GSTZONE

GST Rates & Classification

Finding the right rate, and being able to defend it

The complete guide, plus all 23 sections and rules

Text sourced from the Central Board of Indirect Taxes and Customs

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A Khemchandani Finance initiative

Start here

From 22 September 2025 most of GST runs on two slabs: 5% for merit goods and services, 18% as the standard rate. The old 12% and 28% brackets were largely folded into these two, though a higher demerit rate survives for luxury and sin goods, and a few special rates - 3% on gold, 0.25% on rough diamonds - were never part of the slab structure at all.

Knowing the slab is easy. Knowing which slab your specific product sits in is the hard part, and it turns on classification: the HSN code for goods, the SAC for services. Classification is a legal question decided by the description in the tariff, not by what the product is called in the market.

Two rules cause most rate disputes. A composite supply - things naturally bundled, like a fridge with delivery - takes the rate of the principal item. A mixed supply - unrelated things sold for one price, like a gift hamper - takes the highest rate in the box.

A worked example

Why the same meal carries two different rates

Dhaba on the highway	**5% GST, no input tax credit**	Standalone restaurant
Restaurant inside a ₹9,000-a-night hotel	**18% GST, with input tax credit**	'Specified premises'
The plate of food	**Identical in both**	Rate follows the premises, not the food

> **The point:** Nothing about the meal decides the rate. The hotel's room tariff in the previous financial year does. Classification questions are almost always like this - the answer sits somewhere you weren't looking.

The mistakes that cost people money

- Charging the old rate on old stock. The rate is fixed by when you supply, not by what you paid when you bought - stock bought at 28% is sold at today's rate.
- Treating a bundle as one rate without checking whether it is composite or mixed. A mixed supply takes the highest rate in the bundle, on the whole value.
- Relying on a competitor's invoice as proof. If they have classified it wrongly, copying them just means two businesses with the same exposure.

What this guide covers

Section 11	Power to grant Exemption
Section 11A	Power not to recover Goods and Services Tax not levied or short-levied as a result of general practice.
Section 12	Time of Supply of Goods
Section 13	Time of Supply of Services
Section 14	Change in rate of tax in respect of supply of goods or services
Section 15	Value of Taxable Supply
Rule 27	Value of supply of goods or services where the consideration is not wholly in money
Rule 28	Value of supply of goods or services or both between distinct or related persons, other than through an agent
Rule 29	Value of supply of goods made or received through an agent
Rule 30	Value of supply of goods or services or both based on cost
Rule 31	Residual method for determination of value of supply of goods or services or both
Rule 31A	Value of supply in case of lottery, betting, gambling and horse racing
Rule 31B	Value of supply in case of online gaming including online money gaming
Rule 31C	Value of supply of actionable claims in case of casino
Rule 31D	Value of supply of goods on basis of retail sale price
Rule 32	Determination of value in respect of certain supplies
Rule 32A	Value of supply in cases where Kerala Flood Cess is applicable
Rule 33	Value of supply of services in case of pure agent
Rule 34	Rate of exchange of currency, other than Indian rupees, for determination of value
Rule 35	Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax
Section Schedule I	Schedule I - Activities to be treated as supply even if made without consideration
Section Schedule II	Schedule II - Activities or transactions to be treated as supply of goods or supply of services
Section Schedule III	Schedule III - Activities which shall be treated neither as a supply of goods nor a supply of services

Every provision, explained

SECTION 11 · CGST ACT, 2017

Power to grant Exemption

Section 11 lets the Government grant EXEMPTIONS from GST by notification (wholly or partly, absolutely or conditionally) or by special order in the public interest, and issue clarifying explanations.

- An exemption notification is strictly construed; the burden of showing that a supply falls within it is on the taxpayer.
- Absolute exemptions are compulsory - a taxpayer cannot choose to pay tax and pass on credit where the exemption is unconditional.
- The main services exemption is Notification 12/2017-Central Tax (Rate) and the goods exemption is now 10/2025-CTR; always check the exemption before applying a rate.

SECTION 11A · CGST ACT, 2017

Power not to recover Goods and Services Tax not levied or short-levied as a result of general practice.

The Government may direct that GST not levied or short-levied because of a general practice across the trade shall not be recovered for that period. Inserted by the Finance (No.2) Act 2024 - it legitimises an industry-wide practice; it is not an individual waiver, and it does not refund tax already paid.

- Inserted by the Finance (No.2) Act 2024. It lets the Government stop recovery where a general practice of non-levy or short-levy prevailed across the trade - and expressly gives no refund of tax already paid, so a taxpayer who complied gains nothing.

SECTION 12 · CGST ACT, 2017

Time of Supply of Goods

GST on goods becomes payable at the time of supply - the earlier of the invoice date (or the last date it should have been issued) and the date of payment. Under reverse charge it is the earliest of receipt of goods, payment, or the 31st day from the supplier's invoice.

