



# GST 2.0

NEXT-GEN GST REFORMS

## Diwali Relief Announced by the Government

- ✓ The Government of India has announced Next-Gen GST reforms to make taxation simpler, affordable, and more inclusive. These reforms aim to bring relief to households, farmers, businesses, and entrepreneurs by reducing GST rates on essential goods, healthcare, agriculture, education, & consumer appliances, while ensuring higher taxation on luxury items, tobacco, and environmentally non-sustainable products.
- ✓ These measures are aimed at easing the indirect tax burden on households, farmers, MSMEs, and consumers, while also simplifying compliance & boosting economic activity. Announced as a “Diwali Gift for the Nation”, the reforms cover wide-ranging GST rate reductions and process simplifications.
- ✓ The changes are also aligned with the vision of building an Aatmanirbhar Bharat.

Let us now explore the comprehensive highlights & sector-wise GST rate changes announced under the reforms.

## Key Highlights from the 56th GST Council Meeting

- ✓ The next-generation GST reforms, announced by Prime Minister Shri Narendra Modi from the ramparts of the Red Fort on 15th August 2025, mark a strategic, principled, & citizen-centric evolution of India's landmark tax framework.
- ✓ The mantle for such reforms was taken up in 56th GST Council Meeting, held in New Delhi on 03rd September, 2025 under the chairpersonship of Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman.
- ✓ Key Highlights of the recommendations made by the 56th GST Council are as under:
  - » Rate rationalization targeted at the common man, labour-intensive industries, Farmers and agriculture sector, Healthcare and essential services
  - » Current 4-tiered tax rate structure to be reformed to - a 2 tier rate structure with a Standard Rate of 18% and a Merit Rate of 5%; a special de-merit rate of 40% for sin goods [after subsuming of the compensation cess]
  - » Trade facilitation initiatives to further simplify GST compliance, enhance efficiency, and reduce litigation;
  - » Operationalization of the Goods and Services Tax Appellate Tribunal (GSTAT) by December 2025;
  - » FAQs & clarifications being issued by the Government to ensure smooth implementation and address taxpayer concerns;
  - » GST rate changes proposed on all goods (except for tobacco products) & services will be effective from 22nd September 2025.
- ✓ Revised rates to be notified via CBIC rate notifications

