Chapter A1

Preamble, Transition and Precautions - GST 2.0 – From 22 Sept. 2025

A) PREAMBLE

The Goods and Services Tax (GST), introduced with effect from 1 July, 2017, is a landmark reform in India's indirect tax structure, aimed at achieving the objective of **"One Nation, One Tax, One Market."** The GST Council, constituted under Article 279A of the Constitution, has been entrusted with the responsibility of making recommendations on important issues concerning policy, law, and tax rate rationalization under GST.

Since its inception, the Council has, from time to time, reviewed and revised GST rates on goods and services to address sector-specific representations, correct duty inversion, remove ambiguities, and strike a balance between revenue augmentation and reduction of tax burden on the taxpayers. Each meeting of the Council reflects a continuous process of fine-tuning the tax system in response to evolving economic conditions and trade requirements.

A.1 GST Rate Rationalization - Vision to reduce GST slabs

The primary GST rates list for any regular taxpayers is presently pegged **at 0% (nil-rated), 5%, 12%, 18% & 28%**. There are a few other GST rates such as **3% and 0.25%**. Compensation cess is also imposed on certain luxury and sin goods.

However, the government is actively considering a rationalization of the current multi-slab GST structure. The proposal involves simplifying the rates, potentially into a **two-slab system**, to ease compliance and reduce the tax burden on consumers for many items. The outcomes of these discussions by the GST Council in the last meeting was to alter the revenue contribution percentages from different tax rates in the future

The Hon'ble Prime Minister Mr. Narendra Modi called out the next gen GST reforms in his Independence Day speech on 15 August 2025.

A.2 GST Collections in India: Approximate Rate-Wise Breakdown

While the Union Government releases monthly GST collection figures, a detailed and official breakdown of these collections by specific tax slabs is not regularly published. However, based on available data and analyses from previous fiscal years, it is possible to provide an approximate overview of the revenue contribution from each slab.

The 18% Slab: The backbone of GST Revenue

The 18% GST slab consistently emerges as the primary contributor to the nation's GST kitty. Analyses indicate that this single rate is responsible for the lion's share of the total collections. For the fiscal year 2023-24, it was reported that the **18% slab accounted for an estimated 70-75% of the total GST revenue.** This is largely due to the wide array of goods and services that fall under this category, including many essential services and commonly used consumer goods.

Contributions from other Slabs

The other GST slabs contribute significantly less in comparison, with the highest rate slab of 28% being the second-largest contributor. Here's an approximate breakdown of the revenue from the remaining slabs for the fiscal year 2023-24:

- **28% Slab:** This slab, which includes luxury goods, automobiles, cement and sin goods, is estimated to contribute around **13-15%** of the total GST revenue. It mainly comprises the motor vehicles.
- **5% Slab:** Comprising many essential items and goods of mass consumption, this slab is responsible for approximately **6-8%** of the GST collections.
- **12% Slab:** This slab is the smallest contributor to the GST revenue, accounting for an estimated **5-6%**.

It is important to note that the GST figures referenced herein are approximate and based on information available in some news media sources. The authors do not have access to the actual official data and are not in a position to verify the exact numbers or percentages.

Recent Overall GST Collection Trends

India's overall gross GST collections have shown a robust upward trend. For instance, the collection for August 2025 stood at INR 1.86 lakh crores, reflecting a 6.5% increase compared to the same month in the previous year. This consistent growth in collections is attributed to increased compliance, a broadening tax base, and a resilient economy.

A.3 56th GST Council Meeting overhauls India's GST Structure with a Two-Rate System

In a landmark move, the 56th GST Council meeting, held on September 3rd 2025, has ushered in a significant overhaul of India's GST regime by introducing a simplified two-rate structure. The Council, chaired by the **Hon'ble Union Finance Minister Nirmala Sitharaman**, also announced a series of rate changes across various goods and services, along with several trade facilitation measures aimed at easing compliances for taxpayers. The new rates are set to be effective mainly from 22 September 2025.

These changes, as set out in the official press release dated 03 September 2025, form part of the historical trajectory of rate rationalization under GST, thereby ensuring greater clarity, certainty, and ease of compliance in the indirect tax regime.

A crucial decision of the council was the rationalization of the existing multi-tiered GST structure into two primary rates, besides the exempted goods and services: a merit rate of **5%** and a standard rate of **18%**. This move is aimed at simplifying the tax system and reducing classification-related disputes. Additionally, a demerit rate of **40%** has been introduced for sin and luxury goods.

A.4 Key Highlights of the 56th GST Council Meeting:

The key highlights include the removal of 12% and 28% tax slabs, while merging items into the 5% or 18% tax slabs. Introduction of 40% tax slab for sin goods, correction of inverted tax structure, and resolving classification issues were also announced.

GST Rate Rationalization:

1. The erstwhile four-tier structure of 5%, 12%, 18%, and 28% has been consolidated into a two-rate system of 5% and 18%.
2. A new higher rate of 40% will be levied on demerit goods such as pan masala, tobacco, and aerated drinks, as well as luxury items.
3. The Council has also decided to levy GST on the Retail Sale Price (RSP) for pan masala and tobacco products.

Changes in GST Rates for Goods:

The Council has announced rate revisions for a wide array of goods, with many essential items becoming cheaper.

