



GST 2.0: Decoding the Prime Minister's Roadmap

AUGUST 25, 2025

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Introduction

ON 15th August 2025, as the nation marked its 79th Independence Day, the Red Fort was not only a stage for celebration but also a platform for signalling the future of India's tax landscape. In his address to the nation, Hon'ble Prime Minister placed the Goods and Services Tax ("GST") at the centre of India's next phase of economic transformation. Far from being just another fiscal announcement, the Hon'ble Prime Minister's call for **next-generation GST reforms** marked a decisive moment-one that seeks to reshape the tax system into a simpler, more transparent, and more citizen-centric framework.

By outlining reforms built on three foundational pillars- **structural corrections, rate rationalisation, and ease of living** -the speech signalled the advent of a potential "GST 2.0," a framework capable of consolidating India's growth story and advancing the vision of Atmanirbhar Bharat .These proposed reforms, if implemented effectively in true letter and spirit, could transform GST into a simpler, more transparent, and more citizen-centric tax regime.

A) Pillars of the Reform

Structural Reforms

1. **Inverted Duty Structure** - The first pillar of reform seeks to address the persistent problem of the inverted duty structure, which has long constrained domestic value addition. An inverted duty structure arises when the GST rate on inputs is higher than that on outputs, leading to the accumulation of unutilised input tax credit (ITC). Refunds are generally restricted to input goods and exclude input services and capital goods; in some cases, such as edible oils and garments, refunds are blocked altogether. This anomaly has created significant working capital constraints in sectors such as textiles, edible oils, footwear, and fertilisers, where inputs-including raw materials, packaging, oilseeds, and chemicals-are taxed at varying rates of 5%, 12%, 18%, or even 28%, while final products are taxed at only 5–12%. The mismatch results in persistent ITC accumulation, eroding liquidity and undermining sectoral competitiveness.

2. **Resolving Classification Issues** - Another recurring challenge under indirect tax regime is the proliferation of **classification disputes**, often arising from ambiguities in distinguishing between goods and services or between multiple tax slabs covering the same goods. These disputes not only create compliance uncertainty but also contribute significantly to litigation. The government's proposal to streamline classification aims to reduce such disputes, promote greater equity and consistency across sectors, and simplify compliance processes.

3. **Stability and Predictability** - A third objective is to provide long-term clarity on tax rates and policy direction, thereby instilling industry confidence and facilitating better business planning. Stability in the GST framework would reduce the risk of frequent policy changes, enabling businesses to take investment and pricing decisions with greater certainty.

Recognising these structural distortions, the government has proposed corrective measures such as aligning input and output tax rates, merging slabs, and expanding the scope of refund eligibility. If effectively implemented, such reforms would ease cash flows, reduce refund-related disputes, and enhance overall business efficiency. In the long run, these corrections could strengthen liquidity, improve competitiveness, and remove systemic inefficiencies across industries.

2. Rate Rationalisation

The second pillar, **rate rationalisation**, is designed to make GST more citizen-centric by simplifying the rate structure and reducing the tax burden on essential and aspirational goods. The government has proposed moving towards two principal slabs -a merit rate for essentials and a standard rate for most other items-while retaining special rates only for a limited set of goods. Such simplification would not only ease compliance but also enhance transparency in taxation.

A key element of this reform is the withdrawal of the compensation cess, which provides the fiscal space necessary for sustainable rate restructuring. At present, GST operates through four main slabs (5%, 12%, 18%, and 28%), often criticised for creating complexity and disputes. The proposed rationalisation would consolidate these into two slabs-5% for essential and mass-consumption goods, and 18% for most other items-thereby reducing classification disputes and administrative challenges.

The impact of this change is direct and significant. For instance, goods currently taxed at 12%, such as fruit juices, ghee, processed foods, umbrellas, mobile phones, and toys, is likely to be shifted to the 5% slab, resulting in immediate price reductions. Similarly, higher-end consumer durables, including air-conditioners, large-screen televisions, refrigerators, non-SUV cars, two wheelers and other premium items, are likely to be moved from the 28% bracket to 18%, improving affordability.

