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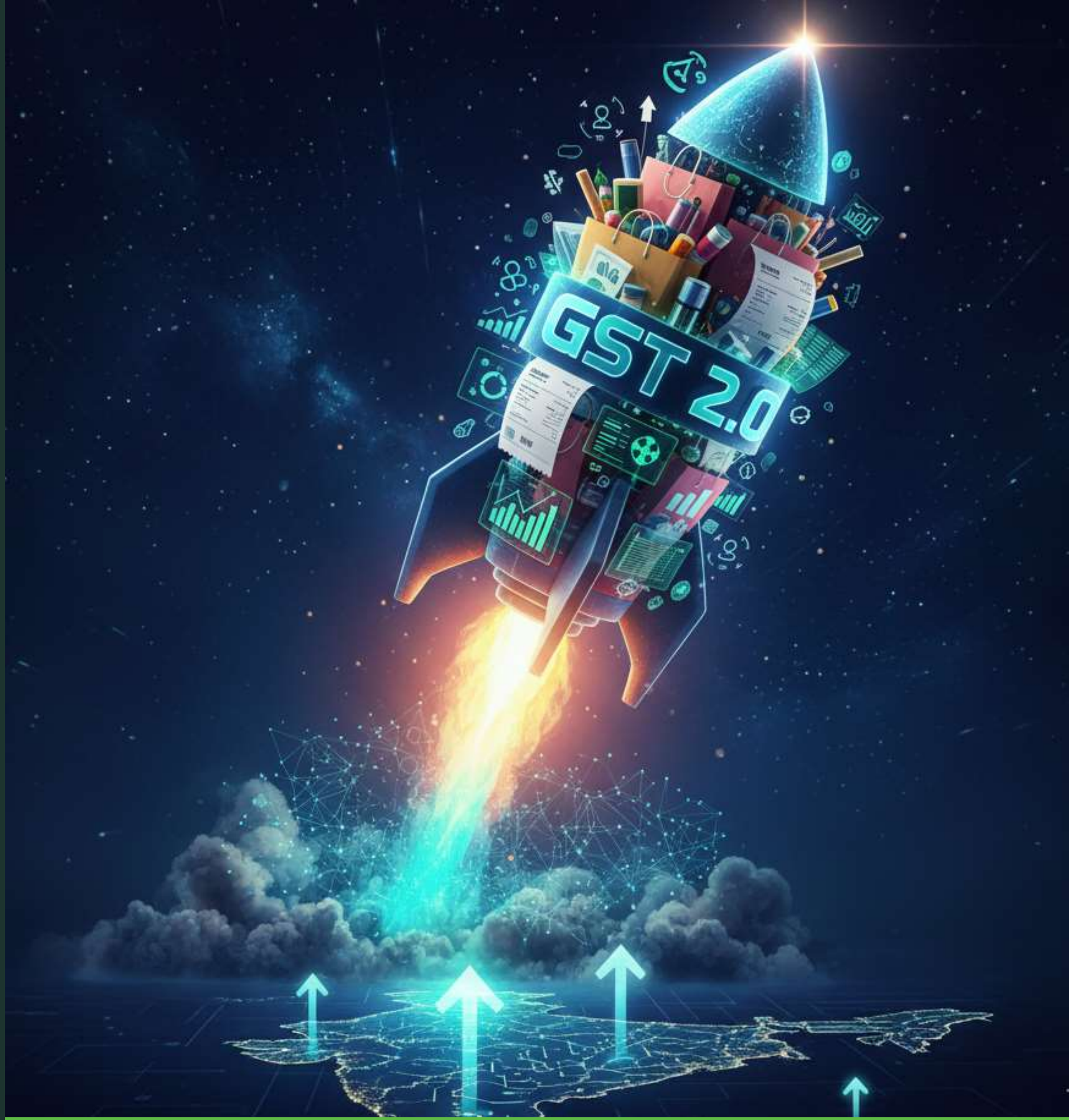
MARC Insights

GST 2.0: Key Reforms and Sectoral Impact

2025



Glossary

Abbreviation	Meaning
AICPDF	All India Consumer Products Distributors Federation
FMCG	Fast Moving Consumer Goods
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
IGST	Integrated Goods and Service Tax
ICEGATE	Indian Customs & Central Excise Electronic Commerce/Electronic Data Interchange Gateway
ITC	Input Tax Credit
OEM	Original Equipment Manufacturer
ULIP	Unit Linked Insurance Plan

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GST 2.0: The Next Phase of India's Indirect Tax Revolution

GST 2.0 transforms India's indirect tax landscape promoting simplicity, growth, and financial empowerment with ~ projected INR 2 lakh crore of relief to consumers.

