



A3 ADVISORS LLP

ALLEGIANCE - ASTUTE - ADEPT



Recommendations of the 56th GST Council meeting



INTRODUCTION – NEXT GEN GST REFORMS

Background:

1. Pursuant to the Hon'ble Prime Minister's announcement of next-generation GST reforms during the Independence Day address on 15th August 2025, the GST Council convened its 56th meeting on 3rd September 2025 under the chairpersonship of the Union Finance Minister, with participation from Finance Ministers of all States and Union Territories.
2. The Council deliberated on a wide range of measures, from rate rationalisation and sector-specific reliefs to significant procedural improvements aimed at simplifying compliance and enhancing ease of doing business.
3. In this update, we present a consolidated summary and analysis of the key recommendations made by the Council, together with our insights on the sectoral impact and the practical implications for taxpayers:

What are the changes?

Changes in GST rates:



Transport

Sector and items	Old Rates	Proposed Rates
Small cars ($\leq 4m$: petrol/CNG $\leq 1200cc$; diesel $\leq 1500cc$); ambulances; three-wheelers; small hybrids (petrol $\leq 1200cc$ or diesel $\leq 1500cc$, $\leq 4m$); goods vehicles; buses/coaches; chassis; bodies; parts & accessories; motorcycles $\leq 350cc$; parts of 2-wheelers; rowing boats/canoes; vehicle seats	28%	18%
Large cars & premium hybrids (exceeding above engine/length thresholds); motorcycles $> 350cc$; personal-use aircraft; yachts/pleasure craft	28%	40%



Health & Medical

Select high-cost / rare-disease & critical drugs (gene therapies, cancer biologics, etc.)	5%	Nil
Additional listed drugs/medicines chargeable @12%	12%	Nil
Most medicines & medicaments; dressings/bandages; pharma goods; diagnostic kits & reagents; surgical gloves; lenses/frames/spectacles; glucometers/test strips; medical devices/equipment (9018-9022); drugs for personal use (9804)	12%	5%
Medical thermometers: instruments/apparatus for physical/chemical analysis used in medical/vet labs	18%	5%
Anaesthetics; potassium iodate; steam; iodine; medicinal H_2O_2 ; medical oxygen	12%	5%



Change in Rates - Goods



Construction Materials

Sector and items	Old Rates	Proposed Rates
Sand-lime bricks; stone inlay work	12%	5%
Cement (Portland, aluminous, slag, super-sulphate, etc.)	28%	18%



Everyday Essentials

Talc; hair oil; shampoos; toothpaste/dental floss; shaving products; toilet soap; toothbrushes	18%	5%
Candles; safety matches; feeding bottles & nipples; cotton/jute shopping bags; umbrellas & parts; porcelain/other tableware; sewing needles; kerosene/wood stoves; utensils (iron/steel, copper, aluminium); sewing machines & parts; bicycles & parts; hurricane lanterns; combs; baby diapers/napkins	12%	5%



Consumer Electronics

Air-conditioners; dishwashers; TVs/monitors/set-top boxes	28%	18%
---	-----	-----



Food & Packaged Foods

UHT milk, paneer (pre-pack), pizza bread, roti/chapati/khakhra	5%	Nil
Condensed milk; butter/ghee; cheese; sauces/seasonings; yeasts; chicory; namkeens; diabetic foods; tender coconut water; soya-milk drinks; fruit-pulp/juice drinks; beverages containing milk; extruded savoury snacks; 20L drinking water	12%	5%
Malt; cocoa butter/powder/chocolates; soups/broths; breakfast cereals (cornflakes etc.); pastry/cakes/biscuits; plain waters (no sugar/flavour); plant-based milk drinks; gelatin; dextrans	18%	5%
Other non-alcoholic beverages (non-aerated, sweetened/flavoured)	18%	40%
Aerated/soft drinks; carbonated beverages of fruit drink/with fruit juice; caffeinated beverages	28%	40%



Farming & Irrigation

Sulphuric acid; nitric acid; ammonia	18%	5%
Micronutrients (FCO-covered); gibberellic acid; bio-pesticides (Bt strains, Trichoderma, Pseudomonas, NPV, neem etc.)	12%	5%
Core agri equipment & water delivery (fixed-speed diesel engines ≤15 HP; hand pumps; drip/sprinkler nozzles; drip/sprinkler systems; soil-prep/harvesting/poultry/bee-keeping machinery; composters)	12%	5%
Tractor ecosystem (tyres/tubes; agri diesel engine for tractor; hydraulic pumps; major tractor parts—rims, housings, gearbox, transaxle, wheels, etc)	18%	5%



