



ELP UPDATE
56th GST COUNCIL RECOMMENDATIONS

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GST REFORMS 2.0

PREFACE

The recommendations emerging from the 56th GST Council meeting mark a significant step forward in line with the vision articulated by the Hon'ble Prime Minister in his speech on Independence Day. Under the banner of "GST 2.0," the Council has proposed a series of wide-ranging reforms, spanning rate rationalization across goods and services, faster processing of registrations, quicker sanction of refunds, and more. Collectively, these measures are expected to offer much-needed relief to taxpayers in face of the upcoming festive season as well as amid the economic disruptions arising from global tariffs and prevailing geopolitical uncertainties.

A key feature of this meeting was the unanimous consensus achieved among members, underscoring the spirit of cooperative federalism. Equally noteworthy is the shift towards placing greater reliance on taxpayers to uphold sound governance practices in the area of anti-profiteering. This move reflects the Government's confidence in industry and is likely to foster stronger trust and faith, setting the stage for a more positive business environment.

RATE RATIONALIZATION MEASURES

In this landmark move, the Council has carried out the most extensive rate rationalization exercise since the introduction of GST, streamlining most of the goods and services into two primary tax slabs (from current four), with a few exceptions maintained at other rates.

While these reforms are a positive development, the widely anticipated merger of the 12% slab into the 5% slab has not been fully realized. The rate rationalization has, in some cases, moved certain goods and services to the 18% slab, while a few have been reduced to 5% but with restrictions on input tax credit (ITC) eligibility. Nevertheless, the long-standing objectives of rate alignment, simplification, and consumer relief have been reaffirmed in spirit. This comprehensive restructuring is designed to stimulate consumption by making a broader range of goods and services more affordable.

The Council's measured approach reflects a decisive shift towards fewer tax slabs, improved compliance, reduced litigations and targeted incentives for growth sectors, laying the groundwork for a more transparent and efficient GST framework. Key focus areas of rate rationalization were:

- Lowering household costs: By reducing tax on daily essentials from 18% to 5% (Hair oil, shampoo, soaps, chocolates, biscuits, plant-based beverages etc.) and household electronics from 28% to 18% (32"+ TVs, ACs, dishwashers, monitors)
- Supporting farmers and rural economy: By reducing tax on agri-equipment from 18% to 5% (Tractor tyres, parts, irrigation systems, farm machinery)
- Making healthcare & education affordable: By decreasing rates from 18%/12%/5% to 5% (Medical thermometers, diagnostic kits, glucometers) / Nil (Maps, notebooks, pencils, erasers)
- More Hikes than Cuts in realignment of services: Government contracts, transport, mining, and leasing services moved 12% to 18%. The hike in GST on residuary job work services from 12% to 18% could strain sectors like renewables and EVs, which already face inverted duty structures with no refund on input services.
- ITC Restrictions to Balance Lower Rates: Lower rates for hotel accommodation and beauty/wellness services come with denial of ITC, making the effective tax incidence similar for end consumers.
- Luxury and Sin Segments Taxed Heavily: Casinos, race clubs, sporting events like IPL, and online gaming moved to 40%, signalling a deterrent stance.

- Green economy incentives: Effluent and biomedical waste treatment move to 5%, encouraging sustainability.
- Strategic Cuts for MSME Sectors: Job work services dropped to 5% to ease burden on SMEs and compliance.

Among other proposals, the suggested ITC restrictions in select cases appear at odds with the broader GST rate rationalization goals and as a result, certain supplies could face higher tax costs rather than the intended reduction.

On an overall note, following key aspects warrant attention:

A. GUIDELINES FOR TRANSITIONAL SUPPLIES AROUND GST RATE CHANGES

- Revised GST rates on all goods and services will come into effect from 22.09.2025 and a notification to this effect will be issued shortly.
- However, for specified tobacco and pan masala products, the current rate structure will remain in place. The revised
 rates on such goods will be implemented from a future date to be notified, contingent upon the fulfillment of loan
 and interest obligations through collection of the Compensation Cess Fund.
- The determination of applicable rate (old vs. new) for transitional supplies shall be determined with view of Section 14 of the CGST Act, 2017, a crux of which is as under:

Supply made	Date of Invoice	Date of Payment	Applicable GST Rate	Time of Supply
Before	Before	Before	Old Rate	As per existing provisions
Before	Before	After	Old Rate	Date of invoice
Before	After	Before	Old Rate	Date of payment
After	Before	Before	Old Rate	Earlier of date of invoice or date of payment
Before	After	After	New Rate	Earlier of date of invoice or date of payment
After	After	Before	New Rate	Date of invoice
After	Before	After	New Rate	Date of payment
After	After	After	New Rate	As per existing provisions

