

Impact of GST 2.0: Relief for Common Man and Boost for Businesses

* Dr.B.Madhusudhan

** Dr.G. Damodhar

* Assistant Accounts Officer, APSPDCL, Tirupathi.

** Academic consultant, Dept. of Commerce, SV University, Tirupati.

Email: drgdyadavsvu@gmail.com.

Abstract

GST 2.0 represents the next stage of reforms in India's Goods and Services Tax system, aimed at making taxation simpler, more transparent, and growth-oriented. The reform seeks to provide relief to the common man by reducing tax burdens on essential goods, controlling inflation, and improving transparency in pricing and billing. At the same time, it aims to support businesses through simplified compliance procedures, Lower Prices, Higher Demand, Support for Manufacturing, Social Protection faster input tax credit refunds, and better support for MSMEs and startups. Together, these reforms ensure that GST is citizen-centric, business-friendly, and aligned with India's global growth ambitions. By promoting ease of doing business and encouraging investment, GST 2.0 has the potential to strengthen India's economy and improve overall public welfare. However, its success depends on effective implementation, digital infrastructure, and coordination between governments and taxpayers.

Keywords: Implementation, Digital Infrastructure. Taxation and Growth-Oriented

I. Introduction

The Goods and Services Tax (GST), introduced on 1st July 2017, is India's most significant indirect tax reform since Independence. By bringing together multiple central and state taxes into a single, unified system, GST created a common national market, reduced the cascading of taxes, simplified compliance, and improved transparency. Over eight years, GST has steadily evolved through rate rationalisation and digitalization, becoming the backbone of India's indirect tax framework.

The 56th meeting of the GST Council, chaired by Union Finance Minister Smt. Nirmala Sitharaman has now approved Next-Gen GST reforms, with focus on improving the lives of the common man and ensuring ease of doing business for all, including small traders and businessmen. In his Independence Day address, Prime Minister Narendra Modi had announced-“The government will bring Next-Generation GST reforms, which will bring down tax burden on the common man. It will be a Diwali gift for you.” The reforms, he said, would directly benefit the common man, farmers, MSMEs, women, youth, and middle-class families, while strengthening India's long-term growth.

In line with the PM's vision the GST Council has recommended a comprehensive reform package that includes rate rationalization with a simplified two-slab structure (5% and 18%), sweeping rate reductions across sectors, with focus on common-man, labour-intensive Industries, farmers and agriculture, health, key drivers of the economy. These recommendations are based on consensus among all members of the GST Council to make GST simpler, fairer, and more growth-oriented. The revised rates and exemptions will come into effect from 22nd September 2025, ensuring timely relief for the common man, households, farmers, and businesses. Only exception will be specified goods namely, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and beedi, for which the existing rates of GST and compensation cess will continue to apply and the new rates will be implemented at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess.

The "Next-Generation GST" reforms lay the foundation for a more resilient and prosperous India by prioritizing simplification, rate rationalization, and administrative efficiency. While implementation challenges remain, the comprehensive nature of these reforms positions the Indian economy to navigate global headwinds and rely on its strong domestic fundamentals for sustained expansion. The success of this new framework will depend on the full pass-through of benefits and the seamless operationalization of the new compliance and dispute resolution mechanisms. This marks a new, strategic chapter in India's economic journey, where fiscal policy is being leveraged not just for revenue, but as a direct driver of growth and public welfare.

II. Objectives

1. The Pillars Of GST Reforms 2025 in India
2. The latest reforms mark a major simplification of the GST structure.
3. The Next-Generation GST Benefits to society
4. Current GST Slab rates and Challenges in India

III. PILLARS OF GST REFORMS 2025 INDIA

Next-Gen GST reforms build on GST's success with a simplified 2-tier structure, fairer taxation, and digital filing for ease and faster refunds. They prioritize consumers by lowering rates on essentials and high-value items, empower MSMEs and manufacturers with smoother cash flows, strengthen state revenues, and boost demand driving consumption and manufacturing growth across India.

