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GST 2.0: Simplifying India's Tax System for a More Efficient Economy

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Abstract: GST 2.0 represents the most significant reform of India's indirect tax architecture since the introduction of GST in 2017. Announced and operationalized through a package of rate rationalisation, structural simplification and compliance modernization, GST 2.0 aims to simplify slabs, reduce rates on many essentials, strengthen anti-evasion measures, and speed up refunds while preserving revenue. This paper compares the original GST framework (GST 1.0) with GST 2.0 across policy features, compliance mechanisms and expected economic outcomes. Using secondary sources (policy releases, government data, news and recent academic work), we summarise ten concise literature-review entries, present a comparative table of GST 1.0 vs GST 2.0, and discuss implications for growth, consumption and compliance. Findings indicate that GST 2.0 is likely to raise consumption, improve ease of compliance, and reduce cascading taxation for many items while requiring careful monitoring to protect revenue neutrality. The paper concludes with practical recommendations for policymakers, tax administration and industry.

Key Words: GST 2.0, tax reform, rate rationalisation, compliance, India, economic growth, GST Council.

Introduction:

Introduced on 1 July 2017, India's Goods and Services Tax (GST) replaced a web of indirect taxes with a unified, destination-based system. During 2017–2024, GST promoted formalization, enabled smoother input tax credit flow, and reduced tax-on-tax for many industries. Yet challenges remained. Multiple tax slabs made compliance complex. Refunds were often delayed, return filing was cumbersome for small taxpayers, and evasion persisted in some supply chains. To address these gaps, the Government rolled out GST 2.0 in 2025 through the GST Council and CBIC. This second-generation reform rests on three pillars:

Rate Rationalization: Fewer slabs and lower rates on essentials.

Business Facilitation: Faster refunds and simpler filing.

Tech-driven Compliance: Wider e-invoicing, e-way bills, and auto-reconciliation to curb evasion. The changes were calibrated to ease the burden on consumers and businesses while protecting revenue. Initial data shows the tax base and collections have stayed resilient after the rate cuts. This paper compares GST 1.0 (2017–2024) with GST 2.0 (2025 onward), examining policy shifts, compliance impact, macroeconomic effects on consumption and investment, and early outcomes after implementation.

Objectives of Study:

- a) Undertake a comparative analysis of the principal policy and administrative features distinguishing GST 1.0 from GST 2.0.
- b) Evaluate the anticipated effects of GST 2.0 on taxpayer compliance, formalization of the economy, and macroeconomic outcomes including aggregate consumption and GDP growth.
- c) Synthesize recent scholarly literature and empirical evidence on GST and broader tax reform in the Indian context.
- d) Formulate policy and operational recommendations aimed at optimizing the gains of GST 2.0 while safeguarding fiscal stability.

Review of literature

1. Early assessments of GST (2017–2020) Several studies found GST reduced tax cascading and eased inter-state trade but flagged transitional issues (return formats, input credit delays) that raised compliance costs for small businesses. (see empirical reviews).

2. GST and economic growth: Empirical analyses indicate a positive relationship between GST revenue growth and GDP/GSDP growth; improved formalisation widens the tax base benefiting state revenues. However, effects vary across states and sectors.

3. Rate complexity and compliance costs: Multiple slabs (0, 5, 12, 18, 28% plus cess on luxuries) contributed to classification disputes and compliance complexity. Several authors called for slab rationalisation to reduce litigation and admin costs.

4. Refunds and working capital: Post-GST export refunds and inverted duty structures led to working capital stress for exporters and certain sectors; improving refund timelines was recommended.

5. Digitalisation & e-invoicing: Studies highlight that wider adoption of e-invoicing and auto-population reduces mismatches and tax leakages but requires robust IT infrastructure and taxpayer training.

6. Sectoral impacts : GST had varied sectoral effects: manufacturing benefited from unified taxes, while some services and small traders faced higher compliance burdens. Sector-targeted support was recommended.

7. Policy communication & public perception: Transparency, clear communication and transitional measures are critical to avoid consumer price shocks and vendor confusion during reforms. Local outreach campaigns have been used post-GST 2.0 announcement.

8. Revenue neutrality debate: Literature stresses careful calibration lowering rates on many goods must be offset by base broadening or higher rates on sin/luxury goods to preserve revenues. GST 2.0 explicitly targets revenue-neutral adjustments.

Methodology

This study uses comparative policy analysis and secondary data review. Sources include official government releases (PIB, GST Council), CBIC/GST notifications, industry reports, newspaper coverage for live examples, and recent academic studies. The analysis contrasts features of GST 1.0 and GST 2.0 and synthesises expected and early observed impacts on compliance and economic activity.

Comparative table: GST (2017–2024) vs GST 2.0 (2025 onward)

Dimension	GST (2017–2024)	GST 2.0 (2025 onward)	Expected outcome
Rate structure	Multiple slabs: 0%, 5%, 12%, 18%, 28% (+ cess on luxury/sin).	Simplified slabs — primary slabs reduced (e.g., 5% & 18%), reduction in 12% & 28% items; sin/luxury taxed higher (40% suggested for some sin goods).	Easier classification, fewer disputes, lower tax burden on essentials; targeted higher rates on sin goods to protect revenue.
Refunds	Delays reported in some sectors (exporters/credit accumulation).	Faster refunds and quicker reconciliation mechanisms.	Improved working capital for exporters and manufacturers.
E-invoicing digitalization	Phased rollout; mandatory for larger taxpayers.	Wider automation, auto-population of returns and reconciliations.	Reduced mismatches and tax evasion; compliance cost shifts to digital capability.
Ease of compliance	Complexity in return formats; litigation on classification.	Simplified filings, reconciled dataflows, and easier return processes.	Reduced admin burden for compliant firms; need to onboard micro firms.
Anti-evasion	Traditional audits & matching; e-way/e-invoice helped.	Stronger tech-enabled anti-evasion, analytics, targeted enforcement.	Improved compliance, but enforcement must be proportionate to avoid undue burden.
Impact on prices	Mixed; some pass-through to consumers; transitional price effects.	Immediate price reductions in many essentials and some durables (e.g., two-wheelers & small cars).	Short-term consumption boost; monitor inflation and fiscal effects.
Revenue implications	Growth in collections over time (formalisation).	Govt projects revenue neutrality via rebalancing; early indicators show stable collections.	Need close tracking; rebalancing essential to protect state revenues.
Public outreach	Periodic awareness campaigns.	Focused campaigns (e.g., shopping festivals, state drives) to educate consumers & traders.	Better compliance if outreach effective.