1. **Rate Reductions:** The GST rate has been reduced on numerous daily use items, including hair oil, soaps, toothpaste, and certain food products. Rates on several electronic items like televisions and mobile phones have also been brought down.
2. **Rate Increases:** Certain luxury and demerit goods will now attract a higher tax incidence under the new 40% slab.

Changes in GST Rates for Services:

Several services will also see a change in the applicable GST rates. A significant decision in this regard is the exemption of GST on individual health and life insurance policies and bringing the rate to 5% without ITC for Hotel Accommodation industry where daily tariff is less than or equal to INR 7,500/- .

Besides the changes in rates, the Council has also approved several structural and compliance-related reforms:

1. Retail Sale Price (RSP)-based valuation will now apply for pan masala, gutkha, cigarettes, and other tobacco products instead of transaction value.
2. Clarifications issued for services – a standalone restaurant cannot classify itself as “specified premises” to charge GST at 18% with ITC.
3. Valuation rules for lotteries have been aligned with rate changes.
4. Place of supply provisions for intermediary services under IGST shall be amended to align with international trade norms.
5. Post-sale discount rules simplified: discounts to be passed via GST credit notes, with corresponding ITC reversal by recipients where applicable.

6. Operationalization of the GST Appellate Tribunal (GSTAT): Appeals to be accepted before 30 September 2025, hearings to commence before 31 December 2025, with 30 June 2026 set as the deadline for backlog appeals. The Principal Bench will also act as the National Appellate Authority for Advance Ruling.

Most rate changes have been **effective from 22 Sept. 2025** vide various notifications dated 17 Sept. 2025, while tobacco and pan masala will continue at 28% + Cess until all compensation cess liabilities (loans and interest) are cleared.

A.5 Impact of reduction in GST Rates:

- **Exempted Goods/Services:**

  One significant negative consequence arising from such rate rationalizations is the **requirement to reverse Input Tax Credit (ITC) on goods and inputs when they are moved from taxable to exempt status.** Where the final supply of a good or service is exempt from GST, such as the newly exempted individual health and life insurance policies, the supplier will not be eligible to claim ITC on the inputs and input services used in supplying them. This is a fundamental principle of GST, ensuring that the tax chain is broken at the point of exemption, and the cost of tax on inputs is embedded in the price of the final exempt supply.

  While exemption may reduce the immediate tax incidence for consumers, it creates a cascading effect for businesses that had availed ITC on their inward supplies. The denial or reversal of such credit not only increases the cost of production but also defeats the fundamental principle of GST as a seamless value-added tax system.

  This concern has been repeatedly raised by trade and industry, as exemptions often result in hidden taxation, erosion of competitiveness, and compliance disputes.

- **Inverted duty structure:**

  The issue of the inverted duty structure arises when the GST rate on inputs is higher than that on the final output. With the recent reduction in GST rates on a substantial number of goods, there is an increased likelihood that input materials may attract a higher tax rate compared to the finished products. This mismatch can lead to the accumulation of unutilized ITC, creating a burden on businesses.

  To address this, the GST Council has reaffirmed that businesses impacted by such an inverted duty structure—particularly as a result of recent rate rationalization—will be eligible to claim refunds for the accumulated ITC. This move aims to provide essential liquidity to the affected sectors and aligns with one of the core principles of the GST framework: eliminating the cascading effect of taxes and promoting a seamless flow of credit across the supply chain.

B) TIME OF SUPPLY – NEW *vs.* OLD GST RATE

B.1 Why this discussion is necessary?

This discussion is essential to ascertain whether old GST rate would be applied on a given supply of goods/services, or the new rate, in following circumstances:

(a) Supply has been made up to 21.09.2025, but—

- Invoice is raised on or after 22.09.2025; or
- Payment is received on or after 22.09.2025; or
- Either invoice or payment: One of the event occurs after 21.09.2025

(b) Supply has been made on or after 22.09.2025, but—

- Invoice is raised up to 21.09.2025; or
- Payment is received up to 21.09.2025; or
- Either invoice or payment: One of the event occurs up to 21.09.2025

B.2 Sec.14 - Change in rate of tax in respect of supply of goods or services

Notwithstanding anything contained in section 12 or section 13, the time of supply, where there is a change in the rate of tax in respect of goods or services or both, shall be determined in the following manner, namely:—

(a) in case the goods or services or both have been supplied before the change in rate of tax,—

(i) where the invoice for the same has been issued and the payment is also received after the change in rate of tax, the time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earlier; or

(ii) where the invoice has been issued prior to the change in rate of tax but payment is received after the change in rate of tax, the time of supply shall be the date of issue of invoice; or

(iii) where the payment has been received before the change in rate of tax, but the invoice for the same is issued after the change in rate of tax, the time of supply shall be the date of receipt of payment;

(b) in case the goods or services or both have been supplied after the change in rate of tax,—

(i) where the payment is received after the change in rate of tax but the invoice has been issued prior to the change in rate of tax, the time of supply shall be the date of receipt of payment; or

(ii) where the invoice has been issued and payment is received before the change in rate of tax, the time of supply shall be the date of receipt of payment or date of issue of invoice, whichever is earlier; or

(iii) where the invoice has been issued after the change in rate of tax but the payment is received before the change in rate of tax, the time of supply shall be the date of issue of invoice:

Provided that the date of receipt of payment shall be the date of credit in the bank account if such credit in the bank account is after four working days from the date of change in the rate of tax.

Explanation.—For the purposes of this section, "the date of receipt of payment" shall be the date on which the payment is entered in the books of account of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.