Note: The question which may arise is whether the issuance of invoices could be strategically timed to benefit from the change in GST rate

B. IMPACT OF RATE RATIONALIZATION

KEY TRANSITIONAL ASPECTS

- Impact on inventories: Rate changes affect both finished goods and raw material stocks. Goods held in warehouses or factories on the effective date may have been procured at a higher GST rate but would attract reduced rate when supplied after the effective date, potentially leading to input tax credit (ITC) accumulation. Taxpayers may therefore need to optimize inventory levels and also ensure that its ERP systems are correctly configured to apply the revised rates from the effective date, as required under Section 14 of the CGST Act.
- Industry expectations on ITC: There is ongoing discussion in the trade regarding whether brands should compensate supply chain constituents for any accumulated ITC balances. This is notwithstanding clarifications that such ITC does not lapse and can be utilized against other output supplies, if applicable. Therefore, all such claims of compensation should be handled based on the facts and circumstances of each case as per the business policy.
- Classification Review: With the current shift in rate structures, it is essential to undertake a comprehensive review
 of the classification of goods and services before implementing any rate change as previously the importance of
 accurate classification may have been overlooked, often due to competing classification entries attracting the same
 rate of GST.
- Operational adjustments: Price lists, MRPs, and packaging materials, display boards, banners etc. must be updated
 to reflect the new rates. For MRP-based products, re-labelling and re-stickering should comply with the Legal
 Metrology regulations while maintaining an appropriate audit trail. It is expected that some clarification under the
 regulation may be issued in this connection.
 - Additionally, returns of goods, as well as issuance of credit or debit notes, must continue to reflect the original invoice rates in accordance with Section 34 read with Section 16 of the CGST Act.
- Goods and Services exempted: Supplies of goods and services that become exempt from GST in the future will trigger denial of ITC, including on procurements made prior to the exemption but used for making exempt supplies. In certain cases, such as capital goods, the manner of ITC denial may not be entirely clear. Technically, the credit for capital goods, which is spread over a 60-month period, may require monthly evaluation, and for months following the implementation of the exemption, a reversal could be necessary. This approach contrasts with the settled position under the erstwhile CENVAT regime, where overall eligibility for credit on capital goods was determined at the time of receipt, regardless of subsequent changes in the taxable or exempt status of supplies. The ambiguity visà-vis GST laws, however, persists.
- GST rate on price adjustment (post amendment): Any price adjustments undertaken after the effective date should be carefully planned, even though the GST Council has recommended that post-supply discounts need not be linked to the original invoices. Nonetheless, considering other commercial factors, businesses may assess whether maintaining such a linkage could provide operational efficiencies, particularly from a working capital perspective.
- On-going & long-term contracts/ rate contacts/ government contracts, etc: Long-term or fixed-price contracts present specific challenges in the context of GST rate changes. Where contracts include "change in tax/law" clauses, businesses should carefully review the mechanisms and timelines for implementing price adjustments. In the absence of such clauses, renegotiation with counterparties may be necessary to balance commercial and compliance considerations. Additionally, the commercial re-statement of consideration in such cases may be influenced by whether or not the contract value is stated net of tax (inclusive or exclusive of GST).

Impact on accumulated Compensation Cess (on merger with GST / end of levy): It is proposed that the levy of Compensation Cess will end upon payment of the loan and interest and would be replaced by a higher rate of GST at 40%. It would be prudent to compare the rate of 40% with the effective old rate determined as the aggregate of basic GST rate and compensation cess.

Implications qua the closing balance of the Compensation Cess would require attention.

This recommendation specifically impacts products such as coal, tobacco related products, aerated beverages, certain motor vehicles and yachts.

KEY ON-GOING IMPACT

• Anti-profiteering: Pursuant to Notification No. 19/2024 dated 30.09.2024, read in consonance with Section 171 of the CGST Act, 2017, the National Anti-Profiteering Authority shall not accept any new requests for examination of a profiteering scenario w.e.f. 01.04.2025. This position is touted as sunset on anti-profiteering provisions.

The Revenue Secretary, however, in the post-Council meeting press briefing laid down the expectation that rate reduction benefits should be transmitted to consumers thereby reposing enough trust on taxpayers to do so, yet they shall administratively pursue it.

