GST 2.0 Reforms

GS – III – Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Why in news?

In the 56th GST Council meeting, chaired by Union Finance Minister, the Next-Gen Goods and Services Tax (GST) reforms have been approved.

What are the features of current GST 1.0?

- **Launch** – GST, indirect tax structure, was launched with in 2017 by the Constitution 101st Amendment Act 2016.
- GST was born out of subsuming of 17 taxes and 13 cesses levied by the Central and State governments.
- **Tax Slabs** - Apart from zero-rated goods, it had four tax slabs 5%, 12%, 18 and 28%.
- **GST Council** - The GST Council is a joint forum of the Centre and the States which makes recommendations to the Union and the States on GST.
- **Decision taking** - Every decision of the GST Council is taken at its meeting by a majority of not less than 3/4th of the weighted votes of the Members present and voting.
- **Features of GST -**
    - Destination-based tax
    - Eliminated cascading of taxes (tax on tax)
    - Created a single national market with common rates and procedures
    - Input tax credit
    - Completely automated and faceless administration with all processes being online.

What is the performance of GST so far?

- **Expansion of Tax Base** - GST taxpayer base has grown from 66.5 lakh in 2017 to 1.51 crore in 2025, reflecting greater formalization of the economy.
- **Record Revenue Growth** - FY 2024–25 saw Rs.22.08 lakh crore in gross GST collections, doubling in just four years with a CAGR of 18%.
- **Economic Confidence** - Rising collections and active taxpayers reflect stronger compliance, improved systems, and robust economic fundamentals.
- Average monthly collections have risen to Rs. 2.04 lakh crore year from Rs. 82,000 crore in 2017–18.

What are the features of GST 2.0?

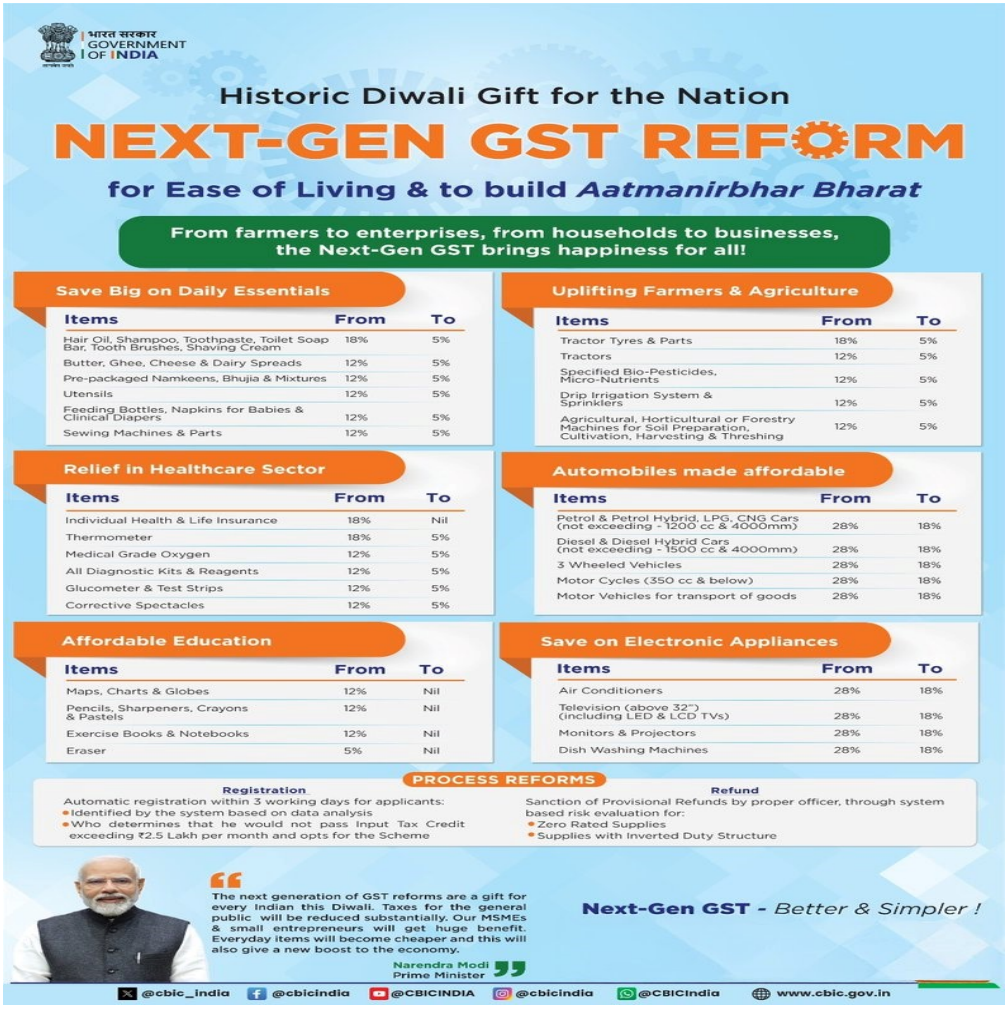
- **Next-Gen GST reforms** – It builds on GST's success with a simplified 2-tier structure, fairer taxation, and digital filing for ease and faster refunds.
- **Focus** – It focuses on improving the lives of the common man and ensuring ease of doing business for all, including small traders and businessmen.



