Kottayam Branch of SIRC of The Institute of Chartered Accountants of India

GST 2.0 – HOW TO ADAPT

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KEY HIGHLIGHTS OF NEXT GEN-GST REFORMS

- RATE RATIONALISATION
- STRUCTURAL REFORM
- TRADE FACILITATION MEASURES

RATE RATIONALISATION – TWO TIER GST RATE

Till 21st Sept 2025

- 5%
- 12%
- 18%
- 28%
- Compensation cess

From 22nd Sept 2025

- 5%
- 18%
- 40% - Luxury and SIN Goods

RATE RATIONALISATION – Other points

- De-merit rate of 40% GST introduced on Luxury items and SIN Goods (pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco).
- Compensation cess discontinue from 22nd September 2025 except for SIN Goods.
- Higher rates for pan masala, cigarettes, tobacco, etc., will be introduced only after existing compensation cess obligations are fulfilled.
- 3% GST rate of precision stones and Jewellery will continue.
- Composition scheme GST Rates will continue.

RATES ON GOODS – How it has been decided

- **Daily essential and Household goods** – GST reduced from 18% or 12% to 5% or NIL
- **Consumer durable items** – GST reduced from 28% to 18%
- **Health sector** - Important medicines and drugs – GST Reduced to 12%/5% or Nil.
- **Education sector** items such as pencils, notebooks, erasers – GST Reduced from 12%/5% to NIL
- **Construction sector** items such as cements reduced from 28% to 18%.
- **Agricultural sector** items such as Tractors, sprinklers – GST reduced from 12% to 5%.

TRANSITIONAL SUPPLIES – WHICH GST RATE TO APPLY?

Transitional supplies - Which GST Rate to apply?

Supply made before rate or after change	Invoice date	Payment date	New Rate or Old Rate
Before	After	Before	Old Rate
Before	After	After	New Rate
Before	Before	After	Old Rate
After	Before	Before	Old Rate
After	After	Before	New Rate
After	Before	After	New Rate
Before	Before	Before	Old Rate
After	After	After	New Rate

MRP FIXATION – MANDATORY?

Department of consumer affairs – Advisory dated 09.09.2025 – MRP Revision

- Permit manufacturers/packers/importers of pre-packaged commodity to declare revised MRP on unsold inventory subject to following conditions:
  - ✓ **<u>Original MRP to remain intact and Revised MRP to be declared separately.</u>**
  - ✓ Revised MRP amount shall not be higher than the extent of increase in tax or higher than the extent of price after reduction of tax.
  - ✓ Circulation of information by 2 or more advertisements in newspapers and circulation of notices to dealers and to Director, Legal Metrology at Centre level and Controllers, Legal Metrology at State level
- **Any unexhausted packaging material (prior to GST revision) may be consumed up to December 31, 2025, post corrections in MRP. Such revised MRP may be declared through use of an additional label or sticker/ stamping/ online printing.**

Updated advisory dated 18.09.2025 on MRP Revision

- Guidelines on MRP revision:
  - ✓ **Revision of MRP label through additional labels is now voluntary.**
  - ✓ **Revision of revised unit sale price is also not mandatory.**
  - ✓ **Requirement to publish two advertisements has been waived off.**
- But the following guidelines would be required:
  - ✓ Circulation of notices to wholesale dealers/retailers about revised prices.
  - ✓ Circulation to Director, Legal Metrology at Centre level and Controllers, Legal Metrology at State level.
  - ✓ Information regarding revision in prices to be communicated to dealers/retailers/consumers or immediate basis. Such communication has to be through all possible channels including electronic print and social media.
- Any packing material or wrapper which could not be exhausted by the manufacturer or packer or importer prior to revision of GST, may be **used for packing upto 31st March, 2026**.

National Pharmaceutical Pricing Authority – Office Memorandum dated 12.09.2025

- The benefit of reduction in GST rates must be passed on to consumers/patients effective from **22nd September 2025.**
- Manufacturers/marketing companies are required to issue a revised price list or supplementary price list in **Form V/VI** to dealers and retailers, reflecting the revised GST rate and corresponding revised MRPs.
- Re-labelling or re-stickering of stock held prior to 22nd September 2025 is **not mandatory**, provided manufacturers/marketing companies can ensure that the price reduction is correctly passed on at the retailer level.

