

GST 2.0 IN INDIA: SECTOR-WISE IMPACT AND ECONOMIC TRANSFORMATION – STUDY WITH SPECIAL REFERENCE TO SELECT SECTORS

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ABSTRACT

The Goods and Services Tax (GST) has been one of India's most transformative tax reforms, aimed at streamlining indirect taxation and fostering transparency in trade. The introduction of GST 2.0 in September 2025 marks a landmark development in the country's indirect tax framework. This reform simplifies the previous multi-tier structure into a two-slab system of 5% and 18%, with an additional 40% slab applicable to luxury and sin goods. The revised structure seeks to enhance consumption, simplify compliance, and improve economic efficiency across various sectors. This study examines the sector-wise impacts of GST 2.0 using secondary data, focusing on key industries such as pharmaceuticals, real estate, textiles, agriculture, automobiles, consumer durables, and hospitality. The analysis reveals that the reform has lowered consumer costs, increased the affordability of essential goods and services, and stimulated sectoral demand and growth. Furthermore, compliance enhancements—such as pre-filled returns and expedited refund mechanisms—have significantly reduced the operational burden on MSMEs and retailers. Although certain sectors continue to face transitional challenges, the overall evidence suggests that GST 2.0 serves as a catalyst for economic transformation, fostering formalization, enhancing supply chain transparency, and advancing India's goals for sustainable and inclusive growth. The study concludes that while GST 2.0 has positively impacted both stakeholders, continuous policy refinement and targeted awareness programs are necessary to ensure inclusive and sustainable tax compliance.

Keywords: GST 2.0 reforms, Two-rate GST structure, Tax rationalization, Rate simplification, Transparency and compliance

INTRODUCTION

The 56th meeting of the Goods and Services Tax (GST) Council, chaired by Union Finance Minister Nirmala Sitharaman, marked a major turning point in India's indirect tax system. The Council decided to simplify the earlier five-slab GST structure into a two-rate system of 5% and 18%, with a higher 40% slab for luxury and sin goods. This reform—known as GST 2.0—aims to promote simplicity, efficiency, and growth-oriented taxation.

Under the new regime, essential goods and services such as milk, paneer, household items, and 33 life-saving medicines have seen substantial tax reductions, with some moved to a zero percent GST category. The exemption of health and life insurance premiums further strengthens social protection and affordability for citizens. On the other hand, higher taxes on luxury and non-essential items ensure equity and help the government maintain fiscal balance.

The reform also improves the ease of doing business by reducing classification disputes, compliance costs, and system complexities that previously burdened enterprises—especially

MSMEs. India's earlier multi-slab GST structure often led to confusion, litigation, and high administrative expenses. With the rationalised structure, businesses now benefit from simpler compliance, greater transparency, and a tax system that aligns with global best practices.

Beyond simplifying taxes, GST 2.0 supports consumption-driven economic growth by increasing household disposable income and affordability of essentials. It encourages spending, strengthens the domestic market, and helps reduce poverty by improving access to basic goods and services.

While challenges such as revenue adjustments for states and the need to broaden the tax base remain, GST 2.0 represents a balanced reform—combining fiscal prudence with social equity. By promoting transparency, reducing costs, and fostering inclusive growth, it lays the foundation for India's next phase of economic transformation.

REVIEW OF LITERATURE

Milandeep Kour et al. (2016) discuss GST as a landmark reform aimed at unifying India's indirect taxes to promote transparency, efficiency, and growth. The study outlines GST's background, models, and expected benefits such as reduced cascading effects and higher GDP. It also highlights challenges like Centre–State coordination and IT infrastructure. However, being a pre-implementation analysis, it remains predictive and would benefit from post-2017 data to assess GST's real impact.

Garg, S. (2025). Investigating the Implications of Goods and Services Tax Examines the relationship between GST revenue and economic growth; finds GST revenue has a positive and statistically significant effect on GDP growth. Strong macro view but limited sectoral disaggregation and short post-GST series for causal claims.

Bhalla, N. (2023). Effect of GST on MSME business performance (SAGE) in his Empirical study on MSMEs finds mixed effects — administrative simplification but persistent compliance costs and digital barriers for small firms. Strong sample on MSME performance; needs more recent data covering digital improvements (post-2023 portals/refund reforms).

