

# GST 2.0

## Highlights of 56th GST Council Meeting

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# Index

1

## Introduction

The rationale behind GST rate rationalization.

2

## Key Highlights

Significant outcomes of the 56th GST Council Meeting.

3

## Rate Comparison

Comparative tables for old vs. new GST rates across goods and services.

4

## Sectoral Impact

In-depth analysis of GST rate changes on various sectors.

5

## Procedural Changes

Understanding the new procedural and structural adjustments in GST.

6

## Implementation

Phased rollout schedule for GST 2.0 reforms.

7

## Conclusion

Transformative step for Indian Economy

# 1. Introduction

The 56th meeting of the GST Council marks a significant milestone in India's indirect taxation journey with the Launch of GST 2.0. This reform embodies a landmark shift towards simplification, transparency, and equity. By rationalizing the tax structure into a streamlined two-rate system, GST 2.0 aims to reduce classification disputes, ensure a fair tax incidence, and enhance compliance.

The reform also focuses on strengthening the digital framework with simplified filing procedures and faster refunds, thereby improving ease of doing business and instilling greater confidence among taxpayers.

## Simplified Tax Structure

GST 2.0 rationalizes the tax framework into a streamlined two-rate system, reducing complexities and classification disputes for enhanced transparency.

## Equitable Tax Rates

Essential goods see lower rates for consumer relief, while luxury and sin goods are taxed higher to ensure fiscal sustainability.

## Enhanced Digital Framework

The reform strengthens digital processes, enabling simplified filing procedures, faster refunds, and greater confidence for taxpayers.

## Catalyst for Economic Growth

By balancing growth and inclusion, GST 2.0 empowers MSMEs, boosts consumer welfare, and ensures revenue stability for states.

At its core, GST 2.0 balances growth and inclusion. Essential goods and daily-use items have been placed under lower tax rates to provide direct relief to households and boost consumption, while luxury and sin goods are taxed at higher slabs to ensure fiscal sustainability. This thoughtful approach not only benefits consumers but also empowers MSMEs and industries with smoother cash flows, stronger demand, and improved competitiveness. By combining consumer welfare with revenue stability for states, GST 2.0 truly ushers in a new era of equitable, efficient, and growth-oriented taxation for India.





## 2. Key Highlights : Ushering in GST 2.0

The 56th GST Council Meeting marks a significant stride in India's indirect taxation framework, introducing GST 2.0 with a focus on simplification and clarity. The most impactful change is the transition from a four-tier slab system to a more streamlined two-rate structure, complemented by a new "demerit" rate for specific goods. This move is designed to minimize classification disputes and ensure a more predictable tax regime.

1

### Streamlined Two-Rate System

GST now operates under two primary rates: **5% (Merit Rate)** for essential goods and **18% (Standard Rate)** for most other goods and services. This replaces the previous 12% and 28% slabs.

2

### New 40% Demerit Rate

A **new 40% demerit** rate has been introduced for luxury and sin goods, reinforcing fiscal sustainability by taxing these categories at a higher slab.

3

### Phased Implementation

The revised rates and exemptions are set to come into effect from **September 22, 2025**. This phased approach allows businesses adequate time to adapt and ensures a smooth transition.

4

### Exceptions for Tobacco Products

Existing GST and compensation cess rates for cigarettes, chewing tobacco, unmanufactured tobacco, and beedi will continue to apply until a later date, contingent on the discharge of compensation cess liabilities.

This strategic overhaul aims to provide timely relief to common citizens, households, farmers, and businesses by reducing tax burdens on essential items while maintaining revenue stability for states through higher taxation on luxury and sin goods. The Council's decision reflects a balanced approach towards economic growth and social welfare, ensuring that the benefits of tax rationalization reach a broad spectrum of the population.