PRACTICAL CASE STUDIES

Case Study No. I – Same Goods Rate Change

Facts:

- A Ltd., a retailer of handbags, purchased a batch of handbags on 15th September 2025.
- The applicable GST rate on the date of purchase was 12%.
- As of 21st September 2025, some handbags remained unsold.
- With effect from 22nd September 2025, the GST rate on handbags was reduced to 5%.
- The GST paid at 12% remains accumulated in A Ltd.'s credit ledger.

Query:

- Can A Ltd. avail ITC of the GST paid at the higher rate of 12%?
- Is A Ltd. eligible to claim a refund of the differential GST amount?

Case Study No. I – Government clarification

- **GST FAQ & Circular Overview**
  - Clarifies that **IDS refund is not available** for credit accumulation due to **rate reductions** (based on Circular dated **31.03.2020**).

- **Circular No. 135/05/2020-GST (31.03.2020)**
  - Refund eligible only if inputs GST rate higher than the GST rate on outward supplies.
  - **No refund where the input and output are the same goods but attract different tax rates at different points in time.**

Case Study No. I– Judicial Precedents

1. **Guwahati High Court – BMG Informatics (P.) Ltd. v. UOI -** Refund **cannot be denied** merely because input and output are same goods. Statute does not impose such a restriction. Here, assessee applied for IDS refund where there output supplies concessional GST Rates on supplies to PSUs and Government departments.
2. **Calcutta High Court – Shivaco Associates v. Jt. Commissioner of State Tax -** CGST Act **does not restrict** refund when input and output are the same. The circular's attempt to restrict refund only to cases where input and output differ was held to be an impermissible creation of a subclass. In this case, assessee preferred a refund due to rate reduction from 18% to 5%.
3. **Rajasthan High Court – Baker Hughes Asia Pacific Ltd. v. UOI -** Circular is repugnant and conflicting to Section 54(3)(ii) of the CGST Act.

- **Circular No. 173/05/2022-GST (06.07.2022):**
  - Partially amends earlier circular. **IDS refund allowed** where concessional rate notifications apply to output supplies

Case Study No. 2 – ITC Impact – Goods becomes exempt

Facts:

- KTM Ltd. engages in the manufacture of goods attracting GST at the rate of 18%.
- As on 21st September 2025, the inventory of KTM Ltd. is as follows:

Particulars	Value in Rupees	Tax
Inputs	1,000	180
Inputs in semi-finished form	500	90
Finished goods	5,000	900
Capital Goods	10,000	1,800

- Capital goods has been used for 4 years (48 months).
- The goods becomes exempted from 22nd September 2025. **No balance in the electronic credit ledger**

Case Study No. 2 – ITC Impact – Goods becomes exempt

- Section 18(4) of the CGST Act read as follows:
  - 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 wholly 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, **(1,800*12/60=360)**
  - on the day immediately preceding the date of exercising of such option or, as the case may be, the date of such exemption.

Case Study No. 2 – ITC Impact – Goods becomes exempt

What if exempt supplies exported? Do I need to reverse ITC?

Case Study No. 3 – Passing on benefit to customers

Facts:

- ACV Ltd., a retailer, was supplying air conditioners at a price of Rs. 30,000/- when the applicable GST rate was 28%.
- With effect from 22nd September 2025, the GST rate on air conditioners was reduced from 28% to 18%.
- However, ACV Ltd. continued to supply air conditioners at the same price of Rs. 30,000/-, thereby increasing its profit margin.

Query:

- Whether ACV Ltd. is justified in not reducing the price after the reduction in GST rate?
- What consequences can ACV Ltd. face under the GST law?

Case Study No. 3 – Passing on benefit to customers

Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way of commensurate reduction in prices

- **Notification No. 19/2024 – Central Tax - Effective Date: 1st April 2025** - The Authority will not accept any requests to check if input tax credit benefits were passed on or If GST rate reductions led to price cuts.
- **Reckitt Benckiser India Pvt. Ltd. v. UOI – 2024,** the Delhi High Court held as follows:
  - Whatever savings on account of rate reduction or benefit of ITC should be passed on to consumers;
  - Unjust enrichment not permissible
  - No fixed formula for commensurate reduction in price. Calculation depends on facts, industry and other factors such as cost escalations on account of which the reduction stands offset, skewed input credit etc.