Change in Rates - Goods



Energy

Sector and items	Old Rates	Proposed Rates
Coal; lignite; peat	5%	18%
Solar cookers; solar water heaters; PV cells/panels; wind/Waste-to-Energy/Ocean energy devices; parts; solar lanterns; fuel-cell motor vehicles	12%	5%



Apparel, Textiles and footwear

Higher-value apparel/made-ups; quilts >Rs.2,500; wholly-quilted products >Rs.2,500	12%	18%
Footwear ≤ Rs.2,500/pair	12%	5%
Sewing thread; yarns; non-wovens; felts; ropes/cordage; carpets; terry; gauze; lace/net; tapestries; labels; trimmings; embroidery; quilted products; coated/impregnated fabrics; wall/floor coverings; technical textiles; caps/hats	12%	5%
MMF yarns/fibres/tow/waste (5402-5406, 5501-5507 etc.)	18%	5%



Education

Erasers	5%	Nil
Maps & globes; pencil sharpeners; pencils/crayons/pastels/tailor's chalk; exercise/graph/lab notebooks	12%	Nil
Mathematical/geometry/colour boxes	12%	5%



Paper & Packaging

Pulps (mechanical/sulphite/soda/combo/recovered fibre); cartons/boxes (corrugated/others); paper moulded trays; paper splints; paper sacks & biodegradable bags	12%	5%
Uncoated paper used for exercise/graph/lab/notebooks	12%	Nil
Dissolving-grade chemical pulp; uncoated writing/printing papers; uncoated kraft; other uncoated papers; greaseproof/glassine; composite/corrugated; coated papers/board	12%	18%



Defence

Two-way radios (defence/police/paramilitary use); tanks & armoured vehicles & parts	12%	5%
---	-----	----



Aviation - Unmanned

Unmanned aircraft (drones)	28%/18%	5%
----------------------------	---------	----



Other Machinery & Auto Components

Spark-ignition/Compression-ignition engines; engine parts; pumps for fuel/lubricants/cooling; electric accumulators (non-Li-ion); ignition/starting equipment	28%	18%
---	-----	-----



Change in Rates - Services



Miscellaneous

Sector and items	Old Rates	Proposed Rates
Unmanufactured tobacco; cigarettes; other manufactured tobacco; vaping/HTP; nicotine products; Bidis; Tendu leaves; Indian katha	28%/ 18%	40%, 18%/ 5%
Live horses; marble/granite blocks; natural menthol & derived oils; photographic X-ray films/plates & related; silicon wafers; plastic beads; latex rubber thread; rubber bands; whips; ceramic packing jars; lenses for spectacles; lamp globes; milk cans; animal shoe nails; bells/gongs; hand-operated rubber roller; contact/spectacle lenses & frames; coir products; slide fasteners	12%	5%
Menthol (other than natural) & derived oils; odoriferous preparations (incense-type); biodiesel (non-OMC); specified petroleum operations goods	12%	18%



Imports for personal use

All dutiable articles for personal use	28%	18%
All drugs & medicines for personal use	12%	5%



Insurance

All individual life insurance, with reinsurance thereof	18% w/ ITC	Exempt
Third-party insurance of goods carriage	12% w/ ITC	5% w/ ITC



Job Work services

<ul style="list-style-type: none"> Job work in relation to umbrellas Job work/treatment/processing in relation to printing of goods in Ch.48/49 that attract up to 5% GST Job work in relation to bricks attracting 5% Job work relating to pharmaceutical products (Chapter 30) Job work relating to hides, skins and leather (Chapter 41) 	12% w/ ITC	5% w/ ITC
Job work not elsewhere covered	12% w/ ITC	18% w/ ITC



Works contract services

<ul style="list-style-type: none"> Composite supply of works contract predominantly earthwork (>75%) provided to Government: Sub contractor providing services to main contractor for Govt earthwork above; Composite & associated services for offshore works contracts relating to oil & gas E&P 	12% w/ ITC	5% w/ ITC
--	---------------	-----------



