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GST 2.0 Insights

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GST 2.0 – Rate Changes and Business Readiness

The Central Government has announced a revamp in GST rate structure to remove the 12% and 28% rate slab, rearrange the 5% rate slab for merit goods / services and 18% rate slab for standard goods / services. A new rate slab of 40% is also proposed for sin goods (like luxury cars). The proposed changes shall be discussed in the upcoming GST Council Meeting scheduled on 3rd and 4th September 2025 and post council approval, shall be effective from the date as may be notified.

While the spotlight is largely on re-organization of GST rate structure, the ripple effects of GST 2.0 are likely to disrupt supply chains. What should the Companies do to prepare themselves efficiently in this scenario?

- **Passing on GST rate reduction:** The rate rationalisation is aimed to benefit the common man, farmers, and middle class. Currently, GST law lacks an effective provision to restrict businesses from profiteering due to rate reductions. Government is expected to introduce a mechanism obligating the businesses to pass on the benefit of reduced GST rates to consumers (anti-profiteering). Once announced, the businesses need to be prepared to implement the methods of passing on such benefit, *viz.* re-validate the product pricing, quantities etc. and maintain adequate documents to substantiate its compliance.

- **Input tax credit optimisation:** The overnight reduction in GST rate may trigger temporary interruptions in the supply chain, particularly in dealers and distributors models, as higher GST goods lying in stock as on the effective date will lead to inverted duty structure. The Central Board of Indirect Taxes and Customs ('CBIC') in Circular No. 135/05/2020-GST dated 31st March 2020 clarified that the traders cannot claim refund of ITC on account of inverted duty structure where the product purchased and supplied is same. Therefore, the taxpayers would need to devise a strategy to avoid ITC accumulation and blockage of working capital. A possibility towards allowing such refund needs also to be represented.

- **Change in MRP:** In India, labelling of pre-packaged commodities is primarily governed by the Legal Metrology (Packaged Commodities) Rules, 2011 ('LMPC Rules') which provides for mandatory disclosures including MRP. The concept of MRP elucidates that it is the maximum price at which a product may be sold *including* taxes. Consequently, any revision of tax would also impact MRP of the product. The taxpayers dealing in pre-packaged commodities must be mindful of ensuring compliance under the packaging regulations on the goods manufactured and packaged before the rate change.

- **System changes**: As soon as the GST rate changes are effective, the accounting systems of the taxpayers should also be updated in advance to raise or receive GST documents with updated GST rates. The communication for such change should also be done with stakeholders beforehand, to avoid operating with an incorrect GST rate.

- **Transitional issues:** Once the Government notifies changes in GST rate and its effective date, a special attention shall also be required on the transactions overlapping the effective date of such rate change, such as invoice raised with old GST rate but goods moved after the effective date, sales return after the change is effective, price reduction/ increase on past sales, advance payments etc.

Dhruva Comments

Although the proposed rate rationalisation is expected to reduce the cost burden on consumers while ensuring tax neutrality for businesses, the substantial nature of the change will require preparedness and operational restructuring across industries.

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