- **Two slabs** - GST is simplified into a two-slab structure - Slab 1 – 5%, Slab 2 – 18%.
- **Household essentials** - GST reforms cut taxes on household essentials (soaps, toothpaste, Indian breads) to 5% or Nil boosting affordability
- **Home Building & Materials** - The cut in GST on cement (from 28% to 18%) and construction materials like marbles, granites, wooden flooring, etc. cuts from 12% to 5%.
- **Health care sector** - Life-saving drugs, medicines reduced from 12% to Nil or 5% making healthcare affordable
- **Agriculture Sector** - Farm machinery, irrigation equipment cut from 12% to 5%, reducing farming costs
- **Service sector** - Lower GST will reduce costs for citizens and gives a fillip to the hospitality and service industries.
- For hotels the cuts from 12% to 5%; Gyms, salons, barbers, yoga GST cut from 18% to 5%.
- **Toys, Sports & Handicrafts** - Reduction of GST rate on manmade fibre from 18% to 5% and manmade yarn from 12% to 5% and for Wooden/metal/textile dolls & toys from

12% to 5%.

- **Luxury items and sin goods** - Tobacco, pan masala, aerated drinks, and luxury goods taxed at 40%.



What are the potential benefits GST 2.0 reforms?

- **Virtuous cycle** - 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.
- **Disputes Reduction**- 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.
- **Economic Momentum** - Lower costs leads to higher demand which creates larger tax base and stronger revenues leading to sustainable growth.
- **Social Protection -** Exemption of GST on insurance and essential medicines

strengthens household security and access to healthcare.

What are the challenges in implementing GST 2.0?

- **Effects on poor and middle class** - Two-thirds of the total GST, i.e. 64%, comes from the pockets of the poor and the middle class, but only 3% GST is collected from billionaires.
- **Impact on Center-State Relations** - A key demand of the states, made in the true spirit of cooperative federalism, the extension of compensation for another five years to fully protect their revenues, remains unaddressed.
- **Revenue Impact** - The rate rationalization is expected to lead to a short-term dip in revenue for both the central and state governments.
- The State of Kerala has said that it will lose upto Rs 8,000–10,000 crore annually under the new slabs.
- **Technical and Procedural Hurdles –** The system continues to face technical issues in GSTN portal during peak hours, the frequent changes in return formats can also be confusing for taxpayers,.
- **Sector-Specific Challenges** - For example, while the automotive and consumer durables sectors will likely see a boost from lower tax rates, other sectors like coal may face increased costs due to a higher GST rate.
- **Passing on Benefits to Consumers** - With the anti-profiteering provisions having expired, there's no legal mandate for businesses to pass on the savings from reduced tax rates directly to the end consumer.

What lies ahead?

- **Robust IT Infrastructure** - Upgrade GSTN systems to handle new rate structures and enable real-time invoice matching and simplified credit note issuance.
- **Public Awareness & Stakeholder Engagement** - Launch nationwide campaigns to educate consumers and businesses on benefits and changes.
- **Monitoring & Feedback Mechanisms** - Set up dashboards to track compliance, refund timelines, and dispute resolution.
- Use analytics to identify bottlenecks and areas needing policy tweaks.
- **Boosting Consumption & Inclusion** - Lower taxes on essentials and insurance will increase affordability, especially for middle- and lower-income households.

Conclusion:

- The adoption of a simplified GST structure and wide-ranging rate reductions marks a new chapter in India’s tax journey.
- By focusing on affordability for citizens, competitiveness for businesses, and transparency in compliance, these reforms make GST not just a tax system, but a catalyst for inclusive prosperity and economic transformation.

Reference

1. NDTV | New GST slabs

2. PIB | GST Reforms 2025

3. The Hindu | Reduction of GST rates