# 3. Rate Comparison

## Broad Sectoral Rate changes proposed

Group / Sector	Old Rate	New Rate	Key Items Affected
Essentials & Groceries	5% / 12%	0%	UHT milk, pre-packaged chena/paneer, all Indian breads (roti, parotta, khakhra, pizza base)
Dairy & Food Products	12% / 18%	5%	Packaged namkeens, Bhujia, Sauces, Pasta, Chocolates, Coffee, Preserved Meat
Packing Materials	18%	5%	Paper Sacks/Bags, biodegradable bags, Bamboo flooring/joinery, Packing cases & pallets (wood)
Personal Care & FMCG	18%	5%	Soaps, shampoos, toothbrushes, toothpaste, tableware
Medical & Health (Life-Saving)	5% / 12%	0%	33 life-saving drugs.
Medical & Health (General)	28% / 18% / 12%	5%	Medical oxygen, thermometers, surgical instruments, X-ray films, medical/dental/veterinary devices, spectacles, corrective goggles
Education Sector (Stationery)	5% / 12%	0%	Notebooks, pencils, erasers, drawing books, crayons, sharpeners
Education Sector (Supplies)	12%	5%	Geometry boxes, school cartons, trays
Electronics & Appliances	28%	18%	TVs (LCD/LED) (> 32"), ACs, dishwashers, projectors, monitors
Cement	28%	18%	All cement products
Small Vehicles	28%	18%	Cars ≤ defined engine capacity, 2-wheelers ≤ 350cc, buses, three-wheelers, goods vehicles, all auto parts
Luxury Vehicles	28% + Cess	40% (Flat)	SUVs, large motorcycles > 350cc
Tobacco & Sin Goods	28% + Cess	40% (RSP-based)	Cigarettes, gutkha, pan masala, unmanufactured tobacco
Sugary & Aerated Beverages	28%	40%	Soft drinks, caffeinated energy drinks
Construction Inputs	28%	18%	Cement, paints, varnishes
Toys, Sports & Handicrafts	12%	5%	Handicraft idols & statues, Paintings, sculptures, Wooden/metal/textile dolls & toys





Group / Sector	Old Rate	New Rate	Key Items Affected
Insurance (Life & Health)	18%	0%	All life & health insurance policies (term, ULIP, endowment, family floater)
Online Gaming / Betting / Casino	28%	40%	All formats of games involving betting or wagering
Restaurants (Standalone)	5% or 18%	Clarified 5% or 18%	Only "restaurant services" without liquor, service, or other activities remain at 5%
Hotel Stay ≤ ₹7,500	12%	5%	Budget/mid-range hotel accommodation
Beauty & Wellness	18%	5%	Spa, gym, yoga, salon services
Job Work (Textile, Leather, Jewellery)	12%	5%	Tailoring, leather, gems and jewellery-related job work
Renewable Energy Services	12% / 18%	5%	Services related to solar water heaters, cookers, rooftop panels, batteries, Wind mills, Wind Operated Electricity Generator (WOEG)
Agriculture Equipment Services	18%	5%	Tractors, Harvesters, threshers, sprinklers, drip irrigation, poultry & bee-keeping machines, Bio-pesticides and natural menthol, and their parts



# 4. Sectoral Impact

The recalibration of GST rates under GST 2.0 is poised to create a ripple effect across India's diverse economic sectors. Each adjustment has specific implications, influencing pricing, consumer demand, and operational costs. Below is a breakdown of the anticipated impacts on key industries.

## FMCG & Essentials

The shift of essential items like UHT milk and Indian breads to 0% GST will directly benefit households by reducing daily expenses. This is expected to stimulate demand and provide a boost to the Fast-Moving Consumer Goods (FMCG) sector, particularly for producers of basic food and dairy products.

## Healthcare & Pharmaceuticals

The move to 0% GST on 33 life-saving drugs and diagnostic kits, along with a reduction to 5% for general medical supplies, significantly improves healthcare affordability. This will ease the financial burden on patients and make medical services more accessible across the nation.

