



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**GST 2.0: A LANDMARK IN  
INDIA'S TAX JOURNEY**

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## GST 2.0: A LANDMARK IN INDIA'S TAX JOURNEY

### Context

- Recently, the **56th GST Council**, chaired by Union Finance Minister, has approved **Next-Gen GST reforms**, i.e. **GST 2.0** that focuses on improving the lives of the common man and ensuring ease of doing business for all with a broader **vision of a Viksit Bharat 2047**.

### About the GST 2.0 (Next-Generation GST Reforms)

- These are designed to reduce tax rates, and create a virtuous cycle of growth. These include lower prices, higher demand, support for MSMEs, ease of living, wider tax net, support for manufacturing, revenue growth, economic momentum, and social protection.

### Key Features

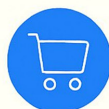
- Simplification of Tax Structure:** One of the most significant changes is the rationalization of GST slabs. The **previous multi-rate system** (5%, 12%, 18%, and 28%) has been streamlined into:
  - Standard Rate:** 18%
  - Merit Rate:** 5%
  - De-merit Rate:** 40% (for select luxury or harmful goods);
    - Nil (0%) and 40% categories** introduced, replacing the cess mechanism.
- Relief for Households:** Essentials like milk, paneer, chapati, and paratha are now exempt.
  - Common items such as soap, toothpaste, bicycles, and kitchenware fall under the 5% bracket.
  - Packaged foods, noodles, chocolates, and beverages have seen rate cuts, boosting consumption and easing household budgets.
- Boost to Health and Insurance:** All life and health insurance products are now GST-exempt, making coverage more affordable.
  - Essential drugs and medical devices for cancer, rare diseases, and chronic conditions have seen rate reductions, improving access to healthcare and reducing financial strain.
- Support for Farmers:** Tractors, farm machinery, fertilizers, and key inputs now attract only 5% GST. Its inverted duty structures lowers cultivation costs and enhances productivity.
- Empowering Traditional Industries:** Handicrafts, marble, granite, and leather goods benefit from reduced GST rates, stimulating demand and securing employment.
  - These reforms make traditional industries more competitive while preserving livelihoods.
- Correcting Critical Anomalies:**
  - Textiles:** Reduction of GST on man-made fibre and yarn to 5% eliminates distortions and strengthens the textile value chain.
  - Cement:** Shift from 28% to 18% GST will lower construction costs and accelerate housing and infrastructure growth.

### Pillars of GST 2.0: Next-Gen Reforms



#### Simplified Two-Slab Structure

GST rates streamlined to just 5% and 18%, replacing the earlier multi-rate system; Makes compliance easier and improves transparency.



#### Relief for the Common Man

Essential items like soaps, toothpaste. Indian breads now taxed at 5% or Nil. Life-saving drugs and medicines reduced from 12% to Nil or 5%, making healthcare more affordable.



#### Middle-Class Benefits

Two-wheelers, small cars, TVs ACs.cement moved from 28% to 18%, easing household expenses.



#### Support for Farmers

Farm machinery and irrigation equipment now taxed at 5%, down from 12%, Reduces input costs and boosts agricultural production



#### Boost to Labour-Intensive Industries

Focus on sectors like handicrafts, leather, marble, and granite to stimulate employment and growth



#### Digital Filing & Faster Refunds

Enhanced digital infrastructure, for easier filing, real-time compliance, and quicker refunds



#### Higher Tax on De-merit Goods

Tobacco, pan masala, aerated drinks, luxury goods taxed at 40%, discouraging harmful consumption

- ♦ **Green Economy:** Reduced rates on renewable energy devices and auto components will support India's sustainability goals.
- **Institutional Strengthening with GSTAT:** The announcement of the **Goods and Services Tax Appellate Tribunal (GSTAT)** becoming operational **by year-end**, aims to:
  - ♦ Enable faster dispute resolution;
  - ♦ Ensure consistent rulings;
  - ♦ Build greater trust in the system;

### Implications for Centre and States

- GST is vital for both central and state finances:
  - ♦ **CGST:** Less than one-fourth of Centre's tax receipts; 41% is devolved to states.
  - ♦ **SGST:** Over 40% of states' own tax revenues.
- Budget estimates for **FY 2025-26** projected SGST collections to rise **22% to ₹10.8 trillion**, but April–August growth has been only **5.8%**.
  - ♦ The new rates, along with external trade factors, aim to play a decisive role in shaping collections.
- **Revenue Foregone:** Revenue impact estimated at **₹48,000 crore** for H2 FY 2025-26.
  - ♦ **Annualised impact: ₹96,000 crore (₹67,700 crore with States, and ₹28,300 crore with Centre)** (similar to the income tax changes in the 2025 Budget).
  - ♦ The extent of strain will vary by state, depending on SGST share and central devolution. Deficit states may need to raise revenues or cut expenditure.

### Key Concerns in GST 2.0

- **Rate Rationalization vs. Revenue Uncertainty:** Simplifying to two slabs (5% and 18%) may lead to revenue volatility, especially for States that rely heavily on higher-rate items.
  - ♦ Disputes could persist if exemptions and special rates aren't clearly defined.
- **Federalism & State Autonomy:** GST 2.0 still centralizes decision-making, leaving States with limited flexibility.
  - ♦ The **expiration of the GST compensation cess** in March 2026 raises concerns about how States will manage revenue shortfalls.
- **Compliance Burden on MSMEs:** Frequent filing, digital invoice requirements, and audits create strain for small businesses.
  - ♦ GST 2.0 may introduce stricter e-invoicing and AI-based audits, raising concerns for informal sector survival.
- **Input Tax Credit (ITC) Restrictions:** Delays, mismatches, and blocked credits, causing liquidity crunch.
  - ♦ Reforms risk tightening ITC rules further to curb fraud, impacting genuine taxpayers.
- **Technology & Infrastructure Gaps:** GSTN (network) upgrades for GST 2.0 needs to handle real-time data and AI fraud detection.
  - ♦ Risk of system crashes, cybersecurity threats, and uneven digital access across states.
- **Litigation & Uncertainty:** Frequent rule changes cause compliance confusion.
  - ♦ GST 2.0 reforms may bring new interpretation disputes, adding to the already high litigation burden.
- **Exemptions & Complexity:** While the slab structure is simpler, multiple exemptions (e.g., for specific goods or sectors) may reintroduce complexity and open doors to evasion or misclassification.
- **Sectoral Concerns:** Service sector (esp. digital economy) faces ambiguity in tax treatment.
  - ♦ Manufacturing-heavy states fear loss of location-based incentives under a harmonized GST 2.0.
  - ♦ Key sectors like petroleum, electricity, and real estate remain outside the GST net, limiting the goal of a truly unified tax system.

**Conclusion**

- GST 2.0 is more than a tax reform — it's a strategic reset of India's fiscal architecture.
- It lays the foundation for a more inclusive and resilient economy, by simplifying rates, empowering citizens, and boosting key sectors.

Source: TH

**Daily Mains Practice Question**

Q. Discuss the key features of GST 2.0 and evaluate its potential impact on various sectors of the Indian economy. Do you think GST 2.0 addresses the shortcomings of the earlier GST framework?

