



MACRO ECONOMICS

GST in brief

How India's goods and services tax works, who decides it, and what changed in September 2025

Rates as in force from 22 September 2025; collections to September 2026

For training and education only. Not investment advice.

GST taxes the value added at each step of a sale, with credit for tax already paid. The final buyer bears it.

It replaced a long list of central and state taxes on 1 July 2017. The Centre and the States levy it together, on the same sale.

Four terms to know on a GST bill



CGST

Central GST. Levied by the Centre on a sale of goods or services within one State.



SGST / UTGST

State GST, or Union Territory GST. Levied on the same sale, at the same time as CGST.



IGST

Integrated GST, on sales between States and on imports. The Centre collects it and it is shared with the States.



Input tax credit

GST paid on eligible business purchases is set off against GST due on sales. Only the value added is taxed.

Sources: CBIC, *Frequently Asked Questions on GST*, 3rd edition, 15 Dec 2018 (Q1, Q8); Constitution of India, Article 269A.

How the credit chain works

THE SET-UP (ASSUMED)

One rate of 18% at every step. Prices are before tax.

A mill sells cloth to a tailor for ₹1,000. The tailor sells a shirt to a shop for ₹1,500. The shop sells it to you for ₹2,000.

- 1 Mill: GST on ₹1,000 = ₹180. No credit to claim. It pays ₹180.
- 2 Tailor: GST on ₹1,500 = ₹270, less ₹180 credit for the GST on the cloth. It pays ₹90.
- 3 Shop: GST on ₹2,000 = ₹360, less ₹270 credit. It pays ₹90.
- 4 Total paid: $180 + 90 + 90 = ₹360$, which is 18% of ₹2,000. With no credit it would be $180 + 270 + 360 = ₹810$.

Each seller pays GST only on the value it adds. You pay ₹2,360 and bear all ₹360 of the tax.

Illustration with assumed figures and a single assumed rate. Real rates differ by item.

What GST replaced, and what it left out



Central taxes replaced

Central excise duty, service tax, additional customs duties (CVD and SAD), and central surcharges and cesses on supplies.



State taxes replaced

State VAT, central sales tax, entry tax, luxury tax, purchase tax, State entertainment tax, and taxes on lotteries, betting and gambling.



Left outside

Alcohol for human consumption, by the Constitution. Petrol, diesel, crude oil, natural gas and jet fuel until the GST Council recommends a date.

Sources: CBIC, FAQs on GST, 3rd edition, 15 Dec 2018 (Q3, Q5, Q6); Constitution of India, Article 279A(5) and Article 366(12A).

Who decides: the GST Council



Members

The Union Finance Minister chairs it. Members are the Union Minister of State for Revenue or Finance and a minister from each State.

3/4



Votes

A decision needs three-quarters of the weighted votes cast. The Centre's vote counts for one-third; all States together, two-thirds.



What it recommends

Rates, exemptions, the turnover threshold for registration, which taxes are merged into GST, and when petroleum products come in.

Source: Constitution of India, Article 279A (inserted by the Constitution (One Hundred and First Amendment) Act, 2016), as reproduced by the GST Council Secretariat.

The rate structure since 22 September 2025



The GST Council replaced four main rates (5%, 12%, 18%, 28%) with two, plus a special rate.

Rate	Used for	Examples from the Council's list
Nil	Exempt items	UHT milk, packaged paneer, Indian breads; individual life and health insurance policies
5%	Merit rate	Most packaged foods, soap, toothpaste, bicycles, tractors; hotel rooms up to ₹7,500 a day
18%	Standard rate	Small cars, motorcycles up to 350cc, air conditioners, all TVs, cement, auto parts
40%	Special rate for a select few goods and services	Mid-size and big cars, motorcycles above 350cc, sugary aerated drinks; pan masala and cigarettes from 1 Feb 2026

Sources: PIB, Recommendations of the 56th GST Council meeting, 3 Sep 2025, and FAQs on its decisions; All India Radio News, 1 Jan 2026 (tobacco from 1 Feb 2026).