Thus, for the purpose of transferring the benefit as a measure of sound governance, the taxpayers must:

- Maintain robust documentation of vendors, dealers, and customer communications.
- Align contract structures, discount mechanisms, and promotional schemes with revised rates.
- Refunds on account of inverted duty structure: Rate reductions may create an inverted duty structure, where outputs are taxed at lower rates than inputs. Existing law permits refunds in such cases. This process is likely to be further streamlined, given the Council's recommendation to provisionally sanction 90% of refund claims in inverted duty cases, similar to zero-rated supplies.

Despite the extensive rate rationalization, the GST Council did not address the issue of refunds arising from inverted duty structures on input services. This restriction on refunds on account of the Inverted Duty Structure (IDS) was upheld as constitutionally valid by the Division Bench of the Supreme Court in VKC Footsteps India Private Limited, although there was a widespread expectation for a reassessment of this position.

Another contentious issue pertains to whether taxpayers can claim IDS refunds in respect of the same goods procured at higher rate before the effective date and supplied thereafter. This remains a significant transitional concern. Circular No. 135/05/2020-GST dated 31.03.2020 takes a restrictive view on this matter. However, judicial interpretation has been more favorable to taxpayers. For example, the Kerala High Court, in Malabar Fuel Corporation, held that an assessee is entitled to claim a refund under the IDS even in respect of the same goods indicating that the Circular is not tenable under law. Several other courts have followed suit.

Reassessment of internally generated services: - Historically, where output attracted 18% GST, many companies adopted a conservative approach by aggregating components as internally generated services and cross-charging at 18%, with corresponding input tax credit available against output tax at 18%. Going forward, if the output tax rate is reduced, these conservative positions may require a revisit.

Further, if the output becomes exempt, taxpayers that relied on the deemed valuation under the proviso to Rule 28 of the CGST Rules will no longer be eligible for that benefit of deeming fiction and must value internally generated services at open market value or under other applicable valuation rules.

- Renegotiating with downstream trading partners in case of end-use-based rate reductions: Where reduced rates
 depend on end use, companies should renegotiate terms to allocate risk and protect against classification disputes
 arising from uses which are not entitled for the lower GST rate.
- State incentives: Rate changes could affect inflows under state incentive schemes which are linked to the output tax paid in cash after utilization of available ITC. In many cases, there could be a requirement to approach the State for policy advocacy.

KEY LEGISLATIVE CHANGES

Amendment in place of supply provisions for intermediary services under section 13(8) of the IGST Act:

- It is proposed to omit Section 13(8)(b) of the IGST Act, which currently deems the place of supply for intermediary services to be the supplier's location. Following the amendment, the place of supply for intermediary services will be the recipient's location, in line with the general rule under Section 13(2) of the IGST Act. This will align intermediary services with other services for purposes of exporting services.
- This proposal offers significant relief across industries and resolves a controversy dating back to the Service Tax regime. Courts and authorities, including High Courts and Advance Ruling Authorities, have issued conflicting decisions. The issue has particularly affected businesses where foreign entities operate support offices in India or procure marketing and sales services from Indian providers, with exports denied on the ground that the place of supply was in India. Ambiguity persisted despite government clarifications issued through circulars on the scope of intermediary service.
- The recommendation will require amendment to the IGST Act and is likely to operate prospectively. Accordingly, pending and past disputes will continue.

Amendment in respect of Post-sale Discount:

- The requirement to include specific contractual clauses to reduce taxable value for post-sale discounts has been removed. Given the variety of discount structures (based on volume, threshold, turnover, etc.), this change alleviates longstanding compliance challenges and is business friendly.
- The proposed rescission of Circular No.212/6/2024-GST dated 26.06.2024 removes the prescribed mechanism to evidence the recipient's reversal of input tax credit (ITC)- a prerequisite for recognizing post-sale discounts. Previously, Chartered Accountant certificates were accepted. In the absence of a clear alternative, taxpayers may face discretionary assessments.
- GST Council has also recommended to issue a separate clarification covering certain issues concerning post-sale discount, namely:
 - o non-reversal of Input Tax Credit on account of post-sale discount through financial/commercial credit note;
 - o 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
- Sanction of risk-based provisional refund to facilitate refund claims on account of zero-rated supply of goods or services and IDS Refunds:
 - It is proposed that from 01.11.2025, Rule 91(2) will use system-driven risk evaluation to grant 90% provisional refunds for zero-rated supplies, replacing manual scrutiny. In exceptional cases, officers may skip provisional refunds and conduct detailed scrutiny with recorded reasons. The government will also notify categories of taxpayers excluding provisional refunds.
 - It is proposed to amend Section 54(6) of the CGST Act with effect from 01.11.2025, to provide for a similar mechanism for sanction of 90% of refund claims as provisional refund in cases of inverted duty structure in parity with zero-rated refunds.
 - The consequences of risk-based denial or deferral, resulting in potential interest loss, revalidation of refund applications, and avenues for review, will depend on the eventual text and SOPs.
 - Pending the amendment to CGST Act, CBIC will issue instructions for grant of 90% provisional refunds for IDS on a risk basis.

