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NEWSALERT

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The Big Bang Reforms: GST 2.0

1. INTRODUCTION

The 56th Goods and Services Tax Council ("**GST Council**") meeting held in New Delhi, on September 3, 2025, marked the launch of next-generation Goods and Services Tax ("**GST**") reforms.

The GST Council made several recommendations, the star of which was the implementation of a two-tiered GST rate structure along with rate rationalisation on various goods and services. Key recommendations include operationalisation of the Goods and Services Tax Appellate Tribunal ("**GSTAT**"), streamlining refunds and returns processes, amongst others. We have provided a summary of these recommendations along with our comments below:

2. TWO-TIERED GST STRUCTURE

The GST Council has removed the earlier 12% (twelve per cent) and 28% (twenty-eight per cent) rates and approved a simplified two-tiered tax structure of 18% (eighteen per cent) and 5% (five per cent). Additionally, a 40% (forty per cent) demerit rate has been introduced for luxury and sin goods, including tobacco, high-end automobiles, and carbonated beverages. The new rate structure will take effect from September 22, 2025.

Streamlining the GST slabs is expected to significantly reduce litigation over classification disputes, as well. This reform goes beyond mere rate rationalization and is fundamentally focused on simplifying the tax structure and enhancing the ease of doing business in India, especially for Micro, Small, and Medium Enterprises (MSMEs).

3. KEY RECOMMENDATIONS RELATING TO RATE CHANGES

It is pertinent to note that several significant rate rationalisation recommendations were made by the GST Council in its 56th meeting. For the present purpose, key recommendations with respect to rate reductions can be found **here**[1].

4. GOODS AND SERVICES TAX APPELLATE TRIBUNAL OPERATIONALISATION

The operationalisation of the GSTAT has been announced, with the tribunal set to start accepting appeals by the end of September 2025, with hearings commencing by the end of December. The GST Council has recommended allowing all pending appeals to be filed by June 30, 2026, which will help clear the backlog of cases. This announcement comes as a welcome move for assesses, as many cases and issues that are stuck because of the lack of an appellate forum will soon be able to see the light of day.

The Principal Bench will also serve as the National Appellate Authority for Advance Ruling, giving businesses greater certainty, a boost for trust and ease of doing business under the GST regime.

[1] A comprehensive account of all the recommendations may be referred to in the Press Release issued by the Press Information Bureau on September 3, 2025, available at <https://www.pib.gov.in/PressReleseDetailm.aspx?PRID=2163555>.

5. CHANGES IN THE INVERTED DUTY STRUCTURE

The GST Council has approved a fast-tracked refund mechanism under the Inverted Duty Structure ("**IDS**"). Pending requisite amendments to the Central Goods and Services Tax Act, 2017 ("**CGST Act**"), the Central Board of Indirect Taxes and Customs ("**CBIC**") will administratively begin granting 90% (ninety per cent) provisional refunds arising out of IDS.

The GST Council has also corrected long-pending IDS in key sectors such as:

- Man-made textile sector: GST on man-made fibre reduced from 18% (eighteen per cent) to 5% (five per cent) and on man-made yarn from 12% (twelve per cent) to 5% (five per cent).
- Fertiliser sector: GST on sulphuric acid, nitric acid, and ammonia cut from 18% (eighteen per cent) to 5% (five per cent).
- Renewable energy sector: GST on devices and parts for their manufacture reduced from 12% (twelve per cent) to 5% (five per cent).

These measures will ease working capital blockages and reduce refund delays, directly improving liquidity for businesses.

6. DE-MERIT GOODS

Pan masala, gutkha, cigarettes, chewing tobacco products, and unmanufactured tobacco have been classified as de-merit goods and placed in the 40% (forty per cent) tax bracket, up from the earlier 28% (twenty-eight per cent). However, the implementation of the increased rate has been deferred until all outstanding loan and interest obligations under the compensation cess account are fully discharged.

Additionally, instead of being taxed on transaction value, GST will now be levied on the Retail Sale Price ("**RSP**") for these products.

The GST Council has also raised the rate on specified actionable claims like betting, casinos, gambling, online money gaming etc., to a uniform 40% (forty per cent) with Input Tax Credit ("**ITC**").

7. INSURANCE SECTOR REFORMS

In a major relief for individuals, the GST Council has exempted all individual life and health insurance policies from GST. This means premiums for policies like basic term insurance, Unit Linked Insurance Plan's ("**ULIP**"), family floater health plans, and senior citizen policies will no longer carry the earlier 18% (eighteen per cent) tax.

By removing the tax on these essential financial safeguards, the GST Council aims to boost social security and financial well-being for families, ensuring greater access to healthcare and life cover.