GST, investors and policyholders



Fund expenses

GST on a scheme's fees is a statutory levy. It is charged to the scheme on actuals and counts in the total expense ratio.

Nil



Insurance premiums

Individual life and health policies, including term, ULIP, endowment, family floater and senior citizen plans, were moved from 18% to exempt.



Securities

Securities are excluded from the definitions of both goods and services, so transactions in securities are not liable to GST.

Sources: SEBI (Mutual Funds) Regulations, 2026, Reg. 66-67; PIB, 56th GST Council recommendations, 3 Sep 2025 (Annexure III) and FAQs; CBIC, FAQs on GST, 2018 (Q27).

Where things stand

Collections are provisional government figures, as reported in the press. They are revised later.

SEPT 2026 (₹ LAKH CRORE)

2.04

Gross GST, up 14.7% on Sept 2025 excluding cess. Includes imports.

APR-SEPT 2026 (₹ LAKH CR)

12.46

Gross, first half of 2026-27, up 11.6% on a year earlier excluding cess.

MAIN RATES

5% / 18%

Merit and standard rates since 22 September 2025, plus 40% for a select few items.

Sources: provisional government GST data, Sept 2026, via Business Today, 1 Oct 2026 (secondary); PIB, 56th GST Council recommendations, 3 Sep 2025.

If you learnt this from older material

What older decks say

- GST is a reform still to come.
- A single proposed rate, split between the Centre and the States.
- Four main slabs, 5%, 12%, 18% and 28%, plus a cess on sin goods.

What holds now

- In force since 1 July 2017, after the 101st Constitution Amendment of 2016.
- Several rates, each set on the GST Council's recommendation.
- Since 22 September 2025: 5% and 18%, plus a 40% special rate.

Rates change on the GST Council's recommendation. Check the date before you quote one.

Sources: CBIC, FAQs on GST, 2018; PIB, 56th GST Council recommendations, 3 Sep 2025; All India Radio News, 1 Jan 2026.

Four things people get wrong



'Only the shop pays GST.'

Each registered seller in the chain pays GST on sales, less credit for GST on purchases. The final buyer bears the total in the price.



'Exempt always means below 5%.'

An exempt seller cannot claim credit for GST on its inputs and may pass that cost on. The Council kept tractors at 5% for this reason.



'Petrol and diesel carry GST.'

Five petroleum products are outside GST until the GST Council recommends a date. Central excise and State VAT apply instead.



'All insurance is now GST-free.'

The September 2025 exemption covers individual life and health policies. The Council's release does not cover group policies.

Sources: PIB, FAQs on the 56th GST Council decisions, 3 Sep 2025; CBIC, FAQs on GST, 2018 (Q5, Q6).

Check yourself

Q1

A trader buys goods for ₹10,000 plus 18% GST and sells them for ₹12,000 plus 18% GST (assumed figures). How much GST does the trader pay to the government?

Q2

Goods are sold by a seller in Assam to a business in Gujarat. Which GST applies, and who collects it?

Q3

Name the two main GST rates and the special rate in force since 22 September 2025, and one item that is exempt.

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- GST concept, CGST/SGST/IGST, taxes subsumed, items kept outside, securities: CBIC, Frequently Asked Questions on GST, 3rd edition, 15 Dec 2018.
- GST Council, voting, petroleum products, compensation cess: Constitution, Articles 269A, 279A and 366(12A), as reproduced in 'GST and Co-operative Federalism', GST Council Secretariat.
- Rate structure, examples and insurance exemption from 22 Sep 2025: PIB, Recommendations of the 56th Meeting of the GST Council, 3 Sep 2025, with Annexures, and PIB FAQs on its decisions.
- Tobacco and pan masala from 1 Feb 2026: All India Radio News (newsonair.gov.in), 1 Jan 2026.
- GST collections, September and April-September 2026 (provisional): government data as reported by Business Today, 1 Oct 2026.
- GST within a mutual fund's expense ratio: SEBI (Mutual Funds) Regulations, 2026, Regulations 66-67.

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