Government of India – TRU – Order dated 09.09.2025

To

All the Principal Chief Commissioners / Chief Commissioners of Central tax, CGST Zones,

Madam/ Sir,

Subject: Monthly report of price change data of commodities pre and post GST rate rationalization w.e.f. 22nd September, 2025 – reg.

I am directed to state that the GST Council, in its recent meeting, recommended rationalization of GST rates on various commodities which will be effective from 22nd September, 2025.

2. In this connection, you are requested to kindly compile commodity-wise price data from the field formations and trade associations under your jurisdiction, prior to the rate change and after its implementation (i.e. **pre and post 22nd September, 2025**) for the next six months. The data may please be furnished in respect of goods listed as **Annexure** in the format below:

S. No	Commodity	Brand	Maximum Retail Price (MRP)	
			Before 22.9.2025	After 22.9.2025

Note: Price comparison data may be provided for comparable quantity eg gm, ml etc

3. The first report may be furnished to the Board **by 30th September, 2025 positively** and emailed at **budget-cbec@nic.in.** Thereafter the monthly report may please be sent **by the 20th of each month** till March 2026.

Government of India – TRU – Order dated 09.09.2025 – Goods referred in Annexure

- Condensed Milk, Butter, Cheese, Ghee, Dried fruits, Chocolates, Jams, Ice cream, Cakes, Tomato Ketchup, Soya Milk Drinks
- Hair Oil, Shampoo, Toothbrush, Toothpaste, Face powder, Shaving cream, aftershave lotion
- Pencils, crayons, Erasers, sharpeners, Mathematical boxes, geometry boxes, colour boxes, Exercise Book, graph book, note books
- AC, washing machines, TV, Projectors
- Medicines, thermometers, All diagnostic kit and reagents, Blood glucose monitoring system
- Napkins, diapers for babies, clinical diapers
- Kitchen and house hold articles
- Cement, umberallas, solar cookers, solar water heater and system

Pricing structure – Goods attracted 12% moved to 5% GST rate

Particulars	Price when GST rate is 12%	Price when GST rate is 5%
Purchase price	100	100
GST on purchase (available as ITC)	12 (100*12%)	5 (100*5%)
Total purchase value in invoice	112	105
Profit Margin	50	50
Transaction value	150	150
GST on transaction value	18 (150*12%)	7.5 (150*5%)
Sale value	**168**	**157.5 (150+7.5)**
Percentage of Margin	**50%**	**50%**

Pricing structure – Inputs 5% GST and output GST changed from 5% to NIL

Particulars	Price when Output GST rate is 5%	Price when output GST rate is NIL
Purchase price	100	100
GST on purchase	5 (100*5%)	5 (100*5%)
Total purchase value in invoice	105	105
Profit Margin	50	50
Transaction value	150	155
GST Rate on Output	5%	NIL
GST on transaction value	7.5 (150*5%)	NIL
Sale value	**157.5 (150+7.5)**	**155**
Percentage of Margin	**50%**	**50%**

Why Sale price after GST reduction is not 157.5 * 95% = 149.625?

Factors that can be considered for determining price fixation

- Ensure percentage of profit margin remains the same
- Whether ITC needs to be added to cost?
- ITC accumulation due to inverted Duty structure
- Rate of New GST

Case Study No. 4 – Credit Note issued after 22nd sept 2025 for the supply made before 22nd sept, 2025

Facts:

- Sun Ltd. supplied an air conditioner on 10th September 2025, issuing a tax invoice with GST charged at 28%.
- With effect from 22nd September 2025, the GST rate on air conditioners was reduced from 28% to 18%.
- On 5th October 2025, the customer returned the air conditioner due to a defect, and Sun Ltd. agreed to accept the return by issuing a credit note.

Query:

- What GST rate should be mentioned in the credit note issued on 5th October 2025?

Case Study No. 5 – Classification Issue

Facts:

- ABC Ltd. supplied goods classified **under HSN 2222, attracting GST at 5%**.
- However, the department raised a dispute and issued a Show Cause Notice, alleging that the correct classification should be **HSN 3333, which attracted 12% GST** at that time.
- Subsequently, with effect from 22nd September 2025, the GST rate for HSN 3333 was reduced to 5%, bringing it in line with HSN 2222.

Query:

- From 22nd September 2025 onwards, which HSN classification should ABC Ltd. adopt, considering that both now attract the same GST rate of 5%?

