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GST 2.0: Simplifying India's Indirect Tax Regime and Its Economic Implications

ORIGINAL ARTICLE



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Abstract

Goods and Services Tax (GST) 2.0, implemented on September 22, 2025, represents a major overhaul of India's indirect tax system introduced in 2017. This tax reform simplifies the multi-slab structure into primarily two rates 5% for essentials and 18% for most goods and services while introducing a 40% rate for luxury and demerit goods. The changes aim to reduce compliance burdens, boost consumption, and enhance economic efficiency. This article examines the key features of GST 2.0 and its potential impacts on the Indian economy, including increased consumer spending, improved business ease, and sustained revenue buoyancy. Evidence from initial post-implementation data suggests positive effects on growth and formalization, with notable GDP acceleration and moderated inflation.

Key Words

Gst 2.0, Tax Reform, Indian Economy, Revenue Buoyancy, Boost Consumption.

Introduction

India's Goods and Services Tax (GST), launched on July 1, 2017, unified multiple indirect taxes into a single destination-based system, creating a common national market (Press Information Bureau, 2025). Despite its success in increasing collections from an average of ¹ 82,000 crore monthly pre-GST to over ¹ 2 lakh crore by 2025 the original structure faced criticism for complexity, with slabs at 0%, 5%, 12%, 18%, and 28%, leading to classification disputes and compliance challenges (Drishti IAS, 2025).

In 2025, Prime Minister Narendra Modi announced next-generation reforms, dubbed GST 2.0, during his Independence Day address. Approved by the 56th GST Council meeting on September 3, 2025, and effective from September 22, 2025, these reforms mark the largest overhaul since 2017 (ClearTax, 2025; Wikipedia, 2025). GST 2.0 shifts to a simplified structure, prioritizing affordability, business competitiveness, and transparency (Press Information Bureau, 2025)

Key Features of GST 2.0

The core of GST 2.0 is slab rationalization:

- **Primary Slabs:** 5% (merit rate for essentials) and 18% (standard rate for most items), eliminating the 12% and 28% slabs.
- **Demerit Rate:** 40% for luxury and sin goods (e.g., tobacco, aerated drinks, high-end vehicles).
- **Exemptions (Nil Rate):** Expanded to include individual life and health insurance, certain foods (e.g., UHT milk, paneer, Indian breads), and lifesaving drugs.

Sector-specific changes include reductions on household items (soaps, toothpaste to 5%), agricultural machinery, and consumer durables (e.g., TVs, appliances from higher rates to 18% or lower) (Kotak Mutual Fund, 2025; NewsBytes, 2025). Additional measures involve enhanced digitization, faster refunds, and operationalization of the GST Appellate Tribunal by late 2025 (Drishti IAS, 2025).

These reforms address inverted duty structures, reduce disputes, and align with global best practices for simpler VAT/GST systems (Vision IAS, 2025)

Review of Literature

Earlier research on GST suggests that tax unification improved logistics efficiency, reduced cascading taxes, and enhanced revenue collections (International Journal of Scientific Innovation, 2025). Studies also highlight that simplifying tax structures tends to improve compliance and economic efficiency (Fitch Ratings, 2025).

Policy analyses indicate that GST 2.0 may stimulate domestic demand and enhance formalization through simplified tax slabs and improved digital compliance mechanisms (Kotak Mutual Fund, 2025). Further, macroeconomic studies suggest that tax reforms can support consumption-led growth and inflation moderation (Lowy Institute, 2025).

However, since GST 2.0 is recent, long-term empirical studies remain limited.

Research Objectives

The present study aims to systematically examine the structural and economic implications of GST 2.0 in India. The specific objectives are:

1. To analyze the structural changes introduced under GST 2.0, particularly slab rationalization and exemption expansion.
2. To examine the impact of GST 2.0 on consumption patterns and household disposable income.
3. To evaluate the effects of simplified tax compliance on business efficiency, especially MSMEs.
4. To assess the implications of GST 2.0 on Government revenue stability and tax buoyancy.

Research Methodology

Research Design

This study adopts a descriptive and analytical research design based on secondary data to evaluate the early economic implications of GST 2.0.

Data Sources

The analysis is based on secondary data collected from credible institutional and policy sources, including:

- Government publications (Press Information Bureau, GST Council updates)
- Financial and policy platforms (Economic Times, Kotak Mutual Fund reports, Fitch Ratings)
- Academic articles and policy think tanks
- Statistical indicators such as GST collections, GDP growth rates, CPI inflation, and taxpayer registration data

Time Frame of Analysis

The study compares macroeconomic indicators across two periods:

- Pre-GST 2.0 phase: July–August 2025
- Post-implementation phase: September–November 2025

Analytical Tools and Techniques

- Comparative analysis of economic indicators
- Trend analysis of GST revenue and GDP growth
- Descriptive interpretation of sectoral impacts
- Policy evaluation approach to examine reform outcomes

Scope and Limitations

The study focuses on early macroeconomic signals following GST 2.0 implementation. As the reform is recent, long-term impacts on productivity, employment, and fiscal sustainability remain beyond the scope of this analysis.

