

# EY Tax Alert

## GST Council announces major rate rationalization and trade facilitation measures

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### Executive summary

This Tax Alert summarizes the recent press release<sup>1</sup> issued by the Ministry of Finance on various recommendations made by the Goods and Services Tax (GST) Council in its 56<sup>th</sup> meeting held on 3 September 2025.

The key recommendations are:

- ▶ Rationalization of the current four-tiered tax rate structure into a two rate structure with a standard rate of 18% and a merit rate of 5%. A special de-merit rate of 40% is proposed for a select few goods and services.
- ▶ The changes in GST rates on goods (except pan masala and tobacco products) and services will be implemented with effect from 22 September 2025.
- ▶ GST Appellate Tribunal (GSTAT) will be operationalized for accepting appeals before the end of September 2025 and to commence hearing before the end of December 2025.
- ▶ The place of supply of intermediary services will be changed from location of the supplier to the location of the recipient.
- ▶ The requirement of establishing post-sale discount in terms of an agreement entered into before or at the time of such supply and specifically linking of the same with relevant invoices, to be omitted.
- ▶ Sanction of risk-based provisional refund to facilitate refund claims on account of zero-rated supply of goods or services. Similarly, provisional refund provisions will be introduced for refund on account of inverted tax structure.

<sup>1</sup> Press release dated 3 September 2025



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## Background

- ▶ The Goods and Services Tax (GST) Council held its 56<sup>th</sup> meeting on 3 September 2025.
- ▶ The Council recommended rate rationalization and certain measures for trade facilitation.
- ▶ FAQs are also being issued for clarification of doubts.

## Key recommendations

### Changes relating to goods

- ▶ Key changes in the rate of goods are as follows:

Particulars	Current Rate	Proposed Rate
<b>Food Sector</b>		
Ultra-High Temperature (UHT) milk, Pizza bread, Khakhra, chapathi or roti etc.	5%	Nil
Paratha, parotta and other Indian breads by any name called	18%	Nil
Butter and other fats, cheese, dates, sugar boiled confectionery, pasta, jams, fruit jellies, marmalades etc.	12%	5%
Sugar confectionery, Chocolates and other food preparations containing cocoa, pastry, cakes, biscuits, ice cream etc.	18%	5%
Aerated waters, Caffeinated and carbonated beverages	28%	40%
Other non-alcoholic beverages	18%	40%
<b>Agriculture Sector</b>		
Sprinklers, drip irrigation system, composting machines, tractors, etc.	12%	5%
<b>Renewable Energy</b>		
Solar water heater and system, majority of renewable energy devices and parts for their manufacture, fuel cell motor vehicles	12%	5%
<b>Textile Sector</b>		
Metallised yarn, carpets	12%	5%

<sup>2</sup> Currently, apparel of sale value not exceeding INR 1000 attracts 5% rate and apparel of sale value exceeding INR 1000 attracts 12% rate

Articles of apparel and clothing accessories of sale value not exceeding INR 2500 per piece <sup>2</sup>	5%	5%
Articles of apparel and clothing accessories of sale value exceeding INR 2500 per piece	12%	18%
<b>Daily use items</b>		
Candles, hand bags, shopping bags, umbrella, tableware, kitchenware. bicycles etc.	12%	5%
Talcum powder, hair oil, shampoo, soap etc.	18%	5%
Footwear of sale value not exceeding INR 2500 per pair <sup>3</sup>	12%	5%
<b>Consumer Electronics</b>		
Air-conditioning machines, dish washing machines etc.	28%	18%
<b>Automobile Sector</b>		
New pneumatic tyres, Motor vehicles for the transport of ten or more persons, Diesel driven motor vehicles of engine capacity not exceeding 1500 cc and of length not exceeding 4000 mm., 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., three wheeled vehicles, chassis, bodies, parts and accessories, seats	28%	18%
Motor vehicles not covered under 18% rate, Motorcycles of engine capacity exceeding 350 cc, Aircraft for personal use etc.	28%	40%

- ▶ GST will be levied on Retail Sale Price (RSP) instead of transaction value on Pan Masala, Gutkha, Cigarettes, Unmanufactured tobacco, Chewing tobacco like Zarda.
- ▶ The changes in GST rates of all goods except pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi, will be implemented with effect from 22 September 2025.
- ▶ Pan Masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi will continue at the existing rates of GST and

<sup>3</sup> Currently, footwear of sale value not exceeding INR 1000 per pair attracts 12% rate and footwear of value exceeding INR 1000 per pair attracts 18% rate

compensation cess where applicable, till loan and interest payment obligations under the compensation cess account are completely discharged.

