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Newsflash – GST Reimagined: Analysing Key Proposals of the 56th GST Council Meeting

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GST Reimagined: Analysing Key Proposals of the 56th GST Council Meeting

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The GST Council, chaired by Finance Minister Smt. Nirmala Sitharaman conducted its 56th meeting on 3 September 2025 at New Delhi. The recent measures recommended by the GST Council, and proposed to be in effect from 22 September 2025, impact multiple sectors and have focus on various themes and are expected to boost consumption, enhance ease of doing business and promote economic growth.

The key recommendations made by Council can be examined under the following themes -

1. Changes to Rate Structure

The recommendations of the 56th GST Council Meeting look at simplifying the rate structure. Currently the 4-slab GST Structure i.e. 5%, 12%, 18% and 28% with special rates for Gold and Jewellery are expected to move to a more Citizen friendly 2-tier rate structure with 18% being the standard or default GST rate and there being a Merit Rate of 5% for certain goods and services.

Furthermore, due to the proposed discontinuation of Compensation Cess, a special de-merit rate of 40% is also proposed to be levied on certain goods and services with no applicable compensation cess.

Thus, going forward, most products would fall within 18% and certain merit goods would fall in the 5% bracket. Special rates for certain key sectors (such as gems and jewellery) would continue to be in force to take in consideration the particular needs of the sector.

2. Changes to GST Rates of Goods and Services

With a view to rationalize the GST slabs and realign the 28% and 12% rate slabs, the following measures (list not exhaustive) with respect to rate changes have been proposed in the Council Meeting:

- **Reduction in GST Rate from 12% to 5%** on certain products such as condensed milk, dairy products, dry fruits, milk non-carbonated beverages, granite blocks, medicaments, specified handcrafted products, hand pumps, Self-loading or self-unloading trailers for agricultural purposes, solar cookers, renewable energy devices, synthetic yarns, certain textiles, geometry boxes and certain daily use items such as tooth powder, feeding



bottles, bicycles, sports goods other than articles and equipment for general physical exercise, board games (non-video) and non-electronic toys. On the services front, Supply of Service of third-party insurance of “goods carriage, job work for umbrellas, services of effluent treatment by Common Effluent Treatment Plant, movie theatres where ticket value is less than or equal to Rs 100, beauty and wellness services amongst others are some examples.

- **Reduction in GST Rate from 28% to 5%:** Unmanned aircrafts.
- **Reduction in GST Rate from 28% to 18%** on certain products such as Air-conditioning machines, Televisions previously taxed at 28%, Dishwashing machines, Small cars, Motorcycles equal to or less than 350 CC, cement, buses, trucks, ambulances, Bidis, dutiable articles for personal use, amongst others.
- **Increase in GST Rate from 5% to 18%** on Coal
- **Increase in GST Rate from 12% to 18%** on Articles of apparel and clothing accessories/ Cotton Quilts/ exceeding per piece rate of Rs 2,500, greaseproof papers, chemical wood pulp, biodiesel, menthol crystals, Odoriferous preparations which operate by burning (other than agarbattis, lobhan, dhoop batti, dhoop, sambhrani), petroleum exploration products as specified. On the services front, the rate has been increased from 12% with full ITC to 18% with full ITC on certain works and construction contracts, Business and First Class Air Travel, GTA Services, professional, technical and business services relating to exploration, mining or drilling of petroleum crude and various others.
- **Increase in GST Rate from 28% to 40% with NO COMPENSATION CESS:** Pan Masala, Caffeine and certain carbonated beverages, Cigars, cheroots, cigarillos and cigarettes, tobacco products, private jets, yachts, large motor vehicles, revolvers and pistols, actionable claims such as lottery, betting, gambling, admission to certain events etc.



The effect of these changes is that most products falling in 12% slab and 28% slab have been reclassified. Further, Compensation Cess has also been proposed to be done away with.