7 - PILLARS OF GST REFORMS 2025

PILLAR	FOCUS AREA	
1. One Nation, One Tax	Strengthening GST's foundation	❖ Expanded taxpayer base ❖ Unified tax system across India
2.Simpler Two-Tier System	Rate rationalization	❖ New 2-slab structure: 5% & 18% ❖ Fairer, transparent taxation
3.Smoother Duty and Refunds	Ease of compliance	❖ Corrected inverted duty structures ❖ Faster refund processing
4.Tech-Enabled Filing	Digital-first compliance	❖ Easy registration for small/low-risk businesses ❖ 90% upfront provisional refunds for exporters ❖ E-invoicing and AI-driven risk detection
5. Consumers First	Relief for households	❖ Essentials placed in 0-5% bracket ❖ Faster refund processing
6. Empowering MSMEs and Manufacturing	Boosting local growth	❖ Fixed inverted duty structures ❖ Simpler rates to promote Make in India
7. Stronger States, Stronger Bharat	Sustainable revenue model	❖ Rationalised rates to spur demand ❖ Wider tax base ensures stronger state revenues

IV A major simplification and Sectoral Relief of the GST structure.

The latest reforms mark a major simplification of the GST structure. The shift to a two-slab system of 5% and 18%, removing the earlier 12% and 28% rates, will make taxation more transparent and easier to follow. At the same time, a 40% on luxury and sin goods such as pan masala, tobacco, aerated drinks, high-end cars, yachts, and private aircraft ensures fairness and revenue balance. Alongside, registration and return filing have been simplified, refunds made faster, and compliance costs reduced, easing the burden on businesses, especially MSMEs and startups. Here is a sector-wise follow-up of the reforms and their expected impact.

1. Food and Household Sector

Reforms bring direct savings to households by reducing taxes on everyday essentials and packaged foods. GST rate cut on AC, Dishwashers and TVs (LCD, LED) is a dual win. It increases affordability for consumers while strengthening India's electronics manufacturing ecosystem.

- ❖ Products like Ultra-High Temperature (UHT) milk, Pre-packaged and labelled chena or paneer, all the Indian Breads will see NIL rates
- ❖ Household goods like soaps, shampoos, toothbrushes, toothpaste, tableware, bicycles now at 5%.
- ❖ Food items such as packaged namkeens, Bhujia, Sauces, Pasta, Chocolates, Coffee, Preserved Meat etc. reduced from 12% OR 18% to 5%
- ❖ Consumer durables: TVs (LCD/LED) (> 32'), ACs, dishwashers: 28% → 18%.

2. Home Building & Materials

The cut in GST on cement and construction materials will give a big boost to the housing sector. This will lower the cost of homes and infrastructure projects, making ownership of houses more affordable. The move is also expected to spur demand in real estate and create new jobs in construction.

- ❖ Cement: 28% → 18%.
- ❖ Marble/travertine blocks, Granite blocks, Sand-lime bricks: 12% → 5%
- ❖ Bamboo flooring / joinery, Packing cases & pallets (wood): 12% → 5%

3. Automobile Sector

Clearer classification of vehicles and auto parts will cut down disputes, improve compliance, and **support** growth in India's **automotive manufacturing** and exports.

- ❖ Small cars, two-wheelers ≤ 350cc: 28% → 18%.
- ❖ Buses, trucks, three-wheelers, all auto parts: 28% → 18%.

4. Agriculture sector

Cheaper machinery and lower rates on bio- pesticides will help small farmers **reduce costs** and encourage **sustainable farming practices**. Correcting the inverted duty structure on Fertilizer inputs will boost domestic fertilizer production and **reduce dependence** on **imports**, strengthening self- reliance in agriculture.

- ❖ Tractors: 12% → 5%; tires and parts: 18% → 5%.
- ❖ Harvesters, threshers, sprinklers, drip irrigation, poultry & bee-keeping machines: 12% → 5%.
- ❖ Bio-pesticides and natural menthol: 12% → 5%.