IMMEDIATE ACTION POINTS

IMMEDIATE ACTION POINTS

Updating of ERP/Accounting software -	Ensure new GST rates correctly captured in the ERP from 22nd Sept 2025. Incorrect GST rate captured in ERP will flow into GST portal which leads to potential future tax litigations.
Correction in pricing	Ensure pricing of the supply has been correctly structured after taking into account the revised GST rate.
Packing and labelling	The packing and labelling should reflect revised MRP rate. Relaxation given by way of Advisory dated 18.09.2025 from showing revised MRP rate.

IMMEDIATE ACTION POINTS

Training to sales and commercial team	• The sales and commercial team should be updated with change in price and GST.
Guidelines to channel partners	• Clear guidelines should be given to the channel partners of business about revised MRP rate.
Inventory management	• Adequate plan for clearance of existing stock which attracts higher GST Rate.

IMMEDIATE ACTION POINTS

Review of contracts/agreements	• Check whether contracts provided clause for changes in GST rates. • Examine whether amendment required.
Inverted duty structure	• Examine whether inverted duty structure exits and if yes, opt for refund.
Reversal requirement under Rule 42 and Rule 43	• Reversal of ITC required for goods in stock as on 22nd September 2025, which will be sold at Nil rate.

IMMEDIATE ACTION POINTS

Closing Stock as on 21st September 2025	• Check the closing stock as on 21st September 2025 if any supplies has become exempt from 22nd sept 2025. Inputs in stock, finished and semi-finished form.
Check requirement to file ITC-03	• If taxable goods becomes exempt as on 22nd sept 2025, check the ITC reversal requirement on the inputs held in stock and also on Capital Goods.
Check which document to be issued to customer	• If taxable supply turns out to be exempted, then bill of supply needs to be issued instead of tax invoice.

IMMEDIATE ACTION POINTS

Re-examine the classification of goods and services	• Check HSN and SAC classification of goods and services
Re-structuring of business transactions	• Explore the benefits that can be obtained by re-structuring business activities.
Registration requirement.	• If supplies has been fully exempt, cancel the GST registration.

MOST CRITICAL

SEPTEMBER 2025 GST RETURNS – RATE TILL 21st Sept 2025 and from 22nd Sept 2025

TRADE FACILITATION MEASURES

Intermediary – Amendment to Place of supply

- Amendment to Section 13(8) provision.
- Benefits to Indian exporters to claim export benefits.
- Also registered person in India is liable to pay IGST under RCM on intermediary services received from abroad.

Post-sale discount – Circular No. 251/08/2025-GST

Whether Full ITC is available if recipient makes discounted payment on the basis of financial/commercial credit notes?	• Yes • Tamil Nadu, AAR – MRF Ltd and Andhra Pradesh AAR in Vedmutha Electricals India Pvt. Ltd.
Whether post sale discount would be treated as a consideration paid by the manufacturer for the dealer's supply of the same goods to the end customer?	• If there is NO agreement between manufacturer and end customer, then NOT includible. • If there is agreement between manufacturer and end customer, then includible.
Whether post discount is a consideration for sales promotion activity?	• If there is agreement explicitly for the same, then yes. • Advertising campaigns, co-branding, customization services, special sales drives, exhibition arrangements, or customer support services

Amendment to Section 15(3)(b) OF THE CGST ACT

- **Omit -** Section 15(3)(b)(i) – requirement of establishing the post sale discount in terms of an agreement entered into before or at the time of supply and specifically linking of the same with relevant invoices.
- **Amend –** Section 15(3)(b) to provide discount should be granted through a credit note.

Other Trade Facilitation Measures

Sanction of risk based 90% provisional refund on export and SEZ supplies

- Amendment in Rule 91(2) to provide sanction of provisional refund on the basis of identification and evaluation of risk by the system.
- Operationalised from 1^{st} November, 2025.

Risk based 90% provisional refund of Inverted duty structure

- Amendment to Section 54(6).
- Operationalised from 1^{st} November, 2025.
- Instruction to officers to grant provisional refund pending amendment in CGST Act.

Other Trade Facilitation Measures

Amendment to Section 54(14) of the CGST Act to help small exporters

- Section 54(14) provides that no refund shall be provided if the claim is less than Rs. 1000/-.
- Amendment to remove the above threshold limit to help small exporters making exports through courier, postal mode.

