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GST- 2.0 New Reforms in India: An Analysis

Venkatalakshmi M. N
HOD & Associate Professor, Department of Economics, SBRR Mahajana First Grade College (A), Jayalakshmipuram, Mysuru

Abstract:
The introduction of the Goods and Services Tax (GST) marked a significant milestone in India's indirect tax reforms by creating a unified national market. After several years of implementation, the Government of India has initiated a new phase of reforms popularly referred to as GST 2.0, aimed at addressing structural deficiencies, improving compliance, and enhancing revenue efficiency. GST 2.0 focuses on rationalisation of tax rates, simplification of return filing procedures, strengthening of the input tax credit mechanism, reduction of tax evasion through technology-driven measures, and greater transparency in tax administration. These reforms are expected to ease the compliance burden on businesses, particularly micro, small and medium enterprises (MSMEs), while simultaneously broadening the tax base and improving fiscal federalism. This article analyses the key components of GST 2.0, examines the rationale behind the proposed reforms, and evaluates their potential economic and administrative impact. The study also highlights the challenges associated with implementation and suggests measures to ensure that GST 2.0 contributes effectively to sustainable economic growth and cooperative federalism in India.

Keywords: *GST 2.0, Tax Reforms in India, Indirect Taxation, Fiscal Federalism, Compliance and Revenue Efficiency*

Introduction

Economic Recent reforms in India's Goods and Services Tax (GST) regime, popularly referred to as GST 2.0, were implemented on September 22, 2025, following the 56th GST Council meeting. These reforms represent a major overhaul of the existing indirect tax system and have wide-ranging implications for businesses and the consumer sector in particular. GST 2.0 seeks to simplify the tax structure by rationalising it into two principal slabs, with the objective of improving efficiency, transparency, and ease of compliance. Such structural

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simplification is expected to positively influence economic growth and GDP by reducing tax complexity and compliance costs, while also bringing significant changes in consumer demand and overall welfare. The reforms include substantial rate reductions on essential goods, consumer electronics, and automobiles, along with the introduction of a new 40 per cent tax rate for luxury items. The key objectives underlying these measures are to lower the cost of living, enhance accessibility to essential services such as fitness and education, and stimulate growth in priority sectors including agriculture, textiles, MSMEs, and start-ups. Overall, GST 2.0 aims to boost consumption by increasing disposable income, encourage business activity, and strengthen India's indirect tax framework in line with the evolving economic landscape.

Objectives of GST 2.0

The Central Government has introduced the GST 2.0 reforms with the broader objective of strengthening India's indirect tax system by making it simpler, more transparent, and growth-oriented. The key objectives of GST 2.0 are outlined below.

First, GST 2.0 aims to simplify the tax structure by reducing the number of GST rate slabs, such as merging the 12 per cent and 18 per cent rates, thereby eliminating unnecessary classifications and minimizing interpretational disputes. A simpler rate structure is expected to enhance clarity and ease of compliance for taxpayers. Second, the reforms seek to improve compliance and ease of filing through the introduction of a single, user-friendly return system. By reducing the number of forms and the frequency of filings and by increasing the use of automation, GST 2.0 intends to minimize manual data entry and compliance burdens, especially for small and medium enterprises. Third, GST 2.0 focuses on strengthening the IT infrastructure by upgrading the GST Network (GSTN) to handle peak loads efficiently and reduce system downtime. Better integration with accounting software and e-invoicing systems is expected to ensure seamless data flow and accuracy. Fourth, an important objective is better management of Input Tax Credit (ITC). The reforms aim to simplify ITC rules to prevent the blockage of working capital, ensure real-time reconciliation of invoices, and reduce fraud through automated verification mechanisms. Fifth, GST 2.0 emphasizes enhanced transparency and reduction of tax evasion. Wider implementation of e-invoicing, the use of AI-based analytics to detect fake invoicing and mismatches, and stronger data sharing between GST, Income Tax, and Customs authorities are intended to improve tax compliance and curb evasion.

Sixth, the reforms strive to create a predictable and stable tax regime by reducing frequent changes in GST rules and rates and by issuing clear and consistent guidelines. This stability is expected to lower litigation, reduce uncertainty, and improve the business environment. Seventh, GST 2.0 seeks to boost MSMEs and start-ups by providing higher registration thresholds, simplified compliance procedures for small taxpayers, and a rationalized composition scheme with minimal paperwork, thereby supporting entrepreneurship and employment generation. Eighth, an essential objective is to increase the revenue efficiency of the government by broadening the tax base, preventing revenue leakage, and improving tax collection through automation and better monitoring systems. Ninth, GST 2.0 aims to achieve greater harmonization across states by improving coordination between the Centre and States for uniform interpretation of GST provisions, reducing interstate disputes, and ensuring consistency in implementation. Finally, the reforms intend to promote the digital economy by encouraging cashless transactions, integrating digital payment systems with GST compliance, and using digital audit trails to enhance transparency and accountability in tax administration.

