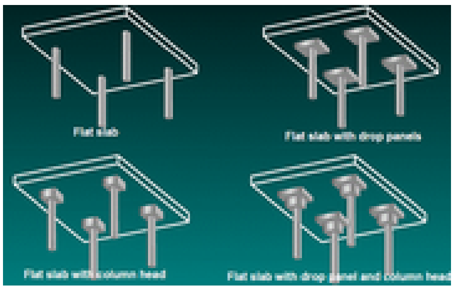
ONE NATION, ONE TAX- REINVENTED

The Goods and Services Tax reforms launched by the government are all set to reduce tax rates of a range of daily-use items for consumers from September 22, 2025. The core of these GST reforms revolved around three foundational pillars: structural reforms, rate rationalisation, and procedural simplification. The government outlined a shift from the existing multi-tiered slab system to a two-tier structure.

In retrospect, the GST, being a one Nation, one tax, represented a maturation of India's indirect tax system. From its chaotic rollout in 2017, GST had evolved into a robust revenue generator, collecting over ₹1.86 lakh crore in August 2025 alone. The new reforms built on this foundation, addressing pain points while adapting to contemporary needs like health crises and climate change. By prioritising affordability in healthcare, agriculture, and daily essentials, the government aimed to enhance quality of life for the average Indian. As Prime Minister Modi reiterated in his address, these changes are not just about taxes but about building a self-reliant, prosperous India. In an era of global volatility, such proactive fiscal engineering could prove instrumental in sustaining India's rise on the world stage.

A Simplified Slab System: From Four to Two (Plus a Special Rate)



The GST Council has simplified the indirect tax system into a two-tier structure of 5 per cent and 18 per cent from a four-tier structure of 5 per cent, 12 per cent, 18 per cent and 28 per cent.

5% for the essentials and 18% for most other goods and services. A **40% "special" slab** now applies to sin and luxury items like tobacco, pan masala, high-end vehicles, casinos, and lotteries.

The GST rate reduction and rationalisation with a focus on common man will reshape how consumers and businesses will pay tax from September 22, 2025.

From medicines and milk to cars, soaps, and even IPL tickets, the GST Council's latest rate rationalisation is expected to ease the tax burden of consumers significantly.

What Comes Under 5%, 18%, and 40%?

Essentials like packaged food items, toothpaste, milk products, paneer, roti, and life-saving drugs now attract **5% or even nil GST.**

Electronics, small cars, air conditioners, TVs, cement, auto parts, and appliances have their rates reduced from 28% to **18%.**

Sin and luxury goods—such as tobacco, gutkha, high-capacity vehicles, betting, and lotteries—now face the **40% tax**

Latest Reforms

- **Reforms undertaken for dairy products,** the GST Council approved the exemption of several dairy products from taxes. Items like Paneer, Chhena and Ultra High Temperature Milk which attracted a five percent GST rate are now tax-free, which will make these products available at affordable rates.
  Furthermore, dairy oils including Butter, Ghee and Cheese holding a 12 percent GST previously, have been slashed down to 5 percent now.Similarly, milk cans of iron, steel and aluminium have also been reduced to 5 percent from 12 percent.

Meanwhile, the GST on plant-based milk beverages is also cut down from 18 percent to 5 percent offering relief to consumers on healthier dairy alternatives.

This significant tax rationalization is expected to boost the dairy sector and extend benefits to both farmers and consumers, contributing to the overall socio-economic development in the country.

- **Food items,** including ultra-high-temperature milk, paneer, and various Indian breads like roti and paratha, were proposed for nil taxation, addressing inflationary concerns in daily consumption. The reforms also targeted **labour-intensive sectors,** reducing rates on handicrafts, marble, leather goods, and manmade fibres to 5%, thereby supporting small artisans and cottage industries that form the backbone of rural economies.
- A standout feature of the GST reforms was the emphasis on **healthcare and social security**. In a bold move, the government has exempted GST entirely on life and health insurance policies, including family floaters and senior citizen covers. This exemption extended to reinsurance, making insurance more affordable and encouraging greater penetration in a country where coverage remains low.