B.3 Supply of Services – To summarize

S. N.	Date of supply	Date of invoice	Date of receipt of payment	Time of supply
1	Up to 21.09.25	On or After 22.09.25	On or After 22.09.25	Date of issue of invoice or date of receipt w.e.i. earlier *(New Rate)*
2	Up to 21.09.25	Up to 21.09.25	On or After 22.09.25	Date of issue of invoice *(Old Rate)*
3	Up to 21.09.25	On or After 22.09.25	Up to 21.09.25	Date of receipt *(Old Rate)*
4	On or After 22.09.25	Up to 21.09.25	On or After 21.09.25	Date of receipt *(New Rate)*
5	On or After 22.09.25	Up to 21.09.25	Up to 21.09.25	Date of issue of invoice or date of receipt w.e.i. earlier *(Old Rate)*
6	On or After 22.09.25	On or After 22.09.25	Up to 21.09.25	Date of issue of invoice (Difference of old rate paid on advance and new rate needs to be adjusted. If no adjustment is possible, then either refund to be claimed or shortage to be paid)

NOTES:

1. "The date of receipt of payment" shall be the date on which the payment is entered in the books of accounts of the supplier or the date on which the payment is credited to his bank account, whichever is earlier.
2. When such credit in the bank account is after 4 working days from the date of change in the rate of tax, date of credit in the bank account shall be the date of receipt of payment.

Summary of provisions contained in sec 14 in respect of supply of services:

1. Where services are supplied **before** change in rate of tax: Date of issue of invoice or date of receipt, whichever is earlier
2. Where services are supplied **after** change in rate of tax:
   - If both the events (invoice and payments) takes place before change in rate: Date of issue of invoice or date of receipt, **whichever is earlier**

– If one of the events (invoice or payments) takes place after change in rate: Date of issue of invoice or date of receipt, **whichever is later**.

B.4 Supply of Goods (other than composition tax payers) – To summarize

Date of receipt of advance is irrelevant for supply of goods: Please note that vide Notification No. 66/2017-CT, dated 15 Nov. 2017, whenever there is change in the rate of GST on goods *qua* supply of the goods by the non-composition persons, provisions contained in sec 14 of the Act would be read only with reference to "the date of issue of invoice by the supplier or the last date on which he is required, under sec 31, to issue the invoice with respect to the supply"; and date of payment shall be irrelevant.

S. N.	Date of supply	Date of invoice	Date of receipt of payment	Time of supply *(Applicable Rate)*
1	Up to 21.09.25	On or After 22.09.25*	On or After 22.09.25	Date of issue of invoice *(New Rate)*
2	Up to 21.09.25	Up to 21.09.25	On or After 22.09.25	Date of issue of invoice *(Old Rate)*
3	Up to 21.09.25	On or After 22.09.25*	Up to 21.09.25	Date of issue of invoice *(New Rate)*
4	On or After 22.09.25	Up to 21.09.25	On or After 22.09.25	Date of issue of invoice *(Old Rate)*
5	On or After 22.09.25	Up to 21.09.25	Up to 21.09.25	Date of issue of invoice *(Old Rate)*
6	On or After 22.09.25	On or After 22.09.25	Up to 21.09.25	Date of issue of invoice *(New Rate)*

* It may be noted that as per sec 31(1) of the GST Act, a registered person supplying taxable goods shall, before or at the time of,—

(a) removal of goods for supply to the recipient, where the supply involves movement of goods; or

(b) delivery of goods or making available thereof to the recipient, in any other case,

issue a tax invoice showing the description, quantity and value of goods, the tax charged thereon and such other particulars as may be prescribed.

It may further be noted that sec 14, by using the non-obstante phrase, "<u>Notwithstanding anything contained in section 12 or section 1</u>3", sec 14 overrides the provisions contained in sec 12 and 13, but not sec 31 of the GST Act.

Hence, it is legally not permitted to raise invoice after the date of supply unless it is specifically allowed in the law; *such as*, movement of goods without involving supply (i.e. goods sent on delivery challans or sent for approval, etc.).

B.5 FAQ by Press Release dated 03 Sept. 2025

Q4 What happens to the applicable rate of tax, if I had supplied goods/services or both before the changes in GST rates come into force but the invoices were issued later?

As per Section 14 (a)(i) of CGST Act, 2017, in case the goods or services or both have been supplied before the change in rate of tax, and the invoice for the same has been issued after the change in rate of tax, then the time of supply i.e. date of liability to pay tax on such supply will be as follows:

i. If the payment is received after the change in rate of tax, then time of supply shall be the date of receipt of payment or the date of issue of invoice, whichever is earlier.

ii. If the payment has been received before the change in rate of tax, the time of supply shall be the date of receipt of payment.