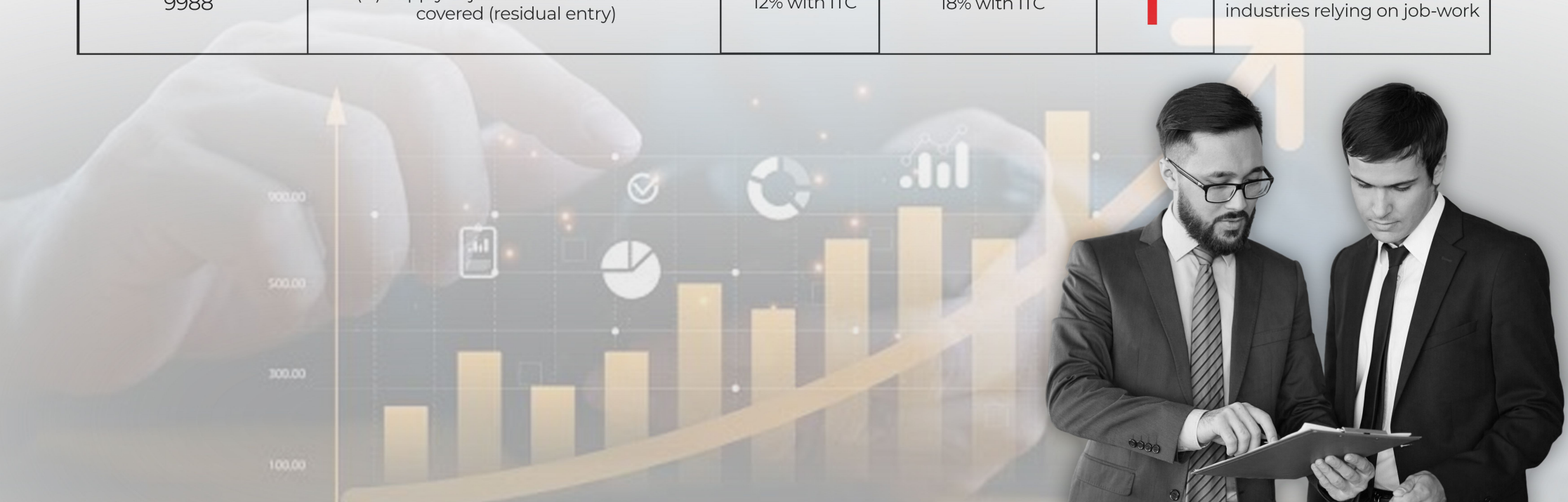


## Sector-Wise GST Rate Changes – services

Chapter / Tariff Heading / Tariff Item	Description of Services	Old rate	New rate	Impact	Remarks
9963	Supply of “hotel accommodation” having value of supply of a unit of accommodation less than or equal to Rs. 7500 per unit per day or equivalent	12% with ITC	5% without ITC	↓	Makes mid-range hotels more affordable
9964	(i) Supply of Air transport of passengers in other than economy class	12% with ITC	18% with ITC	↑	Higher travel cost for business & premium travellers
	(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 rate change neutral impact
		12% with ITC	18% with ITC	↑	Increased cost for businesses opting with ITC, raises logistics expenses
9965	(i) Supply of Transport of goods by GTA	5% without ITC (RCM/FCM)	5% without ITC (RCM/FCM)	-	No rate change neutral impact
		12% with ITC	18% with ITC	↑	Increased cost for businesses opting with ITC, raises logistics expenses
9971	(i) All individual health insurance, along with reinsurance thereof	18% with ITC	Exemption	↓	Direct relief to individuals; lowers insurance premiums
	(ii) All individual life insurance, along with reinsurance thereof	18% with ITC	Exemption	↓	Substantial benefit to policyholders; premiums become more affordable
9966	(i) Supply of Renting of any motor vehicle (with operator) designed to carry passengers where the cost of fuel is included in 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)	-	Reduced rate makes rentals cheaper for transporters
		12% with ITC	18% with ITC	-	Higher cost if opting for ITC

## Sector-Wise GST Rate Changes – services

Chapter / Tariff Heading / Tariff Item	Description of Services	Old rate	New rate	Impact	Remarks
9966	(ii) Supply of Renting of goods carriage (with operator) where fuel cost is included in consideration	12% with ITC	5% with ITC of input services (in the same line of business)	↓	Reduced rate makes rentals cheaper for transporters
			18% with ITC	↑	Higher cost if opting for ITC
9973	Leasing or rental services, without operator, of goods which will attract (28%) 40% GST	28% With ITC	40% with ITC	↑	Substantial cost increase, especially for heavy machinery /equipment users
9988	(vi) Supply of job-work not elsewhere covered (residual entry)	12% with ITC	18% with ITC	↑	Costlier outsourcing for industries relying on job-work





## Sector-Wise GST Rate changes - Daily Essentials & Household Items

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
3305, 3306, 3307, 3401	Hair oil, shampoo, toothpaste, toilet soap, shaving cream	18% with ITC	5%	↓	Big relief on personal care essentials
405, 406	Butter, ghee, cheese, dairy spreads	12%	5%	↓	Lower kitchen expenses
2106 90	Pre-packed namkeens, bhujia, mixtures	12%	5%	↓	Affordable snacking
7615	Utensils	12%	5%	↓	Reduced household cost
3926, 9619 00 30, 9619 00 40, or 9619 00 90,	Feeding bottles, napkins, baby diapers	12%	5%	↓	Relief for New parents

## Sector-Wise GST Rate changes - Healthcare Sector

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
9971	Individual health & life insurance	18%	Nil	↓	Affordable healthcare cover
9025	Thermometers	18%	5%	↓	Reduced medical expenses
2804 40 10	Medical grade oxygen	12%	5%	↓	Critical care support
3822	Diagnostic kits & reagents	12%	5%	↓	Affordable testing
90 or any other Chapter	Glucometer & test strips	12%	5%	↓	Relief for diabetic patients
7015 10	Corrective spectacles	12%	5%	↓	Lower vision care costs

