Daily Editorial Analysis 17 September 2025

September 17, 2025 • vajiramandravi.com

GST 2.0 — Short-Term Pain, Possible Long-Term Gain

Context

- The **Goods and Services Tax (GST),** introduced with the objective of creating a destination-based tax system, sought to improve efficiency by ensuring that the incidence of taxation fell on final consumers while input taxes were rebated.
- Despite its transformative intent**, the GST system initially suffered from multiple rates**, inverted duty structures, and high compliance costs.
- **The new rate structure, effective from September 22, 2025, represents a significant overhaul, with implications** for consumption, production, government revenue, and macroeconomic stability.

Evolution of the New GST Structure and Its Revenue Implications

- **Evolution of the New GST Structure**
  - The 2025 reform **eliminated the 12% and 28% slabs**, consolidating most goods and services under 0%, 5%, and 18%, while introducing **a 40% demerit rate** for luxury and sin goods.
  - Special **concessional rates below 5% were retained** for certain essential commodities.
  - These changes **particularly benefit employment-intensive sectors** such as textiles, automobiles, consumer electronics, healthcare, and food products.
  - **On the production side**, agriculture-related industries, fertilisers, machinery, and renewable energy, **stand to gain from lower input costs.**
  - Out of 546 goods subjected to revision, **80% experienced rate reductions, reflecting a pro-consumer and pro-growth stance.**
  - However, **the economic consequences extend beyond lower prices** and higher demand; they also challenge fiscal stability.
- **Revenue Implications**
  - **GST revenue (R) is determined as the product of the tax rate (r) and the tax base (E),** which itself depends on pre-tax prices and quantities consumed.
  - **Rate reductions lower post-tax prices**, encouraging higher demand, but the increase in quantity demanded is not proportionate to the fall in tax rates. As a result, overall revenue tends to decline.

    - Calibrations suggest that across realistic demand elasticities, **revenues will fall.** For zero-rated goods, revenues vanish altogether.
    - Even **for goods shifted to the 40% bracket, the apparent increase largely reflects the integration of the compensation cess**, rather than a genuine hike.
    - Estimates of revenue loss vary, with the Ministry of Finance projecting ₹48,000 crore annually, while other assessments suggest higher figures.

Shortcomings of of GST Reform

- **Income and Consumption Effects**
    - A key implication of the reform is the **redistribution of benefits to consumers.**
    - Lower GST translates into higher disposable incomes, especially for those consuming necessities in the 5% bracket.
    - **Since demand elasticity for such goods is low**, households may divert additional income toward higher-rated categories (18% and 40%), such as comforts and luxuries.
    - **Over time, this could augment revenues**, but in the short run, the government faces a pronounced revenue shortfall.
- **Efficiency and Cascading Effects**
    - While GST was designed to eliminate cascading, **the revised structure does not fully achieve this aim.**
    - Exempt goods, **by disallowing input tax credits (ITC),** embed input taxes into final prices.
    - **Even in the 5% category, inputs taxed at 18% create administrative bottlenecks** in claiming ITC.
    - **Such inefficiencies undermine the reform's ability** to fully rationalise resource allocation and improve competitiveness.

Macroeconomic and Fiscal Challenges

- The reforms also intersect with India's broader fiscal position.
- Nominal GDP growth in the first quarter of 2025-26 stood at 8.8%, below the budgeted 10.1%. With inflation subdued, achieving revenue targets becomes harder.
- **Direct taxes contracted by 4.3% in the early months of the year**, contrasting sharply with robust growth in the previous period.
- The **Union Budget had already anticipated a revenue forgone figure of ₹1 lakh crore**, largely due to personal income tax reforms.
- **Additional GST revenue losses** could push gross tax receipts **significantly below projections.**
- While higher Reserve Bank of India dividends may provide partial relief, **the government faces the difficult choice between curbing expenditure and widening the fiscal deficit.**
- States, too, will encounter similar dilemmas, with potential recourse to borrowing or expenditure cuts, both of which could stifle growth.

- **Monetary interventions**, through repo rate cuts or liquidity injections, **risk fuelling inflation and forcing monetisation of deficits, a path fraught with limitations.**

Growth Prospects and Structural Limits

- Although tax rate reductions may temporarily stimulate demand, **this strategy cannot sustainably drive long-term growth.**
- **India's potential growth rate ultimately depends on investment and savings**, alongside the efficiency of capital use (incremental capital-output ratio).
- Thus, **while GST reforms may provide short-term relief to consumers** and production sectors, **enduring growth requires structural improvements in investment capacity and productivity**.

Conclusion

- The 2025 GST reforms **represent a bold attempt to simplify the tax structure** and stimulate economic activity.
- They promise lower prices, higher disposable incomes, and sectoral gains, particularly in employment-intensive industries, **however, the fiscal cost is substantial,** with immediate revenue shortfalls threatening both central and state budgets.
- Moreover, **unresolved inefficiencies such as cascading and ITC bottlenecks continue to limit the system's effectiveness.**
- Ultimately, **GST reforms can complement but not substitute for broader strategies centred on savings,** investments, and productivity growth.

GST 2.0 — Short-Term Pain, Possible Long-Term Gain FAQs

Q1. What was the main objective of introducing GST in India?
Ans. The main objective of introducing GST was to create a destination-based tax system that reduced cascading, ensured taxes fell on final consumers, and promoted efficiency in consumption and production.