Change in Rates - Services



Passenger Transport

Sector and items	Old Rates	Proposed Rates
<ul style="list-style-type: none"> Air travel (other than economy class); Passenger transport by motor vehicle (fuel cost included); Renting of any motor vehicle designed to carry passengers (fuel cost included) 	28%/ 18%	40%, 18%/ 5%



Goods Transport

<ul style="list-style-type: none"> GTA services (under RCM/FCM); Renting of goods carriage (with operator; fuel included) 	12%	18%
<ul style="list-style-type: none"> Transport of goods in containers by rail by any person other than Indian Railways; Multimodal transport of goods within India 	12% w/ ITC	5% without ITC OR 18% w/ ITC
<ul style="list-style-type: none"> Transport of natural gas, petroleum crude, MS, HSD or ATF through pipeline 	12%	18%



Hospitality

Hotel accommodation where value \leq Rs.7,500 per unit per day	12% w/ ITC	5% without ITC
--	---------------	----------------



Gambling and entertainment

Specified actionable claims (betting, lottery, casinos, online money gaming, horse racing); admission to casinos/race clubs/sporting events; licensing of bookmakers	28% w/ ITC	40% w/ ITC
Admission to exhibition of cinematograph films where ticket \leq Rs.100	12% w/ ITC	5% w/ ITC



Oil & Gas - Professional/Technical/ Support Services

Other professional, technical and business services related to exploration, mining or drilling of crude petroleum or natural gas	12% w/ ITC	18% w/ ITC
Support services to exploration, mining or drilling of crude petroleum or natural gas	12% w/ ITC	18% w/ ITC



Environmental & Waste Services

Treatment of effluents by CETP; treatment/disposal of biomedical waste by common facility	12% w/ ITC	5% w/ ITC
---	---------------	-----------



Procedural changes

Category	Changes
GSTAT – Operationalisation	<ul style="list-style-type: none">▪ The Tribunal will start accepting GST appeals from 30-Sep-2025 and shall begin hearings before 31-Dec-2025.▪ A special limitation window allows filing of backlog appeals up to 30-Jun-2026.▪ The Principal Bench will also function as the National Appellate Authority for Advance Ruling, improving consistency and speed in dispute resolution.
Place of Supply – Intermediary services	<ul style="list-style-type: none">▪ Section 13(8)(b) of the IGST Act will be omitted, so PoS for intermediary services reverts to the default in Section 13(2) i.e., the location of the recipient. Practically, many such supplies to recipients outside India could qualify as exports (subject to conditions), enabling zero-rated benefits.
Refunds – Zero rated supplies (exports/SEZ)	<ul style="list-style-type: none">▪ Rule 91(2) will allow system-driven, risk-based provisional sanction of 90% of eligible refunds. Officers may bypass provisional sanction only in exceptional cases with recorded reasons, and certain categories may be notified as ineligible.
Refunds – Inverted Duty Structure	<ul style="list-style-type: none">▪ Section 54(6) will be amended to extend 90% provisional refunds (risk-based) to IDS cases, mirroring zero-rated refunds.
Refunds – Low value export consignments	<ul style="list-style-type: none">▪ Section 54(14) will be amended to remove the threshold cap for refunds on exports made with payment of tax (e.g., via courier/post).
Simplified Registration – Small/low risk businesses/ Small suppliers via E commerce	<ul style="list-style-type: none">▪ An optional fast-track route will grant automated registration within 3 working days to low-risk applicants or those self-assessing B2B output tax \leq Rs. 2.5 lakh/month. Opt-in/opt-out is allowed. This is expected to cover – 96% of new applications.▪ In-principle approval for a simplified pan-India registration mechanism so small sellers on ECOs need not maintain a principal place of business in every State. Detailed modalities will be placed before the Council.
Restaurant 'specified premises' clarification	<ul style="list-style-type: none">▪ Explanations will clarify that stand-alone restaurants cannot declare themselves 'specified premises' and therefore cannot opt 18% with ITC. They remain under 5% without ITC, preventing misclassification.
Post sale discount – Law changes	<ul style="list-style-type: none">▪ A clarification will be issued to confirm that no ITC reversal is required in respect of purely financial or commercial credit notes which do not involve any reduction in taxable value or GST, as such notes only adjust commercial terms without affecting tax liability; at the same time, it will also be clarified that manufacturer-to-dealer discounts will be treated either as price reductions under Section 15(3) of the CGST Act where they flow through to reduce the taxable value in the dealer-to-customer sale, or as consideration for promotional/marketing services where the dealer undertakes specific activities or meets sales targets on behalf of the manufacturer, in which case such payments would be taxable as a separate supply by the dealer.