## Textiles & Apparel

While not explicitly mentioned, reductions in job work for textiles to 5% could reduce manufacturing costs, potentially leading to more competitive pricing for finished apparel. This might encourage domestic production and boost the sector's growth.

## Packaged Food & Beverages

Packaged foods moving to 5% GST (from 12%/18%) will likely increase their affordability and consumption, benefiting manufacturers. However, sugary and aerated beverages facing a sharp increase to 40% GST (from 28%) will see a decline in demand as they become significantly more expensive, aligning with public health objectives.

## Automobile Sector

Small vehicles and auto parts benefiting from a reduction to 18% GST (from 28%) will become more attractive to consumers, potentially driving sales volume. In contrast, luxury vehicles (SUVs, large motorcycles) now face a flat 40% GST, making them considerably more premium and likely affecting sales in this niche segment.

## Real Estate & Construction

The reduction of GST on cement, paints, and varnishes from 28% to 18% will lower construction costs. This relief is expected to translate into more affordable housing and infrastructure projects, potentially stimulating growth in the real estate and construction sectors.

The strategic re-evaluation of GST rates aims to balance consumer welfare with fiscal prudence, promoting growth in essential sectors while discouraging consumption of luxury and sin goods.





# Broader Sectoral Impact: Renewable Energy, Luxury Goods, and More

Beyond the core sectors, the 56th GST Council Meeting's reforms extend to a variety of other industries, signaling a nuanced approach to taxation that supports green initiatives, manages consumption of luxury and sin goods, and promotes domestic crafts.



## Renewable Energy & Green Products

The reduction of GST on solar water heaters, cookers, rooftop panels, and wind energy components to **5% (from 12%/18%)** is a significant boon. This makes green technologies more affordable, accelerating India's transition to sustainable energy and promoting environmental conservation.



## Luxury Goods & Miscellaneous Sectors

A uniform **40%** GST for luxury and sin goods, including tobacco products, online gaming, and sugary beverages, aims to curb their consumption and generate substantial revenue. This strategic move reflects a broader governmental focus on public health and fiscal discipline.



## Toys, Sports & Handicrafts

The reduction to **5% GST (from 12%)** for items like handicraft idols, paintings, sculptures, and traditional dolls and toys is set to boost the indigenous craft industry. This not only makes these cultural products more accessible but also supports local artisans and promotes "Make in India" initiatives.



## Insurance Sector

The complete exemption of GST on all life and health insurance policies (**0% from 18%**) is a monumental step towards enhancing social security and healthcare accessibility. This reduction will make insurance products more affordable for a wider population, encouraging greater penetration and financial protection.

These widespread adjustments underscore the Council's comprehensive vision for GST 2.0, aiming to stimulate economic activity in favored sectors, discourage certain consumptions, and ensure a more inclusive and sustainable taxation system. The phased implementation will allow industries to adjust to the new landscape effectively.





# 5. Procedural & Structural Changes

Beyond rate rationalization, the 56th GST Council Meeting introduced several recommendations which are critical procedural and structural reforms aimed at simplifying compliance, improving liquidity for businesses, and strengthening the overall GST framework. These changes are designed to foster a more business-friendly environment and reduce disputes.

## **Provisional Refund for Zero-Rated and IDS Supplies:**

Amendments to Section 54(6) and Rule 91(2) of the CGST Rules allow a 90% provisional refund for zero-rated supplies (exports or SEZ supplies) and Inverted Duty Structure (IDS) cases, based on system-driven risk evaluation. This will significantly improve cash flow for exporters and businesses facing inverted duty structures.

## **Removal of Refund Threshold for Export Consignments:**

Section 54(14) of the CGST Act has recommended to remove the refund threshold for export consignments with tax payment. This is a major relief for small exporters, especially those using courier or postal services, enabling them to claim refunds regardless of the value.