Anita Choudhary & R.K. Dular (2018). GST impact on Real Estate Reviews GST effects on construction costs, input credit, and real-estate pricing; argues initial disruption to cash flows but potential long-term transparency gains. Early post-implementation work — limited longitudinal evidence on housing demand and state-level revenue impacts

RESEARCH GAP

Most existing studies assess the initial phase of GST (2017–2024), while limited research addresses GST 2.0 reforms (2025)—especially their two-slab structure, exemption revisions, and compliance simplifications. The research gap lies in the absence of comprehensive, sector-wise empirical analysis of GST 2.0's real-world effects across key industries such as pharmaceuticals, real estate, textiles, agriculture, automobiles, consumer durables, and hospitality. Addressing this gap will provide a clearer understanding of GST 2.0's role in promoting inclusive growth, ease of doing business, and economic transformation in India.

Objectives

1. To examine the key tax reforms introduced under GST 2.0 in India.
2. To analyse the sector-wise impact of GST 2.0 reforms on selected industries in India.

RESEARCH METHODOLOGY

The primary focus is on understanding the implications of the recent GST 2.0 reforms on selected sectors of the Indian economy.

Data Collection

The study is based entirely on secondary data, which has been collected from peer-reviewed journals, industry reports, government publications, and credible websites. This allows for a comprehensive understanding of both theoretical perspectives and practical sectoral impacts of GST 2.0.

Data Analysis

The collected data has been systematically analysed sector-wise to evaluate the effects of GST 2.0 reforms. The sectors included in the analysis are:

1. **Pharmaceuticals** – examining the impact on drug pricing, exemptions on life-saving medicines, and operational efficiencies.
2. **Insurance** – GST exemption on health and life insurance, affordability, and impact on insurance penetration and household financial security.
3. **Real Estate** – assessing changes in construction costs, input credits, and housing affordability.
4. **Textiles** – evaluating compliance costs, cascading tax reduction, and benefits to organized and unorganized players.
5. **Agriculture** – studying the effect on farm inputs, machinery, and distribution channels.
6. **Automobiles** – analyzing rate rationalization, luxury tax slab implications, and sectoral demand.
7. **Consumer Durables** – assessing affordability, pricing, and supply-chain efficiency.
8. **Hospitality** – evaluating taxation on services, F&B, and the effect on occupancy and consumer spending.

The study uses a comparative and descriptive analytical approach, examining how the tax rationalization, slab restructuring, and exemptions under GST 2.0 affect these sectors. Insights from the analysis are then synthesized to understand the overall economic transformation resulting from the reform.

Scope of the Study

This methodology provides a comprehensive sector-wise assessment of GST 2.0 and its implications for business competitiveness, consumer affordability, and economic efficiency, offering valuable insights for policymakers, businesses, and researchers.

Analysis and Interpretation

GST 2.0 replaces the previous complex four-slab system (5%, 12%, 18%, 28%) with a simplified regime consisting of:

- Two main GST slabs: 5% for essential and merit goods, and 18% for standard goods.
- A new 40% demerit tax on luxury and sin goods (e.g., tobacco, pan masala, luxury cars) to protect government revenue.

- Full exemption (nil GST) for essential items like UHT milk, paneer, Indian breads, life and health insurance policies, and many life-saving drugs.

Rate Rationalization and Tax Burden Reduction

- GST rates on several household items and consumer durables, including small cars, TVs, air conditioners, and cement, have been reduced from 28% to 18%.
- Fertilizer inputs, agriculture machinery (tractors, harvesters), and labor-intensive goods (handicrafts, marble, leather) attract lowered GST at 5% to encourage rural and green economy growth.
- Medical devices and selected pharmaceuticals now incur a reduced GST of 5% or nil, improving healthcare affordability.

Ease of Compliance and Digital Integration

- Introduction of pre-filled GST returns and faster refunds to address delays and reduce compliance burden for taxpayers, especially MSMEs.
- GST Appellate Tribunal (GSTAT) to be operational to expedite tax dispute resolution, minimize litigation, and improve predictability for businesses.
- Emphasis on technology-driven compliance such as AI-assisted invoice matching, mandatory harmonized classification (HSN/SAC codes), and real-time invoice tracking.

Structural Reforms for Fiscal Efficiency

- Removal of inverted duty structures to ensure smoother input tax credit flow and reduce blocked credits, with a focus on sectors like pharmaceuticals and textiles.
- Rationalization of GST slabs helps reduce classification conflicts, thereby facilitating tax administration efficiency and better governance.
- Sustaining government revenues by imposing higher tax on luxury goods while easing the burden on common consumers to stimulate demand and economic growth.