Impact on the Indian Economy

Positive Impact

- 1. Boost to Consumption and Household Savings:** Lower rates on essentials and daily-use items are estimated to reduce household expenses by 4-13%, injecting disposable income and stimulating demand during a period of global uncertainties (Kotak Mutual Fund, 2025; Lowy Institute, 2025). Timed with the festive season, this has supported sectors like FMCG, electronics, and automobiles.
- 2. Ease of Doing Business and MSME Support:** Simplified compliance, automated processes, and corrected inverted duties improve cash flows for manufacturers and small enterprises, fostering formalization and investment (Hindustan Times, 2025). Business satisfaction with the GST system surged to 85% in 2025, up from 59% in 2022, reflecting reduced compliance time for 37% of businesses.
- 3. Revenue Buoyancy and Fiscal Stability:** Despite initial rate cuts potentially costing ¹ 48,000 crore annually, improved compliance and consumption have maintained strong collections, averaging near pre-reform levels with projections exceeding budgets (Economic Times, 2025; Whalesbook, 2025).
- 4. Broader Economic Growth:** Studies on the original GST showed positive effects on GDP and efficiency; GST 2.0 amplifies these by reducing distortions, potentially adding to long-term growth (Gokhale Institute, n.d.; Taylor & Francis, 2024).

Data Analysis and Economic Indicators

Post-implementation data from late 2025 indicates tangible benefits. Table 1 summarizes key macroeconomic metrics influenced by GST 2.0.

Table 1: Key Economic Indicators Pre- and Post-GST 2.0 (2025 Data)

Indicator	Pre-GST 2.0 (e.g., July-Aug 2025)	Post-GST 2.0 (Sep-Nov 2025)	Change/Analysis
GST Collections (Monthly Avg.)	Rs. 1.86 lakh crore (Aug 2025, 6.5% YoY growth)	Rs. 1.47-1.70 lakh crore (Nov 2025, 8.9% YoY)	Initial dip due to rate cuts, but YoY growth sustained via higher compliance and consumption. Net revenue up 1.3% MoM in Nov.

GDP Growth (Q2 FY26)	5.6% (Previous Year)	8.2% (Jul-Sep 2025)	Boost of ~2.6 percentage points, attributed to GST-driven demand in manufacturing and services. Projections: 7-7.6% for FY26.
Inflation (CPI)	1.55% (July 2025)	Projected moderation: 0.5-0.9% over 12 months	Rate reductions on essentials (e.g., 18% to 5%) lower costs, amplifying deflationary trends in food (-1.76%).
Household Savings	Baseline	4% reduction in monthly expenses on essentials	Increases disposable income, fueling consumption-led growth amid global uncertainties.
Registered Taxpayers	~1.40 crore (Pre-2025)	1.51 crore	Formalization surge, broadening tax base and reducing logistics costs by 33%.

Analysis

The 8.2% GDP growth in Q2 FY26 highlights GST 2.0's role as a consumption catalyst, with rate rationalization (e.g., durables from 28% to 18%) stimulating demand in key sectors like automobiles and FMCG. Revenue losses (net ¹ 3,700 crore for Centre in FY26) are offset by buoyancy from increased sales and formalization, as evidenced by sustained YoY collection growth. Inflation moderation enhances purchasing power, potentially adding 0.2-0.3% to FY26 GDP. However, sectoral challenges, such as insurance premium hikes due to lost input tax credits, could temper benefits in specific areas.

Challenges and Short-term Effect

Initial implementation saw temporary dips in collections (e.g., early December 2025) due to transitional adjustments, and some states raised alternative taxes to offset revenue concerns (Kotak Mutual Fund, 2025). Classification transitions and inventory issues delayed full price benefits in certain sectors.

Overall, early indicators point to resilience, with reforms contributing to India's projected 6.6-8.2% GDP growth in FY2025-26 (Lowy Institute, 2025; Whalesbook, 2025).

Policy Implications

- Continued simplification can improve efficiency.
- Strengthening digital compliance tools can reduce tax evasion.
- Centre–state coordination is essential for fiscal balance.
- Sector-specific monitoring is required to ensure equitable benefits.

Conclusion

GST 2.0 transforms India's indirect tax regime into a more citizen-centric and growth-oriented system. By simplifying slabs and targeting relief, it enhances affordability, competitiveness, and transparency. Quantitative data underscores positive outcomes, including accelerated GDP growth and inflation control, though short-term fiscal adjustments persist. Future monitoring of revenue trends and sectoral performance will be crucial for assessing long-term outcomes.

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