

CUSTOMS AND GST ALERT

NEXT GENERATION OF GST REFORMS

The GST Council, in its 56th meeting, unveiled the “next generation of GST reforms” referred to by the Hon’ble Prime Minister in his Independence Day address. Highlights of the recommendations are provided below:

- **Intermediary Services – Place of Supply Aligned to Recipient of Supply**

Section 13(8)(b) to be omitted. Default rule would apply, i.e. Place of Supply to be location of recipient. Resultantly, marketing services, fulfillment services etc. provided to a recipient abroad currently taxable in India would be seen as export of service.

Notably, services provided by Global Capability Centers (GCC) were also being disputed as taxable in India on this score by tax offices, denying the export of service determination of such services. The amendment should do away with such disputes.

- **Refunds – Key Measures**

Risk-based Provisional Refunds (from November, 2025). I.e. 90% refund for zero-rated supplies through data-driven risk evaluation. Similarly, 90% refund for inverted duty cases to be rolled out. Removal of low value threshold under Section 54(14) of Rs. 1000 for export shipments.

- **Operationalization of GST Appellate Tribunal**

Timeline

- Appeals to be accepted before September 2025 end.
- Hearings to commence before December 2025 end.
- Limitation for Backlog appeals: 30 June 2026.

Principal Bench to function as National Appellate Authority for Advance Ruling (NAAAR)

Rate related Recommendations

The GST rate structure is being simplified from 4 tiers to 2 tiers. Standard rate of 18 per cent and Merit rate of 5 per cent being retained – with the 12 per cent slab being abolished.

Special De-merit rate of 40 per cent being introduced, with compensation cess being phased out.

Rate related changes being implemented with effect from 22 September 2025.

Table of GST Rate related recommendations.

Item	Previous Rate	New Rate
Ultra-High Temperature (UHT) milk	5%	0%
Chena or paneer, pre-packaged and labelled	5%	0%
Pizza bread	5%	0%
Khakhra, chapati or roti	5%	0%
Paratha, parotta and other Indian breads	18%	0%
33 lifesaving drugs and medicines: 1. Onasemnogene abeparvovec 2. Asciminib 3. Mepolizumab 4. Pegylated Liposomal Irinotecan 5. Daratumumab 6. Daratumumab subcutaneous 7. Teclistamab 8. Amivantamab 9. Alectinib 10. Risdiplam 11. Obinutuzumab 12. Polatuzumab vedotin 13. Entrectinib 14. Atezolizumab 15. Spesolimab 16. Velaglucerase Alpha 17. Agalsidase Alfa 18. Ruriocetocog Alpha Pegol 19. Idursulphatase 20. Alglucosidase Alfa	12%	0%

Item	Previous Rate	New Rate
21. Laronidase 22. Olipudase Alfa 23. Tepotinib 24. Avelumab 25. Emicizumab 26. Belumosudil 27. Miglustat 28. Velmanase Alfa 29. Alirocumab 30. Evolocumab 31. Cystamine Bitartrate 32. CI-Inhibitor injection 33. Inclisiran		
3 lifesaving drugs for cancer, rare diseases: 1. Agalsidase Beta 2. Imiglucerase 3. Eptacog alfa activated recombinant coagulation factor VIIa	5%	0%
Uncoated paper for exercise/graph books	12%	0%
Erasers	5%	0%
Hair oil, shampoo	18%	5%
Toilet soap bars	18%	5%
Toothpaste, toothbrushes	18%	5%
Talcum powder, face powder	18%	5%
Bicycles	12%	5%
Tableware, kitchenware	12%	5%
Condensed milk	12%	5%
Butter, ghee	12%	5%
Cheese	12%	5%
Dried nuts (almonds, etc.)	12%	5%
Pasta, instant noodles	12%	5%
Chocolates	18%	5%
Coffee	18%	5%
Preserved meat	12%	5%