Overall, these objectives collectively reflect the government's intention to make GST 2.0 a more efficient, technology-driven, and growth-supportive tax regime in India.

Key Features of GST 2.0

GST 2.0 introduces several important features aimed at simplifying the indirect tax regime and strengthening compliance. One of the most significant changes is the consolidation of the earlier four-slab GST structure of 5 per cent, 12 per cent, 18 per cent, and 28 per cent into a simplified two-main slab system, along with a special rate for certain categories of goods. Under the revised structure, a 5 per cent rate applies to many essential and merit goods, while an 18 per cent rate covers the majority of goods and services. In addition, a special 40 per cent "sin and luxury" slab has been introduced for selected items considered non-essential or socially undesirable.

Another key feature of GST 2.0 is the strengthening of digital compliance mechanisms. The reform places greater emphasis on technology-driven processes such as e-invoicing, automated data matching, auto-generated returns, and AI-driven compliance checks, all of which are built into the GST system to enhance transparency and reduce manual intervention.

GST 2.0 also brings significant rate rationalisation across sectors. Several goods, including consumer durables, essential consumer products, and agricultural inputs, have witnessed tax reductions to support affordability and boost demand. At the same time, luxury goods and sin goods—also referred to as demerit goods that are considered harmful to human health or society—are subject to higher or specially designated tax rates. These higher taxes, commonly known as "sin taxes," are imposed with the dual objective of discouraging consumption of such goods and generating additional revenue for public welfare and social development programmes.

Opportunities Created by GST 2.0 Reforms

The GST 2.0 reforms have created several opportunities for businesses and the broader economy by reducing tax complexity and rationalising rates. One of the most important opportunities is the reduction in tax burden for many goods, particularly essentials, consumer goods, and durable products. Firms operating in these sectors are likely to experience a lower input or output tax burden, enabling them to reduce costs or improve profit margins. For instance, the reduction of tax rates on consumer durables from 28 per cent to 18 per cent is expected to make such products more affordable and stimulate consumer demand.

Another major opportunity arising from GST 2.0 is the boost in consumer demand. Lower tax rates on a wide range of consumer goods are expected to increase disposable income and encourage higher consumer spending. This growth in demand can drive higher sales volumes for businesses, especially in sectors such as retail, fast-moving consumer goods (FMCG), and consumer durables.

GST 2.0 also offers significant relief to MSMEs and small businesses. The simplified slab structure, coupled with improved digital processes such as auto-registration and streamlined return filing, is likely to reduce the compliance burden over time. This enables small enterprises to focus more on productive and growth-oriented activities rather than procedural requirements.

Further, the reforms contribute to improved cash flow and working capital management. Lower tax rates result in reduced tax outflows in sectors where input tax credit (ITC) is available and the overall tax burden declines. As a consequence, businesses may experience enhanced liquidity, improved cash flow, and increased availability of working capital, thereby supporting expansion and investment in the near future.

Challenges and Risks

Despite the wide-ranging benefits of GST 2.0, the reforms are accompanied by several challenges and risks that may affect their overall effectiveness. One major concern relates to Input Tax Credit (ITC) and classification issues. Although the rate structure has been simplified, classification disputes may still arise in certain sectors. Moreover, restrictions on ITC in areas such as real estate leasing and rental services can continue to affect cost structures and reduce profit margins.

Another significant challenge involves state revenue and fiscal concerns. Rate rationalisation and tax reductions may lead to revenue losses for states, particularly in the short term. As a result, some states may resist or delay effective implementation, potentially creating uncertainty for businesses operating across multiple states and undermining the objective of uniformity.

A further limitation of GST 2.0 is that not all sectors are covered under the GST framework. Several important items and services, including agricultural products, alcohol, petroleum products, educational materials and services, judicial services, and medical and healthcare services, remain outside the GST purview. The continued exclusion of major revenue-generating sectors such as petroleum and alcohol perpetuates complexity and leads to inconsistencies in the indirect tax system.

The passing on of tax benefits to consumers also poses a challenge. If businesses fail to transfer the benefits of tax reductions to consumers in the form of lower prices, the intended boost in demand may not materialise, thereby weakening the overall impact of the reforms.

In addition, there is a risk of revenue shortfall, as substantial rate cuts may exert short-term fiscal pressure on both the Central and State governments. Critics argue that unless improved compliance and an expanded tax base compensate for the reduced rates, revenue losses could affect public spending and fiscal stability.

GST 2.0 also faces persistent structural flaws, particularly due to the continued exclusion of key sectors such as petroleum products and alcohol from the GST ambit. This limits the comprehensive nature of the reform and sustains certain economic distortions.