> ***However**, in respect of **supply of goods** where payment has been received up to 21.09.2025, but invoice for the same has been issued on or after 22.09.2025, **the authors do not support this view**; and going through the Notification No. 66/2017-CT, dated 15 Nov. 2017, which is also applicable to sec 14, time of supply should be date of invoice instead of receipt of payment.*
>
> ***Notification No. 66/2017-CT, dated 15 Nov. 2017 reads** as: In exercise of the powers conferred by sec 148 of the Central Goods and Services Tax Act, 2017 (12 of 2017) (hereafter in this notification referred to as the said Act) and in supersession of notification No. 40/2017-Central Tax, dated the 13th October, 2017, published in the Gazette of India, Extraordinary, Part II, Sec 3, Sub-section (i) vide number G.S.R.1254(E), dated the 13th October, 2017, except as respects things done or omitted to be done before such supersession, the Central Government, on the recommendations of the Council, hereby notifies **the registered person** who did not opt for the composition levy under sec 10 of the said Act as the class of persons **who shall pay the central tax on the outward supply of goods at the time of supply as specified in clause (a) of sub-section (2) of sec 12** of the said Act **including in the situations attracting the provisions of sec 14 of the said Act**, and shall accordingly furnish the details and returns as mentioned in Chapter IX of the said Act and the rules made thereunder and the period prescribed for the payment of tax by such class of registered persons shall be such as specified in the said Act.*

Q5 What would be the GST rate applicable if I have received advances for supply of goods/services or both but supply has not been completed or invoice is not issued?

The GST rate will be determined as per the time of supply provisions. (Refer Section 14 of the CGST Act, 2017).

C) Debit Notes and Credit Notes

Debit Notes and Credit Notes issued after change in GST rates, relating to invoices issued with Old GST rates

The critical factor in determining the applicable GST rate is the time of supply of the original transaction, not the date of issuance of the subsequent debit or credit note. These notes are intrinsically linked to the original invoice and serve as a mechanism to adjust the value and tax of a supply that has already occurred.

A debit note or a credit note, as defined under sec 34 of the GST Act, is not a new or independent transaction. Instead, it is a supplementary document issued to correct a previously issued tax invoice. Therefore, the tax implications of a debit or credit note are tied to the original supply to which it pertains.

(i) Scenario 1: Debit Note issued after a Tax Rate Increase

Let's assume, a service was provided on 15 Sept. 2025, when the applicable GST rate was 12%. The invoice was also raised on the same date. Effective from 22 Sept.2025, the GST rate for that service is reduced to 5%. On 10 Oct. 2025, the supplier discovers an under-invoicing and raises a debit note to correct the value – the GST rate to be applied on this debit note will be the original rate of 12%.

However, had the invoice been issued on 30 Sept. 2025 [30 days are allowed under sec 31(2) read with rule 47] charging GST @ 5%, then debit note would also be issued with tax @5%.

(ii) Scenario 2: Credit Note issued after a Tax Rate Decrease

To illustrate, some goods were supplied on 15 Sept. 2025, with a GST rate of 12%. The tax rate for these goods is later reduced to 5%, effective from 22 Sept. 2025. If the customer returns some of the goods and the supplier issues a credit note on 15 Oct. 2025, the GST to be reversed in the credit note will be calculated at the original rate of 12%.

D) Stock as on 21.09.2025

D.1 If the outward supply has been exempted

I) Section 18(4) of the GST Act

Where any registered person who has availed of input tax credit opts to pay tax under section 10 or, **where the goods or services or both supplied by him become <u>wholly</u>**

exempt, **he shall pay** an amount, by way of debit in the electronic credit ledger or electronic cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock and on capital goods, reduced by such percentage points as may be prescribed, on the day immediately preceding the date of exercising of such option or, as the case may be, **the date of such exemption**:

Provided that after payment of such amount, the balance of input tax credit, if any, lying in his electronic credit ledger shall lapse.

II) Rule 44(1) of the GST Rules

The amount of input tax credit relating to inputs held in stock, inputs contained in semi-finished and finished goods held in stock, and capital goods held in stock shall, for the purposes of sub-section (4) of section 18 or sub-section (5) of section 29, be determined in the following manner, namely,-

(a) for inputs held in stock and inputs contained in semi-finished and finished goods held in stock, the input tax credit shall be calculated proportionately on the basis of the corresponding invoices on which credit had been availed by the registered taxable person on such inputs;

(b) for capital goods held in stock, the input tax credit involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as five years.

Illustration:

Capital goods have been in use for 4 years, 6 month and 15 days.

The useful remaining life in months = 5 months ignoring a part of the month Input tax credit taken on such capital goods = C

Input tax credit attributable to remaining useful life = C multiplied by 5/60

III) Analysis

(i) Sec 18(4) will apply to the traders, manufacturers and service providers.

(ii) It shall apply where entire activity/line of business becomes exempt.

For example, a person supplies ONLY exercise books and note books: this provision will apply.

However, if a manufacturer purchases papers (common input) for making of exercise books, note books (now exempted) and brochures & printed matter (remain taxable @5%): then this provision would not apply.

Taking another illustration: On closing hours of 21.09.2025, a trader in stationery goods has stock of, *inter-alia*, exercise books and note books of Rs. 1 Lac plus GST (ITC) of Rs.12,000/-. He will be liable to reverse/pay ITC of Rs.12,000/-.

(iii) If the goods/services have been exempted, the registered person shall determine the ITC on 21.09.2025 on the following basis:

a. Inputs held in stock, and

b. Inputs contained in semi-finished or finished goods held in stock, and

c. Capital goods, as reduced by prescribed percentage points.

(iv) **Value of ITC on inputs** shall be determined as under:

a. ***Where invoices for inputs in stock are available:*** It will be calculated proportionately on the basis of corresponding invoices on which ITC had been availed on such input.

b. ***Where invoices for inputs in stock are not available:*** He shall estimate the amount of ITC based on the prevailing market price of goods on 21.09.2025 (closing).