5. Service sector

Lower GST on hotel stays, gyms, salons, and yoga services will reduce costs for citizens, improve access to wellness, and give a fillip to the hospitality and service industries.

- ❖ Hotel stays up to ₹7,500/day from 12% to 5%.
- ❖ Gyms, salons, barbers, yoga GST cut from 18% to 5%.

6. Toys, Sports & Handicrafts

Fixing duty structures for man-made fibres will improve the **competitiveness** of the **textile industry**, especially in exports. The inverted duty structure in the sector has been corrected with reduction of GST rate on manmade fibre from 18% to 5% and manmade yarn from 12% to 5%. Further, lower GST rates on handicrafts will support artisan livelihoods, preserve India's cultural heritage, and promote rural economic growth.

- ❖ Handicraft idols & statues: 12% → 5%.
- ❖ Paintings, sculptures: 12% → 5%.
- ❖ Wooden/metal/textile dolls & toys: 12% → 5%.

7. Education sector

Education has become more affordable with exercise books, erasers, pencils, crayons and sharpeners moving to 0% GST. This directly supports families and students, ensuring lower costs of learning materials.

- ❖ Geometry boxes, school cartons, trays: 12% → 5%.

8. Medical sector

Reduced rates on medicines and medical devices will improve access to healthcare and support domestic manufacturing in the pharma and medical equipment sectors.

- ❖ 33 **life-saving drugs**, diagnostic kits: 12% → 0%.

- ❖ Other medicines including Ayurveda, Unani, Homoeopathy: **12% → 5%**.
- ❖ Spectacles and corrective goggles: **28% → 5%**.
- ❖ Medical oxygen, thermometers, surgical instruments: **12–18% → 5%**.
- ❖ Medical, dental, and veterinary devices cut from **18% to 5%**.

9. Health and life Insurance

GST exemptions on life and health insurance premiums will expand financial protection and support the vision of Mission Insurance for all by 2047.

- ❖ **GST exemption** on premiums for individual life insurance, health insurance, floater plans, and senior citizen policies.

V. The Next-Generation GST Benefits to society

The Next-Generation GST reforms are designed not just to reduce tax rates, but to create a virtuous cycle of growth.

- **Lower Prices, Higher Demand:** Cheaper goods and services increase household savings and stimulate consumption.
- **Support for MSMEs:** Reduced rates on inputs like cement, auto parts, and handicrafts lower costs and make small businesses more competitive.
- **Ease of Living:** A two-rate structure means fewer disputes, quicker decisions, and simpler compliance.
- **Wider Tax Net:** Simpler rates encourage compliance, expanding the tax base and improving revenues.
- **Support for Manufacturing:** Correcting inverted duty structures boosts domestic value addition and exports.
- **Revenue Growth:** As seen in past reforms, lower rates with better compliance increase collections.
- **Economic Momentum:** Lower costs → higher demand → larger tax base → stronger revenues → sustainable growth.
- **Social Protection:** Exemption of GST on insurance and essential medicines strengthens household security and access to healthcare.

Together, these reforms ensure that GST is citizen-centric, business-friendly, and aligned with India's global growth ambitions.

VI Current GST Slab rates and Challenges in India

A. 40% “Sin” Slab — Simplification, or A New Layer of Complexity.

A headline 40% slab for “sin/luxury” goods risks being read as a third slab, potentially re-creating classification that simplification attempts to end. Where and valorem high rate is applied to heterogeneous categories (e.g., tobacco, SUVs, aerated beverages), it may blur key differences in illicit market risk (tobacco for example is a subject of high smuggling and illicit), elasticity, and social externalities. Uniform “high” rates can under- or over-tax sub-segments, prompting arbitrage and possibly grey-market growth—especially for high-smuggling products.

