

# GST 2.0 Reforms and Its Impact on Retail Traders in India

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## Abstract

The Goods and Services Tax (GST) is one of the major indirect tax reforms in India since its introduction in July 2017. The GST regime has been in a constant state of flux over the years regarding tax rates, compliance procedures, digital systems, registration, invoicing and dispute resolution. The reforms announced after the 56th meeting of the GST Council in September 2025 have been termed as the next phase or “GST 2.0” as they aim to simplify the rate structure, reduce the tax burden on several commonly consumed goods, improve ease of doing business, strengthen digital compliance and facilitate tax administration. The revised structure included a 5% merit rate, 18% standard rate and a special 40% rate for selected de-merit goods, with most revised rates to be effective from 22 September 2025. GST has a direct impact on retail traders, who form an important part of India’s distribution system, in terms of purchase prices, input tax credit, working capital, inventory management, pricing decisions, billing practices and compliance costs. GST 2.0 has the potential to cut the tax incidence on many products consumed by retailers, make classification easier and boost demand. Frequent changes in rates, issues with the valuation of inventory, technology needs, invoice management and reliance on tax experts may present transitional challenges, especially for small and micro retailers. This paper discusses the major features of GST 2.0 and analyses its likely implications for retail traders in India. The research design of the study is conceptual and analytical based on secondary information from government publications, GST council documents, official GST sources, economic reports and relevant literature. The paper argues that GST 2.0 for retail traders will be successful not only on the basis of rate reduction but also on the basis of stable tax policy, simple compliance procedures, effective digital infrastructure, timely refunds, accessible grievance mechanisms and taxpayer education.

**Keywords:** GST 2.0, GST reforms, retail traders,

## 1. Introduction

Taxes are vital in financing government spending and influencing economic activity. In 2017, the introduction of Goods and Services Tax (GST) in India was a structural transformation of the indirect taxation system by subsuming several central and state indirect taxes under a common framework. The GST was expected to remove tax cascading, create a single national market, increase transparency and allow free movement of goods and services across states. The retail sector plays a particularly important role in this system. Retail traders link manufacturers, wholesalers and final consumers and therefore play a role in the final stages of many supply chains. procurement costs, taxation, inventory turnover, consumer demand, transportation costs, digital payments and compliance expenditure affect their profitability. Therefore, changes in GST rates can impact the cost structure of retail businesses and the prices that consumers pay.

Businesses faced major changes in registration, classification, invoicing, filing of returns, input tax credit and technology adoption in the first few years of GST. The GST Council thus made many changes to address the operational difficulties. The GST Council said rate rationalisation, e-way bills, e-invoicing, refund reforms, changes in return procedures and trade-facilitation measures have all contributed to the evolution of the GST framework. The reforms approved at the 56th GST Council meeting in September 2025 furthered the evolution. The Council

proposed to combine the earlier 4-tier system into a 5% merit rate and 18% standard rate plus a special 40% rate for some de-merit goods and services. A number of commonly used products have been moved from higher rates to 5 per cent and some products have been moved from 5 per cent to nil taxation. The new rates of most goods and services became effective from 22 September 2025.

The reform package also contained measures to help small businesses. It recommended an optional simplified GST registration scheme for low risk applicants with automated registration within three working days subject to certain conditions. The Council also gave in-principle approval for a simplified registration mechanism for small suppliers selling through e-commerce operators in more than one state. GST 2.0, therefore, has to be viewed not just as an exercise in rate reduction but as a larger reform comprising tax rationalisation, simplification of compliance, digitalisation and institutional strengthening.

## Background of GST in India

Before GST, India's indirect tax system was a complex web of several central and state taxes such as central excise duty, service tax, value-added tax, central sales tax, entry taxes and many other levies. This multiplicity of taxes created problems in tax administration and also resulted in cascading taxation.

GST tried to bring in a destination based taxation regime with input tax credit across the value chain. The framework introduced Central GST (CGST), State GST (SGST) and Integrated GST (IGST), based on the nature of the transaction.