## **Simplified GST Registration Scheme for Small Businesses:**

An optional, simplified GST registration scheme has been proposed for small and low-risk businesses. Applicants who based on their own assessment, determine that their output tax liability on supplies to registered persons will not exceed Rs. 2.5 lakh per month can now get automated registration within 3 working days, benefiting approximately 96% of new applicants.

## **Simplified Registration for E-commerce Suppliers:**

The Council has approved, in principle, a simplified GST registration mechanism for small suppliers making supplies through e-commerce operators (ECOs) across multiple States. This will ease compliance burden by removing the need for a principal place of business in each state, fostering wider e-commerce participation.

## **Place of Supply for Intermediary Services:**

The recommendation to remove Section 13(8)(b) of the IGST Act means the place of supply for intermediary services will now be the recipient's location. This change is crucial for Indian service exporters, allowing them to claim export benefits more easily. The detailed modalities for operationalizing the said scheme will be placed before GST Council. It will ease compliance for such suppliers and facilitate their participation in e-commerce across States.

## **Council recommendation to provide clarification on issues pertaining to Post Sale Discount:**

Recommendations to Sections 15 and 34 of the CGST Act clarify rules for post-sale discounts: removing the need for prior agreements, requiring discounts via credit notes, and outlining Input Tax Credit (ITC) reversal rules if discounts reduce taxable value. This brings much-needed clarity and resolves long-standing issues regarding discount treatment.

## **Operationalization of GST Appellate Tribunal (GSTAT):**

The Council has prioritized making GSTAT operational for accepting appeals by September 2025. This critical step will establish an effective appellate mechanism to manage the growing volume of GST-related disputes, providing a faster resolution process for taxpayers.

These procedural enhancements collectively aim to reduce litigation, improve tax certainty, and significantly contribute to the ease of doing business in India under the new GST 2.0 regime.



# 6. Implementation Timeline: Phased Rollout of GST 2.0 Reforms

The transition to GST 2.0 will be implemented in a carefully phased manner to ensure smooth adoption by businesses and taxpayers across India. The GST Council has outlined specific timelines for the various rate changes and procedural reforms, allowing adequate preparation and adjustment.



This phased approach is designed to provide businesses and taxpayers with sufficient time to adjust their systems, processes, and pricing strategies, ensuring a smooth and effective transition to the new GST 2.0 regime.



# 7. Conclusion: A Transformative Step for India's Economy

The 56th GST Council Meeting marks a definitive and forward-looking stride in India's economic policy, embodying a paradigm shift towards an efficient, equitable, and growth-oriented indirect tax regime. GST 2.0, with its rationalized two-rate structure and targeted demerit rate, addresses long-standing complexities and aims to foster a more predictable and transparent tax environment.

"GST 2.0 is not merely a tax reform; it's a strategic economic lever designed to balance fiscal stability with social welfare, propelling India towards greater competitiveness and inclusive growth."

The strategic reduction of GST on essential goods and services will provide tangible relief to common households and stimulate consumption, thereby bolstering domestic demand. Simultaneously, the higher taxation on luxury and sin goods underscores a commitment to public health objectives and ensures fiscal sustainability. This thoughtful balance demonstrates a mature approach to taxation that recognizes both economic imperatives and societal well-being.

Beyond rate adjustments, the procedural reforms — encompassing simplified refund mechanisms, easier registration for small businesses, and clarity on e-commerce and discount policies — are set to significantly enhance the ease of doing business. The expedited operationalization of the GST Appellate Tribunal (GSTAT) will be instrumental in reducing litigation and providing timely justice to taxpayers, instilling greater confidence in the system.

While the phased implementation allows industries and taxpayers sufficient time to adapt, the long-term benefits are clear: reduced compliance burdens, improved liquidity for businesses, a level playing field for various sectors, and a stronger foundation for India's economic growth. GST 2.0 is poised to usher in a new era of indirect taxation, aligning India's economic framework more closely with global best practices and positioning the nation for sustained prosperity. This comprehensive reform package underscores India's commitment to a dynamic, responsive, and growth-friendly tax ecosystem.



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