



## TOWARDS A SIMPLIFIED TAX REGIME: AN ANALYTICAL STUDY OF GST 2.0

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“This reform was not intended to address the tariff-related challenges, but as a collateral or unintended consequence, it will help those impacted by tariffs in facing this challenge.”

**- Nirmala Sitharaman, Finance Minister of India**

### ABSTRACT

*The Goods and Services Tax (GST), introduced in 2017, marked one of India’s most significant fiscal reforms by consolidating multiple central and state levies into a unified indirect tax system. Over the past eight years, GST has evolved into the backbone of India’s tax framework, supported by digital integration, rate rationalisation, and expanded compliance mechanisms. Despite these advances, challenges such as multiple tax slabs, inverted duty structures, and procedural complexities continued to impede its full potential. In response, the GST Council in 2025 introduced “GST 2.0”<sup>1</sup>— the most comprehensive restructuring since its inception. Anchored in a simplified two-slab structure of 5% and 18%, with a higher rate for luxury and sin goods, GST 2.0 aims to reduce household and business tax burdens, promote consumption, and enhance ease of doing business. It provides targeted relief for essential goods, healthcare, agriculture, MSMEs, and labour-intensive industries, while introducing institutional reforms such as the Goods and Services Tax Appellate Tribunal (GSTAT) to streamline dispute resolution. However, issues including revenue shortfalls, classification disputes, and transitional compliance burdens present ongoing challenges. This analytical study explores the constitutional foundation, legal framework, key reforms, economic rationale, and emerging challenges of GST 2.0, arguing that its long-term success will depend on effective implementation, cooperative federalism, and robust administrative mechanisms. By aligning*

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<sup>1</sup> Press Information Bureau, ‘Eight Years of GST: Record Gross GST Collection in 2024–25’ (30 June 2025) <https://www.pib.gov.in> accessed 27 September 2025

*simplicity with equity and growth, GST 2.0 has the potential to redefine India's indirect tax regime into a more transparent, efficient, and sustainable system.*

**Keywords:** Next-Gen GST Reforms, GST Rate Rationalisation, Two-Slab GST Structure, Ease of Doing Business, Indirect Tax Reform.

## INTRODUCTION

The concept of the Goods and Services Tax (GST) in India was first recommended by the Kelkar Committee<sup>2</sup> in the early 2000s, but it took over a decade of policy discussions and legislative groundwork to bring it into reality. The turning point came with the passage of the 101<sup>st</sup> Constitutional Amendment Act, 2016, which inserted Articles 246A and 279A into the Constitution, empowering both the Union and States to levy GST and establishing the GST Council as the apex decision-making body (Article 279A, Constitution of India). GST was formally launched on 1 July 2017, replacing over a dozen central and state indirect taxes such as excise duty, service tax, and VAT with a unified, destination-based tax regime. Its introduction was hailed as one of India's most transformative economic reforms, aimed at simplifying compliance, eliminating the cascading effect of taxes, enhancing transparency, and promoting economic integration. Initially, GST adopted a multiple slab structure—0%, 5%, 12%, 18%, and 28%—along with cess on luxury and sin goods to account for the revenue needs of the states.

On 1 July 2025, GST will have completed eight years since its rollout, and its impact is evident. In 2024–25, gross GST collections reached a record ₹22.08 lakh crore, registering a year-on-year growth of 9.4%, reflecting greater formalisation of the economy and improved compliance (Ministry of Finance, 2025). A recent Deloitte report titled GST@8 described the past year as a “blockbuster” for GST, attributing the success to timely reforms, clear taxpayer guidance, and consistent upgrades to the GST portal (Deloitte, 2025). However, challenges such as multiple tax slabs, inverted duty structures, high compliance burdens, and classification disputes persisted. According to a report by the NITI Aayog (2020), while GST improved the formalisation of the economy, the multiple rate structure and procedural complexity continued to hamper its full potential. To address these, the GST Council in September 2025 approved GST 2.0, representing the largest restructuring since GST's launch. GST 2.0 introduces a

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<sup>2</sup> GST 2.0-Balancing Growth and Fiscal Prudence”, Drishti IAS <https://www.drishtiiias.com> accessed 22 September 2025