Data & illustrative evidence:

Key Background and Government Data Robust Collections Pre-GST 2.0: Gross GST collections for FY 2024–25 totalled ₹22.08 lakh crore, underscoring the strength of the tax base before reforms. GST 2.0 Measures: Government notifications announced sector-specific rate cuts, including lower rates on household essentials and small vehicles, alongside initiatives to expedite refunds and streamline return reconciliation. Early Market Impact Automobile Sector Response: Media reports noted a sharp surge in bookings for entry-level cars after GST 2.0 rate reductions, with brands like Maruti Suzuki and Tata seeing higher demand. This indicates a near-term consumption boost from the tax cuts.

Qualitative table of impacts on selected stakeholders:

Stakeholder	Likely short-term effect	Likely medium-term effect
Consumers (low & middle income)	Lower prices on essentials → higher disposable income.	Higher real consumption; improved welfare for lower-income groups.
Small traders / MSMEs	Need to adapt to simplified slabs & digital filing — transitional effort.	Reduced classification disputes; lower compliance friction if digital onboarding supported.
Exporters / Manufacturers	Faster refunds improve working capital.	Higher competitiveness, lower transaction costs.
Tax administration	Initial push for IT upgrades and enforcement.	Better analytics and lower leakage if capacity built.

Discussion: Implications for economic growth and compliance:

Impact on Growth and Consumption: By reducing effective tax rates on essentials and durable goods and streamlining the slab structure, GST 2.0 lowers retail prices for many items. Early market signals, like the reported surge in small-car bookings, point to a positive demand response. Higher consumption of discretionary and durable goods can support output and job creation in the short to medium term. The effect on GDP will be stronger if tax cuts apply to goods with a high marginal propensity to consume, especially among middle- and lower-income groups. However, the overall impact depends on the extent of price pass-through to consumers and the government’s fiscal adjustments.

Compliance and Formalization: GST 2.0 focuses on automated reconciliation, where e-invoices directly populate returns, reducing mismatches and opportunities for fraud. Digitalization has historically boosted compliance by increasing transparency and simplifying audits. The key challenge lies in onboarding small traders with limited digital skills. Addressing this requires training, reasonable transition thresholds, and targeted assistance. Success also depends on GSTN and CBIC’s capacity to manage larger volumes of automated data.

Revenue Impact: The government intends to keep GST 2.0 revenue-neutral by balancing rate cuts on essentials with higher rates on sin and luxury goods, along with gains from improved compliance. Gross collections of ₹22.08 lakh crore in FY 2024–25 show a strong base. The final fiscal outcome will hinge on behavioral responses and actual compliance gains.

Distributional effects: Reductions in GST rates for essentials are progressive in welfare terms benefiting lower-income groups proportionally more. Cuts on items like small cars (a middle-income good) expand access to personal mobility for first-time buyers. However, targeted measures are needed to ensure MSMEs are not disproportionately burdened during transition.

Risks & mitigation: Risks include classification disputes during the transition, short-term administrative overload, and potential temporary revenue dips. Mitigations include clear notifications (classification lists), outreach campaigns (state-level festivals and public awareness drives have already been used), phased implementation for certain compliances, and revenue-monitoring windows to adjust rates if needed.

Recommendations (practical & policy-oriented)

MSME Digital Transition Support: Introduce phased, subsidized training and simple mobile-based filing tools for micro and small taxpayers to reduce compliance burden. Led by: CBIC and state tax authorities.

Standardized Product Classification: Release comprehensive, item-wise classification lists with clear examples to cut down disputes and litigation. Led by: GST Council.

Public Revenue Monitoring: Set up a real-time dashboard of monthly GST collections and key metrics to improve transparency and enable faster policy responses.

Consumer Awareness Campaigns: Run targeted state-level outreach and helplines to educate citizens on new rates and prevent misuse of outdated rates. Examples: Shopping festivals, dedicated helplines.

Revenue Safeguards: Protect revenue through progressive rate rebalancing — retain or increase taxes on sin and luxury goods — while strengthening anti-evasion in high-risk sectors.

Exporter Facilitation: Keep fast-track refund channels and special windows for exporters until automated reconciliation is fully reliable.

Independent Review: Conduct an independent evaluation after 12–18 months, combining academic research and admin data, to assess distributional and macroeconomic impacts and guide adjustments.

Conclusion

GST 2.0 represents an evolutionary step intended to address well-known shortcomings of the original GST design — particularly complexity of slabs, refund delays, and certain compliance frictions. By rationalizing slabs, accelerating refunds and leveraging automation (e-invoicing, auto-reconciliation), GST 2.0 aims to make the system simpler for honest taxpayers while tightening leakages. Early qualitative signals (media reports on small-car demand, state outreach activities) and government assurances on revenue neutrality are promising, but a robust, empirical assessment will require 12–24 months of post-implementation data.

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