8. AUTOMOBILE SECTOR CHANGES

The automobile industry stands to gain significantly from the GST Council's rationalisation measures:

- GST on small cars reduced from 28% (twenty-eight per cent) to 18% (eighteen per cent).
- Motorcycles with engine capacity not exceeding 350 (three hundred fifty) cc will now attract 18% (eighteen per cent) GST instead of 28% (twenty-eight per cent).
- Buses, trucks, and ambulances have also had their GST reduced from 28% (twenty-eight per cent) to 18% (eighteen per cent).

However, GST rates for premium cars, Sports Utility Vehicles, and big motorcycles with engine capacity exceeding 350 (three hundred fifty) cc have been raised, placing them in the 40% (forty per cent) de-merit band.

Importantly, the varied tax structure for auto parts has been simplified into a single 18% (eighteen per cent) rate irrespective of their HS code, which will potentially reduce classification disputes.

9. INTERMEDIARY SERVICES REFORM

The GST Council has recommended the omission of clause (b) of Section 13(8) of the Integrated Goods and Services Tax Act, 2017 ("**IGST Act**"), which fixed the place of supply as the location of the supplier in cases involving ***'intermediary services'***. With this deletion, the default rule under Section 13(2) will apply, making the location of the recipient of services the place of supply.

As a result, services such as marketing, facilitation, and support services rendered to foreign clients may now be able to avail export benefits, including zero-rating and refund of ITC. This also significantly reduces disputes between exporters and tax department, wherein the Department was rejecting refunds on the grounds of the exporter being an intermediary.

10. POST-SALE DISCOUNTS AMENDMENTS

Section 15(3) of the CGST Act is proposed to be amended to do away with the requirement that such discounts must be pre-agreed and reflected in the tax invoice. Instead, the law will provide for such discounts to be passed on, only, through a GST credit note, accompanied by a mandatory reversal of ITC by the recipient in these cases.

At the same time, a Circular[2] is issued to clarify the followings aspects: (i) that no ITC reversal is needed where discounts are extended *via* financial or commercial credit notes, (ii) treatment of the post-sale discount provided by manufacturer to the dealer, and (iii) the manner of dealing with discounts granted in exchange for promotional activities undertaken by dealer.

11. CMS INDUSLAW VIEW

This time around, along with the industry, even consumers were waiting with hope for the 56th GST Council meeting. Even though the PM had announced the intention of the Government to reduce the burden of tax and increase consumption in India, the GST Council has both the Union and the States' representatives finalising decisions. Therefore, a common consensus was absolutely required for these reforms to be pushed through. In that sense, these are definitely 'big bang reforms'.

The Council's move toward rate rationalisation, trimming GST on everyday essentials and farm equipment will ease the cost of living and also boost consumption. The simplified two-tiered structure addresses a long-standing demand from the industry and should significantly reduce classification disputes.

The GST Council also signalled intent to simplify compliance and resolve some key issues, particularly through proposals around returns, refund processes, clarifications on key issues like post sale discounts, GST implications on intermediary supplies etc. Not to forget that the operationalisation of GSTAT will significantly ease the mounting pressure on high courts and pave the way for faster disposal of pending matters.

Having said the above, challenges remain. The absence of a robust anti-profiteering framework means that the benefits of tax cuts may not automatically flow to consumers. To counter the same, the Ministry

[2] Circular number 251/08/2025-GST dated September 12, 2025 issued by Department of Revenue, Central Board of Indirect Taxes and Customs

of Consumer Affairs, on September 9, 2025, issued a Circular[3] granting permission to the manufacturers or importers of pre-packaged commodities to declare the revised retail sales price.

With two comprehensive GST Council meetings in 2024 and 2025, it appears the intention is to bring more clarity, simplicity, and resolution to industry-wide concerns, aligning with India's broader agenda of institutional reforms that foster investment and growth in the global economy.

Please note that all recommendations would be given effect through relevant circulars/notifications/law amendments, which alone shall have the force of law.

Authors: Shashi Mathews | Rajitha Nair | Yashika Soni

Practice Areas: Tax

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[3] https://consumeraffairs.gov.in/public/upload/admin/cmsfiles/whatsnews/Permission_to_the_manufacturers_or_packers_or_importers_of_pre-packaged_commodities_to_declare_the_revised_retail_sale_price_MRP_on_the_unsold_stock_-Change_in_GST_rates_of_GoodsServices_-_reg_whatsnews.pdf