- Forward charge: the earlier of the invoice (or the last date on which it should have been issued under section 31) and the date of payment. Since 15-11-2017 the receipt of an ADVANCE for goods does not trigger tax for most taxpayers - Notification 66/2017-Central Tax - so goods are taxed on invoice.
- Reverse charge: the earliest of receipt of goods, date of payment, or the thirty-first day from the supplier's invoice.
- Voucher timing was moved out of section 12 by the Finance (No.7) Act 2025 - vouchers are dealt with separately now; do not apply the old 12(4) to a voucher issued after that change took effect.
- Interest, late fee or penalty for delayed payment is taxed when it is actually received, not when it accrues.

SECTION 13 · CGST ACT, 2017

Time of Supply of Services

GST on services becomes payable at the time of supply: if the invoice is issued within 30 days, the earlier of invoice or payment; otherwise the earlier of provision of service or payment. Under reverse charge it is the earlier of payment or the 61st day from the supplier's invoice.

- The thirty-day invoice window in Rule 47 is what decides which limb applies; banks, insurers and financial institutions get forty-five days.
- Reverse charge on services: the earlier of the date of payment and the sixty-first day from the supplier's invoice - and since 01-11-2024 the self-invoice for an unregistered supplier must itself be issued within thirty days (Rule 47A), which fixes the date of payment for that purpose.
- Advances for services ARE taxable on receipt; a receipt voucher is required, at 18 per cent and treated as inter-State where the rate or place of supply is not yet known.

SECTION 14 · CGST ACT, 2017

Change in rate of tax in respect of supply of goods or services

When the GST rate changes, section 14 decides which rate applies based on which two of the three events - supply, invoice, payment - fall before or after the rate change.

- The test is which TWO of the three events - supply, invoice, payment - fall on the same side of the rate change; the majority decides the rate.
- It mattered a great deal around 22-09-2025 when the rate reset took effect: an invoice raised before but supply and payment after attracts the new rate.
- The date of payment for this section is the earlier of the credit in the bank account and the entry in the books, but the bank date governs if the credit is more than four working days after the change.

SECTION 15 · CGST ACT, 2017

Value of Taxable Supply

The value on which GST is charged is the transaction value - the price actually paid or payable - where the parties are unrelated and price is the sole consideration. It includes other taxes, recipient-borne costs, incidental charges, interest/late fees and non-government subsidies; it excludes discounts recorded on the invoice and pre-agreed post-supply discounts given by credit note where the buyer reverses the ITC. Related-party or non-monetary supplies are valued under the Valuation Rules (Rule 27-35).

- Post-supply discounts are deductible ONLY if agreed before or at the time of supply, linked to the specific invoices, and the buyer reverses the corresponding credit - all three, or the deduction fails.
- Section 15(3)(b) reversal by the buyer is now evidenced through the credit-note flow in the Invoice Management System; keep the acknowledgement.
- Related-party and distinct-person supplies go to Rule 28, where the invoice value is accepted as open market value if the recipient is entitled to full credit - the practical answer for most intra-group billing.
- A corporate guarantee to a related person is valued under the second proviso to Rule 28 at one per cent of the amount guaranteed or the actual consideration, whichever is higher.
- Subsidies from the Central or State Government are excluded from value; any other subsidy linked to the price is included.
- From 01-02-2026 Rule 31D values pan masala and tobacco products on retail sale price, not transaction value.

RULE 27 · CGST RULES, 2017

Value of supply of goods or services where the consideration is not wholly in money

Where consideration is not wholly in money, value is the open market value; failing that, money plus the money-equivalent of the non-monetary part; failing that, the value of like goods or services; and finally Rule 30 or 31.

RULE 28 · CGST RULES, 2017

Value of supply of goods or services or both between distinct or related persons, other than through an agent

Value between distinct or related persons: open market value, then the value of like supplies, then Rule 30 or 31 - but where the recipient can take full input tax credit, whatever the invoice states is accepted as the open market value. The second proviso covers corporate guarantees given to a related person at one per cent of the amount guaranteed or the actual consideration, whichever is higher.

RULE 29 · CGST RULES, 2017

Value of supply of goods made or received through an agent

Value of goods supplied through an agent: open market value, or at the supplier's option ninety per cent of the price the agent charges an unrelated customer for like goods.

RULE 30 · CGST RULES, 2017

Value of supply of goods or services or both based on cost

The cost method: where none of the earlier rules works, value is 110 per cent of the cost of production, of acquisition, or of provision of the service.

RULE 31 · CGST RULES, 2017

Residual method for determination of value of supply of goods or services or both

The residual method: where value cannot be determined under rules 27 to 30, use reasonable means consistent with section 15 and these rules; a supplier of services may choose this rule over Rule 30.

RULE 31A · CGST RULES, 2017

Value of supply in case of lottery, betting, gambling and horse racing

Lottery, betting, gambling and horse racing: the value of a lottery ticket is 100/128 of its face value or of the price notified by the organising State, whichever is higher; for betting and horse racing it is the full face value of the bet or the amount paid into the totalisator.

RULE 31B · CGST RULES, 2017

Value of supply in case of online gaming including online money gaming

Online gaming, including online money gaming: value is the total amount paid, payable or deposited with the supplier by or for the player, and money returned or refunded from winnings is not deducted.

