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GST Reforms 2025 in India: A Constructive Analysis of India's Transition to GST 2.0

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Abstract

The Goods and Services Tax (GST) reforms of 2025 represent the most significant restructuring of India's indirect tax system since its inception in 2017. These reforms aim to create a unified national market by merging multiple central and state taxes. Although the initial GST framework had a transformative impact, it also encountered several challenges, including a complex multi-rate structure, compliance burdens, technological glitches, and classification disputes. In response to these issues, the Government of India has initiated a series of reforms, leading to the transition to GST 2.0 in 2025. This new version emphasizes simplification, transparency, and efficiency. This study examines the evolution and recent reforms of India's GST system, focusing on key changes such as rate rationalization, a reduction in tax slabs, improved input tax credit mechanisms, and the integration of advanced digital technologies for compliance and monitoring. These reforms aim to enhance the ease of doing business, reduce tax evasion, and improve revenue collection while ensuring a consumer-friendly tax regime. The study evaluates the impact of the GST reforms on various stakeholders, including consumers, businesses, and Micro, Small, and Medium Enterprises. The findings indicate that the GST reforms have contributed to greater tax compliance, increased formalization of the economy, and improved efficiency in supply chains. Moreover, the rationalization of tax rates has helped reduce the overall tax burden on essential goods and services. However, challenges such as the digital divide, adaptation issues among small traders, and concerns about revenue stability still persist. This research seeks to understand the changes in GST rates and slabs in the GST reforms 2.0, sector-wise changes in GST reforms 2.0, rationalization of GST for everyday food items, and changes in GST related to education in India.

Keywords: GST Reforms, GST 2.0, Indirect tax and India

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Introduction

The Goods and Services Tax has been one of the most significant indirect tax reforms in India's fiscal history since its introduction in 2017. It replaced a complex system of multiple indirect taxes such as excise duty, value-added tax, service tax and others with a unified tax structure, thereby creating a single national market. Over the years, GST has undergone several modifications to address implementation challenges, improve compliance and enhance revenue efficiency. The GST Reforms 2025, commonly referred to as GST 2.0, mark a new phase in India's tax reform journey, aiming to simplify the tax system and promote economic growth.The GST Reforms 2025 were introduced following the 56th GST Council meeting held in September 2025. These reforms represent a structural transformation of the existing GST framework, focusing on simplification, rationalization of tax rates and improved ease of doing business. The new system came into effect on 22 September 2025 and is considered a next-generation reform that builds upon the experiences and lessons learned since the original GST rollout. Our Prime Minister Narendra Modi formally announced GST reforms on Independence Day 2025, characterizing them as embodying five transformative principles or Panch Ratna for the Indian economy: i) tax simplification, ii) improved quality of life, iii) consumption and growth stimulation, iv) enhanced ease of doing business and v) strengthened cooperative federalism.

The GST Reforms 2025 is to reduce the tax burden on essential goods and services, thereby benefiting consumers. Many items previously taxed at higher rates have been shifted to lower tax brackets, making them more affordable. Essential goods, healthcare products and certain services have been either exempted or taxed at minimal rates. This approach not only supports household consumption but also enhances social welfare by making necessities more accessible.

The reforms also emphasise improving compliance and administrative efficiency through the use of advanced technology and digital tools. GST 2.0 promotes automated return filing systems, better invoice matching and real-time monitoring of transactions. These measures aim to reduce tax evasion, increase transparency and ensure a more efficient tax administration system. Furthermore, GST Reforms 2025 are expected to boost economic growth by encouraging investment, increasing consumption and improving the overall business environment. By lowering tax rates on many goods and simplifying compliance procedures, the reforms enhance the ease of doing business in India.

Review of Literature

K. Uttamsagar (2025) studied the structural reforms, sectoral reforms and socio-economic implications of GST 2.0. It is concluded that GST 2.0 will strengthen digital compliance and will increase demand. Though GST 2.0 offers an important step, it requires careful prosecution and non-stop monitoring.

