GST Council Meeting

Clear shift towards supporting consumption

Hitesh Suvarna
hitesh.suvarna@jmfl.com | Tel: (91 22) 66303351

The GST council decided to move to a two rate structure – 5% and 18% with a special maximum rate of 40% with effect from 22nd September. Tax rates have been slashed across categories, with maximum benefit to FMCG, fertilizers, agricultural and medical equipments followed by cement, auto and durables. Health and life insurance will be exempt from GST. Tobacco products, luxury items will be charged at the highest rate of 40%. Although the GST council indicated that the fiscal impact of the rate rationalisation would be to the tune of INR 480 Bn (0.15% of GDP), they expect it to be offset by the buoyancy in tax collections. With this move we see a clear intent of the government in supporting domestic consumption, to cushion the economy from the external pressures. The stretch on the fiscal deficit target for FY26 may be absorbed though lower capex intensity.

- Broad-based rate cuts across categories: In a surprise move, the GST council concluded the two day event on the first day itself, announcing broad based rate rationalisation in addition to correcting the inverted duty structure across categories. The council's decision to move from the four rate structure to two rates – 5% and 18% with a special rate of 40% was on anticipated lines. Of all the changes made, GST rates have been reduced on ~90% of the categories.
- Major beneficiaries: FMCG, fertilizers, agricultural and medical equipments benefit the most with sharpest cut from 18% earlier to 5% now, followed by cement, auto and auto components, and durables which will be charged at 18% vs 28% prior. Medicines, edible oils, textiles and handicrafts will now be charged at 5% vs 12% earlier. Health and life Insurance will be exempted (18% prior)
- Taxes hiked: The GST council hiked rates to 18% in case of Coal (5% prior), apparels costing more than INR 2500, paper products (12% prior). Services contract in the construction sector have been hiked (18% with ITC vs 12% with ITC prior)
- Special rate of 40%: Tobacco products, aerated and caffeinated beverages, motor vehicles with engine capacity exceeding 1200 cc or length exceeding 4 meters, two wheelers with engine capacity exceeding 350 cc, yachts and aircraft for personal use will attract the highest rate of 40% vs 28% earlier.
- Rate rationalisation to impact governments fiscal: As per the GST council's assessment, the rate rationalisation exercise will be fiscally sustainable. However their estimate of the likely fiscal impact of INR 480 Bn (0.15% of GDP) is based on the consumption pattern in FY24, which is expected to be offset by buoyancy in GST collections. We expect the share of 18% slab to remain stable at 73%-74% of total revenue after this rejig, while the share of 5% slab is expected to inch up marginally to 14%. The GST council's expectation of an effective pass on of benefits of rate rationalisation to the consumers, hints at a pick up in domestic consumption. We have been highlighting the positive impact of the coordinated fiscal and monetary actions on domestic consumption in India - mainly rural. However the tilt towards consumption will exert pressure on the government's fiscal, which may reflect in the capex intensity in FY26.
- Clear shift towards consumption: With this move we see a clear intent by the government in supporting domestic consumption through fiscal measures. The GST rate rationalisation follows the INR 1 Tn direct tax exemption announced earlier this year. The strength in the private consumption was evident in Q1 FY26 (7% YoY). The RBI however has limited room for policy easing considering the current growth and inflation dynamics, which is also signalled by the bond markets. Hence the tax revenue foregone due to GST rate cuts will eventually stretch India's fiscal deficit position above the target of 4.4% of GDP in FY26, unless the government absorbs it through slower capex intensity. We believe that the markets were already positioned in favour of consumption since the announcement of the rate rationalisation in GST on 15th August, however incremental move away from capex oriented sectors cannot be ruled out.

Key Highlights

- GST Council announces two rate structure – 5% and 18% with special rate of 40%
- FMCG, fertilizers, agricultural and medical equipments benefit the most with sharpest cut
- 18% rate in case of Coal (5% prior), apparels costing more than INR 2500, paper products (12% prior)
- Health and life Insurance will be exempted (18% prior)
- Shift towards supporting consumption could impact capex activity

