

GST 2.0 And Sectoral Transformation in India: An Empirical Assessment of Slab Rationalisation and Economic Outcomes

Mr. Boda Chandra Shekar

Assistant Professor, Department of Commerce

Villa Marie Degree College for Women, Somajiguda, Hyderabad

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Abstract—The Goods and Services Tax (GST) reforms implemented in India in September 2025 signify a major recalibration of the country’s indirect tax framework, with an explicit focus on economic inclusivity, sectoral revitalisation, and youth-driven entrepreneurship. Moving beyond earlier GST phases, the current reform package introduces a streamlined rate structure, targeted slab reductions, and sector-specific rationalisation aimed at correcting structural inefficiencies and easing compliance burdens. Particular attention has been directed toward employment-intensive and innovation-oriented sectors, including education, automobiles, information technology, handicrafts, footwear, healthcare, food processing, and textiles, with the objective of improving affordability, strengthening domestic competitiveness, and fostering startup activity.

This study empirically examines the implications of the revised GST slab rates across selected industries, assessing their effects on production costs, pricing dynamics, market participation, and business sentiment. Using a sectoral analytical framework supported by secondary data, the paper evaluates how the reduction of GST to 5 per cent on several goods, alongside rationalised rates in transport and allied services, has influenced operational efficiency and consumer access. The findings indicate that the reforms have contributed to lower input costs, enhanced formalisation, and improved viability for small and medium enterprises, while simultaneously supporting household consumption through moderated prices.

The paper argues that GST 2.0 represents a transition from revenue-centric taxation toward a development-oriented fiscal strategy that aligns taxation policy with broader national priorities of sustainability, employment generation, and youth empowerment. By highlighting sector-wise outcomes of the revised slab structure, this research contributes to the growing literature on indirect tax reforms in emerging economies and offers policy-

relevant insights for strengthening India’s long-term growth trajectory.

Index Terms—Goods and Services Tax 2.0; GST Slab Rationalisation; Sectoral Impact Analysis; Youth Entrepreneurship; Inclusive Economic Growth.

I. INTRODUCTION

The Goods and Services Tax (GST) constitutes one of the most comprehensive transformations of India’s indirect tax architecture, aiming to integrate the taxation of goods and services into a unified national framework. Operating as a destination-based value-added tax, GST enables credit set-off at every stage of the supply chain, thereby minimising cascading effects and enhancing transparency. Its dual structure—comprising Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST)—ensures shared fiscal responsibility between the Union and State governments while facilitating seamless movement of input tax credits across jurisdictions. By subsuming most legacy indirect taxes, GST seeks to simplify compliance, improve administrative efficiency, and strengthen market integration.

Before GST, India’s indirect taxation system was marked by fragmentation, divergent state-level practices, and multiple overlapping levies. The absence of uniform tax rates, coupled with entry taxes and varied procedural requirements, increased transaction costs and constrained inter-state commerce. In addition, the parallel application of value-added tax and service tax resulted in double taxation, imposing higher burdens on both producers and consumers. Limited input credit interoperability further weakened compliance and created

inefficiencies in revenue mobilisation. These structural shortcomings underscored the need for a harmonised national tax regime.

The idea of GST emerged in the early 2000s as part of broader sales tax reform initiatives, eventually culminating in the enactment of the 101st Constitutional Amendment in 2016. GST was formally implemented on 1 July 2017, signalling a decisive move toward a common domestic market. Since its introduction, the system has evolved through periodic rate adjustments, procedural streamlining, and increased digitalisation, progressively reinforcing its role as the backbone of India's indirect taxation framework.

II. NEW GST REFORMS 2025

In 2025, GST entered a new reform phase aimed at strengthening its developmental orientation and improving ease of doing business. The GST Council approved a comprehensive reform package centred on rate rationalisation and structural simplification. A two-slab framework of 5 per cent and 18 per cent was proposed for most goods and services, accompanied by substantial reductions across multiple labour-intensive and consumer-focused sectors. These measures are designed to moderate prices, reduce compliance complexity, and enhance competitiveness for domestic enterprises, particularly micro, small, and medium-sized businesses.