## Sector-Wise GST Rate changes - Agriculture & Farmers

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
4011	Tractor tyres & parts	18%	5%	↓	Lower maintenance costs
8701	Tractors	12%	5%	↓	Support for farmers
28 or 38	Bio-pesticides, micro-nutrients	12%	5%	↓	Affordable agri inputs.
8424	Drip irrigation & sprinklers	12%	5%	↓	Boosts water conservation
8433	Agricultural machinery for soil preparation, harvesting, etc.	12%	5%	↓	Improves farm mechanization

## Sector-Wise GST Rate changes - Education

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
4905	Maps, charts, globes	12%	Nil	↓	Supports learning
9608, 9609	Pencils, sharpeners, crayons, pastels	12%	Nil	↓	Reduced school expenses
4820	Exercise books & notebooks	12%	Nil	↓	Major relief for students
4016	Erasers	5%	Nil	↓	Completely exempted



## Sector-Wise GST Rate changes - Automobiles

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
8703	Petrol/LPG/CNG cars (≤1200 cc, ≤4000 mm)	28%	18%	↓	Affordable small cars
8703	Diesel cars (≤1500 cc, ≤4000 mm)	28%	18%	↓	Relief for diesel segment
8703	Three-wheelers	28%	18%	↓	Boost to public transport
8711	Motorcycles (≤350 cc)	28%	18%	↓	Relief for two-wheeler buyers
8704	Goods transport vehicles	28%	18%	↓	Lower logistics costs

## Sector-Wise GST Rate changes - Electronic Appliances

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
8415	Air conditioners	28%	18%	↓	Affordable cooling
8528	Televisions (>32" including LED/LCD)	28%	18%	↓	Lower consumer durable cost
8528	Monitors & projectors	28%	18%	↓	Relief for offices & education
8422	Dishwashing machines	28%	18%	↓	Affordable modern appliances

## Sector-Wise GST Rate changes- Renewable Energy & Environment

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
84, 85 or 94	Solar panels, wind turbines, biomass equipment	12%	5%	↓	Reduces project cost; supports renewable adoption
8504	EV batteries & charging equipment	18%	5%	↓	Boost to EV ecosystem and clean mobility
8421	Pollution control & waste management devices	12%	5%	↓	Encourages investment in sustainable technologies

## Sector-Wise GST Rate changes- Textiles, Footwear & Handicrafts

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
64	Footwear ≤ ₹2,500	12%	5%	↓	Benefit to middle-class buyers
6117, 6214	Handmade handicrafts, jute, khadi	12%	5%	↓	Support to MSMEs & artisans
5604, 5605	Textile yarns & fabrics	12% 18%	5%	↓	Boost to textile sector competitiveness

## Sector-Wise GST Rate changes - Industrial & Miscellaneous

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
2523	Cement & Cement clinker	28%	18%	↓	Reduces infra and housing costs
2901 – 2927, 8431	Industrial intermediaries (chemicals, machinery parts, packaging items)	18%	12% 5%	↓	Lower input cost for industries
8443	IT hardware (printers, routers, networking devices)	18%	12%	↓	Boost to digitalisation & IT infra



## Sector-Wise GST Rate changes - Beverages

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
2202 99	Plant-based milk drinks, ready for direct consumption as beverages	18%	5%	↓	Boosts consumption
2202 99 30	Beverages containing milk	12%	5%	↓	Boosts consumption
2202	Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice	28%	40%	↑	Demand may fall
2202 99 90	Caffeinated Beverages	28%	40%	↑	Reduced consumption
2202 91 00	Other non-alcoholic beverages	28%	18%	↓	Demand may rise

## Sector-Wise GST Rate changes - Others

Chapter / Tariff Heading / Tariff Item	Description	Old rate	New rate	Impact	Remarks
2402, 2106 90 20	Pan masala, cigarettes, tobacco	28%	40%	↑	Lower consumption
2701 - 2703	Coal, Lignite, Peat	5%	18%	↑	Higher industrial/energy costs
3826	Biodiesel	12%	18%	↑	Increased fuel costs
4806 20 00	Greaseproof papers, Glassine papers	12%	18%	↑	Packaging costs up
9302	Revolvers and pistols	28%	40%	↑	Lower civilian sales
8802	Aircraft for personal use	28%	40%	↑	More expensive, reduced demand