Q2. Which sectors are expected to benefit most from the 2025 GST reforms?
Ans. Employment-intensive sectors such as textiles, automobiles, consumer electronics, healthcare, and food products are expected to benefit most.

Q3. Why are GST revenues expected to decline after the rate reductions?
Ans. GST revenues are expected to decline because the fall in tax rates reduces post-tax prices, but the resulting increase in demand is not large enough to compensate for the revenue loss.

Q4. How might lower GST rates affect consumers' disposable incomes?
Ans. Lower GST rates increase consumers' disposable incomes, allowing them to spend more, especially on higher-taxed goods such as comforts and luxuries.

Q5. What long-term factor is more important for India's growth than tax rate reductions?
Ans. In the long term, India's growth depends more on investment and savings rates, along with the efficient use of

capital, than on tax rate reductions.

Source: The Hindu

'Judicial Experimentalism' Versus the Right to Justice

Context:

- In July 2025, in ***Shivangi Bansal vs Sahib Bansal***, the Supreme Court upheld Allahabad High Court's 2022 guidelines in ***Mukesh Bansal vs State of U.P.*** to curb misuse of Section 498A IPC (now Section 85 of the Bharatiya Nyaya Sanhita).
- The guidelines mandate a two-month 'cooling period' after an FIR or complaint, during which cases are referred to a Family Welfare Committee.
- However, critics argue this delays victims' access to justice and undermines the autonomy of criminal justice agencies.
- This article highlights the Supreme Court's 2025 ruling in *Shivangi Bansal vs Sahib Bansal*, its endorsement of a 'cooling period' for Section 498A cases, the statutory and judicial safeguards already in place, and why critics argue the ruling undermines victims' timely access to justice.

The Basis of Safeguards under Section 498A

- Section **498A was enacted to punish cruelty against women in matrimonial settings**, but courts have noted its misuse through frivolous FIRs and indiscriminate arrests.
- To address this, safeguards were introduced. In *Lalita Kumari*, the Supreme Court placed matrimonial disputes under 'preliminary inquiry' before FIR registration, a principle later reinforced in recent criminal law reforms.
- Further, to curb arbitrary arrests, two measures were established:
  - the 2008 CrPC amendment, which mandated the 'principle of necessity' in arrests; and
    - The **principle of necessity** in arrests dictates that an arrest should only be made when it is absolutely necessary to do so.
  - the Supreme Court's ruling in *Arnesh Kumar* (2014), which required police to follow a checklist and issue a 'notice for appearance' instead of immediate arrests.
- Later, in *Satender Kumar Antil* (2022), the Court directed that arrests made in violation of these safeguards must lead to bail.
- Together, these measures aim to balance protection for women with safeguards against misuse.

Section 498A as an 'Arrest Offence'

- The NCRB report *Crimes in India* shows Section **498A was among the top five "highest arrest" offences until 2016, later moving to the top 10**.
- While cases rose from 1,13,403 in 2015 to 1,40,019 in 2022, arrests declined from 1,87,067 to 1,45,095.
- This reflected the effect of statutory and judicial safeguards, which balanced protecting the accused's liberty without undermining victims' access to justice.

Concerns Over the ‘Cooling Period’

- The recent **introduction of a two-month “cooling period**” with referral to a Family Welfare Committee (FWC) may appear ambitious but lacks statutory authority and jurisdictional clarity.
- It delays action even after FIRs are filed, worsening the victim’s plight and undermining prompt justice.
- This approach mirrors the Supreme Court’s *Rajesh Sharma* (2017) ruling, which mandated FWCs and delayed proceedings for a month.
- These directions were criticised as regressive and beyond judicial competence, leading to their reversal in *Social Action Forum for Manav Adhikar* (2018).
- That three-judge Bench restored victims’ immediate access to justice and reaffirmed the role of criminal justice agencies in handling matrimonial cruelty cases.

Need to Revisit the Ruling

- The Supreme Court must reconsider its ruling, as concerns over misuse of Section 498A and police excesses have already been addressed through statutory amendments and judicial safeguards.
- Forwarding complaints to Family Welfare Committees goes beyond legislative intent, undermines the autonomy of criminal justice agencies, and most importantly, delays and weakens the victim’s access to timely justice.

‘Judicial Experimentalism’ Versus the Right to Justice FAQs

Q1. What was the Supreme Court’s ruling in Shivangi Bansal vs Sahib Bansal (2025)?

Ans. The Court upheld Allahabad High Court’s guidelines mandating a two-month “cooling period” in Section 498A cases, with referral to a Family Welfare Committee.

Q2. Why was Section 498A enacted originally?

Ans. Section 498A was introduced to punish cruelty against women in marriages, but its misuse through false FIRs and indiscriminate arrests prompted judicial and statutory safeguards.

Q3. What safeguards were introduced against misuse of Section 498A?

Ans. Key safeguards include preliminary inquiry before FIR registration (Lalita Kumari), the 2008 CrPC amendment requiring necessity in arrests, and Arnesh Kumar (2014) guidelines.

Q4. How did arrests under Section 498A change between 2015 and 2022?

Ans. While cases increased from 1,13,403 to 1,40,019, arrests fell from 1,87,067 to 1,45,095, reflecting the impact of judicial and statutory safeguards.

Q5. Why do critics oppose the ‘cooling period’?

Ans. Critics argue it lacks statutory authority, delays justice, mirrors the regressive Rajesh Sharma ruling of 2017, and undermines victims’ right to immediate remedies.

Source: TH