Simplified registration scheme for small and low risk businesses

- For low risk applicants and applicants making B2B supplies whose self assessment output tax liability will not exceed Rs. 2.5 lakhs per month.
- Registration shall be granted on an automated basis within 3 working days of submission of application
- Operationalised from 1st November, 2025.

Other Trade Facilitation Measures

Simplified Registration scheme for small suppliers supplying through e-commerce operators

- Presently, small suppliers making supplies through e-commerce operators across multiple states facing challenges in maintaining principal place of business in each state as required under law.
- Government is proposing to introduce simplified GST registration scheme after taking into account the above difficulties.
- Modalities is yet to announce.

GOODS AND SERVICES TAX APPELLATE TRIBUNAL

Goods and Services Tax Appellate Tribunal

Appeal Filing

- GSTAT will begin accepting appeals before the end of September 2025.

Commencement of hearings

- Hearings are expected to start by the end of December 2025.

Limitation period for backlog appeals

- Appeals related to past matters can be filed upto 30th June 2026.

SERVICES – GST RATE CHANGES

Transportation Sector

Services	Old rate	New rate
Supply of Transport of goods by GTA	5% without ITC (RCM/FCM) 12% with ITC	5% without ITC (RCM/FCM) 18% with ITC
Supply of Renting of any motor vehicle (with operator) of any motor vehicle 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) 12% with ITC	5% with ITC of input services (in the same line of business) 18% with ITC
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) 18% with ITC

Job work Sector

Services	Old rate	New rate
Supply of job work services or any treatment or process in relation to printing of all goods falling under Chapter 48 or 49	12% with ITC	5% with ITC
Supply of job work in relation to bricks which attract GST at the rate of 5%	12% with ITC	5% with ITC
Supply of job-work services in relation goods falling under Chapter 30 in the First Schedule to the Customs Tariff Act, 1975 (51of 1975) (pharmaceutical products)	12% with ITC	5% with ITC
Supply of job-work services in relation to Hides, skins and leather falling under Chapter 41 in the First Schedule to the Customs Tariff Act, 1975	12% with ITC	5% with ITC
Supply of job-work not elsewhere covered (residual entry)	12% with ITC	18% with ITC

Construction Sector

Services	Old rate	New rate
Composite supply of works contract and associated services, in respect of offshore works contract relating to oil and gas exploration and production in offshore area	12% with ITC	18% with ITC
Composite supply of works contract involving predominantly earth work (that is, constituting more than 75per cent. of the value of the works contract) provided to Government	12% with ITC	18% with ITC
Composite supply of works contract provided by a sub-contractor to the main contractor providing services at Sl. No. 2 above to Government	12% with ITC	18% with ITC

Other Rate Changes

Services	Old rate	New rate
Supply of "hotel accommodation" having value of supply of a unit of accommodation less than or equal to seven thousand five hundred rupees per unit per day or equivalent	12% with ITC	5% without ITC
All individual health insurance, along with reinsurance thereof	18% with ITC	Exemption
All individual life insurance, along with reinsurance thereof	18% with ITC	Exemption

GOODS – GST RATE CHANGES

Goods Rate Changes

Commodity	Old rate	New rate
Diabetic foods, Drinking water packed in 20 litre bottles, Beverages containing milk	12%	5%
Ice cream	12%	5%
All goods i.e. Corn flakes, bulgar wheat, prepared foods obtained from cereal flakes	18%	5%
Pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers	18%	5%
Extracts, essences and concentrates of coffee, and preparations with a basis of these extracts, essences or concentrates or with a basis of coffee	18%	5%

Goods Rate Changes

Commodity	Old rate	New rate
Other non-alcoholic beverages	18%	40%
All goods [including aerated waters], containing added sugar or other sweetening matter or flavoured	28%	40%
Caffeinated Beverages	28%	40%
Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice	28%	40%

Goods Rate Changes

Commodity	Old rate	New rate
Air-conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated	28%	18%
Dish washing machines, household [8422 11 00] and other [8422 19 00]	28%	18%
Television sets (including LCD and LED television); Monitors and projectors, not incorporating television reception apparatus; reception apparatus for television, whether or not incorporating radio-broadcast receiver or sound or video recording or reproducing apparatus, set top box for television and Television set (including LCD and LED television).	28%	18%

THANK YOU!

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