



New Valuation and GST Calculations Rules – Tobacco Products

Ashu Dalmia

Effective February 1st, 2026, significant changes to GST valuation rules will impact tobacco product taxation in India.

📅 EFFECTIVE FEB 1, 2026

Introduction of Retail Sale Price (RSP) Concept



Under GST, the general principle is that tax is levied on the transaction value as per Section 15 of the CGST Act, 2017 with few exceptions. The Goods and Services Tax (Fifth Amendment) Rules, 2025 introduced a new concept of Retail Sale Price (RSP).

RSP Definition: The maximum price declared on goods at which such goods in packaged form may be sold to the ultimate consumer, including all taxes, duties, surcharge or cess.

Key Changes in GST Calculation



Till 31st Jan, 2026

GST calculated on invoice price (transaction value) with few exceptions. RSP printed on pack not considered for GST.



From Feb 1, 2026

For goods notified under Rule 31D, value of supply determined based on RSP irrespective of transaction value.

This fundamental shift means GST will be dependent upon the value of supply based on RSP, not on the basis of transaction value.

Formula Calculation of Value of Supply and GST

Value of Supply

Retail Sale Price
(MRP/RSP) printed on
package minus GST
included in such price

GST Amount

Retail Sale Price \times GST
Rate \div (100 + GST Rate)

Practical Example

- **GST Rate:** 40%
- **RSP:** ₹210
- **Transaction Price:** ₹120

GST Calculation: $210 \times 40 \div 140 = \text{₹60}$

Value of Supply: $210 - 60 = \text{₹150}$

Total Customer Price: $\text{₹120} + \text{₹60} = \text{₹180}$

Products Covered Under Rule 31D



Pan Masala

All pan masala products subject to new RSP-based GST calculation



Tobacco

Tobacco products covered under new valuation rules



Cigarettes

Cigarettes, cheroots and similar tobacco products included

Relief from Rule 86B Applicability

Under Rule 86B, certain registered persons are required to discharge at least 1% of output GST liability in cash, even if sufficient Input Tax Credit (ITC) is available, subject to certain exceptions.

New Exception Added: The 1% mandatory cash payment requirement under Rule 86B will **not apply to non-manufacturers** if the supplier has paid GST on MRP (RSP) basis for goods covered under Rule 31D.

This provides significant relief to traders of tobacco products covered under the new rules.



Key Benefit


Traders exempt from 1% cash payment requirement




Condition

Supplier must pay GST on RSP basis

Thank You

 Hello@gstindia.biz

 +91 9810893243

 [linkedin.com/in/ashudalmia](https://www.linkedin.com/in/ashudalmia)

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