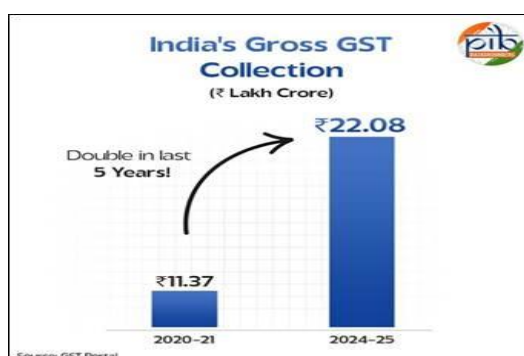
simplified two-slab tax structure, reduces rates on essential goods, and streamlines compliance through automation, aiming to lower the burden on households and small businesses while improving ease of doing business. This reform seeks to balance fiscal prudence with inclusive growth by rationalising rates, boosting domestic consumption, improving revenue predictability, and strengthening the tax base. While GST (2017) laid the foundation for a unified tax system, GST 2.0 is positioned as a “Bachat Utsav” — a festival of savings — aligning tax reform to make the system simpler, fairer, and more growth-oriented for India’s evolving economy<sup>3</sup> (The Hindu, 17 Sept 2025).

### GST PERFORMANCE AND GROWTH TRENDS

Since its introduction, GST has shown notable progress in both reach and revenue mobilisation, signalling growing efficiency and compliance. The taxpayer base has expanded significantly, rising from 66.5 lakh in 2017 to 1.51 crore by 2025.<sup>4</sup> This growth reflects greater formalisation of the economy and increased participation in the tax system.

GST collections have also witnessed remarkable growth. In the financial year 2024–25, gross GST collections reached a record ₹22.08 lakh crore — doubling in just four years and registering a compound annual growth rate (CAGR) of 18%. This consistent upward trend underscores the effectiveness of GST reforms and better compliance mechanisms.

The growth in collections also points to improved economic confidence. Average monthly GST collections have increased substantially, rising to ₹2.04 lakh crore in 2025 from ₹82,000 crore in 2017–18. This improvement reflects not only stronger compliance but also enhanced administrative efficiency and robust underlying economic activity.



<sup>3</sup> GST reforms updates: GST 2.0 will bring down grocery bills by 13%, ₹70,000 savings on small car purchases' <https://www.thehindu.com> accessed 27 September 2025

<sup>4</sup> Press Information Bureau, 'Eight Years of GST: Record Gross GST Collection in 2024–25' (30 June 2025) <https://www.pib.gov.in> accessed 27 September 2025

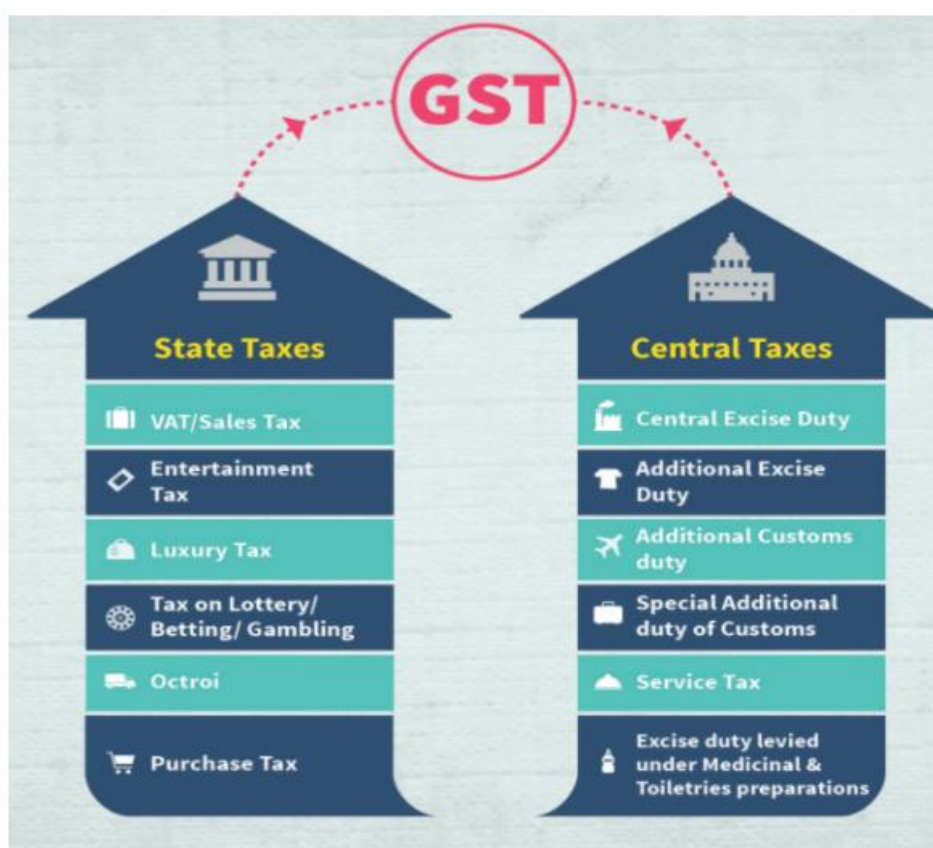
## CONSTITUTIONAL AMENDMENTS ENABLING GST