Annexure

S. No.	Description of Goods and Services	Present GST Rate	GST Rate recommended by GST Council
Household Goods			
1.	Hair oil, toilet soap bars, shampoos, toothbrushes, toothpaste, bicycles, tableware, kitchenware, other household articles, etc.	18% (eighteen per cent) or 12% (twelve per cent)	5% (five per cent)
Food Sector			
2.	Basic dairy and bread products such as UHT milk, prepackaged & labelled chena or paneer, Indian breads (chapati, roti, paratha, parotta), etc.	5% (five per cent) or 18% (eighteen per cent)	NIL
Consumer Electronics			
3.	Home Appliances such as Air-conditioning machines, TVs, dishwashing machines, etc.	28% (twenty-eight per cent)	18% (eighteen per cent)
Agriculture Sector			
4.	Agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports-ground rollers; Parts	12% (twelve per cent)	5% (five per cent)
5.	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; parts thereof	12% (twelve per cent)	5% (five per cent)
6.	Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc)	12% (twelve per cent)	5% (five per cent)
7.	Fertilizers such as sulphuric acid, nitric acid, ammonia, certain bio-pesticides, etc.	18% (eighteen per cent)	5% (five per cent)
Construction Sector			
8.	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	28% (twenty-eight per cent)	18% (eighteen per cent)
Health Sector			
9.	33 lifesaving drugs	12% (twelve per cent)	NIL
10.	3 lifesaving drugs and medicines used for treatment of cancer, rare diseases and other severe chronic diseases	5% (five per cent)	NIL
11.	Other drugs and medicines intended for personal use	12% (twelve per cent)	5% (five per cent)
12.	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments	18% (eighteen per cent)	5% (five per cent)
13.	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% (twelve per cent)	5% (five per cent)
14.	Blood glucose monitoring system (Glucometer) and test strips	12% (twelve per cent)	5% (five per cent)
Transportation Sector			
15.	Petrol, Liquefied Petroleum Gases (LPG) or Compressed Natural Gas (CNG) driven motor vehicles with engine capacity not exceeding 1200cc (for diesel driven, not exceeding 1500cc) and of length not exceeding 4000 mm	28% (twenty-eight per cent)	18% (eighteen per cent)

16.	Motorcycles with engine capacity not exceeding 350cc	28% (twenty-eight per cent)	18% (eighteen per cent)
17.	Motor vehicles for the transport of ten or more persons, ambulances, etc.	28% (twenty-eight per cent)	18% (eighteen per cent)
18.	All auto parts irrespective of their HSN Code	28% (twenty-eight per cent)	18% (eighteen per cent)
19.	Three-wheeled vehicles	28% (twenty-eight per cent)	18% (eighteen per cent)
20.	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% (twenty-eight per cent)	18% (eighteen per cent)
Textile Sector			
21.	Manmade Textiles	18% (eighteen per cent) (fibre), 12% (twelve per cent) (yarn)	5% (five per cent)
Renewable Energy			
22.	Various renewable energy devices and parts for their manufacture	12% (twelve per cent)	5% (five per cent)
Hotel Services			
23.	Supply of “hotel accommodation” having value of supply of a unit of accommodation less than or equal to seven thousand five hundred rupees per unit per day or equivalent	12% (twelve per cent) with ITC	5% (five per cent) without ITC

Offices

Bengaluru
101, 1st Floor, Embassy Classic
11, Vittal Mallya Road, Bengaluru 560 001, India
T +91 80 4072 6600
F +91 80 4072 6666
E bengaluru@cms-induslaw.com

Chennai
Savithiri Nilayam, New Door No.8 (Old Door No.39)
Bhagirathi Ammal Street,
T. Nagar, Chennai 600 017, India
T +91 44 4354 6600
F +91 44 4354 6600
E chennai@cms-induslaw.com

Delhi & NCR
2nd Floor, Block D, The MIRA
Mathura Road, New Delhi 110 065, India
T +91 11 4782 1000
F +91 11 4782 1097
E delhi@cms-induslaw.com

9th Floor, Block-B, DLF Cyber Park
Udyog Vihar Phase – 3, Sector – 20
Gurugram 122 008, India
T +91 12 4673 1000
E gurugram@cms-induslaw.com

Hyderabad
306, Ashoka Capitol, Road No.2
Banjara Hills, Hyderabad 500 034, India
T +91 40 4026 4624
F +91 40 4004 0979
E hyderabad@cms-induslaw.com

Mumbai
81-83, 8th Floor A Wing
Mittal Court Jamnalal Bajaj Marg
Nariman Point, Mumbai 400 021, India
T +91 22 4007 4400
F +91 22 4920 7299
E mumbai@cms-induslaw.com

1502B, 15th Floor Tower - 1C One World Centre
Senapati Bapat Marg Lower Parel
Mumbai 400 013, India
T +91 22 4920 7200
E mumbai@cms-induslaw.com