



GST 2.0

India's Next Leap Towards a
Simplified & Inclusive Tax Regime



Policy Analysis & Implementation Framework

On the 79th Independence Day, Prime Minister Narendra Modi unveiled the government's blueprint for next-generation Goods and Services Tax (GST) reforms. Eight years after GST's historic rollout in 2017, this fresh wave of changes promises to simplify India's indirect tax structure, improve business competitiveness, and directly benefit the common man.

These reforms, anchored around three core pillars-structural reforms, rate rationalisation, & ease of living - mark the beginning of what many are calling GST 2.0.

Why GST Reforms Matter Now

GST has already unified India into a single market, replacing a complex web of state and central taxes. However, over time, cracks have emerged:

- Industries facing inverted duty structures (input taxes higher than output taxes) leading to blocked credits.
- Multiple tax slabs causing classification disputes and compliance confusion.
- Refund delays and procedural hurdles adding friction for exporters and MSMEs

With India's economy on track to cross the \$5 trillion mark, reforms are not just desirable-they are inevitable. The timing is crucial because:

1. **India's global competitiveness** demands a streamlined tax system to attract investments.
2. **Middle-class households and farmers** need relief through lower costs of essential & aspirational goods.
3. **Fiscal flexibility** post the end of the compensation cess creates room for long-term rate alignment.

Key Takeaways:

In essence, GST 2.0 is about future-proofing India's tax system for the next decade of growth.



Pillar 1: Structural Reforms — Fixing the Foundation

The first pillar addresses systemic challenges that have long hindered GST's effectiveness:

- Inverted Duty Structures:** By aligning input & output tax rates, businesses will face fewer working capital blockages. Sectors like textiles, electronics, & renewables will particularly benefit, boosting domestic value addition and exports.
- Classification Disputes:** Simplifying how goods and services are categorised will reduce litigation, compliance costs, and ambiguity. Businesses will no longer spend disproportionate resources debating whether an item is taxed at 12% or 18%.
- Stability & Predictability :** Long- term clarity on tax rates is critical for investment planning. With stable GST rules, businesses can make confident long-term strategic decisions.

Key Takeaways : These structural corrections are not just compliance-friendly-they directly improve profitability, working capital efficiency, and industry competitiveness.

Pillar 2: Rate Rationalisation — Towards a Two-Slab GST

Perhaps the most awaited reform is the simplification of GST's rate structure. The government aims to move towards just two main slabs: standard and merit, with special rates reserved for a limited number of goods.

GST 2.0 shifts from the current four-tier system (5%, 12%, 18%, 28%) to a streamlined **two-tier slab structure: 5% and 18%**, supplemented by a special 40% levy on demerit goods.

- 5% slab:** Covers essential and aspirational goods, including FMCG, medicines, and food staples-aimed at reducing the tax burden on consumers & easing inflationary pressures.
- 18% slab:** Encompasses majority of goods and services, simplifying compliance and enabling uniform tax application.
- 40% 'Sin' slab:** Targets luxury and demerit goods such as tobacco & luxury automobiles.

Key Elements Include:

- Relief for households:** Lower rates on essential and aspirational goods will make everyday consumption more affordable.
- Simplified compliance:** A leaner slab structure reduces disputes, paperwork, and IT system complexities for businesses.
- Fiscal flexibility:** With compensation cess gone, the system now has the breathing room to adjust rates sustainably, without compromising states' revenues.

Key Takeaways : Organisations should rework pricing strategies, recalibrate supply chains, and run simulations to anticipate demand shifts as slabs consolidate. Early movers will enjoy a competitive edge.

Pillar 3: Ease of Living — Compliance Made Simple

The third pillar is about transforming how individuals and businesses experience GST in day-to-day life:

- Seamless Registrations:** Small businesses & startups will find entry barriers reduced through technology-driven, time-bound processes.
- Pre-filled Returns:** Automation in return filing will save time, reduce mismatches, and cut down on errors.
- Faster Refunds:** Exporters & sectors with inverted duty credits will see quicker, automated refunds—unlocking liquidity and boosting trade.

***Key Takeaways:** Businesses should proactively invest in digital compliance infrastructure. Those who integrate technology into GST processes will see reduced costs and higher efficiency.*

Cooperative Federalism: The Road Ahead

These reforms are not unilateral. The proposals have been sent to the Group of Ministers (GoM) under the GST Council for deliberation. This consensus-driven approach reflects India's commitment to cooperative federalism, where Centre and States share responsibility for shaping tax reforms.

The government has emphasised that benefits must be realised within the current financial year, indicating a strong push for timely implementation.

Implications for Stakeholders

- For Businesses:** A predictable, rationalised GST framework means fewer disputes and smoother operations. It's time to think beyond compliance and leverage GST as a strategic enabler for competitiveness.
- For Citizens:** Lower taxes on essentials and aspirational goods promise direct savings. For students, women, farmers, & the middle class—explicitly mentioned by the Prime Minister—the reforms signal greater inclusivity.
- India Inc.:** By strengthening ease of doing business, GST 2.0 enhances India's attractiveness to global investors, while also empowering MSMEs domestically.



Fiscal and Economic Implications

- ☑ Estimated revenue loss from slab rationalisation is approximately ₹85,000 crore annually; however, projected consumption-driven growth is expected to generate a net positive economic impact exceeding ₹1.9 trillion, supporting India's broader \$5 trillion growth vision.
- ☑ States' fiscal concerns over revenue stability post-compensation cess removal are mitigated by anticipated enhanced tax compliance and increased formalisation.
- ☑ The GST Council, through cooperative federalism, will manage revenue-sharing and implementation timelines to safeguard fiscal health.

Conclusion: GST 2.0 as a Catalyst for Growth

GST 2.0 is more than a tax reform-it is a strategic pivot to a growth-oriented, technology-enabled tax system that improves transparency, reduces ambiguity and builds a more inclusive tax ecosystem. Businesses and policymakers must focus on collaboration, preparedness, and embracing digital transformation to fully realise its benefits.

As Prime Minister Modi highlighted, GST reforms are integral to the journey of an 'Atmanirbhar Bharat'. They are not just fiscal changes-they are foundational to India's aspiration of becoming a global economic powerhouse.



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