The foundation for GST was laid by the Constitution (One Hundred and First Amendment) Act, 2016,<sup>5</sup> which introduced several key provisions:

**Article 246A:** This article grants both Parliament and State legislatures the authority to legislate on GST. Parliament has exclusive power over inter-State trade or commerce, while States have the power to legislate on intra-State supplies.

**Article 269A:** This article empowers Parliament to levy and collect GST on inter-State supplies, while States are responsible for intra-State supplies.

**Article 279A:** This article provides for the establishment of the Goods and Services Tax Council, a constitutional body tasked with making recommendations on various aspects of GST, including the model GST laws and the principles of levy.



<sup>5</sup> The Constitution of India (India Code, 26 November 1949)

<https://www.indiacode.nic.in/handle/123456789/19632> accessed 27 September 2025

## LEGAL FRAMEWORK GOVERNING GST

The legal structure supporting GST comprises several key legislations-

**Central Goods and Services Tax Act, 2017 (CGST Act):**<sup>6</sup> This Act governs the levy and collection of GSTS by the Central Government on intra-State supplies.

**State Goods and Services Tax Act, 2017 (SGST Act):**<sup>7</sup> Each State has its own SGST Act, which governs the levy and collection of GSTS by the State Government on intra-State supplies.

**Integrated Goods and Services Tax Act, 2017 (IGST Act):**<sup>8</sup> This Act governs the levy and collection of GSTS on inter-State supplies and ensures the seamless flow of credit between States.

**Union Territory Goods and Services Tax Act, 2017 (UTGST Act):**<sup>9</sup> This Act applies to Union Territories without a legislature and governs the levy and collection of GSTS in those regions.

### THE GST COUNCIL: PILLAR OF GST 2.0

The Goods and Services Tax Council is a constitutional body established under Article 279A of the Constitution of India through the Constitution (One Hundred and First Amendment) Act, 2016. It plays a central role in shaping GST policy in India and stands as the cornerstone of cooperative federalism. By bringing together the Union and State governments, the Council ensures that decisions on GST are made jointly, maintaining uniformity and fairness.

Article 279A empowers the GST Council to recommend goods and services to be taxed, model GST laws, principles of levy, rates (including floor rates), special rates, and dispute resolution procedures between States and the Centre. The Council comprises the Union Finance Minister

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<sup>6</sup> Central Board of Indirect Taxes and Customs, The Central Goods and Services Tax Act, 2017 (India Code, 12 of 2017) <https://cbic-gst.gov.in/pdf/CGST-Act-Updated-01082021.pdf> accessed 27 September 2025

<sup>7</sup> The Goods and Services Tax (Compensation to States) Act, 2017 (India) <https://www.indiacode.nic.in/handle/123456789/2253> accessed 23 September 2025

<sup>8</sup> The Integrated Goods and Services Tax Act, 2017 (India) <https://www.indiacode.nic.in/handle/123456789/2251> accessed 23 September 2025

<sup>9</sup> The Union Territory Goods and Services Tax Act, 2017 (India) <https://www.indiacode.nic.in/handle/123456789/2252> accessed 23 September 2025

(Chairperson), the Union Minister of State for Finance, and the Finance Ministers of each State and Union Territory, making it a truly federal decision-making body.