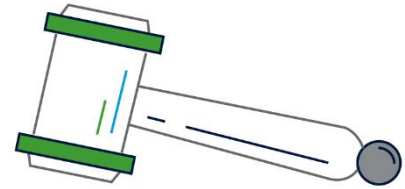
3. Exemptions Introduced

The GST Council has recommended an exemption of GST on all types of life insurance policies which has also been clarified to include Unit Linked Insurance Plans (ULIPs) and endowment policies. Further, GST exemption on all individual health insurance policies, including family floaters and senior citizen policies, have also been recommended. Apart from insurance, some other exemptions provided are listed below:

and the same shall be taxed at 18%.

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

The Goods and Services Tax Appellate Tribunal (GSTAT) will be made operational for accepting appeals before end of September and will commence hearing before end of December this year. The Council also recommended the date of 30.06.2026 for limitation of filing of backlog appeals. The Principal Bench of the GSTAT will also serve as the National Appellate Authority for Advance Ruling. These measures will significantly strengthen the institutional framework of GST by providing a robust mechanism for dispute resolution, ensuring consistency in advance rulings, and offering greater certainty to taxpayers. This will further enhance trust, transparency, and ease of doing business under the GST regime.



7. Retail Sale Price based Taxation for Tobacco and Tobacco Products

The GST Council had, in the earlier Council meetings, constituted a Group of Ministers to look into capacity-based taxation for commodities like pan masala and gutka. There is an issue of tax evasion in these products and it was proposed to introduce a tax based on retail sales prices of these commodities and to shift the burden of taxation to the manufacturing stage. In the recent 56th GST Council Meeting it appears that this has made progress and notifications and amendments in rules will be announced soon.

8. Measures for facilitation of trade

- **Risk-Based Provisional Refund for Zero-Rated Supplies** - The Council has recommended amending Rule 91(2) of the CGST Rules, 2017 to provide that 90% of refund claims arising from zero-rated supplies—such as exports or supplies to SEZ developers/units—may be sanctioned on a provisional basis by the proper officer. This sanction will be based on risk identification and evaluation carried out by the system. In exceptional cases, the proper officer may record reasons in writing and conduct a detailed scrutiny instead of granting provisional refund. A notification will also be issued to specify certain categories of registered persons who may not be eligible for provisional refunds. This provision will come into effect from 1st November 2025.
- **Provisional Refunds for Inverted Duty Structure (IDS)** - Similar treatment has been recommended for refund claims arising from inverted duty structure. Section 54(6) of the CGST Act, 2017 will be amended to allow sanction of 90% of refund claimed on provisional basis, aligned with the mechanism available for zero-rated supplies. Pending the amendment, the CBIC will issue instructions directing Central Tax field formations to grant provisional refunds based on system-driven risk evaluation. This will also apply from 1st November 2025.

- **Refunds for Low-Value Export Consignments** - The Council has proposed amending Section 54(14) of the CGST Act, 2017 to remove the threshold limit for refunds on exports made with payment of tax. This change is expected to benefit small exporters, particularly those making shipments through courier or postal modes.
- **Simplified GST Registration for Small and Low-Risk Businesses** - An optional simplified registration scheme has been recommended to ease the process for small and low-risk businesses. Under this scheme, registration will be granted automatically within three working days of application. It will be available to applicants who self-assess that their output tax liability on supplies to registered persons will not exceed ₹2.5 lakh per month (inclusive of CGST, SGST/UTGST, and IGST). Businesses can voluntarily opt into or withdraw from this scheme, which is expected to benefit around 96% of new applicants. The scheme will be effective from 1st November 2025.
- **Simplified Registration for Small E-Commerce Suppliers** - The Council has also approved in-principle a simplified GST registration mechanism for small suppliers making sales through e-commerce operators across multiple States. This aims to address the compliance challenge of maintaining a principal place of business in each State under the current framework. Detailed modalities for operationalising this scheme will be placed before the Council in due course.
- **Greater clarity on treatment of post sales discount** - With respect to the treatment of GST on post sales discount, firstly certain amendments are proposed to Section 34 of the CGST Act and it has also been recommended to issue a Circular to provide guidance on certain issues specific to GST on post sales discount.

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