Also, such details shall be duly certified by a practicing Chartered Accountant or Cost Accountant.

c. The amount, as specified above, shall be determined separately for ITC of IGST, CGST, UTGST and SGST.

d. The amount so determined shall form part of the output tax liability of the registered person and the details of the amount shall be furnished in **Form GST ITC-03**.

(v) **Value of ITC on Capital Goods**: For capital goods held in stock, the ITC involved in the remaining useful life in months shall be computed on pro-rata basis, taking the useful life as 5 years.

Illustration has been given in the rule 44(1) itself.

(vi) Amount so payable shall be paid first through Electronic Credit Ledger and then through Electronic Cash Ledger.

(vii) Balance lying in the Electronic Credit Ledger after payment of tax on inputs and capital goods shall **LAPSE**.

D.2 GST Rates have been reduced on Goods

The registered person is not required to pay any tax or reverse ITC on stock held on 21.09.2025.

D.3 GST Rate on goods held in stock, but supplied on or after 22.09.2025

FAQ by Press Release dated 03 Sept. 2025

Q11 If I already have stock on the date when rate changes come into effect, should I apply the revised rate?

GST is levied on supply. Therefore, on goods supplied on or after the revised GST rates are notified, the new GST rates will be applicable on the outward supplies of goods/services or both.

E) Accumulated ITC – Utilisation and Refund

E.1 If the outward supply has been exempted – Persons exclusively supplying such goods or trading these goods – Accumulated ITC

(i) Accumulated ITC on inputs - Please see *Para No.D.1* [Section 18(4) read with Rule 44(1)]

(ii) In short, he is **not eligible** for refund of accumulated ITC, if any, even after payment/reversal of ITC under (i) above.

FAQ by Press Release dated 03 Sept. 2025

Q9 My outward supply is exempt under new rate schedule. But I already have ITC of GST paid in my ledger. Will I need to reverse ITC?

The ITC can be utilized to discharge outward liability for supplies of goods/services or both made till 21st September, 2025. However, for supplies made on or after i.e 22nd September, 2025 when the rate change is effected, **ITC will have to be reversed** as per provisions of CGST Act, 2017.

E.2 Where GST Rate has been reduced or persons is supplying taxable as well as exempt supplies – Accumulated ITC

(I) Eligibility to utilise ITC against supplies made on or after 22 Sept. 2025

The registered persons (manufacturers, traders and service providers) shall be eligible to utilise ITC of inputs, input services and capital goods, against the output tax on supplies made on or after 22.09.2025.

FAQ by Press Release dated 03 Sept. 2025

Q8 GST rate has been reduced on my outward supply of goods/ services made on or after 22nd Sept., 2025 but I already have ITC of GST in ledger that accrued on account of higher rate. Can I continue to use such credit?

The ITC once duly availed in e-credit ledger can be used for discharge of any output tax liability in terms of provisions of section 49(4) of CGST Act and rules made thereunder.

Q6 What will happen to the ITC for purchases made before changes in GST rates came into effect? Will I get ITC at reduced rate now?

Section 16(1) of CGST Act entitles a registered person to take credit of the input tax charged on his inward supplies, which he uses or intends to use in the course or furtherance of his business, subject to conditions and restrictions which may be prescribed and in the manner provided under section 49 of the CGST Act 2017, which gets credited to his e- credit ledger.

Accordingly, if a registered person receives an inward supply and tax has been duly charged on it, at a rate which is in consonance with the rate prevailing at the time of such supply, the said registered person is entitled to the credit of such tax paid, subject to the other conditions/ restrictions and manner specified in section 49 of the CGST Act 2017.

(II) Eligibility to claim refund of accumulated ITC of Inputs as on 21.09.2025 under Inverted Duty Structure (IDS)

[Please note that under the IDS, the registered person can claim refund of ITC of inputs only [not of the input services and capital goods.]]

- ***If outward supplies are made up to 21.09.2025:***

  Taxpayers may claim refund of such ITC in accordance with sec 54 read with related rules. This IDS situation may arise only in the cases of manufacturers.

  However, the claimant of refund while filing the application of refund, shall select the period only up to September 2025, omitting the purchases made on or after 22.09.2025.

- ***If outward supplies are made on or after 22.09.2025:***

  <u>In case of Traders</u>, they will not be eligible to claim refund of accumulated ITC under IDS.

  <u>In case of Manufacturers</u>: *Suppose*, ITC has been accumulated since yarn was taxable @12%, but fabric was taxable @5%. In this scenario, manufacturers were eligible for refund under IDS before change in rates. However, rate of yarn will be reduced to 5% with effect from 22.09.2025. In this case, *the Authors are of the view* that they could claim refund of accumulated ITC in accordance with sec 54 read with related rules. But, a suitable clarification is necessary to eliminate possible litigation.

  <u>In case of service providers where rate of tax has been reduced to 5% without ITC</u>: On the lines of earlier discussion, *the Authors are of the view* that, even if ITC is not available after change of rate, they could claim refund of accumulated ITC **in respect of inputs** in accordance with sec 54 read with related rules.

  Nevertheless, the claimant of refund while filing the application of refund, will include purchases made up to 21.09.2025 only, which were taxable at a higher rate.

  <u>Circular No. 135/05/2020-GST, dated 31 March 2020 as substituted vide Circular No. 173/05/2022-GST, dated 06 July 2022 (Para 3.1 and 3.2)</u>

  3.1 Some of the applicants are seeking refund of unutilized ITC on account of inverted duty structure where the inversion is due to change in the GST rate on the same goods. This can be explained through an illustration. An applicant <u>trading in goods</u> has purchased, say goods 'X' attracting 18% GST. However, subsequently, the rate of GST on 'X' has been reduced to, say 12%.