Devmalya Khan (2026) conducted a study about the impact of GST 2.0 on different sectors of the Indian economy. It was found that the GST 2.0 made tax compliance easier than the GST 1.0. GST 2.0 will provide stability in government revenue and will reduce the technological and legal complexities. In GST 1.0, the GST rate on luxury and sin goods was 28 per cent plus cess, but in GST 2.0, it is simplified by imposing a flat GST rate of 40 per cent on luxury and sin goods with the aim of reducing the consumption of such goods.

Objectives of The Study

1. - To examine the changes in GST rates and slabs as part of the GST Reforms 2.0 in India.
2. - To analyse sector-wise changes introduced in GST Reforms 2.0 in India.
3. - To investigate the rationalization of old GST rates and new GST rates for daily food items and education in India.

Research Methodology

The present study is based on secondary data, which were collected from various sources like PIB press notes, Ministry of Finance, websites, newspapers, academic publications, journals, and magazines. Simple statistical tools such as percentages, growth and trend analysis are used to interpret the secondary data.

Results and Discussion

GST Reforms 2.0 (2025): India's Two-Slab Tax Reform for the Common Man

The GST reforms have restructured tax rates on several consumer goods to simplify the tax system and adjust tax burdens on various products.It compares the old GST rates with the new GST rates after the reforms presented in Table 1.

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Table 1

GST rate and Slab changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	Refrigerators & Air conditioners	28 %	18%
2	Television sets	28%	18%
3	Small cars	28% +1% or 3% cess	18%
4	Premium motorcycles	28%+up to 15% cess	40%
5	Luxury cars	28%+22% cess	40%
6	Cigarettes & soft drinks	28%+up to 15% cess	40%
7	Butter, Ghee & Almonds	12%	5%
8	Jams & Pickles	12%	5%
9	Mobile Phones	12%	18%
10	Umbrellas	12%	5%

Source: Ministry of Finance

Table 1 presents the changes in Goods and Services Tax rates for different items. It compares the old GST rates with the new GST rates after the reform. The household appliances, such as refrigerators and air conditioners, which were earlier taxed at 28 per cent, have been reduced to 18 per cent. This reduction aims to make essential consumer durables more affordable.Television sets also experienced a tax reduction from 28 per cent to 18 per cent, encouraging higher consumption and supporting the electronics industry.Small cars previously had 28 per cent GST plus additional cess (1–3 per cent),

but under the reform, the tax was simplified to 18 per cent, lowering the effective tax burden.Premium motorcycles, earlier taxed at 28 per cent plus up to 15 per cent cess, are now taxed at 40 per cent, which reflects a consolidation of GST and cess into a single higher rate. The luxury cars, which earlier had 28 per cent GST plus 22 per cent cess, now fall under a 40 per cent GST rate, maintaining a high tax burden due to their luxury nature. The cigarettes and soft drinks were earlier taxed at 28 per cent plus up to 15 per cent cess, but the new rate is 40 per cent, indicating the government's intention to discourage consumption of harmful products.Some food items and daily consumption goods, such as butter, ghee, almonds, jams, and pickles, saw a reduction from 12 per cent to 5 per cent, making them more affordable for consumers.Mobile phones experienced a rate increase from 12 per cent to 18 per cent, possibly to support domestic manufacturing and increase revenue. The umbrellas also saw a reduction from 12 per cent to 5 per cent, benefiting consumers by lowering prices.

Sector-wise GST reforms 2.0 in India

The sector-wise changes in the GST reforms by comparing the old GST rates with the new GST rates across the country different sectors are presented in Table 2.

