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GST Council meet: No tax on bank penalties, EV tax hike, popcorn tax clarity, and other key highlight

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The 55th GST Council meeting unveiled several important decisions that will have a lasting impact across various sectors, from healthcare and finance to the automobile industry. While some changes, such as the increase in GST for used EVs and the new popcorn tax structure, have sparked concerns about complexity and cost, others, such as the exemption for gene therapy, have been widely welcomed by experts.

The 55th meeting of the Goods and Services Tax (GST) Council, chaired by Finance Minister Nirmala Sitharaman, concluded on December 21, 2024, in Jaisalmer, Rajasthan, unveiling significant reforms aimed at simplifying the tax structure and addressing crucial issues across multiple sectors. From changes affecting electric vehicles (EVs) to clarity on popcorn taxation, the decisions made have far-reaching implications. With more discussions expected on key issues like health insurance and food delivery platforms, the upcoming meetings promise further clarity and potential changes to the GST framework, opined industry experts.

Here Are the Top Highlights from the 55th GST Council Meeting

Clarity on Penal Charges: No GST on Bank Penalties

In a decision that brings much-needed clarity to the financial sector, the GST Council decided that no Goods and Services Tax (GST) will apply to penal charges levied by banks or financial institutions on borrowers. This move follows amendments to RBI regulations prohibiting the levy of penal interest, with lenders now no longer required to collect GST on these charges.

Gyanendra Tripathi, Partner & Leader (West) at BDO India, welcomed the decision, noting it would provide significant relief to banks and financial institutions that had previously been unclear about the tax implications of such penalties. "This is a critical step in offering clarity to the financial sector," Tripathi said

GST on Electric Vehicles Raised to 18% for Used EVs

In a move that has sparked debate, the Council recommended increasing the GST on used electric vehicles (EVs) from 12% to 18%. This change aligns used EVs with the tax rate applicable to new petrol and diesel cars, which has raised concerns about affordability in the second-hand EV market.

Sivakumar Ramjee, Executive Director at Nangia Andersen India, noted that while this adjustment standardizes taxation, it might make used EVs less appealing. "Used EVs will likely see higher costs, which could affect the growth of this segment," he stated.

Popcorn Tax Confusion Cleared

The GST Council also addressed confusion surrounding the taxation of popcorn. It clarified the following tax treatment

Pre-packaged and labelled ready-to-eat popcorn will attract 12% GST.

Caramelized popcorn will face an 18% GST.

Unpackaged salted or spiced popcorn will remain at 5% GST.

This decision aims to simplify the previous confusion over the varying taxation of different types of popcorn. However, Shravan Shetty, Managing Director at Primus Partners, pointed out that the staggered tax rates for similar products might complicate compliance. "Having different rates for variations of the same product increases both the cost of compliance and complexity in reporting. A simplified rate structure would be far more efficient," he remarked.

Gene Therapy Exempted from GST

In a landmark decision, the GST Council exempted gene therapy from GST, making life-saving treatments more affordable. This decision is expected to benefit many patients who previously struggled with the high costs associated with such therapies. Gyanendra Tripathi described this exemption as "a commendable step that will help make essential healthcare treatments more accessible to those in need."

GST Rate Reduction on Fortified Rice and ACC Blocks

The GST rate on fortified rice kernels was reduced from 18% to 5%, a decision that will likely benefit public nutritional programs. Additionally, autoclaved aerated concrete (ACC) blocks containing more than 50% fly ash will now attract 12% GST, down from 18%. These changes are part of the Council's ongoing efforts to ease the financial burden on certain industries and sectors.

Used Cars and Luxury Vehicles

The GST on used cars was raised from 12% to 18%, aligning with the tax rates on new cars. While this increase brings used vehicles closer to new car tax rates, it may have mixed effects on the market, especially for luxury cars. Shravan Shetty commented that despite the increase, the 18% GST is still competitive for used luxury cars, where depreciation plays a significant role in reducing their market price. "This rate should still make used cars attractive to buyers, especially in the luxury segment where depreciation is high," he observed.

State-Specific Cess and Simplification in GST Registration

The Council also discussed the introduction of a Group of Ministers (GoM) tasked with streamlining the process for levying state-specific cess in the event of disasters. Gyanendra Tripathi warned that such state-specific levies could distort the uniformity of the GST structure and urged the GoM to explore alternative revenue-raising mechanisms for natural disasters.

Another, significant decision was the push to simplify the GST registration process, particularly for small businesses. This would standardize documentation requirements and reduce regional discrepancies, a welcome step for smaller businesses.

Other Key Decisions

The Long Range Surface-to-Air Missile (LR-SAM) system will be exempt from GST.

Gift vouchers will no longer be treated as goods or services under GST rules, resolving confusion that had emerged from conflicting rulings in the past.

The Council also discussed rate rationalization for 148 items, but a decision on this will be deferred to a future meeting.

Deferred Decisions

Several important issues were deferred for further review, including the proposed reduction of GST on health and life insurance premiums. A decision on food delivery platforms like Swiggy and Zomato, which was expected to bring down GST from 18% to 5%, was also postponed.

Shravan Shetty commented on the delay in the decision on health insurance, saying, "The delay suggests a lack of consensus, especially with the insurance sector contributing 216,000 crores in 2023-24. A more thoughtful discussion is needed to balance sectoral needs with tax implications."