GST 2.0

GST 2.0 marks a major overhaul of India's indirect tax regime, announced by the GST Council on September 3, 2025, and implemented from September 22, 2025.

It is a restructured tax framework introduced to simplify multi-slab structure into two-rate system with exemptions for essential goods.

GST 2.0 is expected to make tax filing easier and improve revenue flow, setting the stage for future reforms.

The Need for new Tax Reforms

Slowdown in Consumption

- Post Covid consumption growth has slowed due to high commodity inflation, rural distress, and elevated interest rates.
- It is Projected that GST 2.0 will boost the consumption by ~ INR 2 lakh crore.

Input Tax Credit & Inverted Duty Issue

- Earlier, inputs were taxed higher than final products, causing refund delays and cash flow issues.
- GST 2.0 Streamlined refund processes and aligned tax rates. For instance, GST on man-made fibers cut from 18% to 5%, matching finished garments.

Complex Tax Structure

- GST 2.0 replaced the four-slab structure (5%, 12%, 18%, and 28%) with a simpler two-slab system.
- This was aimed at making taxes easier to understand and administer while reducing errors and disputes that arose from the more complex system.

Source: The Economic Times, Grant Thornton, The Economic Times

Seven Pillars of India's Next-Generation GST Reforms

AIM

To enhance the quality of life for every citizen of India

1 Building on the Success of GST

- One Nation, One Tax.
- Expanded the taxpayer base
- Simpler 2-tier system (5% & 18%).

2 Rationalizing rates for fairer taxation

- Smoother duty structures.
- Faster processing of refunds.

3 Simplifying filing through technology

- Easy registration for small & low-risk business.
- 90% upfront provisional returns for exporters.
- Digital compliance with e-invoicing.
- AI-driven risk detection.

4 Putting Consumers First

- Essential goods in 0-5% bracket.
- High value items like cars down from 28% to 18%.

5 Empowering MSMEs & Manufacturers

- Fixed Inverted Duty Structures.
- Simpler rates to support Make in India.

6 Stronger States, Stronger Bharat

- Sustainable revenue growth for all states.
- Rationalized rates will increase demand.

7 Lower Taxes = Higher Spending

- Families buy more, demand rises, industries grow.
- Cheaper appliances, electronics will increase demand.

Source: B&FT Online

GST 2.0: The Major Fixes [1/2]

GST Slabs

Then

4 Slabs

28%	Included luxury and sin goods, along with some items that should have been taxed lower, which made the system more complex.
18%	Applied to higher-end products as well as several frequently used items, which often led to confusion and disputes.
12%	Covered mid-tier goods, including processed foods and everyday non-luxury items.
5%	Applied to some essential items, but many commonly used goods were still taxed at higher rates, increasing the cost burden on consumers.

Essential and commonly used items were often placed in higher tax slabs, increasing costs for consumers and creating confusion over classifications across multiple rates (0%, 5%, 12%, 18%, 28%). Essentials like fresh milk, fruits, vegetables, and basic healthcare and education are not taxed.

Now

3 Slabs

40%	Luxury and sin goods like high-end cars, tobacco, and sugary drinks are taxed higher to curb consumption and raise revenue.
18%	Most goods and services, such as electronics, household items, and common services, are taxed at the standard rate.
5%	Most essential and mass-consumption items are now taxed at this rate, making them more affordable for consumers.