Exhibit 1. GST Rate Hikes

S. No.	Description	From	To
1	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	5%	18%
2	Lignite, whether or not agglomerated, excluding jet	5%	18%
3	Peat (including peat litter), whether or not agglomerated	5%	18%
4	Other than natural menthol	12%	18%
5	Following goods made from other than natural menthol, namely:	12%	18%
6	Odoriferous preparations which operate by burning (other than agarbattis, lobhan, dhoop batti, dhoop, sambhrani)	12%	18%
7	Biodiesel (other than biodiesel supplied to Oil Marketing Companies for blending with High Speed Diesel)	12%	18%
8	Chemical wood pulp, dissolving grades	12%	18%
9	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and non-perforated punch-cards and punch tape paper, in rolls or rectangular (including square) sheets, of any size, other than paper of heading 4801 or 4803; [other than Uncoated paper and paperboard for exercise book, graph book, laboratory notebook and notebooks]	12%	18%
10	Uncoated kraft paper and paperboard, in rolls or sheets, other than that of heading 4802 or 4803	12%	18%
11	Other uncoated paper and paperboard, in rolls or sheets, not further worked or processed than as specified in Note 3 to this Chapter	12%	18%
12	Greaseproof papers	12%	18%
13	Glassine papers	12%	18%
14	Composite paper and paperboard (made by sticking flat layers of paper or paperboard together with an adhesive), not surface-coated or impregnated, whether or not internally reinforced, in rolls or sheets	12%	18%
15	Paper and paperboard, corrugated (with or without glued flat surface sheets), creped, crinkled, embossed or perforated, in rolls or sheets, other than paper of the kind described in heading 4803	12%	18%
16	Paper and paperboard, coated on one or both sides with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets of any size	12%	18%
17	Articles of apparel and clothing accessories, knitted or crocheted, of sale value exceeding Rs. 2500 per piece	12%	18%
18	Articles of apparel and clothing accessories, not knitted or crocheted, of sale value exceeding Rs. 2500 per piece	12%	18%
19	Other made up textile articles, sets of sale value exceeding Rs. 2500 per piece [other than Worn clothing and other worn articles; rags]	12%	18%
20	Products wholly made of quilted textile material exceeding Rs. 2500 per piece	12%	18%
21	Cotton quilts of sale value exceeding Rs. 2500 per piece	12%	18%
22	(1) Petroleum operations undertaken under petroleum exploration licenses or mining leases, granted by the Government of India or any State Government to the Oil and Natural Gas Corporation or Oil India Limited on nomination basis, or	12%	18%
23	(2) Petroleum operations undertaken under specified contracts, or	12%	18%
24	(3) Petroleum operations undertaken under specified contracts under the New Exploration Licensing Policy, or	12%	18%
25	(4) Petroleum operations undertaken under specified contracts under the Marginal Field Policy (MFP), or	12%	18%
26	(5) Coal bed methane operations undertaken under specified contracts under the Coal Bed Methane Policy.	12%	18%
27	Other non-alcoholic beverages	18%	40%
28	Pan masala*	28%	40%
29	All goods (including aerated waters), containing added sugar or other sweetening matter or flavoured	28%	40%
30	Carbonated Beverages of Fruit Drink or Carbonated Beverages with Fruit Juice	28%	40%
31	Caffeinated Beverages	28%	40%
32	Unmanufactured tobacco; tobacco refuse [other than tobacco leaves]	28%	40%
33	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes	28%	40%
34	Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences	28%	40%
35	Products containing tobacco or reconstituted tobacco and intended for inhalation without combustion	28%	40%
36	Products containing tobacco or nicotine substitutes and intended for inhalation without combustion	28%	40%
37	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars, other than those mentioned at Sr. Nos. 313, 314, 315, 316,317 and 319 of above table [wherein 28% to 18% is mentioned]	28%	40%
38	Motor vehicles with both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, of engine capacity exceeding 1200cc or of length exceeding 4000 mm	28%	40%
39	Motor vehicles with both compression-ignition internal combustion piston engine [diesel-or semi diesel] and electric motor as motors for propulsion, of engine capacity exceeding 1500cc or of length exceeding 4000 mm	28%	40%
40	Motor cycles of engine capacity exceeding 350 cc	28%	40%
41	Aircraft for personal use.	28%	40%
42	Yacht and other vessels for pleasure or sports	28%	40%
43	Revolvers and pistols, other than those of heading 9303 or 9304	28%	40%
44	Smoking pipes (including pipe bowls) and cigar or cigarette holders, and parts thereof	28%	40%

Source: Finance Ministry

APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1743 | Email: sahil.salastekar@jmfl.com
Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1743 | Email: instcompliance@jmfl.com

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