



GST 2.0 – KEY CHANGES AND ITS SELECTED MACROECONOMIC IMPACTS

Dr. Alope Gupta

Assistant Professor, Department of Commerce, Jhargram Raj College, Jhargram, WB

KEYWORDS :

1. INTRODUCTION

Taxation systems play a crucial role in shaping the economic structure and development trajectory of a nation. In developing economies such as India, indirect taxes not only generate public revenue but also influence consumption patterns, business competitiveness, and market integration. The introduction of the Goods and Services Tax (GST) in July 2017 marked a watershed moment in India's fiscal history by replacing a fragmented system of central and state indirect taxes with a unified, destination-based, value-added tax regime. GST was envisioned as a transformative reform aimed at eliminating cascading taxes, enhancing compliance, and creating a seamless national market.

Despite its conceptual strengths, the operationalisation of GST revealed several structural challenges. The coexistence of multiple tax slabs, special rates, exemptions, and cesses led to classification disputes, compliance complexity, and administrative inefficiencies. Over time, concerns emerged that the complexity of the GST framework diluted its core objective of simplicity and neutrality. Against this backdrop, the GST Rationalisation of 2025—often referred to as GST 2.0—represents an attempt to recalibrate the system in line with evolving economic realities.

This paper examines GST Rationalisation 2025 as a structural enabler of the Viksit Bharat @2047 Vision, which aims to transform India into a developed economy by the centenary of its independence. The study evaluates/contextualises GST rationalisation within the broader framework of long-term economic development, institutional maturity, and fiscal sustainability.

2. Evolution of GST in India: From Introduction to Rationalisation

The pre-GST indirect tax regime in India was characterised by a complex web of central taxes such as excise duty and service tax, alongside state-level taxes including value-added tax (VAT), entry tax, and octroi. This fragmented structure resulted in cascading taxation, inefficiencies in supply chains, and barriers to inter-state trade. GST sought to address these distortions by subsuming multiple taxes into a single tax system levied at each stage of value addition.

While GST succeeded in improving tax transparency and expanding the tax base, its design incorporated multiple rate slabs—5 per cent, 12 per cent, 18 per cent, and 28 per cent—supplemented by special rates and compensation cesses. However, over time, the differentiated rate structure increased compliance costs, encouraged classification disputes, and weakened the principle of tax neutrality.

GST Rationalisation 2025 emerged as a response to these limitations. By streamlining tax slabs, revisiting exemptions, and simplifying compliance procedures, the reform aims to restore the original spirit of GST as a simple, efficient, and growth-oriented indirect tax system.

3. GST Rationalisation 2025: Key Features and Objectives

The GST Rationalisation of 2025 represents a structural recalibration rather than an incremental adjustment. Its central objective is to enhance efficiency, predictability, and ease of compliance while safeguarding revenue interests.

One of the most significant features of GST 2.0 is the simplification of tax slabs. The reduction in the number of effective rates is expected to minimise classification disputes and compliance ambiguity. Rationalisation of exemptions seeks to broaden the tax base, reduce distortions, and improve revenue buoyancy. Additionally, procedural reforms aimed at digitisation, simplified return filing, and reduced litigation are expected to improve taxpayer experience and voluntary compliance.

From a macroeconomic perspective, GST rationalisation is designed

to stimulate consumption by reducing effective tax burdens on select goods and services. By lowering compliance costs and enhancing certainty, the reform is also expected to improve the investment climate, particularly for small and medium enterprises (SMEs). Thus, GST 2.0 is positioned not merely as a fiscal reform but as a strategic instrument for economic modernisation.

4. Key Changes in GST 2025 Rationalisation:

In 2025, India implemented GST 2.0, a major overhaul aimed at simplifying the tax structure into a primary two-slab system. These changes, effective from September 22, 2025, significantly reduced rates on hundreds of items to ease the burden on the common man while tightening compliance for businesses.

(i) Structural & Rate Slab Changes -

The traditional four-tier system (5%, 12%, 18%, 28%) was largely replaced by a streamlined structure:

- **Elimination of 12% & 28% Slabs:** Most items previously under these slabs were shifted to the 5% or 18% categories.
- **New 40% 'Sin' Slab:** A higher rate was introduced for luxury and 'sin' goods (e.g., luxury cars, tobacco, aerated drinks), replacing the previous 28% plus compensation cess.
- **Standard 18% Rate:** Now applies to the majority of goods and services, including many electronics and automobiles.