The GST Council made a lot of changes during the period. For instance, the GST Council has reported that the number of products falling under the 28% rate was substantially reduced from the initial structure, while measures related to e-way bills, e-invoicing, refunds, appeals and trade facilitation were gradually put in place.

## Research Methodology

The present study is conceptual and analytical in nature.

## Research Design

The study uses a **descriptive and analytical research design** to examine GST 2.0 reforms and their implications for retail traders.

## Nature of Data

The research is based entirely on **secondary data**.

## Sources of Data

Major sources include:

- GST Council publications;
- Ministry of Finance;
- Press Information Bureau;
- GST Portal;
- Economic Survey;
- government notifications;
- official GST FAQs;
- academic literature;
- research reports; and
- relevant policy documents.

## Concept of GST 2.0

GST 2.0 can be seen as the next phase of GST reforms to make the tax system simpler, more predictable, technology driven and taxpayer friendly.

The key dimensions of GST 2.0 are: • reduce tax rates; simplification of tariff structure;

- lower GST on certain mass consumption products;
- simpler registration for eligible low risk businesses;
- assistance to small business;
- simplified mechanisms for some e-commerce suppliers;
- enhancement of the GST appellate tribunals;
- refund mechanisms based on risk;
- increased digitalisation;
- better dispute resolution; and
- Strengthening tax compliance and transparency.

The 56th GST Council had especially termed the reforms as focusing on ease of doing business, common consumers, labour-intensive industries, farmers and agriculture and key sectors of the economy.

## Major GST 2.0 Reforms

### • Rationalisation of GST Rate Structure

One of the most important GST 2.0 reforms is the rationalisation of the tax rate structure. The Council recommended a simplified structure consisting primarily of:

- **5% Merit Rate**
- **18% Standard Rate**
- **40% Special De-merit Rate**

This replaces the earlier broad four-rate structure for most goods and services. For retailers, rate rationalisation can reduce classification complexity. A simpler structure may reduce uncertainty regarding the applicable rate, although product-specific classification will continue to be important.

### • Reduction in GST on Common Consumer Goods

- Various goods that are usually sold in retail stores were shifted to lower tax brackets. The products that have been specifically mentioned in the government information as the products for which the GST has been reduced to 5% are hair oil, toilet soap, shampoo, toothbrushes, toothpaste, bicycles, tableware and kitchenware.

Some other food products also received rate cuts including packaged namkeens, sauces, pasta, instant noodles, chocolates, coffee, cornflakes, butter and ghee. Lower tax rates may influence: For retail traders, • prices for sale; • consumer demand;

- turnover of inventory;
- volumes of sales;
- EBITDA margin;
- competitive positioning, and
- working capital requirements.

But the real benefit to retailers depends on the extent to which tax cuts are reflected in purchase and consumer prices.

## Impact of GST 2.0 on Retail Traders

- **Impact on Cost of Purchases**

Retail traders usually purchase from manufacturers, distributors or wholesalers. GST is part of the transaction. Input tax credit may impact effective tax cost depending on the applicable rules. The change in the tax element of the transaction occurs when the GST rate applicable to a product is reduced. This could lower the tax inclusive procurement cost for retailers, particularly if suppliers' pricing is adjusted accordingly.

Example, A retailer purchases a product with a taxable value of ₹5,000.

If GST 18%

**Tax = ₹900    Invoice value = ₹ 5,900**

If GST 5%

**Tax = ₹250    Invoice value = ₹5,250**

The difference in the tax-inclusive invoice is ₹ 650, subject to the treatment of input tax credit and the specific transaction. Consequently, rate reductions can create opportunities for retailers to reduce consumer prices, improve competitiveness or manage margins.

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- **Impact on Consumer Demand**

Retail sales are closely connected with consumer purchasing power. A reduction in GST on mass-consumption goods can lower the tax component embedded in final prices.

If the benefit is transmitted to consumers, lower prices may increase demand, particularly for price-sensitive products.

