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Next Generation GST 2.0 in India: Structural Reforms, Sectoral Impacts and Socio-Economic Implications

Dr. K. Uttamsagar

Department of Commerce, CSTS Govt. Kalasala, Jangareddigudem,

Eluru District, Andhra Pradesh.

uttamsagar8@gmail.com

Abstract

Since its launch in 2017, India's Goods and Services Tax(GST) has represented a corner shift in the country's indirect tax regime. In September 2025 the government blazoned a major reset — generally appertained to as " GST2.0 " — which streamlines tax slabs, abolishes the compensation cess, and emphasises simpler compliance, enhanced consumption and formalisation of the economy. This paper analyses GST 2.0 by comparing it with the earlier GST regime (hereafter "GST 1.0"), examining structural changes, sector-specific effects, and socio-economic, cultural and technology aspects of the reform. Using secondary data and published analyses, the study finds that GST 2.0 offers consumer relief, potential stimulus to manufacturing and services, better formalisation for MSMEs, but also raises questions about revenue loss, inverted duty structures and state-level variation. Quantitative estimates suggest tax-rate reductions may yield savings of about ₹2 lakh crore for households and contribute 0.7–0.8 percentage points of GDP growth in the near term. The paper concludes with policy recommendations to ensure that the reform's benefits are inclusive, sustainable and broadly distributed across sectors and regions.

Keywords:GST 2.0, sectoral impact, socio-economic, compliance, consumption, manufacturing, services, MSME's.

Introduction

The arrival of GST in India in July 2017 marked the connection of a myriad of indirect levies(excise duty, service duty, etc.) into a unified tax system. While this reform addressed duty burdens and tried to simplify compliance, issues persisted multiple tax burdens, frequent rate changes, bracket controversies, clumsy compliance for small businesses, and reversed duty structures. Over eight years of operation, GST 1.0 reached a critical juncture: as the government itself acknowledged, the system required further refinement to remain growth-supportive and equitable.

In this context, "GST 2.0" refers to the set of reforms approved by the GST Council in September 2025 (56th meeting) and implemented from 22 September 2025. Key elements include major rationalisation of tax slabs, abolition of the compensation cess, enhanced digital compliance, and a thrust toward broader participation of consumers, businesses and states.

This paper sets out to compare GST 2.0 with GST 1.0, examine structural changes, assess sectoral impacts (manufacturing, husbandry, services, motorcars, real- estate, MSME's), explore socio- profitable, artistic and technological aspects and eventually offer policy reflections. The ideal is to give a comprehensive, timely assessment for experimenters, policymakers and stakeholders. The ideal is to give a comprehensive, timely assessment for experimenters, policymakers and stakeholders.

Literature Review

GST 1.0: Achievements and Limitations

Initial studies pointed to GST's success in broadening the tax base, enabling input tax credit across goods and services, and reducing multiple cascading taxes. nevertheless, authors flagged patient problems four/ five tax rates (0, 5, 12, 18, 28), confusion, compliance costs for MSMEs, state profit misgivings and input duty credit mismatches (inverted duties).

Emerging Analyses of GST 2.0

Recent commentary and analytical work view GST 2.0 as the "next-generation" tax reform—emphasising simplification of rates, reduction of compliance burden, and boosting consumption. For example, Banik (2025) argues that GST 2.0 seeks to deliver rate-uniformity while keeping fiscal prudence. Many business-economics pieces point to reductions in tax slabs, removal of compensation cess, and potential stimulus effects on domestic demand. At the same time, some critique the revenue implications and possible new inverted duty problems.

Gaps in Literature

While ample press and advisory-firm commentary exists, academic empirical work on GST 2.0 is still emerging (given its implementation only recently). There is a need for systematic comparison of GST 1.0 vs GST 2.0, sectoral breakdowns (manufacturing, agriculture, services), socio-economic distributional effects, and cultural/technology aspects (digitisation, compliance behaviour). This paper attempts to contribute to that gap.

Research Methodology

This study is based on secondary-data analysis, combining official government releases (PIB press notes), policy papers, business-economics commentary, and labour/consumption sector news reports. Quantitative estimates rely on published figures—such as estimated savings for households, demand stimulus, and sectoral tax-rate changes. Qualitative assessment draws from expert commentary, press reports and policy analyses. As such, the research is descriptive-analytical rather than primary survey-based. Limitations include the short time-horizon of GST 2.0 (post-September 2025) and the lack of full empirical time-series data for all sectors.