Under GST 2.0, essential and mass-consumption goods are primarily taxed at 5% or 18%, easing the burden on consumers, simplifying compliance, and improving transparency. Luxury and sin goods are placed under a higher 40% slab. The reform avoids expanding tax bands while ensuring essential goods and services remain affordable. Additionally, life and health insurance products including term, ULIP, endowment, and family policies are now fully exempt from GST.

Source: Kotak MF, Dwello

*Refer to the Section Sector-Wise Impact" section for a detailed look at the products benefiting from the revised tax slabs.

GST 2.0: The Major Fixes [2/2]

Income Tax Credit

Then

Complex Reconciliation Process
Businesses had to manually match invoices between GSTR-1, GSTR-2B, and GSTR-3B. Also, the frequent mismatches led to ITC being disallowed or temporarily blocked.

Dependency on Vendor Compliance
ITC claim allowed only if the supplier uploaded invoices correctly. Any delayed or missed uploads by vendors meant working capital got stuck.

Now

Automated ITC Matching System
GSTN now uses AI-based invoice reconciliation, auto-validating ITC claims against supplier data and manual reconciliation eliminated.

Real-Time ITC Availability
Credit becomes available as soon as the supplier files the invoice, even before return filing which would boost to working capital efficiency.

Invert Duty Structure

Then

Higher Tax on Inputs than Outputs
Inputs were often taxed at 18% while final goods were taxed at 5%, causing an inverted duty structure.

Working Capital Constraint
A higher GST rate on inputs than outputs leads to unutilized ITC that remains trapped within the GST system due to delayed refunds. This constrains liquidity and reduces operational efficiency, particularly in sectors with thin margins or long production cycles.

Now

Reduced Gap in Tax Slabs Between Inputs & Outputs
Most goods and inputs are now taxed at either 5% or 18%, and only luxury/sin goods at 40%.

This means inputs and outputs now fall in the same or closer tax brackets, removing the mismatch and as a result it would lead to less ITC accumulation to a great extent.

Source: Clear Tax, Iris GST

Impact of GST 2.0 Reforms on Key Stakeholders

Businesses

Simplified tax structure

Moving from many tax slabs to just 5%, 18%, and 40% has reduced confusion, fewer disputes over classification, and made it simpler for businesses to comply with GST.

Increased Demand

Lower GST rates on many goods and services are expected to boost consumer spending, encouraging companies to produce more and invest in new projects.

Improved Cash Flows

Faster input tax credit (ITC) refunds and fewer blocked credits will reduce in working capital strain, particularly for exporters and manufacturers.

Strengthen Export Ecosystem

GST 2.0 will streamline refund processing through full digital integration between GSTN and ICEGATE (Customs). This ensures quicker input-tax and IGST refunds, improving exporters' cash-flow efficiency and global price competitiveness.

Consumers

Lower Prices on Everyday Goods and Pricing Transparency

GST 2.0 has made essentials more affordable by reducing tax rates from 12% or 18% to 5%, while providing clearer visibility of the tax in final prices, promoting transparency and informed spending.

Increased Household Savings

It is estimated by the Central Goods and Services Tax (GST) department at Nagpur, that GST 2.0 will lead to an additional 6% to 10% savings in the annual household budget across various income groups.

More Affordable Big-Ticket Items

Consumer products like TVs, air conditioners, and washing machines, which were earlier taxed at 28%, are now at 18%, making them much cheaper.

Lower Insurance Costs

GST on individual life and health insurance premiums has been removed (previously 18%), making insurance more affordable and helping the government's "Insurance for All" mission.

Source: Deloitte, Bajajfinserv, TimesofIndia, Makawana International

Impact of GST 2.0 Across Major Sectors [1/6]

Sr. No.	Sector	GST Rate	Items
1	FMCG	5% → **0%**	UHT milk, Paneer, Indian breads like roti and paratha.
		18% → **5%**	Household items including soaps, shampoos, oral-care products, basic kitchenware.
		12% or 18% → **5%**	Packaged & processed foods such as packaged namkeens, Bhujia, Sauces, Pasta, Chocolates, Coffee, Preserved Meat etc.
2	Agriculture	12% → **5%**	Agricultural, Horticultural or Forestry Machines for soil preparation, cultivation, Harvesting & Threshing.
		18% → **5%**	Tractor components like tyres, tubes & Hydraulic pumps, Bio Pesticides and Micronutrients.
3	Automobile	28% + Cess → **18%**	Entry-level small cars (≤ 1200 cc petrol / ≤ 1500 cc diesel, and ≤ 4m length) and motorcycles (<350 CC) and commercial vehicles.
		28% + 22% Cess → **40%**	Luxury / large cars & SUVs.
		28% → **18%**	Auto parts and components.