The reforms prioritise sectors with high employment potential and strong linkages to household consumption, including agriculture, healthcare, transport, textiles, footwear, handicrafts, food processing, and allied industries. By lowering GST rates on several essential goods and rationalising taxes in logistics and transport services, the revised structure seeks to reduce input costs, support formalisation, and encourage entrepreneurial participation, especially among youth-led startups. The new rates are scheduled to take effect from 22 September 2025, offering timely relief to households, farmers, and businesses. Selected tobacco-related products remain outside the immediate scope of these revisions, with existing GST and compensation cess rates continuing until outstanding liabilities are fully discharged.

These reforms signify a strategic shift from revenue-centric taxation toward a growth-supportive fiscal framework. GST 2.0 aligns indirect tax policy with

broader national objectives of inclusive development, employment generation, and sustainable economic expansion. Against this policy backdrop, the present study evaluates the sector-wise effects of the revised slab structure, focusing on changes in tax incidence, operational efficiency, and market participation across selected industries.

III. SIMPLIFIED GST STRUCTURE AND SECTORAL RELIEF

The 2025 reform package represents a decisive move toward simplification of India's GST architecture. The transition to a two-rate framework of 5 per cent and 18 per cent, with the discontinuation of the earlier 12 per cent and 28 per cent slabs for most goods and services, is intended to enhance transparency and improve taxpayer comprehension. To preserve revenue neutrality and equity, a higher rate of 40 per cent has been retained for selected luxury and sin goods, including tobacco products, pan masala, aerated beverages, premium automobiles, yachts, and private aircraft. In parallel, procedural reforms have streamlined registration and return filing, accelerated refund processing, and reduced compliance costs, offering particular relief to micro, small, and medium enterprises (MSMEs) and startups. Collectively, these measures aim to improve ease of doing business while strengthening the efficiency of tax administration.

III. GST 2.0: SECTOR-WISE IMPACT

1. Food and Household Segment

The revised rate structure delivers direct benefits to households through reduced taxation on essential and frequently consumed items. Several basic food products, including UHT milk, pre-packaged and labelled chena or paneer, and traditional Indian breads, have been moved to a zero-rated category. Common household goods such as soaps, shampoos, toothbrushes, toothpaste, tableware, and bicycles are now taxed at 5 per cent. Processed and packaged food items—including namkeens, bhujia, sauces, pasta, chocolates, coffee, and preserved meat—have been reduced from higher slabs to 5 per cent. In addition, consumer durables such as LCD/LED televisions (above 32 inches), air conditioners, and dishwashers have shifted from 28 per cent to 18 per cent, improving

affordability while supporting domestic electronics manufacturing.

2. Housing and Construction Materials

Lower GST rates on cement and key construction inputs are expected to stimulate housing demand and infrastructure activity. Cement has been reduced from 28 per cent to 18 per cent, while marble and granite blocks, sand-lime bricks, bamboo flooring, joinery products, and wooden packing materials have been brought down from 12 per cent to 5 per cent. These changes are anticipated to moderate construction costs, improve housing affordability, and generate employment across allied sectors.

3. Automobile Industry

Reclassification and rate reductions across vehicle categories and auto components aim to minimise interpretational disputes and enhance compliance. Small cars and two-wheelers up to 350 cc, along with buses, trucks, three-wheelers, and all auto parts, have been moved from 28 per cent to 18 per cent. This rationalisation is expected to strengthen domestic manufacturing capacity and support export competitiveness.

4. Agriculture and Allied Activities

The reforms provide targeted relief to farmers by lowering GST on agricultural machinery and inputs. Tractors have been reduced from 12 per cent to 5 per cent, while tyres and parts have shifted from 18 per cent to 5 per cent. Harvesters, threshers, sprinklers, drip irrigation systems, poultry equipment, and beekeeping machinery are now taxed at 5 per cent. Bio-pesticides and natural menthol have also been reduced from 12 per cent to 5 per cent. Furthermore, correction of the inverted duty structure on fertiliser inputs is expected to strengthen domestic production and reduce import dependence, contributing to agricultural self-reliance.