RULE 31C · CGST RULES, 2017

Value of supply of actionable claims in case of casino

Casinos: value is the amount paid for tokens, chips or coins plus any amount staked without those tokens; the value of tokens returned by the player is not deducted.

RULE 31D · CGST RULES, 2017

Value of supply of goods on basis of retail sale price

From 1 February 2026 the value of pan masala, tobacco, cigarettes, cigars and similar goods listed in the rule is the retail sale price declared on the pack, less the tax it contains. Tax is backed out as (RSP x rate) divided by (100 + rate). This shifts these goods from transaction value to a printed-price basis, so the invoice price no longer decides the tax.

RULE 32 · CGST RULES, 2017

Determination of value in respect of certain supplies

Optional valuation for special supplies: foreign exchange dealing, air travel agents, life insurance, second-hand goods sold on the margin scheme, and redeemable vouchers or coupons - each with its own formula that the supplier may choose instead of transaction value.

RULE 32A · CGST RULES, 2017

Value of supply in cases where Kerala Flood Cess is applicable

Where the Kerala Flood Cess applied, the GST value was taken without including that cess. Spent, since the cess period has ended.

RULE 33 · CGST RULES, 2017

Value of supply of services in case of pure agent

Pure agent: expenditure a supplier incurs purely as an agent of the recipient is kept out of the value if he is authorised to pay, the payment is separately shown on the invoice and the goods or services procured are additional to his own supply. This is the rule behind excluding reimbursed statutory fees from a professional's bill.

RULE 34 · CGST RULES, 2017

Rate of exchange of currency, other than Indian rupees, for determination of value

Exchange rate: for goods, the rate notified by the Board under section 14 of the Customs Act on the date of the time of supply; for services, the generally accepted accounting principles rate on that date.

RULE 35 · CGST RULES, 2017

Value of supply inclusive of integrated tax, central tax, State tax, Union territory tax

Where a price is tax-inclusive, the tax is backed out as value multiplied by the tax rate divided by (100 plus the tax rate) - the standard back-calculation.

SECTION SCHEDULE I · CGST ACT, 2017

Schedule I - Activities to be treated as supply even if made without consideration

Schedule I lists four things that are taxable as a 'supply' even when no money changes hands: (1) permanent disposal of business assets on which ITC was taken; (2) supplies between related or distinct persons (same PAN, different registrations) in the course of business - but a gift up to Rs 50,000 a year from employer to employee is not a supply; (3) principal-agent supplies; and (4) import of services from a related person or own overseas branch for business.

- Entry 2 is the one that bites in practice: a supply between DISTINCT persons (two registrations of the same PAN) in the course of business is taxable without consideration - branch transfers, and services rendered by head office to branches.
- Gifts by an employer to an employee up to Rs 50,000 in a financial year are outside; beyond that the excess is a supply.
- Import of services from a related person or from your own establishment outside India is a supply even without consideration - the standard exposure on group services from an overseas parent.

SECTION SCHEDULE II · CGST ACT, 2017

Schedule II - Activities or transactions to be treated as supply of goods or supply of services

Schedule II classifies whether specified activities are a supply of GOODS or of SERVICES - e.g. transfer of title = goods; leasing/renting, job-work/treatment on another's goods, construction of a complex, temporary transfer of IP, works contracts and supply of food/drink = services; and transfer of business assets = goods. It settles the goods-vs-services question for common transactions.

- Schedule II now only CLASSIFIES a transaction as goods or services - it no longer decides whether something is a supply. Section 7(1A) made that change retrospectively from 01-07-2017.
- Paragraph 6 keeps works contract and supply of food or drink as composite supplies of SERVICES, which is why they are never split into a goods and a services component.
- Paragraph 5(b) - construction of a complex or building where consideration is received before the completion certificate - is what makes under-construction property a service.

SECTION SCHEDULE III · CGST ACT, 2017

Schedule III - Activities which shall be treated neither as a supply of goods nor a supply of services

Schedule III is the 'negative list' - activities that are NEITHER a supply of goods nor services, so outside GST: services by an employee to the employer, court/tribunal services, functions of MPs/MLAs and constitutional post-holders, funeral/burial services, sale of land and (post-completion) sale of building, actionable claims other than specified betting/gambling/lottery, high-seas sales, and supply of warehoused goods before home-consumption clearance.

- Paragraph 6 excludes SPECIFIED actionable claims - betting, casinos, gambling, horse racing, lottery and online money gaming - from the negative list, so those are taxable; every other actionable claim stays outside GST. That carve-out came in with effect from 01-10-2023.
- Paragraphs 7 and 8 keep high-seas sales, and supply of warehoused goods before clearance for home consumption, outside GST - retrospectively from 01-07-2017 by the Finance Act 2023.
- Paragraph 8(aa) covers supplies within a Special Economic Zone or Free Trade Warehousing Zone before clearance to the Domestic Tariff Area.
- The apportionment of co-insurance premium by the lead insurer, and the ceding or reinsurance commission deducted by the insurer, were placed outside GST with effect from 01-11-2024.
- Employee services to the employer are outside GST - which is why the secondment question turns on whether an employment relationship genuinely exists.