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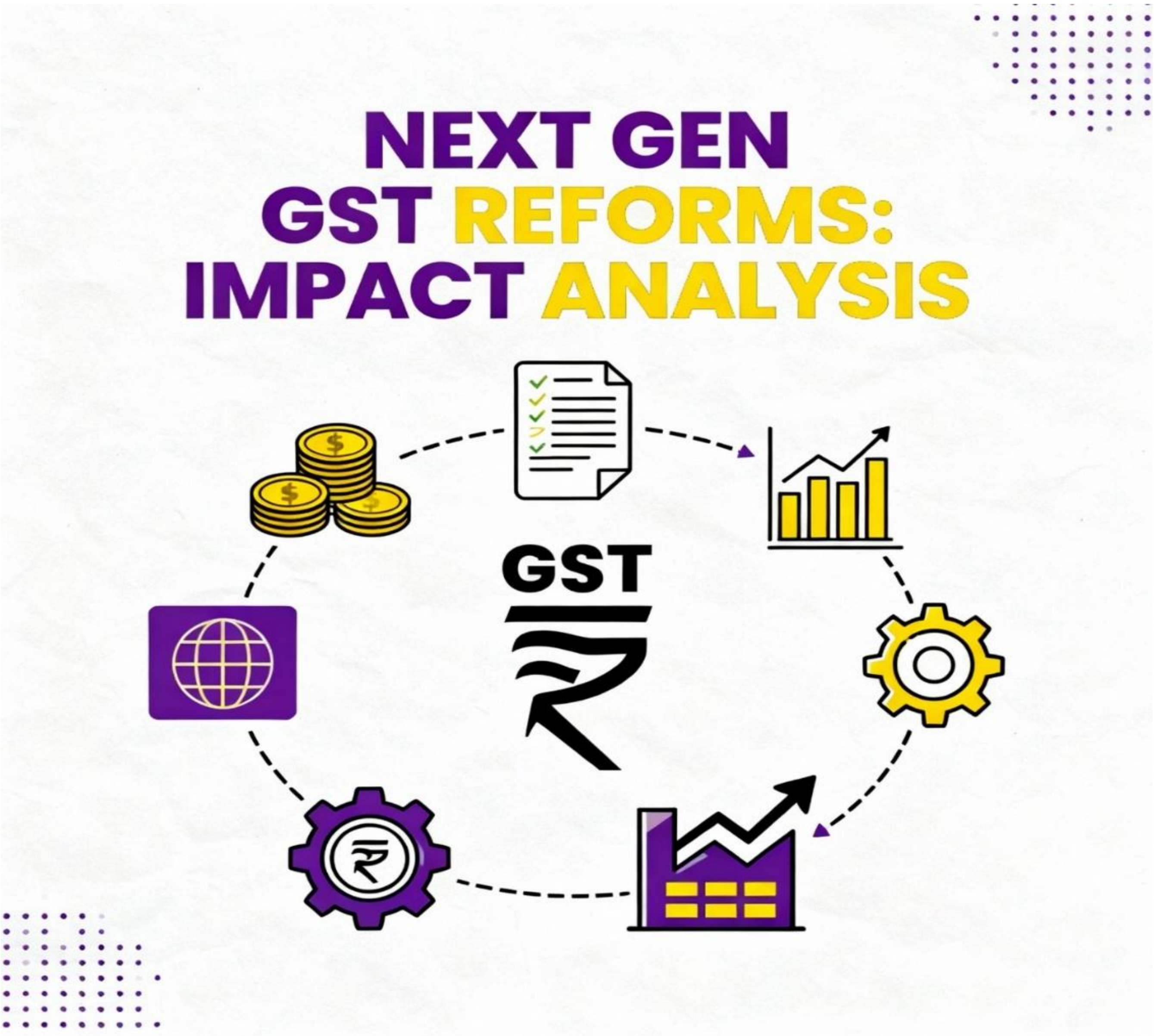

Knowledge Series

October 2025

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Introduction

On September 3, 2025, India's 56th GST Council meeting ushered in **"GST 2.0" – a historic overhaul** of the country's indirect-tax framework. The Council, chaired by FM Nirmala Sitharaman, approved a simplified two-slab GST rate structure (5% and 18%) from 22 Sept 2025, abolishing the old 12% and 28% slabs. A new 40% **"Sin/Luxury" rate** was also introduced for a handful of demerit goods (tobacco, pan masala, aerated drinks, high-end cars, yachts, etc.). The objective was to reduce tax burdens on essentials and aspirational items, boost consumption and ease compliance, while safeguarding revenues via the higher sin rate. These reforms, dubbed a "Diwali gift for the common man" by policymakers, touch virtually every sector and promise far-reaching changes to pricing, industry economics and tax revenues (much as a full-budget announcement from the GST side).