Economic and Social Impact

- GST 2.0 is designed to boost domestic manufacturing, promote green energy adoption, and improve affordability for consumers on essentials and healthcare.
- Reduced GST rates on life-saving drugs and health insurance strengthen India's goal of universal healthcare coverage.
- Improved ease of doing business supports faster economic growth, formalization of the economy, and a more transparent indirect tax system for the country.

In summary, GST 2.0 represents India's most significant indirect tax reform since the original GST rollout in 2017, balancing simplicity, equity, and efficiency while fostering a growth-oriented and taxpayer-friendly ecosystem.

Sector Wise Comparison of GST Rates and its impact on Industry and Consumers

Sector	Old GST Rate	New GST Rate (2025)	Impact on Industry & Consumers
Pharma & Healthcare	12% on most medicines	0% GST on 33 life-saving drugs	Reduces treatment costs; increases access to essential medicines; benefits patients with chronic and rare diseases.
Insurance	18% GST on health & life premiums	0% GST (Exempted)	Makes insurance policies ~18% cheaper; increases affordability; boosts insurance penetration in India; improves household financial resilience.
Automobile Industry	28% on many auto parts & commercial vehicles	18% GST	Lowers costs for automakers; improves competitiveness; benefits buyers of motorcycles (up to 350cc) and commercial vehicles; may stimulate sectoral demand.
Agriculture & Farmers	12% on machinery; higher on inputs	5% GST on machinery & eco-friendly inputs	Reduces farmer input costs; makes tractors, harvesters, and bio-pesticides more affordable; supports rural growth and agricultural productivity.
Tourism & Hospitality	18% GST on hotels up to ₹7,500/day	5% GST on hotels up to ₹7,500/day	Attracts more tourists; reduces domestic travel costs; boosts hospitality and tourism sector revenues; encourages hotel occupancy.
Construction & Real Estate	28% GST on cement	18% GST on cement	Cuts construction costs by 3–5%; encourages infrastructure projects; benefits affordable housing development; improves real estate investment feasibility.
Consumer Appliances (White Goods)	28% on ACs, dishwashers, TVs (up to 32")	18% GST	Makes appliances more affordable for middle-class families; boosts demand for electronics; stimulates domestic manufacturing and sales.
Food & FMCG	12–18% on many processed foods	5% GST on essentials like ghee, biscuits, juices	Reduces grocery bills; improves affordability of everyday essentials; supports consumption-led economic growth.
Exports & SMEs	Refund delays (months)	Refunds within 7 days, automated up to ₹1,000 crore	Improves cash flow; reduces working capital stress; encourages MSMEs to expand globally; enhances ease of doing business.

Following are the detailed analysis of Positive and Negative Impact of Tax reforms on various sectors:

Pharma and Healthcare sector, the **positive impact** of GST is that the lower tax rate (5% or nil) on medicines and medical devices helps reduce costs and improve healthcare affordability, while faster refunds ease cash flows. However, the **negative impact** includes transition challenges such as destocking of old inventory, mismatches in input tax credit, and increased compliance burdens.

Insurance sector, the **positive impact** of GST is that life and health insurance are fully exempt, which lowers premiums and helps expand insurance coverage. However, the **negative impact** includes potential revenue pressure on insurers and the need to adjust to new taxation norms.

Automobile Industry, the **positive impact** of GST is that the reduction from 28% to 18% on small cars, two-wheelers, and auto parts has lowered vehicle prices, thereby boosting consumer demand. However, the **negative impact** is that luxury vehicles are taxed at a higher rate of 40%, which affects premium segment sales, along with additional transition and adjustment costs for manufacturers.

Agriculture and Farmers sector, the **positive impact** of GST is that the tax on fertilizers, pesticides, and tractors has been reduced to 5%, which lowers input costs and promotes greater mechanization in farming. However, the **negative impact** includes compliance complexities for small farmers and agri-businesses, along with challenges in effectively passing on these benefits to end users.

Tourism and Hospitality sector, the **positive impact** of GST is that the tax on budget hotel stays, gyms, yoga, and wellness services has been reduced to 5%, encouraging domestic tourism and increasing service consumption. However, the **negative impact** is that higher GST rates on luxury hotels may affect the premium tourism segment, along with operational adjustments required for service providers.