The Council's key functions include recommending tax rates to ensure uniformity, deciding on exemptions for specific goods or services such as essential commodities and healthcare, determining the revenue-sharing formula between the Centre and States, resolving GST-related disputes, and suggesting amendments and reforms, including the GST 2.0 measures. Its recommendations are binding unless specifically rejected by Parliament or State Legislatures.

The GST Council operates on a principle of consensus. Voting weightage is distributed with the Union Government holding one-third and States collectively holding two-thirds. Decisions require a three-fourths majority, ensuring broad consensus. This decision-making process reflects the collaborative spirit of cooperative federalism. Since its inception, the Council has played a crucial role in shaping India's indirect tax landscape. It has rationalised GST rate slabs, introduced e-invoicing and automated compliance systems, addressed compensation to States, and designed key reforms under GST 2.0, including simplification of slabs and targeted exemptions.



However, the Council faces challenges such as political differences among States and between States and the Centre, disputes over revenue compensation, complexities in rate rationalisation,

and the need for greater transparency in decision-making.<sup>10</sup> Despite these challenges, the GST Council remains central to GST 2.0's success. By fostering cooperation and ensuring fair governance, it continues to be the backbone of India's indirect tax system. Council remains central to GST 2.0's success. By fostering cooperation and ensuring fair governance, it continues to be the backbone of India's indirect tax system.

### **KEY TAX REFORMS UNDER GST 2.0**

GST 2.0 introduces several major tax reforms aimed at simplifying the tax structure, easing compliance, reducing costs for consumers, and boosting economic activity.

One of the most significant changes is the introduction of a simplified GST structure. The earlier four-tier system of 5%, 12%, 18%, and 28% has been replaced with a streamlined two-slab system — a 5% merit rate for essential items and an 18% standard rate for other goods and services. Additionally, a 40% demerit rate<sup>11</sup> has been introduced for luxury and sin goods, including items such as tobacco products and pan masala.

A major focus of GST 2.0 is providing relief on essential goods and services. Life and health insurance policies for individuals are now fully exempt from GST. Certain everyday items, including Ultra-High Temperature (UHT) milk, paneer, and traditional Indian breads, have been placed in the nil GST category, making them more affordable.

For consumer goods, GST rates have been significantly reduced. Items such as small cars, televisions, air conditioners, cement, and auto components have seen a drop from 28% to 18%. Renewable energy products now attract a lower rate of 5% instead of 12%, aiming to encourage manufacturing and adoption of green energy solutions.<sup>12</sup> These changes are expected to strengthen domestic demand and boost economic activity.

In the medical and healthcare sector, GST reductions have been substantial. Thirty-three essential lifesaving drugs now enjoy a nil GST rate, and three critical drugs used for treating

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<sup>10</sup> Press Information Bureau, 'Eight Years of GST: Record Gross GST Collection in 2024–25' (30 June 2025) <https://www.pib.gov.in> accessed 24 September 2025

<sup>11</sup> Recommendations of the 56th Meeting of the GST Council held at New Delhi, today (Press Information Bureau) <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=2163555> accessed 24 September 2025

<sup>12</sup> GST 2.0: The deals that can save you thousands and lakhs of money' The Economic Times <https://m.economictimes.com> accessed 24 September 2025

cancer and rare diseases have had GST reduced from 5% to nil, improving affordability and access to crucial medicines.

GST 2.0 also extends support to the agriculture and rural sectors. Machinery such as tractors, harvesters, and composters now attracts a reduced GST rate of 5% instead of 12%. Fertiliser inputs, including sulphuric acid, nitric acid, and ammonia, now have a GST rate of 5% instead of 18%. Labour-intensive products such as handicrafts, marble items, and leather goods have also had their GST lowered from 12% to 5%, promoting rural employment and exports. To further enhance trade and ease of doing business,<sup>13</sup> GST 2.0 introduces procedural reforms. The Goods and Services Tax Appellate Tribunal (GSTAT) is set to become operational by December 2025, providing a dedicated platform for resolving GST disputes. Improvements in refund procedures and registration processes are designed to reduce litigation, speed up dispute resolution, and offer greater predictability to businesses, particularly Micro, Small, and Medium Enterprises (MSMEs).

These reforms under GST 2.0 together aim to make taxation more equitable, improve compliance efficiency, support essential sectors, and foster sustainable economic growth.