Source: ykgglobal, PIB, Cleartax

Impact of GST 2.0 Across Major Sectors [2/6]

Sr. No.	Sector	GST Rate	Items
4	Construction	28% → **18%**	Key building materials like Cement, Steel, Tiles, Sanitaryware, Paints & Varnishes.
		12% → **5%**	Marble, Granite, sand lime bricks, Sand.
5	Education	12% → **Nil**	Stationery Items like notebooks, pencils, exercise books, maps, globes educational charts etc.
		12% → **5%**	Geometry boxes, Pouches, Writing Compendiums and other miscellaneous items.
6	Medical & Pharma	12% → **Nil**	On 36 live saving drugs and medicines used for the treatment of cancer, rare diseases, and other severe chronic conditions.
		12% Or 5% → **5%**	All the other drugs and medicine, medical supplies such as wadding gauges, diagnostic kits etc.
		18% → **5%**	various medical apparatus and devices used for medical, surgical, dental or veterinary purposes.

Source: ykgglobal, PIB, Economictimes, India Today, Bajaj Finserv, EY, Razor pay

Impact of GST 2.0 Across Major Sectors [3/6]

Sr. No.	Sector	GST Rate	Items
7	**Consumer Durables**	28% → **18%**	Electronics & White Goods (ACs, TVs, fridges, washing machines etc).
8	**Insurance**	18% → **Nil**	Individual General & Life Insurance Policies.
9	**Hospitality & Restaurant**	12% → **5%**	Hotel Accommodation (INR 1,001 – INR 7,500 per night).

Source: NDTV, Economictimes, NDTV, ET

Impact of GST 2.0 Across Major Sectors [4/6]

FMCG Sector

Greater flexibility in pricing: Instead of passing the benefits entirely as discounts, many brands are choosing to restore grammage in smaller packs.
For instance, a INR 10 biscuit pack that earlier reduced weight due to inflationary pressures can now offer higher quantity at the same price.

Boost in Rural Consumption: Affordable pricing and aggressive promotions are expected to lift rural and semi-urban consumption. As per AICPDF, there would be 8-10% growth in rural consumption over the two quarters.

Improve Liquidity across distributors & retailers: With reduced GST rates and smoother credit flow, an estimated INR 4,000–5,000 crore will be unlocked across the FMCG network. This will enhance cash flow and enable faster restocking.

Agricultural Sector

Lower Input Costs, Higher Farmer Income: With improved credit flow and reduced cascading taxes, farmers will benefit from lower production and distribution costs, leading to a noticeable rise in their overall household income

Improved accessibility to technology: By reducing GST rates on agricultural machinery and equipment, GST 2.0 lowers upfront capital costs for farmers. This makes modern tools and technology more accessible, encouraging mechanization, improving productivity, and reducing dependency on manual labour.

Boost to sustainable farming: the reduction of GST on bio-pesticides and micronutrients would provide a financial incentive for farmers to use eco-friendly alternatives to chemical pesticides, which will improve soil health and crop quality.

Automobile Sector

Demand Revival through Affordability: GST 2.0's tax rationalization has triggered a surge in vehicle affordability. On an average the prices of popular models dropped by up to INR 1.3 lakh. This would fuel rise in passenger vehicles segment.

Volume expansion for OEMs: With lower end-consumer prices for small cars and two-wheelers, OEMs are likely to see higher demand volumes, especially in Tier-2 and rural markets, improving factory utilization and economies of scale.