  Additionally, 33 lifesaving drugs were earmarked for nil GST, while most other medicines, medical devices, diagnostic kits, and surgical equipment would attract only 5%. These changes were projected to alleviate the financial strain on millions of families dealing with chronic illnesses or medical emergencies.
- The reforms also addressed **agricultural needs** by slashing GST on tractors, farming machinery, and fertiliser inputs like sulphuric acid and ammonia from 18% to 5%. Renewable energy devices and their components followed suit, promoting sustainability amid India's push towards net-zero emissions.

Such measures underscored the government's commitment to inclusive growth, ensuring that farmers and environmentally conscious sectors received targeted relief.

- The **automotive and consumer durables sectors** stood to gain substantially from these reforms. High-ticket items previously taxed at 28%, such as small cars, motorcycles under 350cc, air-conditioners, televisions up to 32 inches, and dishwashing machines, were proposed for a reduction to 18%. This adjustment was expected to stimulate demand, particularly in the middle-class segment aspiring for better living standards.
- **Cemen**t, a key input in housing, also saw its rate drop from 28% to 18%, potentially lowering construction costs and making homeownership more accessible.
- In the services domain, **hotel accommodations** up to ₹7,500 per night and personal **wellness services** like gyms, salons, and yoga centres were reduced to 5%, fostering **tourism** and health-conscious lifestyles.

- Critics and analysts alike noted the introduction of the 40% de-merit slab as a nuanced element of the reforms. **This higher rate targeted luxury items like high-end cars, tobacco products, pan masala, and sugary drinks,** aiming to discourage consumption of harmful goods while generating additional revenue for public welfare programs.

- **Procedural simplifications** formed another critical pillar of the GST reforms. The government committed to operationalising the Goods and Services Tax Appellate Tribunal (GSTAT) by the end of September 2025, with hearings commencing before December.

This move was designed to expedite dispute resolutions, reducing litigation that had clogged courts and deterred investors. **Small traders and businesses benefited from eased compliance norms, including simplified invoicing and reduced filing frequencies.** Digital enhancements, such as AI-driven audit systems and real-time tracking, were proposed to minimise human intervention and curb evasion.

New Registration Rules

- From **Nov 1, 2025,** small & low-risk businesses (monthly GST ≤ ₹2.5 lakh) can get registration in **3 days.**

- E-commerce sellers must comply with **new centralized registration norms,** so marketplaces and small sellers should align their GST numbers with PAN-linked identifiers.

GST reform lightens load on common man

The GST Council on Wednesday approved a two-tier rate structure of 5 and 18 per cent, which will be implemented from September 22. The marathon 56th meeting of the GST Council lasted for 10.5 hours, in which the Centre and states thrashed out key tax proposals. Here are some of the key items for which GST rates were revised:

DAILY ESSENTIALS	FROM	TO
Hair Oil, Shampoo, Toothpaste, Toilet Soap Bar, Tooth Brushes, Shaving Cream	18%	5%
Butter, Ghee, Cheese & Dairy Spreads	12%	5%
Pre-packaged Namkeens, Bhujia & Mixtures	12%	5%
Utensils	12%	5%
Feeding Bottles, Napkins for Babies & Clinical Diapers	12%	5%
Sewing Machines & Parts	12%	5%

AUTOMOBILES	FROM	TO
Petrol & Petrol Hybrid, LPG, CNG Cars (not exceeding 1200 cc & 4000mm)	28%	18%
Diesel & Diesel Hybrid Cars (not exceeding 1500 cc & 4000mm)	28%	18%
3 Wheeled Vehicles	28%	18%
Motor Cycles (350 cc & below)	28%	18%
Motor Vehicles for transport of goods	28%	18%

HEALTHCARE SECTOR	FROM	TO
Individual Health & Life Insurance	18%	Nil
Thermometer	18%	5%
Medical Grade Oxygen	12%	5%
All Diagnostic Kits & Reagents	12%	5%
Glucometer & Test Strips	12%	5%
Corrective Spectacles	12%	5%