  3.2 It may be noted that refund of accumulated ITC in terms of clause (ii) of first proviso to Sec 54(3) of the CGST Act is available where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies. It is noteworthy that, the input and output being the same in such cases, though attracting different tax rates at different points in time, do not get covered under the provisions of clause (ii) of the first proviso to Sec 54(3) of the CGST Act.

FAQ by Press Release dated 03 Sept. 2025

Q10 Will I be allowed to take refund of accumulated credit arising out of inverted duty structure for supplies effected upto the date of effect of revised rate as notified?

The said issue has been clarified vide circular No. 135/05/2020-GST dated 31.03.2020 (as amended), which states that refund of accumulated ITC in terms of clause (ii) of first proviso to section 54(3) of the CGST Act, is available where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies. However, the input and output being the same in such cases, though attracting different tax rates at different points in time, do not get covered under the provisions of clause (ii) of the first proviso to sub-section (3) of section 54 of the CGST Act.

(III) Refund of accumulated credit of Compensation Cess [Cess, in short], which will be merged in normal GST Rates

Since the Cess will be merged in the normal rate, many dealers, including auto-dealers, might have accumulated ITC of cess on their inventory. Certainly, at present, there is no provision to utilise Cess ITC against IGST/CGST/SGST ITC. Ideally, the accumulated credit of Cess should be transferred to the IGST/CGST since the Government would charge higher GST rate on these commodities on or after 22 Sept. 2025. Therefore, necessary amendments should be carried in the law in the interest of the business.

However, **the CBIC Chairman** has clarified that there will be no refund or adjustment of the GST Cess already paid on existing inventory of automobiles, aerated drinks, coal, etc. He said that as far as these stocks as on 22 Sept. are concerned, if Cess is paid and its ITC is taken, in that scenario, ITC taken on Cess will lapse. Since they don’t have to discharge Cess from 22 Sept., there is no question of utilisation of ITC on Cess. *[Vide Financial Express dated 05.09.2025]*

F) E-way Bills

FAQ by Press Release dated 03 Sept. 2025

Q12 Will the e-way bills have to be cancelled and generated afresh on goods in transit when the new rates come into effect?

As per rule 138 of CGST Rules, 2017 the e-way bill is to be generated before the start of supply/transport of goods. There is no mandatory requirement for cancellation and fresh generation of e-way bills for goods in transit when the new rates come into effect. E-way bills currently in transit will continue to remain valid as per their original validity period.

G) Pass on the benefit to the consumer – Anti Profiteering

G.1 Primary objective of rationalization of GST Rates

The primary objective behind the reduction in GST rates, as recommended by the 56th GST Council Meeting, is to make goods and services more affordable for consumers. This initiative is intended to stimulate demand, boost consumption, and thereby contribute to overall economic growth. Accordingly, it is essential that the benefits arising from such rate reductions are passed on to end consumers through a corresponding reduction in prices.

G.2 Anti-profiteering

Failure to do so constitutes profiteering, which is a clear violation of the anti-profiteering provisions under sec 171 of the GST Act. This section mandates that any reduction in the rate of tax or the benefit of ITC must be reflected in the final price charged to consumers.

However, the government has notified that with effect from 1 April 2025, the Authority under sec 171 will no longer accept applications for examining whether the availed ITC or reduction in tax rates has been appropriately passed on to consumers.

Despite this development, we are of the view that there remains a strong need to retain and enforce sec 171 of the GST Act. In the absence of such oversight, there is a risk that businesses may withhold the intended benefits from consumers. Therefore, appropriate action should continue to be taken against erring entities to uphold consumer welfare and ensure that the core objective of the GST framework—fair pricing through tax rationalization—is effectively achieved.

G.3 Government's commitments and steps

In an interview, **the Hon'ble Union Finance Minister, Ms. Nirmala Sitharaman** assured that the GST cut benefits will be transferred and passed on to the people by industry. She added, "…. me, my department and the CBIC are mainly concerned with monitoring this and taking corrective action where needed…"

In a press conference, **the Revenue Secretary, Ministry of Finance**, stated, "….. we will engage with industry and ensure that benefits are given." He also said that that the CBIC will issue guidance on transition for goods that have already been sourced and are lying with dealers and distributors.

The Finance Ministry has directed GST field offices to submit monthly comparative data on maximum retail prices for 54 commonly used goods after new lower GST rates take effect on September 22. The first brand-wise report comparing pre- and post-September 22 MRPs is due to the tax board by September 30, with subsequent monthly submissions by the 20th for six months. The item list includes consumer goods and medical supplies such as cement, shampoo, toothpaste, ketchup, ice cream, appliances, diagnostic kits and glucometers, toys and stationery. The directive follows the tax council's decision to cut rates on numerous items and consolidate slabs into two tiers of 5% and 18%. [Vide PTI (Extracts)]

In view of reduction in the GST rates on goods and services, permission and guidelines have been given by **the Weight and Measures Unit**, Department of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution on 9 Sept. 2025 to allow the manufactures, packers and importers of pre-packaged commodities to **declare the revised retail price (MRP)** on the unsold stock as on 21 Sept. 2025 up to 31 Dec. 2025 or till such date the stock is exhausted, whichever is earlier.

