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India GST key facts: 5%, 18% and 40% rates, and what comes next

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Since 22 September 2025 India's GST has two main rates, 5% and 18%, plus a 40% rate for a short list of goods. The 57th Council meeting now turns to process reform.

Country reference

- Country: India (Wave 1 expansion country)
- Authorities: GST Council; CBIC; State tax authorities
- Topic: Goods and Services Tax rate structure and administration
- Key date: New rates from 22 September 2025; 57th Council recommendations October 2026
- Law: CGST Act, 2017; IGST Act, 2017; State GST Acts

The rate structure

- 5% merit rate: many daily-use goods, such as hair oil, shampoo and toothpaste, moved from 18% to 5%; hotel rooms up to INR 7,500 a night moved from 12% to 5%.
- 18% standard rate: most goods and services, including cement and small cars, which moved down from 28%.
- 40% de-merit rate: a few goods such as pan masala, aerated sugary drinks and certain tobacco products.
- Nil: items such as UHT milk and plain Indian breads; individual life and health insurance became exempt.

Some tobacco products kept their old GST and compensation cess rates until the cess loans are repaid.

How GST works

- Central GST and State GST apply to supplies within a State; Integrated GST applies across States and on imports.
- Input tax credit flows through GSTR-2B and the Invoice Management System.
- Exports of goods and services are zero-rated, with refunds of credit or of IGST paid.
- The GST Appellate Tribunal was set to start accepting appeals from late September 2025.

What is changing next

The 57th GST Council in October 2026 recommended automatic registrations, faster refunds, wider input tax credit, higher prosecution thresholds and the removal of arrest powers. These need notifications and law changes before they apply.

What to do now

- Confirm the rate and classification of every product code after the 2025 changes.
- Reconcile purchase credit with GSTR-2B every month.

- Track CBIC notifications for the new reforms.

Our take

Two main rates make pricing simpler, but classification still decides the tax. For businesses selling into India, a clean product master and monthly credit reconciliation are the core controls.

Sources

- PIB: Recommendations of the 56th GST Council meeting (3 September 2025)
- PIB: Recommendations of the 57th Meeting of the GST Council

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