The Economic Survey 2025–26 identifies lower tax incidence and improved price competitiveness as expected channels through which GST rate rationalisation could support consumption.

For retailers, higher demand can potentially result in:

- increased sales turnover;
- faster inventory movement;
- better utilisation of retail space;
- increased repeat purchases; and
- improved supplier relationships.

Nevertheless, the actual demand response will vary by product category, income group, market competition and the extent of price transmission.

- **Impact on Input Tax Credit**

Input Tax Credit (ITC) is one of the central features of GST. It allows eligible businesses to offset tax paid on inputs against tax payable on outward supplies, subject to applicable conditions.

For retail traders, effective ITC management requires:

- valid purchase invoices;
- correct GSTIN information;
- accurate HSN classification;
- reconciliation of purchase records;
- timely return filing; and
- coordination with suppliers.

GST digitalisation has increased the importance of accurate transaction-level data.

The GST portal states that registered taxpayers generally report outward supplies through GSTR-1, while eligible taxpayers with turnover up to ₹5 crore can opt for quarterly filing under specified conditions.

For small retailers, simplified procedures can reduce compliance costs, but inadequate digital literacy may continue to create difficulties.

- **Impact on Small and Micro Retailers**

Small retailers represent one of the most important categories for studying GST 2.0.

Such businesses frequently have:

- limited accounting staff;
- small working-capital bases;
- owner-managed operations;
- limited technological resources;
- dependence on local accountants; and
- relatively low bargaining power.

GST 2.0's simplified registration and trade-facilitation measures are therefore particularly relevant to this segment.

- **Impact on E-Commerce Retail Traders**

Retail trade increasingly occurs through online marketplaces and digital channels.

GST 2.0 may influence e-commerce traders through:

- registration;
- tax collection mechanisms;
- invoice generation;
- inter-state supplies;
- return filing;
- inventory management; and
- marketplace reconciliation.

Small suppliers using e-commerce platforms may benefit from simplified registration mechanisms, particularly where state-wise registration requirements previously created barriers.

The reform therefore has the potential to support greater participation of small retailers in organised digital commerce.

### Impact on Tax Transparency

GST has increased transaction-level visibility.

Digital invoices, returns, e-way bills and electronic records create a stronger information trail.

For legitimate retailers, this may create advantages by:

- reducing ambiguity;
- improving accounting records;
- facilitating credit assessment;
- reducing manual documentation; and
- supporting business formalisation.

The GST Council has highlighted the integration of e-invoices, e-way bills and GST returns as part of the broader digital architecture of the system.

### 18. Impact on Tax Dispute Resolution

A major institutional reform associated with GST 2.0 is the operationalisation of the Goods and Services Tax Appellate Tribunal (GSTAT).

The 56th GST Council meeting recommended that GSTAT should accept appeals before the end of September 2025 and commence hearings before the end of December 2025. For retailers and other businesses, an effective appellate mechanism can potentially improve:

- access to justice;
- consistency in tax decisions;
- dispute resolution;
- certainty regarding tax liabilities; and
- confidence in the tax system.

### Challenges of GST 2.0 for Retail Traders

Here is a more natural and humanised version, while keeping the **academic tone appropriate for a research paper**:

Despite its potential benefits, the implementation of GST 2.0 may create several practical challenges for retailers.

- Frequent changes in GST rates and procedures may require retailers to regularly update their accounting systems, price lists, inventory records, and billing software.
- The increasing use of digital compliance systems can be difficult for small traders who have limited knowledge or experience with technology.
- Although the revised rate structure may be simpler, retailers may still face confusion or disputes regarding the correct classification of certain products under different GST rates.
- Delays in receiving input tax credit (ITC) or refunds can create temporary cash-flow difficulties, particularly for small businesses that operate with limited working capital.
- Many small traders may continue to rely on accountants, tax consultants, or other professionals to manage their GST compliance, which can increase their operating costs.
- Changes in GST rates can also create difficulties for retailers in managing stock purchased under the earlier tax rates, particularly when old and new stock are sold at the same time.