H) Rates Notifications – Implementing recommendations of 56th Meeting of the GST Council

S. No.	Notification No./ Date	Particulars
1	09/2025-CT (R) / 17.09.2025	Supersedes N. No. 1/2017-CT (Rates) dated 28.06.2017 - New GST Rate Schedules on supply of Goods - 5%, 18%, 40%, 3%, 0.250%, 1.5% and 28% – effective from 22.09.2025
2	10/2025-CT (R)/ 17.09.2025	Supersedes N. No. 2/2017-CT (Rates) dated 28.06.2017 – New GST Exemptions on supply of Goods – effective from 22.09.2025
3	11/2025-CT (R)/ 17.09.2025	Amends N. No. 3/2017-CT (Rate) dated 28.06.2017 – Rate of GST on petroleum operations and coal bed methane operations increased from 12% to 18% – effective from 22.09.2025
4	12/2025-CT (R)/ 17.09.2025	Amends N. No. 8/2018-CT (Rate) dated 25.01.2018 – Supply of old and used motor vehicles – Reference changed to New Sch. II and III [earlier Sch. IV] – effective from 22.09.2025
5	13/2025-CT (R)/ 17.09.2025	Amends N. No. 21/2018-CT (Rate) dated 26.07.2018 – Supply of Handicraft Goods – effective from 22.09.2025
6	14/2025-CT (R)/ 17.09.2025	Notifies GST rate of 12% on supply of specified brick and related goods - effective from 22.09.2025 [Earlier also taxable @12%]
7	15/2025-CT (R)/ 17.09.2025	Amends N. No. 11/2017-CT (Rate) dated 28.06.2017 – Change in rates on supply of services w.e.f. 22.09.2025
8	16/2025-CT (R)/ 17.09.2025	Amends N. No. 12/2017-CT (Rate) dated 28.06.2017 – Exemption on supply of services w.e.f. 22.09.2025
9	17/2025-CT (R)/ 17.09.2025	Amends N. No. 17/2017-CT (Rate) dated 28.06.2017– services by way of local delivery – covered under sec 9(5) w.e.f. 22.09.2025
Identical notifications have also been issued on 17.09.2025 under the IGST Act. In the above table, GST Rates includes the SGST Rates also: i.e., [CGST + SGST]		

★

Chapter A2

Change in GST Rates –HSN wise Comparison as on 22 Sept. 2025

[Source: Press Release dated 03 Sept. 2025; HSN & Old Entry Numbers added by Authors)

Readers are advised to refer the original entry in respective notification issued in this regard before taking any decision, whatsoever.
GST Rates means CGST+SGST Rate (or IGST Rate). It has been assumed that State GST rates and exemptions are same as those in the Central GST Act.

A Change in GST Rates on Goods – HSN-wise

[Supersession to N. No. 01/2017-CT (Rate) and N. No. 02/2017-CT (Rate), both dated 28.06.2017 vide N. No. 09/2025-CT (Rate) and N. No. 10/2025-CT (Rate), both dated 17.09.2025]

1.1 Change in rates of goods

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description	21.09.2025			22.09.2025 New Rate
			Sch. No.	Entry No	Rate	
1.	01012100, 010129	Live horses	II	1	12%	**5%**
2.	0401	Ultra-High Temperature (UHT) milk	I	7	5%	**Nil**
3.	0402 91 10, 0402 99 20	Condensed milk	II	11	12%	**5%**
4.	0405	Butter and other fats (i.e. ghee, butter oil, etc.) and oils derived from milk; dairy spreads	II	12	12%	**5%**
5.	0406	Cheese	II	13	12%	**5%**
6.	0406	Chena or paneer, pre-packaged and labelled	I	11	5%	**Nil**
7.	0801	Brazil nuts, dried, whether or not Shelled or Peeled	II	14	12%	**5%**

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description	21.09.2025			22.09. 2025 New Rate
			Sch. No.	Entry No	Rate	
8.	0802	Other nuts, dried, whether or not shelled or peeled, such as Almonds, Hazelnuts or filberts (Corylus spp.), Chestnuts (Castanea spp.), Pistachios, Macadamia nuts, Kola nuts (Cola spp.), Pine nuts	II	15	12%	**5%**
9.	0804	Dates (soft or hard), figs, pineapples, avocados, guavas, mangoes (other than mangoes sliced, dried) and mangosteens, dried	II	16	12%	**5%**
10.	0805	Citrus fruit, such as Oranges, Mandarins (including tangerines and satsumas); clementines, wilkings and similar citrus hybrids, Grapefruit, including pomelos, Lemons (Citrus limon, Citrus limonum) and limes (Citrus aurantifolia, Citrus latifolia), dried	II	16A	12%	**5%**
11.	0813	Fruit, dried, other than that of headings 0801 to 0806; mixtures of nuts or dried fruits of Chapter 8 (other than dried tamarind)	II	17	12%	**5%**
12.	1107	Malt, whether or not roasted	III	2	18%	**5%**
13.	1108	Starches; inulin	II	18	12%	**5%**
14.	1302	Vegetable saps and extracts; pectic substances, pectinates and pectates; agar-agar and other mucilages and thickeners, whether or not modified, derived from vegetable products	III	3	18%	**5%**
15.	1404 90 10	Bidi wrapper leaves (tendu)	III	4	18%	**5%**
16.	1404 90 50	Indian katha	III	5	18%	**5%**
17.	1501	Pig fats (including lard) and poultry fat, other than that of heading 0209 or 1503	II	19	12%	**5%**
18.	1502	Fats of bovine animals, sheep or goats, other than those of heading 1503	II	20	12%	**5%**
19.	1503	Lard stearin, lard oil, oleo stearin, oleo-oil and tallow oil, not emulsified or mixed or otherwise prepared	II	21	12%	**5%**
20.	1504	Fats and oils and their fractions, of fish or marine mammals, whether or not refined, but not chemically modified	II	22	12%	**5%**
21.	1505	Wool grease and fatty substances derived therefrom (including lanolin)	II	23	12%	**5%**