Importance of Rate Reforms for GST and the Tax Structure

Before GST 2.0, India's indirect tax system – with multiple rates (5%, 12%, 18%, 28%) and numerous exemptions – was complex and often regressive. By merging two mid-slabs into a unified 5% rate and shifting most luxury items into 18% or 40%, the Council aimed to simplify and rationalize the tax regime. As the government noted, moving to a two-tier system will make taxation more transparent and easier to follow. This **"Next-Generation"** rationalization aligns with the prime minister's vision of reducing the tax burden on households, addressing long-standing classification disputes and inverted-duty issues, and ultimately strengthening GST's role as the backbone of India's tax system.

In essence, the reforms were seen as **GST's second big phase**: they continue the evolution of GST (introduced in 2017) toward greater efficiency and fairness. By broadening the tax base on luxury/sin goods (40% slab) while cutting rates on everyday items, the government intends to boost consumption and ease inflationary pressures. Policy experts emphasize that this approach — lower rates on essentials, higher rates on sin goods—makes GST simpler and more equitable , and fosters growth. For example, the PIB press note highlighted that these changes prioritize consumers, "empower MSMEs" with better cash flows, and "strengthen state revenues" while driving demand and manufacturing growth.

Impact on Various Industries

The rate overhaul touches almost every sector. Key changes include:

- **Food & FMCG:** GST on many staples and household items has been slashed. UHT milk, packaged paneer, roti/khakhra and Indian breads are now **exempt** (Nil GST). Common processed foods (cheese, ghee, dried fruits, juices, namkeens) and sweets (chocolates, ice cream, sugar confectionery) were cut to **5%**. Only high-sugar/soft drinks jumped to 40%. In practice, thousands of everyday FMCG products (soaps, shampoos, toothpaste, tableware, packaged snacks, etc.) move from 12–18% down to 5% or lower. These cuts will **lower household grocery bills** and resolve prior inverted-duty anomalies in food processing. (A caveat: items deemed unhealthy – aerated drinks, pan masala – saw steep hikes, reflecting health and revenue goals.)

- **Agriculture & Rural:** Farm equipment and inputs saw big cuts. Tractors, irrigation pumps, diesel engines ≤15HP, harvesters and other specified farm machines fell from 12% to **5%**. Tractor tyres and tubes dropped from 18% to 5%.

Fertilizer inputs (sulphuric acid, ammonia, bio-pesticides, micronutrients) also moved to 5%. In short, "lower GST on tractors, farm machinery, irrigation equipment, and fertilizer inputs is expected to reduce input costs and encourage mechanization" in agriculture. This reduces rural inflationary pressures and supports farm income. (By contrast, some fertilizers that were exempt remained so, and diesel tractors already at 12% now at 5%.)

- **Automobiles & Transport:** Auto industry taxes were broadly **cut** two-wheelers (≤350cc bikes), three-wheelers and parts moved from 28% to **18%**. Small cars (petrol ≤1200cc, diesel ≤1500cc, ≤4m length) fell to 18% from 28%. Buses (10+ seats) and trucks saw similar 28→18 reductions. Even higher-end segments face relief: only ultra-luxury cars/SUVs and personal aircraft were put into the new 40% bracket. According to the Transport Ministry, these cuts will make vehicles more affordable, boost auto-component MSMEs and logistics, and support initiatives like "Make in India". ET reports say **over 3.5 crore jobs** in auto and ancillary sectors could benefit. (On the flip side, luxury carmakers now face much higher 40% tax.)

