GST 2.0 – Rate Rationalisation and Structural Reforms

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GST 2.0 Latest News

- The **Goods and Services Tax (GST)**, India's landmark **indirect tax reform** launched in July 2017, has **undergone multiple tweaks**.
- The latest round of reforms, effective September 22, 2025, termed "**GST Bachat Utsav**" by the Prime Minister of India, aims at **simplifying the rate structure.**
- This will resolve classification disputes, correct inverted duty structures, and boost household consumption.

Key Features of GST 2.0

- **Rate rationalisation:**
    - Transition from a 4-slab system (5%, 12%, 18%, 28%) to a 2-slab system –
        - **Merit rate:** 5% (516 items, mostly food items, agricultural machinery, medical devices).
        - **Standard rate:** 18% (640 items, industrial goods, small cars, bikes).
- **Special slabs:**
    - 0.25% for rough diamonds, semi-precious stones.

    - 1.5% for cut and polished diamonds.
    - 3% for precious metals like gold, silver, pearls.
    - 40% for sin/de-merit goods like pan masala, tobacco, aerated beverages, yachts, luxury cars.
    - **12% slab abolished**, except for bricks (retained under special composition scheme).
- **Services covered:** Exemptions and cuts –
    - **Life and health insurance** – exempted from GST (earlier 18%).
    - **Hotels** with per day tariff rate of below or equal to Rs 7,500 have seen a cut in GST rate to 5% without ITC (input tax credit) from 12% with ITC earlier.
    - **Salons, spas, wellness services** – reduced from 18% to 5%.
- **Passing benefits to consumers:**
    - The Finance Ministry has asked its officers in the field to **compile monthly data reports** on price change of commodities pre and post-GST rate rationalisation.
    - These reports will be compiled by the Ministry **for the next six months** in a bid to ensure that **the benefits get passed on to the consumers**.

Economic Rationale of GST 2.0

- **Boost to household consumption:**
    - Lower GST rates are expected to **increase disposable income, spur demand, and incentivise investments.**
    - The government aims to offset revenue loss from cuts on over 375 items through higher consumption.
- **Correcting Inverted Duty Structure (IDS):**
    - IDS occurs when the **input tax rate** (on raw materials or services) is **higher than the output tax rate** (on the finished product), leading to capital blockage.
    - **Example**: If textile fabric attracts a 12% GST (input tax), but the finished garments attract only an 5% GST (output tax), this creates an IDS.
    - Relief provided by **aligning** many inputs and outputs into the same slab.

Implementation and Compliance Reforms

- **Simplified registration** – more technology-driven and time-bound.
- **Pre-filled returns** to minimise manual errors and mismatches.
- **Automated refund process** for exporters and IDS cases.
- **Amendment to CGST Act 2017 (Section 54(6))**: This will provide for 90% provisional refund for IDS cases, similar to zero-rated supplies.

Challenges

- **Revenue concerns:** For Centre and States despite expected consumption boost.
- **IDS issues**: Persist in bicycles, tractors, fertilisers, textiles, corrugated boxes, etc.
- **Enforcement gap**: No legal provision to prevent profiteering, reliance on monitoring only.

Way Forward

- Address residual IDS issues and ensure benefit transfer to consumers through stricter anti-profiteering mechanisms.
- **Strengthen state finances** via improved compliance and digital monitoring.
- **Periodic slab reviews** to maintain balance between revenue neutrality and ease of business.
- **Enhance trust-based compliance** by sustaining tech-enabled registration, return filing, and refunds.

Conclusion

- **GST 2.0 marks a major restructuring** of India's indirect tax regime, focusing on simplification, boosting consumption, and improving compliance.
- While it promises relief to households and businesses, addressing challenges will **determine the long-term success of these reforms**.

Source: **IE**