### **ECONOMIC AND POLICY DRIVERS OF GST 2.0**

The recent GST reforms in India have been designed with multiple economic and social objectives, aiming to make the tax system simpler, more efficient, and more equitable.

A primary aim of these reforms is to bring down the prices of goods and services. Reduced GST rates help lower costs for consumers, increase household disposable income, and encourage higher consumption. This effect is particularly significant for essential and labour-intensive sectors, which can benefit both demand and employment generation. Over time, these changes are expected to strengthen domestic demand, promote the formalisation of the economy, and contribute to fiscal stability.

The reforms also seek to bolster Micro, Small, and Medium Enterprises (MSMEs) by reducing input costs on critical items such as cement, auto components, and handicrafts. Lower taxes on

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<sup>13</sup> As GST 2.0 kicks in, what changes for consumers and industry?' The Indian Express <https://indianexpress.com> accessed 24 September 2025

these inputs improve the competitiveness of MSMEs, encourage entrepreneurship, and support job creation in the economy.

Another important objective is to simplify compliance. The adoption of a two-rate GST structure reduces classification disputes, speeds up decision-making, and lowers the compliance burden for businesses. Experience from earlier reforms suggests that such simplification, along with rate reductions, can lead to higher voluntary compliance and increased GST revenues in the medium term. By simplifying rates, the reforms aim to expand the tax base. Clearer and fewer rate categories encourage businesses to comply voluntarily, reducing tax evasion and potentially broadening government revenues over time.

The reforms also support manufacturing and exports. By addressing inverted duty structures, they encourage greater domestic value addition, improve competitiveness for Indian goods in global markets, and strengthen the objectives of the “**Made in India**”<sup>14</sup> initiative.

Social objectives are equally important in these reforms. Exemptions on life and health insurance, as well as on certain essential medicines, enhance household financial security and improve access to healthcare, addressing important equity concerns.

Finally, GST 2.0 promotes both consumption and production efficiency by removing cascading taxes and rationalising rates. This leads to more efficient resource allocation across industries, reduces distortions in the economy, and fosters balanced growth.

In essence, the rationale behind GST 2.0 lies in creating a tax system that is not only simpler and fairer but also growth-oriented, equitable, and conducive to long-term economic stability.

## **CHALLENGES EMERGING FROM GST REFORMS**

While GST 2.0 aims to simplify taxation and boost economic activity, its implementation has brought forth a number of challenges that impact both governments and businesses.

One of the foremost issues is the fiscal revenue shortfall. The rate reductions and expanded exemptions are estimated to cause an annual revenue loss of around ₹48,000 crore. This shortfall places considerable strain on both the central and state budgets, potentially forcing governments to cut spending or increase borrowing. Lower-than-expected GDP growth and a

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<sup>14</sup> GST 2.0-Balancing Growth and Fiscal Prudence”, Drishti IAS <https://www.drishtias.com> accessed 25 September 2025

contraction in direct tax collections exacerbate the situation, with states heavily reliant on GST transfers facing the risk of reducing expenditure on welfare and infrastructure, which could slow overall growth.

Another significant concern is related to the Input Tax Credit (ITC) and cascading tax effects. Many exemptions and zero-rated supplies restrict the flow of ITC, resulting in hidden taxes on inputs. This weakens one of GST's fundamental objectives — the seamless flow of credit — and increases production costs. For example, industries producing exempt goods face higher effective tax burdens, which may be passed on to consumers, contributing to inflationary pressures.

Rate structure and classification ambiguities also remain problematic. Although GST 2.0 has reduced the number of slabs, disputes continue over the correct classification of goods and services. The introduction of a special 40% slab for luxury and sin goods adds complexity in certain categories. Frequent changes in rates and classifications create uncertainty for businesses, affecting pricing, investment decisions, and compliance planning.