- **Construction & Housing:** Key building materials got tax relief. Cement's GST was cut from 28% to **18%**, easing costs for housing and infrastructure. Marble, granite and certain particle boards fell from 12% to 5%. This will **lower home-construction costs** and is expected to spur demand in real estate. (One oddity: GST on some works contracts for government projects rose from 12% to 18%, which may raise public-project costs.)

- **Energy & Environment:** A major policy signal came in energy: GST on coal, lignite and peat was **hiked to 18%** from 5%, discouraging fossil fuel use and reducing inverted credit in mining. At the same time, renewable energy products like solar cookers, solar water heaters and wind turbines were cut from 12% to **5%**, improving project viability. Overall, "the GST hike on coal will significantly raise costs for industries like power and steel" while the 5% rate on renewables "signals a strong policy shift toward clean energy adoption".

- **Consumer Durables & Electronics:** Several high-value home appliances saw big cuts. Air-conditioners, televisions (≤32″) and dishwashers moved from 28% down to **18%**. Computers and smartphones largely remain at 12–18% (with some exemptions), but overall this makes TV/AC purchases cheaper and boosts "Make in India" electronics. Defense/police communication gear (radios, walkie-talkies) went to 5% or nil. The outcome: ACs, TVs, etc., become more affordable just before Diwali, driving festive demand and easing manufacturers' working capital.

- **Textiles & Footwear:** To aid apparel and related industries, synthetic yarns, fabrics, carpets and embroidery inputs were cut from 12% to **5%**. Low-value garments and footwear (≤₹2,500) are now 5% (down from 12%), which benefits mass-market clothing. However, higher-end clothing (>₹2,500) was moved from 12% up to 18%. The rationale was to remove inverted taxes on inputs and support MSMEs/exporters, at the expense of some premium retail demand.

- **Healthcare & Pharma:** The GST on 36 life-saving drugs was **abolished** (zero-rated). Diagnostic kits and many medicines fell to 5% (from 12%). Thermometers and surgical instruments dropped to 5%. This will **improve affordability of healthcare products**, though full exemptions raise concerns about blocked credits (hospitals cannot claim GST credits on inputs, potentially increasing costs).

- **Transportation Services:** Transport service rates were rationalized into clear 5%/18% options with or without input credit. For example, economy-class air tickets now attract 5% (down from 12%), while business-class stays at 12% (was 18%). Hotels at cheaper tariffs fall to 5% (from 12%). Road passenger, goods transport (trucks, rail containers) can choose 5% (no ITC) or 18% (with ITC) depending on service. These changes **boost tourism and logistics**: NDTV notes that "flights and hotels will get cheaper" and that tourism/hospitality sectors should see stronger demand and consumer sentiment.

In summary, the rate cuts span **automobiles, electronics, textiles, food, farm equipment, construction, travel and more**. Most household and consumer durables are now taxed at 5%, which makes everyday spending and aspirational goods (like small cars, ACs, two-wheelers) significantly cheaper. Only a handful of high-end or "sin" categories moved up. Industry groups generally welcome this as a demand stimulus: for example, the Auto Ministry praised lower taxes for "affordable mobility" and MSME growth, and analysts foresee job creation in auto, construction and consumer sectors.

Impact on Middle-Class Pocketbooks (Plus Income-Tax Relief)

Consumers and middle-class households stand to benefit directly. With GST cuts on foods, personal-care, appliances and vehicles, everyday budgets will stretch further. As *Times of India* observes, these reductions "bring substantial relief and optimism to the middle class," since **"everyday essentials… become more affordable, easing household budgets"**. Paneer, namkeens, chocolates, ice cream, soaps, shampoos and even small cars and dishwashers now cost less, which encourages upgrades and first-time purchases. KPMG likewise notes that the rate cuts broaden spending capacity for "the average individual" in India's push toward a $5T economy. In short, a ₹1,000 shampoo, for example, now carries only ₹50 GST instead of ₹180, directly saving a consumer ₹130.

Additionally, Budget 2025 boosts incomes. Outside GST, the government raised personal tax limits: under the new regime, incomes up to ₹12.75 lakh per year are now tax-free (up from ₹7 lakh), and the 30% bracket kicks in only above ₹24 lakh. The net effect is **more take-home pay for salaried and self-employed families**. Reuters reports that middle-income earners could save tens of thousands of rupees annually – e.g. someone earning ₹25 lakh would pay ~₹9,500 less tax per month after the changes. By combining higher disposable income with cheaper goods, the policies aim to give the middle class a notable boost.