Table 2: Sector wise changes in GST reforms 2.0 in India

S.No	Sector	Old GST rate	New GST rate
1	Daily essential & FMCG	12% or 18%	5%
2	Automobiles	Small cars: 28%+ cess Large cars: 28%+cess	Small cars: 18% Large cars: 40%
3	Consumer electronics	28%	18%
4	Insurance	18%	0%
5	Cement & Textiles	Cement: 28% Textiles: 12%	Cement: 18% Textiles: 5%
6	Agriculture	12%	5%

7	Luxury & Sin goods	28%+cess	40%

Source: Ministry of Finance

From the table 2 presents that thedaily essential goods and Fast Moving Consumer Goods (FMCG) were taxed at 12 per cent or 18 per cent. In the GST reforms 2.0, the tax rate has been reduced to 5 per cent. This reduction aims to make essential goods cheaper and reduce the burden on consumers, especially low- and middle-income households.Earlier, automobiles such as small cars and large cars were taxed at 28 per cent plus cess. After the reform, small cars are taxed at 18 per cent, while large cars are taxed at 40 per cent. This change encourages the use of smaller and more fuel-efficient vehicles while imposing higher taxes on luxury vehicles. The GST rate on consumer electronics has been reduced from 28 per cent to 18 per cent. This reduction may promote the consumption of electronic goods and support the growth of the electronics manufacturing sector. Insurance services were earlier taxed at 18 per cent, but under the GST reform 2.0, the rate has been reduced to zero per cent. This step can make insurance more affordable and increase insurance coverage among the population. The cement & textiles earlier attracted 28 per cent GST, which has now been reduced to 18 per cent, making construction activities cheaper. Similarly, a textile GST has been reduced from 12 per cent to 5 per cent, which can support the textile industry and benefit consumers. The GST rate on agriculture-related goods has been reduced from 12 per cent to 5 per cent. This reduction helps farmers by lowering input costs and supporting agricultural production.Luxury and sin goods were earlier taxed at 28 per cent plus cess, but under the new reform, the rate has increased to 40 per cent. This reflects the government's intention to discourage the consumption of such goods while generating additional revenue.

GST rationalization for everyday food items in India

The GST rationalization for daily life food items in India. The comparison between the old GST rates and the new GST rates. The information indicates that the government has revised GST rates to simplify the tax structure and make essential food items more affordable. The details of GST rationalization for daily life food items in India are given in

Table 3
GST rationalization for everyday food items in India

S.No	Items	Old GST rate	New GST rate
1	Ultra-High Temperature Milk	5%	5%
2	Pizza bread, chapatti/roti	5%	5%
3	Paratha, parotta	18%	18%
4	Drinking water (20 litre bottle)	12%	5%
5	Sauces & condiments	12%	5%
6	Brazil nuts (dried)	12%	5%
7	Dates, figs, pineapples, avocados, guavas & mangoes	12%	5%
8	Fats of bovine animals, sheep, pigs & fish	12%	5%
9	Ice cream & edible ice	18%	18%
10	Soups & broths	18%	5%
11	Tea and Coffee	18%	5%
12	Chocolates & cocoa products	18%	5%
13	Sugar confectionery; pastry, cakes and biscuits	18%	5%

Source: Ministry of Finance

From Table 3,some items, such as Ultra-High Temperature milk, pizza bread, chapatti/roti, and paratha, continue to remain under the 5 per cent GST slab, indicating

that these essential food items are kept under a lower tax rate to reduce the burden on consumers.Certain products earlier taxed at 12 per cent GST, including drinking water (20 litre bottle), sauces and condiments, Brazil nuts (dried), and fruits such as dates, figs, pineapples, avocados, guavas, and mangoes, have been reduced to 5 per cent GST. This reduction suggests a policy effort to encourage the consumption of food products and provide relief to consumers.Likewise, fats of bovine animals, sheep, pigs, and fish have also experienced a rate reduction from 12 per cent to 5 per cent, indicating the government's attempt to rationalize taxes on animal-based food products.

However, some items that were previously taxed at 18 per cent, such as ice cream and edible ice, soups and broths, tea and coffee, chocolates and cocoa products, and sugar confectionery including pastries, cakes, and biscuits, have been reduced to 5 per cent GST in the revised structure. This significant reduction reflects the government's initiative to simplify the GST system and make processed food items relatively cheaper.