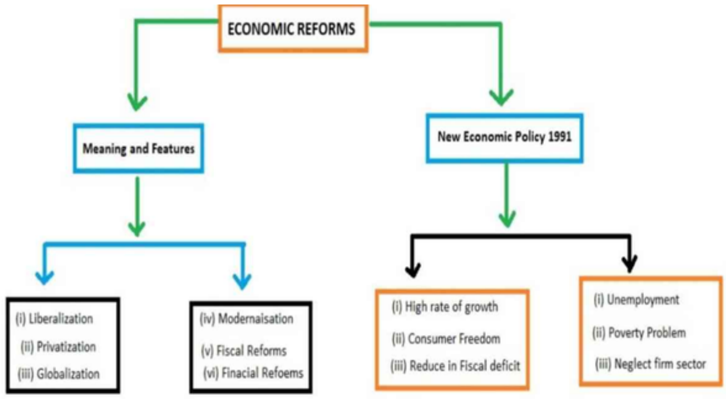
FARMERS & AGRICULTURE	FROM	TO
Tractor Tyres & Parts	18%	5%
Tractors	12%	5%
Specified Bio-Pesticides, Micro-Nutrients	12%	5%
Drip Irrigation System & Sprinklers	12%	5%
Agricultural, Horticultural or Forestry Machines for Soil Preparation, Cultivation, Harvesting & Threshing	12%	5%

EDUCATION	FROM	TO
Maps, Charts & Globes	12%	Nil
Pencils, Sharpeners, Crayons & Pastels	12%	Nil
Exercise Books & Notebooks	12%	Nil
Eraser	5%	Nil

ELECTRONIC APPLIANCES	FROM	TO
Air Conditioners	28%	18%
Television (above 32") (including LED & LCD TVs)	28%	18%
Monitors & Projectors	28%	18%
Dish Washing Machines	28%	18%

Source: The Hindu

Economic Implications of the reforms:



1. Analysts projected a boost in consumer spending, with reduced taxes on essentials potentially lowering inflation by 0.5-1% in the short term.

2. Sectors like automobiles and electronics anticipated a surge in demand, as evidenced by early market reactions in anticipation.

3. For businesses, the simplified slabs meant fewer classification errors and lower compliance costs, estimated to save the economy billions annually. However, challenges loomed, including potential short-term revenue dips for states reliant on GST collections.

4. The reforms aligned with broader economic goals, such as achieving a $5 trillion economy, by enhancing competitiveness and attracting foreign investment.

Looking ahead, the GST reforms could catalyse broader economic transformations. With simplified rates, **India might see increased foreign direct investment** in sectors like renewables and textiles, where tax predictability is key. Consumer-led growth, fuelled by cheaper goods and services, could drive GDP expansion, aligning with projections of 7-8% annual growth.

Challenges:

Triggered by external challenges, including the Trump tariffs and global economic volatility, the streamlined two-tier tax structure of 5% and 18%, alongside a 40% de-merit rate, aims to boost domestic consumption, alleviate burdens on households, and empower MSMEs.

1. GST 2.0 is being praised for **simplification and consumer focus,** but execution will be the real test. The **short-term disruption** could be significant—particularly for SMEs, state revenues, and sectors facing higher rates
The success of GST 2.0 will depend on meticulous implementation, robust inter-state coordination, and stringent anti-evasion measures.

2. **Revenue loss** the government expects a revenue loss of around **₹48,000 crore,** significantly lower than some projections, but hopes that a consumption surge will make up for it.

3. **Classification & Fitment Issues:** Even with a reduced number of slabs, there will still be disputes over where a product or service should be placed. Tax authorities and businesses will have to decide whether to place a good in the "merit" (lower) or "standard" (higher) slab. This can lead to new legal battles and administrative complexities.

4. Businesses would need to update their **accounting software** and pricing, while the government would have to reconfigure the GSTN. This is a time-consuming and expensive process that could cause initial disruption and compliance challenges for many businesses, especially SMEs.

India's new **GST 2.0 framework** marks a bold, consumer-friendly overhaul. With simplified slabs, widespread tax reliefs, streamlined digital processes, and festival-timed rollout, the reform stands as a defining example of tax policy aligned with economic and social objectives. As businesses and consumers adjust, its ultimate success will depend on sustained demand growth and efficient implementation.

Collectively, these efforts position India not only to navigate global headwinds but also to emerge as a self-reliant economic powerhouse, setting a model for resilience and innovation in emerging markets.

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