Impact on Central and State Revenues through GST

Any tax rate cut implies lower revenue in the short run, but the government expects part of this to be offset by higher compliance and consumption. Certain Banking institution

Securities estimates the **net GST revenue loss** at roughly ₹48,000–93,000 crore (about 0.13–0.26% of GDP) after accounting for the new 40% slab. Even if the shortfall is on the higher end, the bulk (≈70%) of the lost GST revenue falls to the states (since states get ~70% of GST proceeds). Crucially, the government has also **phased out the compensation cess** (introduced in 2017 to guarantee state revenues). Once GST loans are paid off (likely in 2025), cess on items like tobacco will end. This gives fiscal flexibility to adjust rates but also means states must manage without compensation support.

In recent years, GST revenue growth averaged about 11% p.a., below the 14% target states were promised. Several analysts warn states could face real shortfalls. As one commentary notes, "with the current rate cut the increase in [GST] revenue is going to be at rock bottom. States must be compensated for the loss," a point the Centre has not publicly addressed. On the other hand, the government's records show very strong recent collections (FY2024–25 gross GST was ₹22.08 lakh crore, doubling in four years), giving some breathing room.

The bottom line: **GST revenue will dip initially**, but not catastrophically. Economists expect higher consumption and lower tax evasion to cushion the blow. Certain Banking institution argues that robust consumption growth and fewer input-tax credits claims (from faster refunds) could recoup much of the lost revenue. They also note that the fiscal deficit impact should be manageable (projected at ~4.4% of GDP for FY26). Ultimately, the government assumes that wider economic growth and a smaller tax burden will help overall revenues recover.

Impact on the Overall Indian Economy

These reforms are designed as a **consumption-led stimulus** to counter a mild slowdown. By lowering GST on goods and services widely used by consumers, the government hopes to spur spending on durable and non-durable goods alike. As KPMG observes, the emphasis on boosting "overall consumption" is clear – it likens the package to a GST-specific mini-budget aimed at reviving demand. Lower taxes on big-ticket items (cars, ACs, electronics) can fuel festive-season sales, while smaller savings on groceries free up incomes for discretionary spending.

Macroeconomists note that these cuts could also **temper inflation**. Certain Banking institution argues that by directly reducing prices on many goods, the GST revisions should help pull down retail inflation (especially if businesses pass on the tax cut). Lower inflation in turn gives the RBI room to consider monetary easing in the future, potentially lowering loan rates. On the demand side, any incremental boost to consumption (the RBI's research Institute reckons a 1–1.5% GDP boost from combined tax cuts) would help growth.

That said, some skeptics caution that the stimulus effects may be modest. TM Thomas Isaac (ex-FM of Kerala) argues that such tax cuts often get partly absorbed by companies' margins, and in any case global headwinds (tariffs, rupee depreciation) could blunt the lift. Nonetheless, most analysts see the reforms as **net positive** for India's economy. Over the long term, a simpler and more stable GST framework (with faster refunds, a functional appellate tribunal, etc.) is expected to improve the business climate. By bolstering consumer confidence and manufacturing (via "Make in India"), the move is intended to accelerate progress toward the $5 trillion economy goal.

Myth Busters Around GST Reforms

The flurry of announcements has also spawned several misconceptions. Here are some common **myths vs. realities**:

- **Myth:** *"India's GST was unreasonably high; cutting it is essential."*
  Reality: Even before GST 2.0, India's

average GST rate (around 12–15%) was low by global VAT standards. TM Thomas Isaac notes that India's weighted average GST is now only ~9.8%, far below the 15–21% norms in Europe. In fact, pre-GST indirect taxes were often higher overall. Thus, the need was more about rationalizing rates, not lowering an already high tax burden.

- **Myth:** *"Multiple GST slabs are what make our tax system complicated."*
  Reality: Prior to GST, India had dozens of taxes (excise, VAT, etc.) and numerous rates. GST itself dramatically simplified that maze. The Council believes moving to 2–3 slabs now is an improvement, not a regression. The remaining multiple rates serve policy goals (e.g. higher 40% on sin goods). Over-simplification could sacrifice necessary progressivity. In fact, as one analyst points out, previous GST cuts mainly benefited top-end goods, slightly weakening the tax's progressivity.