### Changes relating to services

► Key changes in the rate of services are as follows:

Particulars	Current Rate	Proposed Rate
Transportation Sector		
Air transport of passengers in other than economy class	12% with ITC	18% with ITC
Passenger transport/ renting of 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)
	12% with ITC	18% with ITC
Transport of goods by GTA	5% without ITC (RCM/FCM)	5% without ITC (RCM/FCM)
	12% with ITC	18% with ITC
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).
		18% with ITC
Job work sector		
Job work in relation to umbrella, bricks, pharmaceutical products, printing of all goods falling under Chapter 48 or 49	12% with ITC	5% with ITC
Job-work not elsewhere covered (residual entry)	12% with ITC	18% with ITC
Insurance Sector		
All individual health and life insurance, along with reinsurance thereof	18% with ITC	Exempt
Other Services		

Admission to casinos, race clubs, any place having casinos or race clubs, or sporting events	28% with ITC	40% with ITC
Admission to exhibition of cinematograph films where price of admission ticket is INR 100 or less	12% with ITC	5% with ITC
Hotel accommodation having value of supply of a unit of accommodation less than or equal to INR 7,500 per unit per day or equivalent	12% with ITC	5% without ITC
Services relating to exploration, mining or drilling of petroleum crude or natural gas	12% with ITC	18% with ITC
Support services to exploration, mining or drilling of petroleum crude or natural gas or both	12% with ITC	18% with ITC
Beauty and physical well-being services falling under group 99972	18% with ITC	5% without ITC

- The changes in GST rates on services will be implemented with effect from 22 September 2025.
- Explanation to be added to the definition of 'specified premises' in the context of restaurant services to clarify that a stand-alone restaurant cannot declare itself as a 'specified premises' and consequently cannot avail the option of paying GST at the rate of 18% with ITC.
- Local delivery services to be notified under section 9(5) of the Central Goods and Services Tax Act, 2017 (CGST Act) in cases where the person supplying such services through electronic commerce operator is not liable for registration under GST. Further, such services will be excluded from the scope of GTA services.

## Trade facilitation measures

### Refunds

- ▶ Rule 91(2) of Central Goods and Services Tax Rules, 2017 (CGST Rules, 2017) to be amended to provide for sanction of 90% of refund claimed on account of zero-rated supplies as provisional refund by the proper officer 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, instead of granting refund on provisional basis proceed with the detailed scrutiny of the refund claim.

- ▶ Section 54(6) of the CGST Act to be amended to provide for sanction of 90% of the refund claimed on provisional basis, in cases arising out of inverted duty structure, on similar lines as is presently available for refund in respect of zero-rated supply.

Pending requisite amendments in CGST Act, instructions shall be issued by the Central Board of Indirect Taxes and Customs (CBIC) to direct field formations for grant of provisional refund equivalent to 90% of amount claimed as refund, arising out of Inverted Duty Structure on the basis of identification and evaluation of risk by the system, as in the case of provisional refunds on account of zero-rated supplies.

- ▶ These changes w.r.t. provisional refund shall be operationalised from 1 November 2025.
- ▶ At present, Section 54(14) of the CGST Act provides that no refund shall be paid if the amount is less than INR 1000. The said provision to be amended to remove the threshold limit for refunds arising out of exports made with payment of tax.

### Registration

- ▶ An optional simplified scheme will be introduced 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 total output tax liability on supplies to registered persons will not exceed INR 2.5 lakh per month.
- ▶ Similarly, a simplified mechanism will be introduced for small suppliers making supplies through e-commerce operators (ECOs) across multiple States who are presently facing challenges in maintaining principal place of business in each State as currently required under the GST framework.

### Place of supply

- ▶ Currently, as per section 13(8)(b) of Integrated Goods and Services Tax Act, 2017 (IGST Act), the place of supply for intermediary services is the location of the supplier.

- ▶ Council has recommended to omit the said clause. Accordingly, post omission, the place of supply for "intermediary services" will be determined as per the default provision under section 13(2) of the IGST Act i.e. the location of the recipient of such services.

### Post sale discount

- ▶ The requirement of establishing the discount in terms of an agreement entered into before or at the time of such supply and specifically linking of the same with relevant invoices, to be omitted.
- ▶ Section 15(3)(b) of CGST Act to be amended to provide that discount should be granted through a credit note issued u/s 34 of the CGST Act and to correspondingly amend section 34 to include a reference to section 15(3)(b), so as to provide for reversal of input tax credit by the recipient.
- ▶ Circular No. 212/6/2024-GST dated 26 June 2024 which provided a mechanism ensuring compliance of conditions of Section 15(3)(b)(ii) of the CGST Act, 2017 by the suppliers to be rescinded.
- ▶ Clarification on the following issues relating to post sale discount to be provided:
  - ▶ non-reversal of Input Tax Credit on account of post-sale discount through financial/commercial credit note;
  - ▶ treatment of the post-sale discount provided by manufacturer to the dealer as additional consideration, in the transaction between dealer and end-customer;
  - ▶ treatment of post-sale discount as consideration lieu of promotional activities etc. performed by the dealer.