5. Services Sector

Rate reductions in hospitality and personal services are designed to improve consumer access while revitalising service-based industries. Hotel accommodation priced up to ₹7,500 per day has been reduced from 12 per cent to 5 per cent. Services such as gyms, salons, barbering, and yoga have similarly moved from 18 per cent to 5 per cent, supporting

wellness-oriented consumption and employment generation.

6. Toys, Textiles, Sports Goods, and Handicrafts

The correction of inverted duty structures in man-made fibres—through reduction of fibre from 18 per cent to 5 per cent and yarn from 12 per cent to 5 per cent—enhances competitiveness in textile manufacturing and exports. Handicraft idols, statues, paintings, sculptures, and wooden, metal, and textile toys have also been brought down to 5 per cent, providing income support to artisans, preserving cultural heritage, and strengthening rural livelihoods.

7. Education Inputs

Educational materials have been substantially relieved from taxation. Items such as exercise books, erasers, pencils, crayons, and sharpeners are now zero-rated, while geometry boxes, school cartons, and trays have been reduced from 12 per cent to 5 per cent. These measures directly lower the cost of learning and support household expenditure on education.

8. Medical and Healthcare Products

Significant reductions have been introduced to improve healthcare affordability and promote domestic manufacturing of medical supplies. Thirty-three life-saving drugs and diagnostic kits have been exempted from GST, while other medicines—including Ayurveda, Unani, and homoeopathy products—now attract a 5 per cent rate. Spectacles and corrective goggles have been reduced from 28 per cent to 5 per cent. Medical oxygen, thermometers, surgical instruments, and medical, dental, and veterinary devices have similarly been rationalised to 5 per cent.

9. Health and Life Insurance

GST exemptions on life and health insurance premiums—including individual policies, floater plans, and senior citizen coverage—are expected to expand financial protection and accelerate insurance penetration. This aligns with the broader objective of achieving universal insurance coverage by 2047.

IV. LIMITATIONS OF THE STUDY

While this study provides a sectoral overview of GST 2.0, it is subject to certain limitations. The analysis relies primarily on secondary data and policy

documentation, which restricts the ability to capture firm-level behavioural responses and real-time market adjustments. Additionally, the short post-implementation window limits the assessment of long-term outcomes such as sustained employment growth and productivity gains.

V. FUTURE RESEARCH DIRECTIONS

Future research may extend this work by incorporating primary surveys of MSMEs, consumers, and sectoral stakeholders to evaluate on-ground experiences with the revised GST framework. Longitudinal studies examining investment patterns, export performance, and formalisation trends would further enrich understanding of GST 2.0's macroeconomic impact. Comparative analyses with indirect tax reforms in other emerging economies could also provide valuable international perspectives on best practices in tax design and implementation.

VI. CONCLUSION

The introduction of a simplified GST framework combined with extensive rate rationalisation represents a significant inflection point in India's indirect tax evolution. The transition to a streamlined slab structure, together with targeted sectoral relief, underscores a strategic shift toward a development-oriented fiscal approach that prioritises household affordability, enterprise competitiveness, and administrative clarity. By reducing tax incidence on essential goods and services while strengthening compliance mechanisms, the 2025 reforms reposition GST as an instrument not only of revenue mobilisation but also of socio-economic advancement. Implemented from 22 September 2025, GST 2.0 reinforces India's commitment to constructing a transparent, equitable, and growth-supportive tax ecosystem. The evidence presented in this study suggests that the revised structure has the potential to lower production costs, stimulate consumption, and enhance the viability of micro, small, and medium enterprises, while simultaneously encouraging entrepreneurial participation and formalisation. More broadly, the reforms align indirect taxation with national objectives of inclusive development, employment generation, and sustainable economic progress.

In sum, GST 2.0 marks a transition from structural consolidation to outcome-driven policy design. Its success will ultimately depend on sustained stakeholder engagement, continuous system refinement, and effective implementation at the ground level. Nevertheless, the current reform trajectory offers a credible pathway toward improving both ease of living for citizens and ease of doing business for enterprises, positioning GST as a central pillar of India's long-term economic transformation.

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