(ii) Key Rate Comparisons (Earlier vs. 2025) -

Category	Previous Rate	New Rate (2025)
Health & Life Insurance	18%	0% (Exempt)
Small Cars & Motorcycles (≤ 350 cc)	28% + Cess	18%
White Goods (ACs, TVs, Fridges)	28%	18%
Cement	28%	18%
Medicines (Regular)	12%	5%
33 Life-Saving Drugs	12%	0% (Exempt)
Education Items (Pencils, Erasers)	5% or 12%	0% (Exempt)
Packaged Snacks & Food (Namkeen, Pasta)	12% or 18%	5%
Luxury Cars & Tobacco Products	28% + Cess	40%

(iii) Major Compliance & Business Rules

- **Mandatory Multi-Factor Authentication (MFA):** From April 1, 2025, MFA became mandatory for all taxpayers accessing the GST portal to improve security.
- **Mandatory ISD Registration:** Large companies with multiple state presences must now use the Input Service Distributor (ISD) mechanism for distributing common credits.
- **E-Way Bill Restrictions:** Since January 1, 2025, bills can only be generated for invoices issued within the last 180 days, and extensions are capped at 360 days.
- **Revised HSN Reporting:** Businesses with turnover over ₹5 crore must report 6-digit HSN codes; those below use 4-digit codes, with mandatory dropdown validation starting May 2025.

Return Filing Cut-off: A strict three-year time limit for filing or revising past returns was enforced beginning November 1, 2025.

5. Objectives of the Study:

Existing literature on indirect tax reforms highlights the role of GST in reducing tax cascading, improving compliance, and enhancing market integration. Studies have examined GST's impact on supply chain efficiency, formalisation of the economy, and revenue mobilisation. However, several scholars point out that multiple tax slabs and frequent rate changes weakened GST's effectiveness. Recent policy-oriented research emphasises the need for GST rationalisation to restore neutrality, reduce compliance costs, and enhance growth

outcomes. This study contributes to the literature by linking GST rationalisation explicitly with India's long-term development vision, an area that remains underexplored.

More specifically, the major objectives of the present study are-

- To analyse the structural features of GST Rationalisation 2025.
- To examine its macroeconomic implications.
- To assess GST rationalisation as an enabler of the Viksit Bharat @2047 Vision.

6. RESEARCH METHODOLOGY:

The study adopts a descriptive and analytical methodology, based on secondary data from government reports, policy documents, GST Council releases, and existing academic literature. Analytical reasoning is used to assess macroeconomic and institutional implications.

7. GST Rationalisation and Macroeconomic Implications:

7.1 Impact on Consumption and Demand

Indirect taxes directly influence consumption decisions by affecting final prices. A simplified and rationalised GST structure can reduce price and improve affordability, thereby stimulating consumption demand. By reducing cascading effects and compliance costs, GST rationalisation can lower prices across supply chains, leading to higher real disposable incomes.

Enhanced consumption demand, in turn, contributes to economic growth through multiplier effects. In an economy aspiring for sustained high growth rates, consumption-led growth remains a critical driver. GST rationalisation thus aligns with macroeconomic objectives of demand stimulation and inclusive growth.

7.2 Impact on Economic Growth

GST rationalisation contributes to growth by improving allocative efficiency and reducing transaction costs. Simplified tax structures facilitate smoother movement of goods across states, strengthening national market integration. For businesses, especially SMEs, reduced compliance complexity frees up resources for productive investment.

Over the long term, improved tax certainty and predictability enhance investor confidence. As India seeks to position itself as a global manufacturing and services hub, a stable and efficient indirect tax regime becomes a critical competitiveness factor.

7.3 Inflationary Considerations

Concerns regarding inflation often accompany indirect tax reforms. However, GST rationalisation, by eliminating inefficiencies and reducing cascading taxes, can have a neutral or even moderating effect on inflation over time. While short-term price adjustments may occur during the transition phase, efficiency gains are expected to stabilise prices in the medium to long run.