Item	Previous Rate	New Rate
Cornflakes	18%	5%
Namkeens, bhujia	12%	5%
Sauces	12%	5%
Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc)	12%	5%
Agricultural machinery	12%	5%
Handicrafts	12%	5%
Marble blocks	12%	5%
Granite blocks	12%	5%
Intermediate leather goods	12%	5%
All other drugs and medicines	12%	5%
Medical apparatus and devices	18%	5%
Renewable energy devices	12%	5%
Manmade fibre	18%	5%
Manmade yarn	12%	5%
Sulphuric acid, Nitric acid, Ammonia [Addresses key inverted duty scenario for the Fertilizer industry]	18%	5%
Air-conditioners	28%	18%
TVs up to 32 inch (All TVs now at 18 per cent)	28%	18%
Dishwashing machines	28%	18%
Small Cars - Criteria below: <ul style="list-style-type: none"> Petrol/CNG/LPG vehicles: Engine \leq1200cc & length \leq4000mm Diesel vehicles: Engine \leq1500cc & length \leq4000mm Hybrid (Petrol+Electric): Engine \leq1200cc & length \leq4000mm Hybrid (Diesel+Electric): Engine \leq1500cc & length \leq4000mm Both criteria must be met	28%	18%
Motorcycles (less than or equal to 350 CC)	28%	18%
Cement	28%	18%
Buses, trucks, ambulances	28%	18%
Three-wheelers	28%	18%

Item	Previous Rate	New Rate
All auto parts (uniform rate)	Various	18%
Coal, lignite, peat	5%	18%
Large Cars (Not meeting the Small Cars criteria provided above)	28%	40%
Motorcycles with engine capacity more than 350 CC	28%	40%
Aircraft for personal use	28%	40%
Yachts and pleasure vessels	28%	40%
Unmanned aircraft	28%	40%
Revolvers and pistols	28%	40%
Smoking pipes and cigarette holders	28%	40%
Pan masala*	28%	40%
Unmanufactured tobacco*	28%	40%
Cigarettes*	28%	40%
Chewing tobacco products*	28%	40%
Bidis*	28%	40%
Tobacco inhalation products*	28%	40%
Other non-alcoholic beverages	18%	40%
Aerated waters with added sugar	28%	40%
Caffeinated beverages	28%	40%
Carbonated fruit beverages	28%	40%
*Implementation deferred until compensation cess obligations are discharged		
Footwear and Apparel – Value based Thresholds		
Footwear ≤ Rs. 2,500 per pair	12%	5%
Footwear > Rs. 2,500 per pair	18%	18%
Knitted/Woven Apparel ≤ Rs. 2,500 per piece	5%	5%
Knitted/Woven Apparel > Rs. 2,500 per piece	12%	18%
Services		
Hotel accommodation ≤ Rs.7,500/day	12% with ITC	5% without ITC
Beauty and wellness services	18%	5%
All individual life insurance policies	18%	0%
All individual health insurance policies	18%	0%

Item	Previous Rate	New Rate
Job work – in relation to manufacture of umbrella	12% with ITC	5% with ITC
Job work – printing of all goods of all goods falling under Chapter 48 or 49, which attract GST at the rate of 5% & In relation to bricks which attract GST at the rate of 5%	12% with ITC	5% with ITC
Job work - pharmaceuticals	12% with ITC	5% with ITC
Job work - leather goods	12% with ITC	5% with ITC
Effluent treatment services	12% with ITC	5% with ITC
Bio-medical waste treatment	12% with ITC	5% with ITC
Cinema admission ≤ Rs.100	12% with ITC	5% with ITC
Third-party insurance for goods carriage	12% with ITC	5% with ITC
Works contract	12% with ITC	18% with ITC
Air transport (non-economy class). Economy class remains at 5%	12% with ITC	18% with ITC
Transport of goods by GTA	12% with ITC	18% with ITC
Oil & gas exploration services related works contract and associated services	12% with ITC	18% with ITC
Job work (not otherwise specified)	12% with ITC	18% with ITC
Casino/race club admissions	28% with ITC	40% with ITC
Race club licensing services	28% with ITC	40% with ITC
Rental of goods which attract 40 per cent GST	-	40% with ITC
Gambling/betting services	28% with ITC	40% with ITC

■ Other Key Recommendations

1. Optional simplified registration (within 3 days) for applicants whose output tax liability does not exceed INR 2.5 lakhs per month on a self-assessment basis.
2. The requirement of establishing a discount in terms of an agreement prior to, or at the time of a supply in order to reduce the value of supply (post-sale discount) is proposed to be deleted. Consequent ITC reversal related amendments also proposed.
3. Recommendation of Local Delivery Services through Electronic Commerce Operators (ECO) to be included under Section 9(5) of the CGST Act, 2017 in cases where the person supplying such services is not liable for registration under GST.

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