- **Myth:** *"Lower GST rates will automatically translate into lower prices for consumers."*
  Reality: Legally, businesses **must** pass on tax cuts (see below), but real-world studies suggest imperfect transmission. In 2018, India cut average GST rates from 15.3% to 12.2%, yet a Kerala government study found consumers "did not significantly benefit" – margins absorbed much of the cut. Large firms captured much of the gain, prompting the creation of an anti-profiteering authority at the time. So the impact on consumer prices depends on market competition and enforcement.
- **Myth:** *"The demand boost from tax cuts will fully offset any revenue loss."*
  Reality: Optimists (e.g. SBI Research) argue that new consumption will partly compensate the revenue dip. Pessimists (like Thomas Isaac) counter that assumptions of stable conditions are "brave" – global headwinds could negate the gain. It's true that lower consumer taxes tend to raise spending; but even then, the timing and magnitude of the offset are uncertain. Evidence so far (and fiscal prudence) suggests the government expects only a modest revenue impact, not a one-for-one offset. Certain Banking institution estimates the net revenue loss at just 0.1–0.3% of GDP, which is **much smaller** than the potential stimulus to growth if well implemented.

In all, many "myths" stem from assuming 100% pass-through or mechanical multipliers. The **reality** is nuanced: prices should fall on paper, but in practice consumers must hold businesses to account, and governments must manage revenue shortfalls responsibly.

The Reality – Protections for Consumers and Businesses

Beyond headlines, the Council's move is accompanied by compliance safeguards. Crucially, **Section 171 of the CGST Act** still requires that any GST rate cut (or new credit benefit) be passed on to buyers via commensurate price reduction. In other words, it is **illegal profiteering** if a firm keeps its old price after GST is slashed. (For example, if an ₹1,000 gadget loses 3% tax, its retailer is supposed to reduce the MRP by that saving.) The law empowers authorities to investigate and penalize firms that fail this "pass-on" requirement.

Practically speaking, the government has shifted toward a *"trust-based"* compliance model. The Times of India notes that the Centre has entrusted industry with the responsibility of passing on tax cuts, reflecting a new trust-based framework. However, the onus remains on businesses under law – and on regulators to enforce it. Consumers who find that prices haven't dropped in line with GST cuts can still lodge complaints. (Before April 2025, complaints would go to the National Anti-Profiteering Authority (NAA); now GST appeals tribunals have taken over that role.) Ultimately, vigilant customers play a role: if an item stays at the same price despite a cut in GST, a buyer can report it to the tax department or GST Appellate Tribunal for investigation.

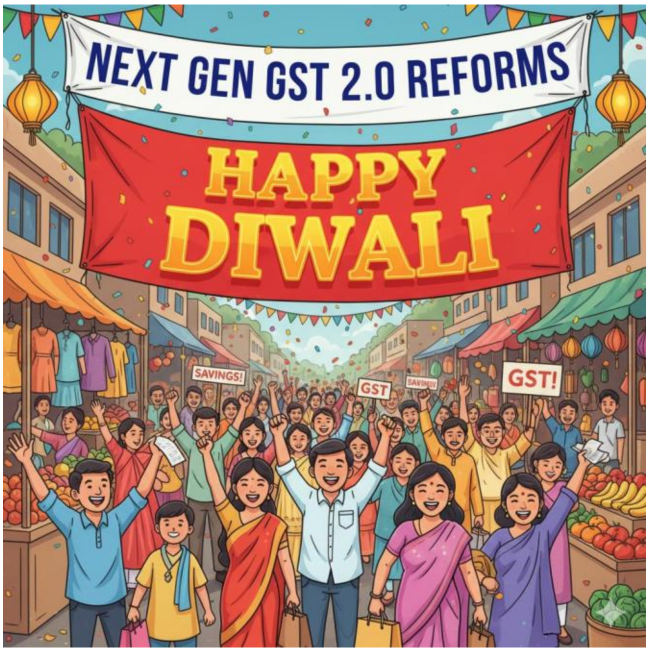
In short, while the government trusts most businesses to pass on the benefits, **recourse exists**. The mechanism may be evolving (the NAA ceased accepting new cases as of Apr 2025), but the legal expectation is clear. The GST law's anti-profiteering provisions (Section 171) remain on the books, and any deliberate hoarding of benefits can, in principle, be challenged.