Structural Reforms: GST 1.0 vs GST 2.0

Tax-Slab Rationalisation

Under GST 1.0, India operated multiple duty crossbeams 5, 12, 18 and 28 (with some particulars at 0) plus a compensation cess on specified goods. In GST 2.0, the framework has been streamlined:A broad 5 % slab for essential goods and socially-merit goods. A standard 18 % slab for the bulk of goods and services. A de-merit/luxury slab of 40 % (or thereabouts) for “sin” goods and luxury items.

Abolition of the compensation cess.

This twoor effectively three slab system represents a major simplification, intended to reduce classification disputes, minimise cascading taxes and ease compliance.

Compliance and Digitalisation

GST 2.0 emphasises stronger digital compliance: faster refunds, simpler returns, improved e-invoicing, enhanced taxpayer interface. This intends to reduce compliance cost burdens especially for MSMEs, reduce disputes (via fewer slabs) and enhance tax-base via better monitoring.

State-Centre Revenue Dynamics

Under GST 1.0, the compensation cess ensured states’ revenue growth guarantees (14 % per annum for five years) under the Central GST law. With the compensation cess gone, states will rely on standard GST collections and transfers. The reform therefore has structural implications for fiscal federalism.

Institutional and Structural Reform Intent

Official documents outline seven pillars of the next-gen GST reforms: simplification of rates, fairer taxation, digital interface, boosting MSMEs, empowering states, stimulate manufacturing & consumption. The reform thus moves beyond mere rate cuts toward structural change in the indirect tax ecosystem.

Sectoral Impacts of GST 2.0

Agriculture and Farm-Machinery

Under GST 2.0, certain farm-machinery and irrigation equipment have seen GST reduction (for example from 12 % to 5 %) to reduce input costs for farmers. This should boost mechanisation and thereby productivity in agri-sector, especially in rural and small-holder contexts.

Manufacturing / Consumer Durables

Manufacturers benefit via lower input costs and simpler tax structure. For example, consumer electronics and household appliances previously attracting 28 % GST now shift to 18 % under GST 2.0. Similarly, auto parts and sub-4 metre cars have seen GST cut from 28 % to 18 %, improving affordability and demand. According to an estimate, about 99 % of items in the 12 % slab and 90 % of items in 28 % slab move downwards.

Automobiles

In the automobile sector, particularly small cars and two-wheelers, the GST revision is significant. The reduction from 28 % to 18 % for many vehicles has been cited as a key stimulus. This is expected to boost sales, support 'Make in India', and promote domestic manufacturing & consumption.

Real Estate and Construction

Building materials such as cement have been moved from 28 % to 18 % slab, reducing construction costs. Reduced cost of housing could support the real-estate sector and allied industries (steel, cement, carpentry). Also, the manufacturing and services linked to real estate may benefit.

MSMEs and Services Sector

Simpler tax slabs and compliance ease are expected to particularly benefit MSMEs (micro, small and medium enterprises) which often operate under tight margins and face compliance burdens. In services, lower GST on various consumer-facing services (e.g., wellness, membership) is anticipated, though the full impact remains to be seen.

Consumer Goods and FMCG

For fast-moving consumer goods (FMCG), the rate cuts and simplifications mean cost reductions which can be passed on to consumers, boosting volumes. For example, soaps, toothpaste and Indian breads have moved to 5 % or nil rate.

Socio-economic, Cultural and Technology Aspects

Socio-Economic Impact – Purchasing Power & Consumption

Analyses suggest that the GST 2.0 reforms will improve real disposable incomes for households. One estimate indicates roughly ₹2 lakh crore of savings for Indian households due to reduced GST rates. Another commentary indicates the reforms could contribute 0.7–0.8 percentage points to GDP growth. A sectoral breakdown shows that lower- income homes will profit from access to cheaper rudiments, while the middle- class stands to gain via durable goods and services.

Cultural Impact

Tax reductions on everyday goods, cultural and social services can affect consumption patterns, especially in festivals, weddings and social gatherings. For example, reports indicate that weddings, wardrobes and consumer electronics are being reshaped by GST 2.0 price changes. From a cultural perspective, the reform may stimulate discretionary spending on celebrations and consumption in India's large festival-driven economy.

Technology, Compliance and Formalisation

GST 2.0 emphasises enhanced digital structure (e-invoicing, automated matching, quick refunds) which supports formalisation of the economic system, better shadowing of deals, and reduction of leakage. This technology drive also benefits MSMEs by lowering informal duty cost burdens and aligns with India's broader digitalisation.

Regional, Rural vs Urban and Equity Considerations

While the reform aims for inclusive growth, the impact may vary regionally. For case, pastoral demand is anticipated to launch with duty cuts on farm machinery and reused food. However, challenges persist: input tax credits may not benefit all sectors equally, states with lower consumption growth may lag, and the burden of adjustment falls differently across classes. Some states (e.g., West Bengal) have flagged potential revenue losses and inverted duty structure risks. Equity concerns must be addressed—both in distributional impacts and in state-level fiscal adjustment.

