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GST 2.0 Reforms (2025): Implications for Economic Efficiency, Equity, and Fiscal Stability in India

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Abstract

The Goods and Services Tax (GST) 2.0 reforms introduced in 2025 mark a significant evolution in India's indirect tax system. The reforms aim to simplify the tax structure, enhance compliance, and strengthen administrative and legal mechanisms. By rationalizing tax rates and promoting digitalization, GST 2.0 seeks to improve transparency, economic efficiency, and social equity. This paper examines the major features of GST 2.0 and evaluates its impact on consumers, businesses, and government revenue. While the reforms are expected to improve ease of doing business and expand the tax base, several challenges persist, including classification issues, digital constraints, and Centre–State fiscal coordination. The study concludes that GST 2.0 is a progressive reform, but its success depends on effective implementation and continuous policy adjustments.

Keywords: GST 2.0, Tax Reforms, MSMEs, Fiscal Federalism, India

1. Introduction

The introduction of the Goods and Services Tax (GST) in 2017 was a landmark reform that unified India's indirect tax system by subsuming multiple central and state taxes. Despite its transformative intent, the initial GST regime faced several structural and operational challenges, including multiple tax slabs, inverted duty structures, delays in refunds, and a growing backlog of disputes. These issues affected both compliance and efficiency, particularly for small businesses.

In response, the GST 2.0 reforms introduced in 2025 aim to address these shortcomings through a comprehensive restructuring of the tax system. The reforms seek to simplify tax rates, streamline administrative procedures, and strengthen institutional

mechanisms. They represent a shift from a complex, multi-layered tax system to a more transparent and predictable framework aligned with the objective of "One Nation, One Tax." By integrating tax rationalization with digital and legal reforms, GST 2.0 attempts to balance economic efficiency with social equity.

2. Key Features of GST 2.0 Reforms

A central feature of GST 2.0 is the rationalization of tax slabs. The earlier system, which consisted of multiple rates such as 5%, 12%, 18%, and 28%, has been simplified into fewer slabs, with lower rates for essential goods and higher rates for luxury and sin goods. This restructuring enhances transparency, reduces classification disputes, and makes the tax system easier to understand and comply with.

Administrative reforms form another important component of GST 2.0. Measures such as faster GST registration, automated refund systems, and pre-filled returns significantly reduce compliance burdens. Exporters, in particular, benefit from quicker refunds, improving their working capital position. The use of digital technologies, including e-invoicing and AI-driven compliance systems, further enhances efficiency and reduces opportunities for tax evasion.

The reforms also strengthen the legal framework through the operationalization of the GST Appellate Tribunal (GSTAT). This institutional mechanism addresses the large backlog of disputes and ensures consistency in rulings. By providing a dedicated platform for dispute resolution, GSTAT enhances taxpayer confidence and reduces litigation costs. Overall, these reforms aim to create a more efficient, transparent, and business-friendly tax environment.

3. Impact on Consumers and Businesses

GST 2.0 is expected to improve consumer welfare by reducing the tax burden on essential goods and increasing disposable income. Lower tax rates on daily-use items make them more affordable, thereby enhancing purchasing power. The reforms also target both rural and urban consumers by reducing taxes on agricultural inputs as well as consumer durables, which may stimulate demand across different sectors of the economy.

For businesses, particularly micro, small, and medium enterprises (MSMEs), GST 2.0 offers several advantages. Simplified compliance procedures, reduced documentation, and faster refunds improve liquidity and operational efficiency. The correction of the inverted duty structure ensures better input tax credit flow, which enhances competitiveness in manufacturing. These changes are likely to encourage the formalization of the economy and expand the tax base.

However, the transition to the new system may pose short-term challenges. Businesses need to adapt to new tax rates, update their IT systems, and comply with

digital requirements such as e-invoicing. Smaller firms, especially those with limited digital literacy, may face difficulties in adjusting to these changes. Despite these challenges, the long-term benefits of GST 2.0 are expected to outweigh the initial adjustment costs.

4. Impact on Government Revenue and Economy

The GST 2.0 reforms may initially result in a reduction in government revenue due to lower tax rates. Estimates suggest a short-term fiscal impact; however, this is expected to be offset by increased consumption, improved compliance, and expansion of the tax base. By simplifying the tax system and enhancing transparency, the reforms encourage voluntary compliance and reduce tax evasion.

From a broader economic perspective, GST 2.0 improves the ease of doing business and enhances India's global competitiveness. A simplified and predictable tax regime makes it easier for domestic and international firms to operate, thereby attracting investment. The reforms also promote efficiency in production and distribution by reducing cascading effects and transaction costs. In the long run, these improvements are likely to contribute to sustained economic growth and fiscal stability.

5. Challenges and Policy Concerns

Despite its advantages, GST 2.0 faces several challenges. The simplified tax structure may not adequately reflect the diversity of consumption patterns in India, leading to classification issues for certain goods that fall between necessity and luxury. The absence of an intermediate tax slab may place a disproportionate burden on middle-income consumers.

Another major limitation is the exclusion of key sectors such as petroleum, real estate, and alcohol from the GST framework. This results in cascading taxes and reduces the overall efficiency of the system. Including these sectors would help achieve greater uniformity and strengthen the objective of a unified national market.

Digitalization, while improving efficiency, also creates challenges for small businesses due to limited access to technology and digital skills. System-related issues, such as network slowdowns during peak filing periods, further complicate compliance. Additionally, the success of GST reforms depends heavily on coordination between the central and state governments. Differences in fiscal priorities and concerns over revenue sharing may hinder effective implementation.

Another important concern is whether the benefits of tax reductions are fully passed on to consumers. Market dynamics, inflation, and pricing strategies may limit the extent to which consumers actually experience lower prices. Addressing these challenges is essential for maximizing the effectiveness of GST 2.0.

6. Conclusion

GST 2.0 reforms represent a significant step forward in India's taxation system by simplifying tax structures, improving administrative efficiency, and promoting transparency. The reforms aim to balance economic growth, social equity, and revenue generation, transforming GST into a more effective policy instrument. By enhancing compliance and encouraging formalization, GST 2.0 contributes to a more robust and inclusive economic framework.

However, the success of these reforms depends on effective implementation, continuous policy refinement, and strong coordination between the Centre and States. Addressing issues such as classification ambiguities, digital challenges, and sectoral exclusions will be crucial for realizing the full potential of GST 2.0. Overall, the reforms lay a strong foundation for a more efficient, transparent, and growth-oriented tax system in India

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