- Retailers need to ensure that revised prices are communicated clearly and accurately to customers to avoid confusion and maintain transparency.
- Greater dependence on digital systems also increases the need for retailers to protect their business information, login credentials, financial records, and transaction data from cyber threats.

## Findings

The major findings of the conceptual analysis are as follows:

1. GST 2.0 is an important milestone in the journey of evolution of GST in India.
2. Rationalisation of rates: The complexity of multiple tax slabs could be reduced by moving toward a simpler structure.
3. A cut in GST on a range of popular products could help lift consumer demand and retail sales.
4. Small retailers may benefit from simplified registration and trade-facilitation measures.
5. Digitalisation has increased transparency but also increased the technological requirements on traders.
6. The final benefit to consumers depends on price transmission and competitive conditions, although GST rate cuts can affect retail prices.
7. Input tax credit remains important for the calculation of effective tax burden of registered retailers.
8. GST 2.0 can promote formalisation by providing incentives to businesses to maintain documented transactions.
9. Rate changes could mean temporary transition and pricing challenges for retailers on old inventory.
10. Taxpayer education and sufficient digital support are required for the effective implementation of GST 2.0.
11. Strengthening of the institutional mechanism for the resolution of tax disputes by GSTAT.
12. Long-term benefits will be determined by policy stability, administrative efficiency and continued simplification.

## Suggestions

Based on the analysis, the following suggestions may be considered for strengthening the benefits of GST 2.0 for retail traders.

- GST rate changes should, wherever possible, be announced well in advance. This would give retailers enough time to adjust their inventory, billing systems, and prices accordingly.
- Government departments, trade associations, and educational institutions should organise regular GST awareness programmes, particularly for small and micro retailers.
- Small traders should be provided with practical training on using GST portals, preparing invoices, maintaining digital accounts, making digital payments, and protecting their businesses from cybersecurity risks.
- GST compliance procedures should be kept as simple as possible for micro and small businesses, while ensuring that effective tax administration is maintained.
- GST helplines and facilitation centres should offer easy-to-understand assistance in regional languages so that small retailers can obtain timely support when they face difficulties.
- Refund procedures should be made faster and more efficient, with a risk-based approach that can help reduce unnecessary delays and ease working-capital pressures on retailers.
- Whenever GST rates are revised, clear and practical guidelines should be issued to help retailers deal with existing stock and goods purchased under the earlier tax rates.
- Retailers should have simple and accessible channels for resolving technical and procedural issues related to GST, particularly problems involving online filing, payments, registration, and returns.
- Government agencies and industry associations should promote affordable GST-compliant accounting and inventory-management software that is suitable for small retailers and easy to operate.
- The impact of GST 2.0 should be reviewed periodically using indicators such as retail sales, tax compliance, business registrations, consumer prices, working-capital requirements, and the level of business formalisation. Regular evaluation would help identify areas where further improvements may be required.

## Conclusion

GST 2.0 is a critical milestone in the ongoing transformation of India's indirect tax system. The reforms announced in 2025 are not just about lowering rates but also rationalising taxes, simplifying procedures, digitalising, facilitating trade and strengthening institutions. This is a major reshaping of the GST rate structure with a move to a 5 per cent merit rate and 18 per cent standard rate with a special rate of 40 per cent for certain de-merit goods and services. For retail traders, the importance of GST 2.0 lies in its possible impact on procurement costs, consumer prices, sales volume, inventory management, working capital, compliance expenditure and competitiveness. Lowering GST rates on a number of products that are widely used by consumers can help boost demand and give retailers more pricing flexibility. Simplification of registration procedures and other trade facilitation measures are of particular importance for small enterprises. At the same time, the benefits of GST 2.0 should not be taken for granted. Retail traders have to adapt to new tax rates, upgrade billing and accounting systems, manage old inventories and maintain accurate digital records. Dependence on technology and compliance capability are still significant challenges for micro and small retailers.

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