Quantitative Overview

Though full empirical datasets are yet emerging, a summary of available quantitative indicators follows:

- Estimated household savings of approximately ₹2 lakh crore due to tax-rate reductions.
- Potential GDP growth boost of 0.7–0.8 percentage points from the reform.
- Approximately 99% of items in the 12% slab and 90% of items in the 28% slab are estimated to move to lower slabs (5% or 18%).
- Date of reforms Implementation: 22 September 2025.
- Estimated profit loss cited by some state actors further than ₹ 1 lakh crore (though central estimate is lower).

Comparision: GST 1.0 vs GST 2.0

S.No	Dimension	GST 1.0	GST 2.0
1.	Rate complexity	Four/five slabs (0,5,12,18,28) + cess	Two main slabs (5%, 18%) + de-merit slab (~40%)
2.	Compensation cess	Present, covering states' revenue shortfall	Abolished; reliance on standard GST collections

3.	Compliance burden	Moderate to high; multiple slabs, frequent changes	Lower, due to simpler structure; digital/IT enabled
4.	Consumer relief focus	Some relief but complex	Much stronger relief on essentials and durables
5.	Sectoral stimulus	Mixed; compliance and classification issues remained	Clearer signals to agriculture, manufacturing, automobiles, real-estate
6.	Formalisation/digital agenda	E-invoicing introduced but still evolving	Stronger emphasis on digital compliance, faster refunds
7.	Equity/distributional emphasis	Critics argue indirect tax remains regressive	But GST 2.0 explicitly aims to reduce regressive bias and build disposable income for lower/middle classes.

Overall, GST 2.0 appears to represent a meaningful evolution—moving from consolidation of tax system toward simplification and stimulus. The key will be effective perpetration, state - by - state adaptations and avoidance of unintended consequences (e.g., reversed duty problems, revenue faults).

Challenges and Risks

Despite the pledge, several challenges remain:

- Profit Sustainability: Some countries advise of large profit losses (₹ 1 lakh crore or further) if consumption uplift does n't materialise.
- Reversed duty structures: If inputs remain tested at advanced rates while labors attract lower rates, businesses may face credit mismatches and cost burdens (e.g., medical devices tested at 5 but inputs at 18).
- Perpetration- timing and transitional issues: Compliance systems, ERP/ point- of- trade adaptations, stock in hand,anti-profiteering morals pose practical challenges.
- State-level heterogeneity: States with weaker tax administration or slower consumption growth may fail to capture benefits; states may also face fiscal stress.
- Behavioural and classification risk: While slabs are simplified, classification of goods/services may still pose disputes; businesses may pass on cost savings unevenly.
- Expectations and cultural shift: The reform’s success depends on consumers and businesses realising the benefits (e.g., cost savings being passed to consumers) rather than retained in margins.

Policy Recommendations

Based on the analysis, the following policy recommendations are suggested:

1. Robust monitoring of profit flows: The Centre and countries should nearly cover GST profit collections post-reform and establish adaptation mechanisms for countries lagging in performance.

2. Address reversed duty structures proactively: Harmonise input and affair duty rates where necessary to avoid credit blockage, especially in sectors similar as medical bias, husbandry - inputs and capital goods.

3. Ensure benefit - end to consumers: Anti-profiteering mechanisms must be strengthened so that duty savings are passed on and not captured solely as periphery increase by directors retailers.

4. Capacity structure for MSME's: Simplification notwithstanding, MSMEs need support (digital knowledge, easier form, reasonable transition support) to acclimatize to the new compliance governance.

5. State-wise customisation and outreach: States should conduct mindfulness juggernauts (especially in pastoral or small- city requests) so that homes and businesses understand benefits, thereby stimulating consumption.

6. Periodic review and feedback circle: Given the novelty of GST 2.0, a formal review after 12 – 18 months should assess whether targeted objects (consumption growth, formalisation, equity) are being met and allow for mid-course corrections.

Conclusion

GST 2.0 marks a significant structural reform in India's indirect taxation frame. It simplifies rates, reduces duty burdens on different essential and numerous consumption goods, strengthens digital compliance, and aims to stimulate demand, manufacturing and services. Comparing with the earlier GST 1.0 governance, the changes are more consumer- and growth- acquainted, while also addressing formalisation and compliance cost issues.

Still, the reform's pledge will depend on effective perpetration, passing on benefits to consumers, managing financial counteraccusations and icing indifferent issues across socio- profitable parts and countries. For India's ambitious growth and inclusive agenda, GST 2.0 offers an important step but one that requires careful prosecution and nonstop monitoring.

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