Conclusion

The 56th GST Council meeting delivered one of India's boldest tax reforms yet. By collapsing four main GST slabs into essentially two (5%/18%) plus a new 40% sin rate, the government has **rebalanced the tax structure** to favor the "common man" and consumer demand. Thousands of products – from bread and milk to bikes, TVs and small cars – become cheaper overnight. Analysts generally view the package as a *pro-growth, pro-consumer* move: CPI inflation may ease, consumption and credit growth may pick up, and the economy may inch toward higher expansion.

At the same time, there are **caveats**. Central and state finances will feel the bite; a shortfall of a few tens of thousands of crores is projected. States will urge compensation and will watch revenues closely. And the ultimate impact depends on effective implementation – especially on passing benefits to buyers. In that regard, consumers themselves have power: if festive shopping season prices don't fall as expected, Section 171 empowers them to complain of profiteering.

Overall, the reforms mark a **consumer-centric shift** in India's tax policy. By prioritizing affordability and growth, they go beyond a mere rate cut to include dispute-resolution (GSTAT setup), streamlined returns, faster refunds and other business-friendly changes. If executed well, GST 2.0 could simplify compliance, boost "Made-in-India" production (as in electronics and automobiles) and reinforce India's "Resilient Economy" narrative. In sum, the 56th Council's decisions are not just headlines – they are a sweeping redesign of GST's architecture. For industry and consumers alike, the **real test** will be in the transition: smooth rollout of notifications, minimal supply disruptions, and ensuring the intended price cuts actually materialize for every rupee of tax saved. With vigilant enforcement and responsive policy fine-tuning, India aims to turn these reforms from a one-time "Diwali gift" into lasting growth momentum.



❖ Compliance Calendar for the month of October 2025

Sr no.	Date	Compliance
1	07-10-2025	TDS/TCS Payment
2	07-10-2025	ECB-2 Return
3	11-10-2025	GSTR-1 (Monthly)
4	13-10-2025	GSTR-6, ISD Return Filing
5	13-10-2025	GSTR-1 of taxpayers under QRMP Scheme
6	31-10-2025	DIR-3 KYC
5	15-10-2025	ESIC Payment and Return (Monthly)
6	22-10-2025	PF Payment and ECR Filing
9	20-10-2025	Monthly Payment of Profession Tax (Karnataka)
10	20-10-2025	GSTR-3B (Monthly)
11	24-10-2025	GSTR-3B of taxpayers under QRMP scheme
12	25-10-2025	EPF Return
11	25-10-2025	GSTR-3B (Payment under QRMP)
12	30-10-2025	Form MGT-14
12	31-10-2025	Maharashtra PT Return and Payment
16	31-10-2025	Filling of Tax Audit Report (for taxpayers subject to audit u/s 44AB)
17	31-10-2025	Form 3CEB
18	31-10-2025	Form MSME-1 (Half yearly)
17	31-10-2025	Quarterly TDS/TCS Return for July to Sept 2025

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❖ Special Mention:

Thank you, **Payal Soni**, **Abhishek Bang**, **Ayush Bora**, **Rishi Saraf** for the compilation of this knowledge series.

❖ RRCO Corner:

On 5th October, the office came alive with festive spirit as everyone gathered for the much-awaited **Garba Night** celebration. The workplace turned into a vibrant dance floor, echoing with the beats of Garba and Dandiya as articles and staff showcased their enthusiasm and energy. Dressed in colourful traditional attire, everyone added to the festive charm.

The festivities were preceded by **nine days of the Navratri colour theme**, with each day representing a vibrant hue symbolising joy, energy, and positivity. The Garba evening beautifully concluded this spirited celebration, bringing together everyone in a perfect blend of culture, togetherness, and festive cheer — reminding us that the office is more than just a workplace; it's a family that celebrates every moment with unity and joy.