Beyond lowering prices, these adjustments are expected to stimulate demand and boost consumption, creating multiplier effects across several sectors of the economy. By simplifying the structure and reducing costs for consumers, rate rationalisation could enhance economic efficiency and foster a more predictable, growth-oriented tax regime.

3. Ease of Living

The third and final pillar of the proposed reforms is ease of living, which seeks to make GST compliance and registration more seamless through technology-driven and time-bound processes. The focus is on reducing manual intervention, automating work flows, and simplifying compliance for businesses-particularly MSMEs, start-ups and exporters, who often face disproportionate compliance costs.

Key proposals include:

- **Seamless digital registration**, eliminating the delays and challenges associated with physical verification;
- **Pre-filled GST returns**, likely to be auto-populated from GSTR-1 data, which would minimise errors, reduce mismatches, and lower the scope for disputes; and
- **Faster, automated refunds**, designed to ease working capital pressures and enhance liquidity, especially for exporters and sectors impacted by inverted duty structures.

These measures collectively aim to modernise GST administration by shifting towards automation and reducing taxpayer-department interaction. By lowering transaction costs, ensuring quicker compliance, and saving valuable business time, the reforms are expected to enhance the ease of doing business under GST and build confidence in India's indirect tax system.

B) Analysis

The GST reforms announced by the Hon'ble Prime Minister reflect the government's commitment to fostering inclusive growth through a more efficient and equitable tax system. The proposed measures directly address structural anomalies such as the inverted duty structure, which has disproportionately

burdened sectors like textiles, edible oils, and food condiments. By aligning input and output tax rates and likely expansion of refunds, these reforms seek to ease working capital pressures and improve liquidity for domestic industries.

The proposed rate rationalisation framework envisions two primary slabs-5% for essentials and 18% for most other goods-with a special higher rate of 40% reserved for luxury and sin items. This restructuring would simplify the existing four-slab system, reduce compliance complexity, and create a more citizen-centric tax design. Shifting most goods from 12% to the 5% slab, and re-assigning items from the 28% to the 18% slab, is expected to lower consumer costs while supporting consumption-driven growth. Moreover, the withdrawal of the compensation cess provides the Union government with fiscal space to pursue rationalisation with greater sustainability.

The ease of living initiatives, focused on digital registration, pre-filled returns, and automated refunds represent a forward-looking approach to compliance and processes. By reducing manual intervention and lowering transaction costs, these reforms would particularly benefit MSMEs, startups, and exporters, who stand to gain through time and resource savings.

Collectively, these measures signal the emergence of a **second-generation GST framework** -one that integrates structural corrections with simplification and digitisation. If implemented effectively and in a spirit of cooperative federalism, the reforms could consolidate GST's role as a cornerstone of India's economic architecture and position it as a key enabler of the Atmanirbhar Bharat vision.

C) Conclusion

The proposed GST reforms seek to strike a balance between simplicity and stability , marking a significant step towards a more efficient and inclusive tax regime. Their success, however, will depend on careful implementation and the ability to balance competing fiscal and political interests. While digitisation promises efficiency gains through automation and reduced human interface, the challenge of ensuring inclusivity for smaller taxpayers and bridging the digital divide remains critical for widespread adoption.

Nevertheless, government's reform initiative demonstrates a clear effort to strengthen India's indirect tax framework by correcting structural anomalies, stabilising tax rates, simplifying compliance, and reducing the burden on the common taxpayer. With effective consensus-building among the States and timely execution, these reforms have the potential to transform GST into a truly people-centric regime-one that provides immediate relief to consumers and businesses while enhancing the overall ease of doing business in India.

Looking ahead, India's transition towards a **GST 2.0** framework could also serve as a model for other developing economies, many of which grapple with fragmented tax structures, compliance burdens, and limited fiscal space. By combining structural correction, simplification, and technology-driven compliance, India's GST reform agenda has the potential to influence broader conversations on tax modernisation across emerging markets, positioning the Indian experience as a reference point for future global tax reforms.

[The views expressed are strictly personal.]

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