Muted Demand Growth in Premium Auto Segment: While GST 2.0 removed the compensation cess and introduced a uniform 40% tax on premium and luxury vehicles, the overall price benefit remains limited. This might flatten demand momentum in the premium automobile segment as compared to the sharp recovery seen in mass-market segments.

Source: ykgglobal,PIB, Economictimes

Impact of GST 2.0 Across Major Sectors [5/6]

Construction Sector

Lower Construction Costs: GST cut on key inputs like cement (28% → 18%) and marble/granite (12% → 5%) is expected to reduce overall construction costs by 3.5 – 4.5%, improving project viability and could trigger 5-8% correction in housing prices

Boost to Developer Margins & Project Launches: Implementation of GST 2.0 improves profitability for developers, likely encouraging new project launches, particularly in affordable and mid-income segments.

Education Sector

Demand Revival through Affordability: GST 2.0 brought tangible relief to parents and schools by exempting formal education fees, reducing costs on supplies.

Increased Operational Costs for Institutions: Exemptions for tuition fees support affordability, but the 18% GST on ancillary services could strain school budgets. Services like transportation, catering, repair & Maintenance, security services are often outsourced by schools, continue to attract an 18% GST, potentially increasing operational costs for institutions, which may be further passed on to parents.

Limiting Equal Learning Opportunities: Private tuitions and online learning remain taxed at 18%, keeping costs high and making it harder for aspiring students especially from lower-income groups to gain a competitive edge through coaching.

Medical & Pharma Sector

Affordable Healthcare for Patients: GST 2.0 reduced tax rates on medicines and essential drugs to 5% hence patients are likely to benefit from lower treatment and prescription costs. The reform supports affordability in healthcare, especially for those relying on long-term medication.

Working Capital Strain for hospitals/ Pharmaceutical companies: Despite lower GST (5%) on medicines, higher input taxes (18%) on Active Pharmaceutical Ingredients (APIs) and Key Starting Materials (KSMs) have deepened the inverted duty structure might cause input tax credit buildup, cash flow strain, and margin pressure for pharmaceutical firms and hospital pharmacies.

Source: ykgglobal, PIB, Economictimes, India Today, Bajaj Finserv, EY

Impact of GST 2.0 Across Major Sectors [6/6]

Consumer Durables Sector

Improved affordability for consumers: GST 2.0 reduced tax rates on key consumer durables such as air-conditioners, large TVs, and dishwashers from 28% to 18%, resulting in an 8–10% decline in effective consumer prices and improving affordability and demand.

Boost to E-commerce platforms: GST 2.0 has boosted e-commerce platforms by lowering product prices and simplifying taxes, making online shopping more affordable and accessible nationwide.
Within just two days of implementation, e-commerce sales rose by 23–25%, reflecting a four-to-five-fold surge in growth.

Insurance Sector

Lower premium burden for consumers: With GST on individual life and health insurance premiums reduced from 18% to 0%, policyholders face lower costs. This enhances affordability and is expected to increase insurance penetration in under-insured segments.

Higher Operational Costs for Insurers: With GST 2.0 removing the input tax credit (ITC) benefit, insurers will incur higher costs on services such as IT, rentals, and professional fees.

To maintain margins, companies are likely to raise premiums by 3–5%. The loss of ITC removes an important cost offset, increasing operational expenses and pressuring profitability even though insurance products are now exempt from GST.

Hospitality & Restaurant Sector

More Affordable Stays for Consumers: GST 2.0 has rationalized hotel room tax slabs, making mid-range and business hotels more affordable and driving higher domestic travel demand.

Cheaper Restaurant Meals: GST 2.0 reduced taxes on key food inputs such as cheese, paneer, sauces, juices, and snacks from 12–18% to 5%, significantly lowering procurement costs for restaurants. This enables businesses to offer lower menu prices or promotional discounts.

Higher Costs for App-Based Deliveries: Under GST 2.0, delivery platforms must charge 18% GST on delivery fees in addition to the 5% tax on food, increasing online order bills by INR 20–30 per order. Direct orders through restaurant apps or calls remain taxed at a flat 5%, encouraging customers to order directly and helping restaurants save on platform commissions.

Source: NDTV, Economictimes, NDTV, ET

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