### GST Appellate Tribunal

- ▶ The GST Appellate Tribunal (GSTAT) will be made operational for accepting appeals before end of September and will commence hearing before end of December 2025.
- ▶ The Council has also recommended the date of 30 June 2026 as the time limit for filing of backlog appeals.
- ▶ The Principal Bench of the GSTAT will also serve as the National Appellate Authority for Advance Ruling.

## Comments

- a. The rationalization of GST rate slabs into a dual-rate structure of 5% and 18% is aimed at and expected to simplify compliance, minimize cascading tax effects, and enhance the global competitiveness of the Indian industry.
- b. There has been no specific announcement on the eligibility to inverted tax refund on stock held as on the date of rate change. Circular 135 (as subsequently amended by Circular 173) limits the availability of refunds under the inverted tax structure in cases where the input and output are same but taxed at different rates at different times. Traders may therefore need to advocate for the eligibility of refunds on opening stock impacted by a downward rate revision.
- c. Businesses may also need to seek clarity on the refund eligibility of Compensation Cess paid on stock held prior to the rate change, where such goods no longer attract the cess.
- d. Treating intermediary services as exports of services is likely to improve the competitiveness of Indian service providers and mitigate litigation around export status.
- e. Special emphasis on provisional refunds and extending this benefit to cases under the inverted duty structure could ease working capital pressures for businesses.
- f. The operationalization of GST Appellate Tribunals should help address litigation timelines and resolution of pending disputes.

# Our offices

## Ahmedabad

22<sup>nd</sup> Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon Temple  
Off SG Highway  
Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

8<sup>th</sup> Floor, Building No. 14A  
Block 14, Zone 1  
Brigade International Financial Centre  
GIFT City SEZ  
Gandhinagar - 382355, Gujarat  
Tel +91 79 6608 3800

## Bengaluru

12<sup>th</sup> & 13<sup>th</sup> Floor  
"UB City", Canberra Block  
No.24 Vittal Mallia Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

Ground & 1<sup>st</sup> Floor  
# 11, 'A' wing  
Divyasree Chambers  
Langford Town  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

3<sup>rd</sup> & 4<sup>th</sup> Floor  
MARKSQUARE  
#61, St. Mark's Road  
Shantala Nagar  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

1<sup>st</sup> & 8<sup>th</sup> Floor, Tower A  
Prestige Shantiniketan  
Mahadevapura Post  
Whitefield,  
Bengaluru - 560 048  
Tel: + 91 80 6727 5000

## Bhubaneswar

8<sup>th</sup> Floor, O-Hub, Tower A  
Chandaka SEZ, Bhubaneswar  
Odisha - 751024  
Tel: + 91 674 274 4490

## Chandigarh

Elante offices, Unit No. B-613 & 614  
6<sup>th</sup> Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

6<sup>th</sup> & 7<sup>th</sup> Floor, A Block,  
Tidel Park, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Aikyam  
Ground Floor  
67, Institutional Area  
Sector 44, Gurugram - 122 003  
Haryana  
Tel: +91 124 443 4000

3<sup>rd</sup> & 6<sup>th</sup> Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4<sup>th</sup> & 5<sup>th</sup> Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18<sup>th</sup> Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jaipur

9<sup>th</sup> floor, Jewel of India  
Horizon Tower, JLN Marg  
Opp Jaipur Stock Exchange  
Jaipur, Rajasthan - 302018

## Kochi

9<sup>th</sup> Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3<sup>rd</sup> Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## Mumbai

14<sup>th</sup> Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5<sup>th</sup> Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

3<sup>rd</sup> Floor, Unit No 301  
Building No. 1  
Mindspace Airoli West (Gigaplex)  
Located at Plot No. IT-5  
MIDC Knowledge Corridor  
Airoli (West)  
Navi Mumbai - 400708  
Tel: + 91 22 6192 0003

Altimus, 18<sup>th</sup> Floor  
Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: +91 22 6192 0503

## Pune

C-401, 4<sup>th</sup> Floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

10<sup>th</sup> Floor, Smartworks  
M-Agile, Pan Card Club Road  
Baner, Taluka Haveli  
Pune - 411 045  
Tel: + 91 20 4912 6800

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