B. Special Cess / Specific Duty Necessary – Make It Transparent

A targeted specific duty/cess is often superior to a high ad-valorem rate for a few reasons: it recognizes product-specific risks, can be indexed and calibrated more precisely, and protects state revenues without unnecessarily distorting large swathes of the market. In practice India already relies on cess for tobacco (quantum-linked and ad valorem caps) and motor vehicles (differentiated by engine size/length/ground clearance). Acknowledging this openly and codifying principles for its use would improve predictability.

C. Creative” Fixes to Arrest Revenue Decline Can Backfire

Some ideas which have surfaced in the public debate that warrant caution:

1. **Reclassification of Goods & Services:** A quick way to raise revenue is by reclassifying more goods and services as “luxury” or “sin” items. Reports already highlight a proposed 40% slab for tobacco, pan masala, online gaming, and luxury vehicles. 4 The case of cement is telling: long taxed at 28% like a luxury item, it is now expected to move to 18% because of its mass impact.

2. **Targeted Cess & Specific Duties:** Even with promises of simplification, product-specific cess will remain. Tobacco already carries duties that push effective tax well above 100%²⁵ while SUVs pay a 22% cess on top of 28% GST, clarified by a January 2023 circular.²⁶ Such targeted cess provide stable revenue for states as the compensation cess sunsets in March 2026.⁵ But overreliance risks creating a de facto fourth slab.
3. **Narrowing the Mass Bucket:** Even while promising that all food and textiles will move to 5%, the government could quietly restrict what qualifies, leaving some sub-segments at 18%.²¹ Similarly, exemptions may be narrowed, so fewer goods actually benefit from the lower rate. This allows for a headline “Diwali gift” while containing fiscal costs—though it risks credibility and more disputes over fine-print classification.
4. **MRP-Based Valuation:** Another idea floated in commentary is taxing on Maximum Retail Price (MRP) instead of transaction value. This would raise collections since discounts in garments or medicines would no longer lower the taxable base. MRP-based valuation was a feature of the old Central Excise regime for certain goods, and moving back to it would be a significant regression from the globally accepted “transaction value” principle that underpins a modern VAT/GST system. This clearly breaks with GST’s logic as a value-added tax: the law (Section 15 of the CGST Act) clearly pegs GST on transaction value.²⁷ Industry notes caution not to confuse MRP revision for passing on rate cuts with levying GST on MRP.
5. **Expanding the High-Rate Basket with Micro Levies:** Beyond the 40% slab, authorities could add micro-cess or surcharges on fast-growing sectors like high-end hospitality, or premium entertainment.²⁹ These are politically easier to tax and generate visible yield. But sweeping them all into one bucket risks confusion and can drive users toward grey or offshore alternatives.
6. **Nil GST on Insurance without ITC:** The GoM has proposed fully exempting life and health insurance premiums.³⁰ on the surface, this looks like consumer relief. But if input tax credits (ITC) on commissions, reinsurance, and admin costs are denied, insurers’ costs rise and premiums go up. Analysts note a better compromise is 5% GST with ITC retention⁵, which balances affordability with neutrality.

VII. Conclusion

The adoption of a simplified GST structure and wide-ranging rate reductions marks a new chapter in India’s tax journey. GST 2.0 has the potential to transform India’s taxation system by making it more efficient, transparent, and business-friendly. The reforms are expected to reduce the financial burden on consumers, simplify compliance for businesses, and promote economic growth. By supporting MSMEs, encouraging investment, and improving tax administration, GST 2.0 can contribute significantly to national development. Although challenges such as implementation and digital adaptation remain, effective execution of these reforms can create long-term benefits for both the common man and the business sector, leading to a stronger and more inclusive economy. The reforms reaffirm India’s commitment to building a simpler, fairer, and growth-oriented GST framework, ensuring both ease of living for people and ease of doing business for enterprises.

VIII References

1. <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=2163555>
2. <https://x.com/mygovindia/status/1963290806770450904?s=46>