Finally, compliance transition issues remain a concern, especially for MSMEs and small businesses in rural and semi-urban areas. Adapting to new digital systems, updating accounting practices, and understanding revised rules may pose short-term difficulties, potentially affecting smooth implementation of the reforms.

Key Changes Introduced under GST 2.0

GST 2.0 has introduced several significant changes aimed at simplifying the tax structure and making essential goods and services more affordable. One of the most notable changes is the introduction of **new tax slabs**, wherein the earlier four-tier GST structure of 5 per cent, 12 per cent, 18 per cent, and 28 per cent has been replaced by a simplified two-slab system consisting of 5 per cent and 18 per cent.

In addition to slab rationalisation, a new 40 per cent GST rate has been introduced for luxury and sin goods such as tobacco products, pan masala, and luxury automobiles. This higher rate is intended to discourage consumption of socially undesirable goods while generating additional revenue for public welfare purposes.

Significant relief has been provided in the area of daily essentials, with GST reduced or removed on several everyday food items, thereby lowering the cost of living for households. In the health sector, medicines are now taxed at 5 per cent or are fully exempt (0 per cent), and health insurance services have been exempted from GST, improving access to healthcare and reducing financial burden on consumers.

The education sector has also benefited from these reforms, as essential learning materials such as pencils, erasers, and exercise books have been made GST-free, supporting affordability and accessibility in education. Similarly, fitness and hospitality services have received tax relief, with GST on gyms, salons, and hotel accommodation priced up to ₹7,500 per day reduced to 5 per cent, making these services more accessible to a wider population.

The automobile sector has witnessed notable changes, with GST on two-wheelers (up to 350 cc), small cars, buses, and trucks reduced from 28 per cent to 18 per cent, which is expected to stimulate demand and support the transportation industry. Likewise, in the electronics and home appliances segment, GST rates on products such as air conditioners, televisions, refrigerators, and washing machines—previously taxed at 28 per cent—have been reduced to 18 per cent. This includes televisions above 32 inches and dishwashing machines, making consumer electronics more affordable and boosting market demand.

Impact on the Business Sector

The GST 2.0 reforms have had a multifaceted impact on the business sector, generating positive outcomes while also posing certain transitional challenges. Overall, the reforms have created new opportunities by reducing tax burdens, stimulating demand, and improving operational efficiency across several sectors. At the same time, businesses have had to adapt to revised rates, digital compliance requirements, and sector-specific changes.

Several sectors have particularly benefited from GST 2.0. In the agriculture sector, GST on farm machinery, irrigation equipment, and bio-pesticides has been reduced to 5 per cent, helping to lower input costs and improve farm productivity. The textiles and handicrafts sector has seen significant reductions in GST on man-made fibres, yarn, handicrafts, and toys, which is expected to strengthen the textile industry and support artisan livelihoods. In the construction sector, reductions in GST on cement, marble, and granite are likely to lower housing and infrastructure costs, thereby encouraging real estate development and public infrastructure projects.

GST 2.0 has also provided support to start-ups, with a uniform 5 per cent GST rate on drones aimed at promoting innovation and strengthening the “Make in India” initiative. The automotive manufacturing sector is another major beneficiary, as reductions in GST rates are expected to boost domestic manufacturing, increase demand, and enhance export potential.

Under the revised slab structure, 18 per cent GST has emerged as the standard rate for most goods and services. Items shifted into this slab include small cars and motorcycles up to 350 cc, as well as construction inputs such as cement, which were previously taxed at 28 per cent. On the other hand, a new 40 per cent GST slab has been introduced as a higher “demerit” rate for luxury and sin goods, replacing the earlier 28 per cent plus cess structure. This slab applies to products such as pan masala, aerated drinks, high-end cars, yachts, online gaming, and, at a later stage, tobacco products.

Despite the overall positive impact, businesses—particularly small and medium enterprises—have faced short-term adjustment challenges in aligning their pricing strategies, accounting systems, and compliance processes with the new GST framework. Nevertheless, in the long run, GST 2.0 is expected to enhance competitiveness, reduce costs, and improve ease of doing business in India.

Conclusion

In conclusion, the 2025 GST 2.0 tax reforms mark a landmark phase in India’s taxation journey. The government has sought to simplify the tax structure, reduce the cascading effect of taxes, and boost consumption, thereby stimulating economic growth in the coming years. While these reforms have received mixed responses from different sections of society, government authorities and industry experts largely view them as beneficial in terms of long-term efficiency, transparency, and simplicity.

However, consumer responses suggest that the immediate savings from tax cuts may not be significant in all cases, as the prices of several commodities have not changed substantially. Consequently, lower-income consumers who are unable to afford high-priced goods may not fully benefit from these reforms. Despite these concerns, GST 2.0 represents a bold and forward-looking policy initiative. On the whole, it is expected to strengthen business activity, particularly in the MSME sector, enhance consumer welfare, and contribute to sustainable economic growth in India.

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