Effective date

Category	Scope (what it covers)	Effective date
Services – rate changes	<ul style="list-style-type: none"> All service-rate revisions (incl. hotel, transport, job work, beauty/well-being, actionable claims @ 40%, etc.) 	22-Sep-25
Goods – rate changes	<ul style="list-style-type: none"> All goods except tobacco/pan masala/tobacco products 	22-Sep-25
GSTAT – operationalization		Accept appeals by 30-Sep-2025; hearings start by 31-Dec-2025; backlog limitation 30-Jun-2026
Refunds – zero-rated (exports/SEZ)	<ul style="list-style-type: none"> Risk-based 90% provisional refund (Rule 91(2)) 	01-Nov-2025 (operationalisation)
Refunds – inverted duty structure (IDS)	<ul style="list-style-type: none"> Risk-based 90% provisional refund 	01-Nov-2025 (administrative start)
Registration – simplified (small/low-risk)	<ul style="list-style-type: none"> Auto-approval within 3 working days; optional opt-in/out 	01-Nov-25
Others Trade facilitation measures	<ul style="list-style-type: none"> Registration – small ECO sellers (multi-State) Place of supply – intermediary services Restaurant ‘specified premises’ Post-sale discounts – law changes Post-sale discounts – clarificatory circular 	To be announced



A3 Comments

The fundamental objective of these reforms is a radical simplification of the GST structure, moving from a multi-layered system to a more streamlined framework:

Slab changes

- The most significant change is the collapse of the GST slabs into a primary two-rate grid of 5% and 18%. This eliminates the 12% and 28% slabs for most items. The move can be viewed as designed to reduce classification disputes and simplify compliance for businesses

Targeted Fiscal Policy

- A separate 40% demerit/luxury slab has been carved out. This ring-fences items like premium cars, tobacco, and sugary beverages, using GST as a tool for public health policy and progressive taxation without complicating the core structure. Conversely, expanding the Nil-rated category for essentials like UHT milk, critical medicines, and educational items directly addresses cost-of-living concerns and social welfare priorities.

Service Sector Exemptions

- Exempting all individual life insurance policies from GST is a socially progressive move that delivers a significant overall cost reduction to policyholders, aimed at boosting insurance penetration and household savings. While the 18% tax on premiums is removed, the exemption does introduce a new embedded cost for the insurer by blocking ITC on their operational expenses like agent commissions and administrative overheads. However, this indirect cost from blocked ITC is substantially outweighed by the direct tax saving on the premium.

Trade facilitation

- Boosting Service Exports:** Amending the "Place of Supply" provisions for intermediary services is a crucial correction. By linking the place of supply to the recipient's location, it aligns the law with international best practices and enables Indian service providers to export their services on a zero-rated basis, boosting competitiveness.
- Simplified Compliance:** The fast-track, automated registration for small businesses and the plan for a pan-India registration for e-commerce sellers which is expected to cover 96% of the new registrations are major steps toward reducing the compliance burden on MSMEs

When will these prices really take impact?

- Although the revised GST rates officially take effect from September 22, 2025, the actual reflection of lower prices in the retail market will be gradual, not immediate. This staggered impact stems from commercial realities businesses will first exhaust stock procured at old tax rates, and only subsequently price new inventory at revised rates. sectors like electronics and automobiles, where price elasticity is high, may move faster to pass on benefits, while others may absorb the gains to shore up margins. As such, while the statutory change kicks in late September, consumers can expect to experience the visible price softening only by early to mid-October 2025.

Anti profiteering measures

- While the council decided on extensive GST rate changes, they do not contain any specific comments or new announcements regarding anti-profiteering measures. However, the topic is critically relevant to such a large-scale rate rationalization



A3 ADVISORS LLP

ALLEGIANCE - ASTUTE - ADEPT

THANK YOU