GST Reforms 2025: Impact on the Education Sector

The 2025 GST reforms provide significant relief to the education sector by exempting essential stationery and maintaining fee exemptions for schools and colleges. The changes in GST rates related to education services and educational materials under GST Reforms 2.0 in India. Theparticulars aboutcomparing the old GST rates with the new GST rates and showing how the government has maintained exemptions or reduced taxes on several education-related goods and services are furnished in Table 4.

Table 4: Education changes in GST reforms 2.0 in India

S.No	Items	Old GST rate	New GST rate
1	School tuition fees(up to 12 class)	Exempt (0%)	Exempt (0%)
2	Higher education (recognized degrees)	Exempt (0%)	Exempt (0%)
3	Private higher education/professional courses	18%	18%
4	Pencil, sharpeners, erasers, notebooks,	12%	Exempt (0%)

	crayons, maps, Charts, Globes &Atlases		
5	Geometry box & mathematical tools	12%	5%
6	Textbooks & print material	Exempt (0%)	Exempt (0%)
7	Coaching centers, private tuition & online courses	18%	18%
8	Transportation & catering services	18%	18%
9	Vocational training (NSDC –recognized)	Exempt (0%)	Exempt (0%)
10	Bicycles, toys & sports goods	12%	5%
11	Buses (used for student transport)	28%	18%

Source: Ministry of Finance

Table 4 indicates that school tuition fees for up to Class 12, as well as higher education in recognized institutions, remain exempt from GST (at a zero per cent rate) in both the old and new tax structures. This reflects the government's intention to safeguard basic and higher education from taxation, thereby ensuring that it remains affordable and accessible for students. Additionally, vocational training programs recognised by the National Skill Development Corporation are also exempt from GST, which promotes skill development and education aimed at employment. In contrast, private higher education and professional courses continue to attract a GST rate of 18 percent in both the old and new systems, placing these private educational services in the taxable category.

This research study also highlights changes in taxes on educational materials and student learning tools. Items such as pencils, sharpeners, erasers, notebooks, crayons, maps, charts, globes, and atlases, which previously had a 12 per cent GST rate, are now exempt (at 0 per cent). This change reduces the cost of essential learning materials for students. Similarly, geometry boxes and mathematical tools have seen a reduction in GST from 12 per cent to 5 per cent, making them more affordable. Other services, such as transportation and catering services within educational institutions, continue to incur an 18 per cent GST. Additionally, coaching centres, private tuition, and online courses are

taxed at 18 per cent. For various items, bicycles, toys, and sports goods have seen a reduction in GST from 12 per cent to 5 per cent, encouraging sports and physical activities among students. However, buses used for student transport have had their GST rate reduced from 28 per cent to 18 per cent, which may help lower transportation costs for educational institutions.

Conclusion

In conclusion, the GST Reforms of 2025 represent a significant milestone in India's taxation system. GST 2.0 aims to create a more efficient, equitable, and growth-oriented indirect tax regime. These reforms are expected to strengthen India's economy and further integrate its market, making GST a truly good and simple tax in the years to come. The GST Reform 2.0 reflects a policy approach of reducing taxes on essential and commonly used items while maintaining or increasing taxes on luxury and harmful goods. The goal of the reform is to promote consumption, simplify the tax structure, and enhance revenue generation for the government, all while protecting consumer welfare. According to the research study, GST rationalization primarily focuses on lowering tax rates from higher slabs (12 per cent and 18 per cent) to a lower slab of 5 per cent for many food items. This policy is intended to alleviate the tax burden on consumers, enhance the affordability of food products, and create a more uniform and simplified GST structure in India. Finally, the research article highlights that GST reforms aim to maintain tax exemptions for essential education services while reducing taxes on learning materials and goods related to students. These reforms seek to support the education sector, promote affordability, and encourage skill development in India.

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