7.4 Revenue Sustainability and Fiscal Federalism

Revenue sustainability remains a central concern in any tax reform. GST rationalisation aims to balance simplification with revenue adequacy by broadening the tax base and improving compliance. Reduced reliance on exemptions and cesses enhances transparency and predictability of revenue flows.

From the perspective of fiscal federalism, GST rationalisation strengthens cooperative federalism by promoting harmonisation between the Centre and the States. A more buoyant and predictable GST regime reduces fiscal stress on States and enhances their capacity to invest in development-oriented expenditure. Thus, GST rationalisation contributes to institutional stability and fiscal resilience.

8. GST Rationalisation as an Enabler of the Viksit Bharat @2047 Vision:

The Viksit Bharat @2047 Vision envisions India as a developed economy characterised by high income levels, inclusive growth, robust institutions, and global competitiveness. Achieving this vision requires deep structural reforms rather than isolated policy interventions.

GST rationalisation functions as an enabler by creating an efficient fiscal ecosystem that supports long-term development. By simplifying taxation, enhancing compliance, and improving market integration, GST 2.0 strengthens the institutional foundations of the economy. It enables resource mobilisation for public investment in infrastructure, education, health, and innovation—key pillars of development.

Moreover, GST rationalisation supports inclusive growth by reducing the compliance burden on smaller enterprises and encouraging formalisation. A broader tax base and improved compliance also promote equity by distributing the tax burden more evenly across economic agents.

9. Challenges and Limitations:

Despite its potential benefits, GST rationalisation is not without challenges. Short-term revenue uncertainties, administrative capacity constraints, and transitional adjustment costs may pose difficulties. Resistance from affected stakeholders and the need for continuous coordination between the Centre and the States remain critical issues.

Additionally, the success of GST rationalisation depends on effective implementation, technological robustness, and responsive grievance redressal mechanisms. Without these supporting institutions, the intended benefits may not fully materialise.

10. CONCLUSION:

GST Rationalisation 2025 represents a significant milestone in India's ongoing fiscal reform journey. Moving beyond the initial design limitations of GST, the reform seeks to realign the indirect tax system with principles of simplicity, efficiency, and growth orientation. As argued in this paper, GST rationalisation is not merely a fiscal adjustment but a long-term structural enabler of economic development. Effective from 22nd September 2025, the reforms reaffirm India's commitment to building a simpler, fairer, and growth-oriented GST framework, ensuring both ease of living for people and ease of doing business for enterprises (PIB, GOI, 2025). In the context of the Viksit Bharat @2047 Vision, GST rationalisation contributes to consumption stimulation, economic growth, inflation management, and revenue sustainability.

REFERENCES

1. Bird, R. M. (2011). Taxation and development. World Bank.
2. Government of India. (2017). The Constitution (One Hundred and First Amendment) Act, 2016. Ministry of Law and Justice.
3. Government of India. (various years). Economic Survey. Ministry of Finance, Department of Economic Affairs.
4. Goods and Services Tax Council. (2021). GST revenue trends and compliance reforms. Government of India.
5. Goods and Services Tax Council. (2023). Report on rate rationalisation and compliance simplification. Government of India.
6. Keen, M. (2013). The anatomy of the VAT. *National Tax Journal*, 66(2), 423–446.
7. Mukherjee, S. (2020). GST and the Indian economy: Efficiency, compliance, and revenue implications. *Economic and Political Weekly*, 55(12), 45–52.
8. Organisation for Economic Co-operation and Development. (2020). Consumption tax trends 2020: VAT/GST and excise rates, trends and policy issues. OECD Publishing.
9. Press Information Bureau, GOI, GST Reforms 2025. (2025). Relief for Common Man, Boost for Businesses Relief, Simplification, and Growth for All.
10. Press Information Bureau. (2025). Recommendations of the 56th Meeting of the GST Council, Ministry of Finance, GOI.
11. Reserve Bank of India. (2022). State finances: A study of budgets. RBI Bulletin.
12. Rao, R. K., & Rao, M. G. (2019). GST reform in India: Progress, performance, and prospects. *National Institute of Public Finance and Policy Working Paper No.* 2019-02.
13. World Bank. (2018). India: GST implementation—Challenges and opportunities. World Bank Group.