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description	21.09.2025			22.09. 2025 New Rate
			Sch. No.	Entry No	Rate	
22.	1506	Other animal fats and oils and their fractions, whether or not refined, but not chemically modified	II	24	12%	**5%**
23.	1516	Animal or microbial fats and animal or microbial oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared	II	25	12%	**5%**
24.	1517	Edible mixtures or preparations of animal fats or microbial fats or animal oils or microbial oils or of fractions of different animal fats or microbial fats or animal oils or microbial oils of this Chapter, other than edible fats or oils or their fractions of heading 1516	II	26	12%	**5%**
25.	1517 10	All goods i.e. Margarine, Linoxyn	III	6	18%	**5%**
26.	1518	Animal or microbial fats and animal or microbial oils and their fractions, boiled, oxidised, dehydrated, sulphurised, blown, polymerised by heat in vacuum or in inert gas or otherwise chemically modified, excluding those of heading 1516; inedible mixtures or preparations of animal, vegetable or microbial fats or oils or of fractions of different fats or oils of this chapter, not elsewhere specified of included	II	27	12%	**5%**
27.	1520 00 00	Glycerol, crude; glycerol waters and glycerol lyes	III	7	18%	**5%**
28.	1521	Vegetable waxes (other than triglycerides), Beeswax, other insect waxes and spermaceti, whether or not refined or coloured	III	8	18%	**5%**
29.	1522	Degras, residues resulting from the treatment of fatty substances or animal or vegetable waxes	III	9	18%	**5%**
30.	1601	Sausages and similar products, of meat, meat offal, blood or insects; food preparations based on these products	II	28	12%	**5%**
31.	1602	Other prepared or preserved meat, meat offal, blood or insects	II	29	12%	**5%**
32.	1603	Extracts and juices of meat, fish or crustaceans, molluscs or other aquatic invertebrates	II	30	12%	**5%**

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description	21.09.2025			22.09. 2025 New Rate
			Sch. No.	Entry No	Rate	
33.	1604	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs	II	31	12%	**5%**
34.	1605	Crustaceans, molluscs and other aquatic invertebrates prepared or preserved	II	32	12%	**5%**
35.	1701 91, 1701 99	All goods, including refined sugar containing added flavouring or colouring matter, sugar cubes	II	32A	12%	**5%**
36.	1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel	III	11	18%	**5%**
37.	1704	Sugar boiled confectionery	II	32AA	12%	**5%**
38.	1704	Sugar confectionery	III	12	18%	**5%**
39.	1804	Cocoa butter, fat and oil	III	12A	18%	**5%**
40.	1805	Cocoa powder, not containing added sugar or sweetening matter	III	12B	18%	**5%**
41.	1806	Chocolates and other food preparations containing cocoa	III	12C	18%	**5%**
42.	1901 [other than 1901 20 00]	Malt extract, food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40% by weight of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of heading 0401 to 0404, not containing cocoa or containing less than 5% by weight of cocoa calculated on a totally defatted basis not elsewhere specified or included	III	13	18%	**5%**
43.	1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared	II	32B	12%	**5%**
44.	1904 [other than 1904 10 20]	All goods i.e. Corn flakes, bulgar wheat, prepared foods obtained from cereal flakes, Fortified Rice Kernel (FRK)	III	15	18%	**5%**

S. No.	Chapter / Heading / Sub-heading / Tariff item	Description	21.09.2025			22.09.2025 New Rate
			Sch. No.	Entry No	Rate	
45.	1905	Pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products (other than bread, pizza bread, khakhra, chapathi, roti)	III	16	18%	**5%**
46.	1905 90 30	Extruded or expanded products, savoury or salted	II	32C	12%	**5%**
47.	1905	Pizza bread	I	99	5%	**Nil**
48.	1905 or 2106	Khakhra, chapathi or roti	I	99A	5%	**Nil**
49.	2001	Vegetables, fruit, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid	II	33	12%	**5%**
50.	2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid	II	34	12%	**5%**
51.	2003	Mushrooms and truffles, prepared or preserved otherwise than by vinegar or acetic acid	II	35	12%	**5%**
52.	2004	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, frozen, other than products of heading 2006	II	36	12%	**5%**
53.	2005	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading 2006	II	37	12%	**5%**
54.	2006	Vegetables, fruit, nuts, fruit-peel and other parts of plants, preserved by sugar (drained, glacé or crystallised)	II	38	12%	**5%**
55.	2007	Jams, fruit jellies, marmalades, fruit or nut purée and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter	II	39	12%	**5%**
56.	2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included; such as Ground-nuts, Cashew nut, roasted, salted or roasted and salted, Other roasted nuts and seeds, squash of Mango, Lemon, Orange, Pineapple or other fruits	II	40	12%	**5%**