DISPUTE RESOLUTION

PROPOSED CHANGES TO CUT DOWN ON LITIGATION

- Disputes regarding Place of Supply of Intermediary Services: GST Council has recommended omission of Section 13(8)(b) of the IGST Act, 2017. Presently, Section 13(8)(b) deems the place of supply of intermediary services to be the location of the supplier. Upon deletion of this provision, the default rule under Section 13(2) will apply and the place of supply will be determined based on the location of the recipient of services.
 - As a result, all the disputes where the services rendered to foreign clients are contended to be that of intermediary services, resulting in denial of benefit of export of service, would no longer erupt.
- Classification Issues: The GST rates of several goods and services, the classification of which was previously litigated have been rationalized, illustratively:
 - Rate for paratha, parotta and other Indian breads by any name called (CTH 2106) reduced to nil. Previously, the AAR, in ID Fresh Food (India) Pvt Ltd 2020 (37) GSTL 456 had held that that ready-to-eat parottas (frozen) attract 18% GST and not the 5% which was applicable to rotis.
 - Toothpaste (CTH 3006) was earlier taxed at 18% whereas toothpowder (CTH 3306 10 10) was taxed at 12%. Now, both toothpaste and toothpowder are taxed at 5%.
 - Rates for hair oil and shampoos (CTH 3305) have been reduced from 18% to 5%. Previously, there have been disputes in respect of coconut oil.
 - Rates for auto-parts have been proposed to be 18%, eliminating all the potential disputes alleging the applicable rate to be 28%.

GOODS AND SERVICES TAX APPELLATE TRIBUNAL (GSTAT')

The GSTAT will be made operational for accepting appeals before end of September 2025 and will commence hearing before end of December 2025. The Council has recommended the date of 30.06.2026 for limitation of filing of backlog appeals.

NATIONAL APPELLATE AUTHORITY FOR ADVANCE RULING (NAAAR')

The Principal Bench of the GSTAT will also serve as the National Appellate Authority for Advance Ruling.

OTHER CHANGES

- Introduction of Simplified Registration Scheme for small suppliers supplying through ECOs
- Removal of the minimum refund threshold limit of INR 1,000/- for refunds arising from exports made with payment of tax including exports made through courier/postal consignments
- Simplified GST Registration Scheme for Small and Low-Risk Businesses, wherein GST registration to be granted on an automated basis within 3 working days

UNFINISHED AGENDA

While various sweeping measures have been announced, various areas still remain unaddressed such as:

- Clarity on taxation of real estate transactions, including TDR;
- Scope and expanse of ITC restriction under Section 17(5) of the CGST Act, especially pursuant to Supreme Court ruling of Safari Retreats;
- Notification of supplies under Section 11A of the CGST Act, providing industry-specific relief based on general practice;
- No indication or intention to cover petroleum and petroleum products under GST regime;
- Amendment in inverted duty refund formula, for coverage of 'services';
- Clarification on taxability of transaction specified in Schedule I of the CGST Act, such as corporate guarantee, secondment of employees, usage of brand name; etc.

GLOSSARY OF TERMS

Abbreviation	Meaning
AAR	Authority for Advance Ruling
CBIC	Central Board of Indirect Taxes and Customs
CENVAT	Central Value Added Tax
CGST	Central Goods and Services Tax
CSF	Compensation Cess Fund
ECO	E-Commerce Operator
EV	Electrical Vehicles
GST	Goods and Services Tax
GSTAT	Goods and Services Tax Appellate Tribunal
IDS	Inverted Duty Structure
IGST Act	Integrated Goods and Services Tax Act
IPL	Indian Premier League
MRP	Maximum Retail Price
MSME	Micro, Small & Medium Enterprise
NAA	National Anti-Profiteering Authority
NAAR	National Appellate Authority for Advance Ruling
RRM	Rate Rationalization Measures
TDR	Transfer of Development Rights





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