## OTHER MAJOR ANNOUNCEMENTS

- ✓ It has been proposed to **omit Section 13(8)(b) of the IGST Act** - This is welcome change for trade as it removes litigation hurdles for service exporters & allows them zero-rating benefits. This positively impacts industries like freight forwarding, commission agents, & IT/ITeS.
- ✓ It has been proposed to **omit Section 15(3)(b)(i)**, i.e. discount must be known at or before the time of supply - Discounts now proposed to be granted through normal credit notes issued under Section 34.
- ✓ **Discontinuation of levy of Compensation Cess** on coal, motor vehicles & aerated water - Compensation Cess will continue on pan masala, gutkha, cigarettes, chewing tobacco products such as zarda, unmanufactured tobacco and bidi.
- ✓ **90% provisional refund** will now be system-driven, covering IDS & zero-rated supplies, based on risk parameters rather than officer discretion. This ensures faster refunds, improved cash flow, and promotes compliance through an objective process.
- ✓ For clarification purposes, **circulars to be issued on:**
  - Post-sale discounts given through commercial/ financial credit notes
  - Treatment of primary and secondary discounts provided in the retail trade
  - Discounts given in lieu of promotional activities provided by dealers



## GST Rates Changes – what businesses should know

- ✓ GST rates are applicable at the rate on the date of supply, not on the date of procurement
- ✓ Input Tax Credit (ITC) on old stock remains valid – no reversal required till 21-09-2025 - For stock sold on & after 22nd September @ NIL rate, ITC reversal is required
- ✓ In cases where the input & output being the same, though attracting different tax rates at different points in time, same is not covered under Inverted Duty Structure refund 54 of the CGST. [Circular No. 135/05/2020- GST dated 31-03-2020]
- ✓ Section 14 of the CGST Act, 2017, which deals with the time of Supply involving GST rate changes, specifically overrides Sections 12 and 13 (Time of supply for goods & services respectively) & covers two scenarios for applicability of GST rates on rate changes:

### Scenario A: Supply Occurred Before the Rate Change

Invoice Issued	Payment Received	Time of Supply	Applicable GST Rate
After rate change	After rate change	Earlier of invoice or payment date	New rate
Before rate change	After rate change	Invoice date	Old rate
After rate change	Before rate change	Payment date	Old rate

### Scenario B: Supply Occurred After the Rate Change

Invoice Issued	Payment Received	Time of Supply	Applicable GST Rate
After rate change	After rate change	Payment date	Old rate
Before rate change	Before rate change	Earlier of invoice or payment date	Old rate
After rate change	Before rate change	Invoice date	New rate



## GST Rate Changes –Business Readiness

# 01

### Update ERP & HSN/GST Masters

- ✓ Incorporate new GST rates immediately in ERP/accounting systems;
- ✓ Update HSN/SAC codes and GST masters to avoid wrong tax application
- ✓ Ensure synchronization across billing, invoicing, & reporting modules.

# 02

### Re-label / Re-sticker MRPs

- ✓ Incorporate new GST rates immediately in ERP/accounting systems.
- ✓ Revise product MRPs (fresh price stickers) in compliance with Legal Metrology (Packaged Commodities) Rules

# 03

### Revise Documentation

- ✓ Issue debit/credit notes or supplementary invoices for supplies impacted by rate change and align with Section 14 to ensure correct timing of supply is captured.
- ✓ Maintain documentary evidence to substantiate revised tax liability.

# 04

### Communicate Price Changes

- ✓ Share updated price lists promptly with distributors, retailers, and customers
- ✓ Update contracts, trade schemes, and purchase orders with revised rates
- ✓ Train sales, accounts, & procurement teams on implications of new rates.

## HOW WE CAN HELP

### Evaluation and Classification

Evaluate HSN / SAC classification to ensure correct GST rates are applied

### Anti-Profiteering

Conduct impact analysis of anti-profiteering provisions related to downward rate revisions

### Refund and IDS

Explore possibilities of claiming refunds under the inverted duty structure on existing stock due to GST rate reductions

### Documentation and Pricing

Review contracts, discount policies, assist in pricing and other documentation in light of GST rate changes

### Cash flow impact

Identify key action points for businesses to manage and optimize working capital

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