5% and 18% is significant, the supplier of such services may be forced to either opt for a 5% rate of GST without ITC or not provide composite services to get classified as a multi-modal transporter.
9966	(i) Supply of renting of any motor vehicle (with operator) designed to carry passengers, where the cost of fuel is included in the consideration	5% with ITC of input services (in the same line of business)	5% with ITC of input services (in the same line of business)	No Change
		12% with ITC	18% with ITC	A reversal of credit will increase the effective GST rate. Additionally, it may be challenging for Companies to opt for 18% considering the difference in the GST rate; however, this will also primarily depend on the quantum of input credit and the customer's profile (whether they are eligible to take credit).
	(ii) Supply of Renting of goods carriage (with operator) where fuel cost is included in the consideration	12% with ITC	5% with ITC of input services (in the same line of business)	
			18% with ITC	

HSN	Service Description	Old Rate	New Proposed Rate	Impact
9968	(i) Local delivery services (Covered under SAC 996813 – under the Group Postal and Courier services)	18% with ITC	18% with ITC	No Change
	(ii) Supply of local delivery services through Electronic Commerce Operator (ECO)	Not currently notified under section 9(5) of the CGST Act	18% with ITC to be notified under section 9(5) of the CGST Act	The ECO will have to pay GST at 18%, and this will be excluded from the scope of GTA. The amendment could result in a significant increase in the GST rate for portals operating as ECO operators, allowing them to hire transport vehicles for the transportation of goods to customers.
9971	Supply of services of third-party insurance of “goods-carriage”	12% with ITC	5% with ITC	Accumulation of ITC may result in a higher effective GST rate.
9973	Leasing or rental services, without operator, of goods that will attract 40% GST	28% with ITC	40% with ITC	The amendment has aligned the rate for leasing services with the rate now applicable for goods. Since Compensation Cess is not applicable, this will enable better utilisation of credit as it is part of a single pool of credit.
JOB WORK SECTOR				
9988	(i) Supply of services by way of job work in relation to umbrella	12% with ITC	5% with ITC	This will help reduce the accumulation of credit, where goods are liable for 5% GST (e.g., umbrella).
	(ii) Supply of job work services or any treatment or process in relation	12% with ITC	5% with ITC	Furthermore, this will also enable reducing the tax burden on exempt

HSN	Service Description	Old Rate	New Proposed Rate	Impact
	to printing of all goods falling under chapter 48 or 49, which attract GST at 5%			products, such as pharmaceutical products.
	(iii) Supply of job work in relation to bricks which attract GST at the rate of 5%	12% with ITC	5% with ITC	
	(iv) Supply of job work services in relation to goods falling under Chapter 30 (Pharmaceutical products)	12% with ITC	5% with ITC	
	(v) Supply of job work services in relation to hides, skins and leather falling under Chapter 41	12% with ITC	5% with ITC	
	(vi) Supply of job work not elsewhere covered (residual entry)	12% with ITC	18% with ITC	
ENTERTAINMENT/ ACTIONABLE CLAIMS				
9996	(i) Services by way of admission to exhibition of cinematograph films where the price of the admission ticket is INR 100 or less	12% with ITC	5% with ITC	The rate reduction will lower the ticket prices, specifically where the same is less than Rs. 100. This could also lead to accumulation issues where the quantum of input services is higher. Where the prices are a mix of less than 100 and above 100, the accumulation issues may not arise.

HSN	Service Description	Old Rate	New Proposed Rate	Impact
	(ii) Admission to Casinos, race clubs, any place having casinos or race clubs, or sporting events like the IPL	28% with ITC	40% with ITC	This is in line with the shifting of specific goods and services from 28% to 40% as applicable to 'sin' goods/services.
	(iii) Service by a race club for the licensing of bookmakers in such club	28% with ITC	40% with ITC	The GST Council minutes have also indicated that the valuation provisions relating to lottery tickets will be amended to align them with the revised GST rate of 40%.
Any chapter	Specified Actionable Claims (betting, casinos, gambling, horse racing, lottery, online money gaming) are defined as goods	28% with ITC	40% with ITC	Also currently, there is ongoing litigation regarding the levy of GST on online money gaming (for the past period) and the value on which GST should be applicable. The impact of a GST rate hike, combined with new regulations for the gaming industry, is likely to be significant.
INSURANCE				
9971	(i) All individual health insurance, along with reinsurance thereof	18% with ITC	NIL	The effective GST rate could be higher, considering the reversals of credit. The exemption
	(ii) All individual life insurance, along with reinsurance thereof	18% with ITC	NIL	Notification is awaited to examine whether the provisions also apply to group insurance policies. There was also a proposal to allow GST credit for group insurance policies. If

HSN	Service Description	Old Rate	New Proposed Rate	Impact
				the credit is not granted, it will put group insurance policies at a disadvantage to the individual insurance policies.
OTHER SERVICES				
9963	Supply of “Hotel Accommodation” having a value of the supply of unit of accommodation less than or equal to INR 7500 per unit per day or equivalent	12% with ITC	5% without ITC	The effective GST rate could be higher, considering the reversals of credit.
9983	Other professional, technical and business services relating to the exploration, mining or drilling of petroleum crude or natural gas or both	12% with ITC	18% with ITC	This will lead to an increase in the overall tax burden, considering that the petroleum sector is currently out of the GST net.
9986	Support services to exploration, mining or drilling of petroleum crude or natural gas or both	12% with ITC	18% with ITC	
9994	Services by way of treatment of effluent by a Common Effluent Treatment Plant	12% with ITC	5% with ITC	There could be an accumulation of Input tax credit on account of services. Currently, a refund on account of accumulated ITC is not available.
9994	Services by way of treatment or disposal of biomedical waste or the process incidental thereto by a common bio-medical waste treatment facility to a clinical establishment	12% with ITC	5% with ITC	

HSN	Service Description	Old Rate	New Proposed Rate	Impact
9997	Beauty and physical well-being services falling under group 99972	18% with ITC	5% without ITC	The effective GST rate could be higher, considering the reversals of credit.

Aurtus Comments: The GST rate rationalisation exercise will have implications beyond changes in tax incidence. The following will need to be considered:

- (a) An increase in the rate of GST to 18% with an option of 5% credit without ITC could force suppliers of services to opt for 5% considering the difference in the rates of GST and the profile of the customers, viz., whether they can take credit. Where a customer is paying GST at 5% and has an accumulated credit scenario or where credit is not available to the customer, he will insist that the supplier of such services charges a 5% rate of GST.
- (b) Even where ITC is allowed with a 5% rate of GST, there could be issues around the accumulation of ITC. Currently, a refund for the accumulation of credit resulting from input services is not available.
- (c) Where credits are not available because of an exemption or are restricted, this will lead to a higher effective rate of GST (e.g. insurance services).
- (d) While Anti-profiteering provisions are not in force at present, the GST Council has indicated that there will be an administrative mechanism that will be put in place to ensure the benefit is passed on to the consumer. When passing on the benefits, one needs to calculate the net effective GST rate after considering reversals and accumulations. Also, in the absence of a legal enforcement mechanism, an issue remains open as to whether the Government can legally compel suppliers to pass on the benefit to their customers.

(ii) Other changes relating to services

The GST Council has recommended insertion of an Explanation in the definition of ‘specified premises’ to expressly clarify that standalone restaurants cannot declare themselves as specified premises and thereby opt to pay GST at 18%.

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