Construction and Real Estate sector, the **positive impact** of GST is that the reduction in tax on cement and other raw materials lowers overall construction costs, benefiting homebuyers through more affordable housing options. However, the **negative impact** is that states face potential revenue losses due to these rate cuts, and developers encounter transitional costs while adjusting property prices.

Consumer Appliances (White Goods) sector, the **positive impact** of GST is that the rate reduction from 28% to 18% on products such as air conditioners and televisions has enhanced affordability and boosted consumer demand. However, the **negative impact** includes the need for the industry to manage inventory transition and re-labeling costs, leading to short-term margin pressures.

Food and FMCG sector, the **positive impact** of GST is that essential food items and personal care goods are taxed at lower rates (5% or nil), which benefits consumers and stimulates higher consumption. However, the **negative impact** includes complex product classification that may cause confusion, along with the need for wholesalers and retailers to adjust their supply chain costs.

Exports and SMEs sector, the **positive impact** of GST is that simplified return filing, faster refunds, and streamlined compliance processes promote formalization and improve the overall ease of doing business. However, the **negative impact** includes transitional

compliance costs, the need to adapt to new HSN/SAC codes, and increased compliance burdens for certain sectors.

Major Findings

- GST 2.0 has simplified the previous multi-slab system into two main rates (5% and 18%) with a higher 40% slab for luxury and sin goods, markedly improving tax administration and equity.
- Essential goods and services, such as 33 life-saving drugs and health insurance, have majorly benefited from tax exemptions or reductions, driving affordability and increased consumption.
- Compliance reforms (like pre-filled returns and quicker refunds) have lessened operational burdens for MSMEs and retailers, aiding business formalization and sectoral growth.
- Sector-wise, industries such as pharmaceuticals, agriculture, hospitality, real estate, consumer durables, and automobiles see reduced costs and improved demand, while transition and compliance issues persist for certain stakeholders.
- Overall, GST 2.0 contributes to India's economic transformation by fostering transparency, ease of doing business, and inclusive growth—though transitional challenges remain.

Recommendations

The Recommendations has been provided sector-wise, addressing both immediate action points and long-term strategies to strengthen the impact of GST 2.0 for each area discussed in your study:

Pharmaceuticals and Healthcare

- Promote digital compliance and facilitate transition by supporting fast and accurate GST returns and refunds for pharmacies and hospital suppliers.
- Extend handholding and sector-specific training for smaller healthcare entities to address inventory and input tax credit transitions.

Insurance

- Closely monitor insurance companies' financial performance after GST exemption on premiums.
- Regulate pricing and maintain consumer protections to ensure the market remains healthy and risks are managed responsibly.

Automobiles

- Rationalize rates for vehicles and auto parts, particularly supporting small and mid-sized manufacturers through phased reforms and clear communication on new tax rates.
- Offer innovation incentives to boost low-emission and electric vehicle adoption within the transitioned GST regime.

Agriculture

- Launch targeted outreach and digital helpdesks dedicated to small farmers and agri-businesses covering GST compliance, refund eligibility, and documentation.

- Collaborate with cooperatives and sector groups to deliver tailored training and policy support.

Hospitality

- Design seasonal rebates and incentives for luxury travel providers impacted by high GST, and market benefits of lower GST to budget sector operators.
- Foster partnerships between hospitality associations and state tourism bodies for sector-wide awareness and adjustment.

Real Estate

- Share state-level best practices for phased pricing adjustments and clarify input credit rules to developers.
- Coordinate regular data sharing and feedback with sector stakeholders to address transition costs and revenue impacts.

Consumer Durables

- Allow grace periods for inventory and price tagging transitions, and support dealers/retailers through digital toolkits and public communication campaigns for standardized implementation of new rates.

Exports and SMEs

- Launch digital awareness initiatives about new HSN/SAC codes and automate refund systems for exporters and MSMEs.
- Consider phased penalties and support for adapting to compliance reforms, in partnership with export promotion councils and MSME chambers.

These recommendations aim to maximize sectoral benefits, mitigate transition risks, and enhance equitable compliance under GST 2.0

CONCLUSION

The success of GST 2.0 depends on continuous and constructive engagement among policymakers, industry associations, and the business community. While the reforms are designed to enhance affordability, stimulate demand, and promote formalization across various sectors, short-term challenges such as transitional disruptions, compliance adjustments, and uneven effects on luxury and premium markets remain. To fully realize the potential of GST 2.0, targeted transition support, advanced compliance technology, and tailored sector-specific measures are essential for ensuring balanced growth throughout the Indian economy.

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