On the compliance front, despite the simplification of slabs, businesses still face transitional burdens. Adjustments to pricing structures, billing systems, and ERP software are required, and small businesses and MSMEs may lack the capacity to adapt quickly. This increases compliance costs and can lead to delays. While the GST Network (GSTN) leverages technology, including AI and data analytics, to improve compliance and reduce evasion, frequent rule changes continue to pose challenges for taxpayers.<sup>15</sup>

Finally, enforcement and dispute resolution delays hinder the smooth functioning of GST. The Goods and Services Tax Appellate Tribunal (GSTAT), intended to expedite dispute resolution, remains non-operational or delayed in many states. For example, appellate benches are yet to function in over 45 locations, leading to a backlog of cases in High Courts. This prolongs litigation, increases uncertainty for businesses, and undermines taxpayer confidence. Administrative inefficiencies further delay dispute resolution, making timely compliance and enforcement a continuing challenge.

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<sup>15</sup> 'Goods and Services Tax (India)' Wikipedia [https://en.wikipedia.org/wiki/Goods\\_and\\_Services\\_Tax\\_\(India\)](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India)) accessed 25 September 2025

## MEASURES TO STRENGTHEN GST 2.0

To ensure the success of GST 2.0 and address emerging challenges, a range of measures can be adopted to improve administration, compliance, and economic impact.

One priority is to strengthen GST administration by enhancing the capabilities of the GST Network (GSTN). Leveraging artificial intelligence and data analytics can improve monitoring, detect tax evasion more effectively, and make compliance easier for taxpayers.<sup>16</sup> Clear and consistent guidelines for the classification of goods and services should be issued to minimise disputes and litigation.

The Goods and Services Tax Appellate Tribunal (GSTAT) should be fully operational in all states without delay. A functioning GSTAT will ensure faster dispute resolution, reduce case backlogs, and boost taxpayer confidence in the system.

Support for MSMEs is vital for the success of GST 2.0. Simplified compliance procedures, capacity-building initiatives, and technological support can help small businesses adapt to the new tax slabs and reduce compliance costs. Encouraging formalisation of businesses through simplified rates and easier compliance will broaden the tax base, reduce reliance on the informal sector, and increase long-term revenue.

To ensure sustainability, GST reforms must align with broader economic goals, supporting investment-driven growth, employment generation, and efficient resource allocation. Regular monitoring of the fiscal impact of reforms is necessary, with targeted measures such as liquidity support or fiscal adjustments to offset revenue losses without affecting essential social and infrastructure spending.

A periodic review of tax slabs and exemptions will help maintain revenue sufficiency while promoting growth and consumption. Maintaining a seamless Input Tax Credit (ITC) mechanism is equally important. Real-time invoice matching, clear eligibility rules, and transparent cross-utilisation processes across states and sectors can reduce fraud, improve liquidity for businesses, and strengthen compliance. A robust ITC system will also encourage formalisation.

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<sup>16</sup> Festive seasons align with the rollout of GST 2.0. Citizens to get more money in hand' ThePrint <https://theprint.in/opinion/forthwrite/gst-2-0-nirmala-sitharaman-festive-season/2748454/> accessed 26 September 2025

Finally, awareness and training play a key role in strengthening GST 2.0. Taxpayer education campaigns should be conducted to inform businesses and consumers about the changes in rates and compliance requirements. Expanding the use of digital invoicing, e-way bills, and automated systems will further reduce administrative burdens and enhance the efficiency of the GST system.

These measures, collectively, can make GST 2.0 more transparent, efficient, and growth-oriented while safeguarding revenue and promoting equitable economic development.

## **CONCLUSION**

The rollout of GST in July 2017 marked a historic milestone in India's fiscal landscape, laying the foundation for a unified and transparent indirect tax system. Over the past eight years, GST has evolved significantly, addressing compliance challenges, expanding the taxpayer base, and strengthening revenue mobilisation. GST 2.0 represents the most comprehensive reform since its inception, introducing a simplified two-slab rate structure, rationalising tax rates, and providing targeted relief to households, farmers, MSMEs, and labour-intensive sectors. These reforms not only aim to reduce the tax burden but also enhance ease of doing business, improve compliance efficiency, and support inclusive economic growth.

While GST 2.0 brings substantial benefits, its success will depend on effective implementation, robust administration, and continued cooperation between the Centre and the States. Addressing challenges such as revenue shortfalls, classification disputes, and compliance burdens will be critical to ensuring the long-term sustainability of the system. By balancing fiscal discipline with equitable growth, GST 2.0 has the potential to transform India's indirect tax regime into a simpler, fairer, and more growth-oriented framework — reinforcing GST's role as a cornerstone of India's economic future.