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Gst 2.0: Sectoral Reforms And Comparative Analysis Of India's Evolving Indirect Tax Regime

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ABSTRACT

Goods and Services Tax (GST) in India was introduced through the 101st Constitutional Amendment Act of 2017 transformed the country's existing indirect tax system. GST 1.0 subsumed multiple central and state taxes and introduced a unified and fragmented tax structure. The aim was to eliminate the cascading effect of taxation and improve the existing tax compliance. Besides having so many advancements, GST 1.0 faced several limitations, including multiple tax slabs, compliance complexities, and high filing burdens, particularly for MSMEs over the passage of time. In response, on September 22, 2025, the Government of India launched GST 2.0 as a major structural reform. It was designed to simplify tax rates, streamline compliance processes through automation, and make the tax system more equitable.

The present study offers a comparative analysis of GST 1.0 and GST 2.0. The focus is on sector-wise reforms and their impact on businesses and consumers. It was found that GST 2.0 addresses many of the practical challenges of GST 1.0, including ease of doing business, support to MSMEs, and promotion of a more inclusive and growth-oriented tax environment.

Keywords: Compliance Automation, Indirect Tax Reform, Sectoral Analysis, Input Tax Credit, Goods and Services Tax, Indian Tax System

INTRODUCTION

With the introduction of Goods and Services Tax (GST) in 2017, a revolution was supposed to function as a value-added tax (VAT), substituting a complex system of multiple indirect taxes previously imposed by both the governments i. e. central and state governments. GST introduced a dual structure of CGST (Central GST) and SGST (State GST), CGST for supplies within a state; collected by the Centre, and SGST collected by the respective State; and Integrated GST (IGST) applies to inter-state transactions and is collected by the Centre. A central decision-making body (GST Council) was formed for GST-related policies and adjustments of rates. Businesses with turnover below a specified limit were exempt from GST, simplifying the compliance process and supporting small and micro enterprises. In the financial year 2024–25, GST recorded its highest-ever gross collection of ₹22.08 lakh crore, marking a 9.4% year-on-year growth. The average monthly collection during this period stood at ₹1.84 lakh crore, highlighting the system's strong performance and increasing compliance.

Recognizing these issues, GST 2.0 was developed as a simplified and modernized version of its predecessor. Approved at the 56th GST Council meeting, this upgraded version aims to streamline the tax system, enhance compliance through automation, and provide greater clarity in regulations. Its main aim is to reduce complexity by restructuring tax slabs and simplifying the compliance process.

Since its introduction in 2017, the Goods and Services Tax (GST) in India has been widely studied for its transformative impact on the country's indirect tax structure. According to **Pandey et.al. (2022)**, GST 1.0 introduced complexities in compliance, especially for MSMEs, due to multiple tax slabs, manual reconciliation of input tax credits (ITC), and delayed refunds. **Bhalla et. al. (2023)** also observed that while GST 1.0 improved formalization and tax transparency, it created significant compliance burdens due to frequent changes in rates and classification disputes. In response to these challenges, the government

launched GST 2.0 in September 2025, marking a major structural reform. On the compliance front, GST 2.0 introduced significant automation, including AI-enabled ITC matching, simplified e-invoicing, and faster refund mechanisms. These changes were designed to reduce the administrative burden on small businesses, which under GST 1.0 had to deal with multiple return forms (GSTR-1, GSTR-3B, GSTR-9) and manual reconciliation. According to **Buttan et. al.** (2024), these technological upgrades have made GST filing more efficient, particularly for MSMEs. Moreover, the introduction of the Goods and Services Tax Appellate Tribunal (GSTAT) under GST 2.0 is expected to improve dispute resolution. **Garg et. al., 2023** stated that, under GST 1.0, the absence of regional tribunals often led to lengthy and costly litigation for taxpayers. The establishment of GSTAT with regional benches is aimed at streamlining appeals and ensuring faster resolution of tax disputes. Despite these improvements, literature has also raised concerns about the potential revenue impact of GST 2.0. **Paliwal et. al.** (2019) warned that rate reductions may lead to temporary revenue loss for states, although improved compliance and higher consumption could offset this in the long term. Some sectors still face inverted duty structures, such as textiles and fertilizers, where input taxes remain higher than output taxes, leading to blocked credits and cash flow challenges.

In conclusion, existing literature suggests that GST 2.0 represents a significant improvement over GST 1.0, particularly in terms of rate rationalization, ease of compliance, and sector-specific relief. While GST 1.0 succeeded in establishing a unified tax regime, its multiple slab structure, high compliance cost, and refund delays limited its efficiency. In contrast, GST 2.0 addresses these shortcomings by simplifying the tax framework, leveraging automation, and aligning with the government's broader "Ease of Doing Business" agenda. Nonetheless, scholars and policymakers continue to monitor its implementation to ensure that revenue neutrality, state autonomy, and sectoral equity are maintained.

NEED FOR INTRODUCING GST 2.0

When GST 1.0 was introduced, it replaced various indirect taxes like VAT, service tax, and excise duty with a unified tax structure. The goal was to eliminate the cascading effect of taxes and create a single national market. Although a landmark reform, the system faced significant challenges, particularly for small businesses and MSMEs, due to multiple tax slabs, frequent rate changes, and complex compliance requirements.

GST 2.0 AS A MAJOR TAX REFORM

A new 40% rate has been added specifically for luxury items and sin goods, while the other slabs of 0%, 5%, 12%, and 18% remain for the other categories. This change is expected to make taxation more transparent and better targeted.

Unlike the earlier system that relied heavily on manual filings and paperwork, GST 2.0 embraces automation, AI tools, and digital processes. These enhancements make it easier especially for small businesses to file returns, claim input tax credits, and manage tax obligations without needing costly consultants.

Moreover, The new system introduces streamlined **e-invoicing** and **quicker refund mechanisms**, helping businesses maintain healthier cash flows—a common challenge under GST 1.0.

GST 2.0: A STEP TOWARDS A BUSINESS-FRIENDLY ECONOMY

GST 2.0 is more than just a revision of tax slabs—it reflects a broader commitment to enhancing the Ease of Doing Business in India. By reducing uncertainties, simplifying procedures, and using technology to improve compliance, the new system boosts investor confidence and aligns India's tax framework with international standards.

For small businesses, MSMEs, and startups, GST 2.0 significantly reduces the compliance burden and supports smoother business operations. Consumers, on the other hand, benefit from fairer tax distribution and more stable pricing, thanks to clearer tax classifications.

Overall, GST 2.0 is not just a policy update—it is a strategic shift toward a more efficient, transparent, and growth-driven tax regime. By addressing the shortcomings of the earlier model, it reinforces India's move toward a modern and business-friendly economy.

OBJECTIVES OF THE STUDY

1. To identify the areas of tax reforms in GST 2.0
2. To study the comparative analysis of GST 1.0 and GST 2.0
3. To study sector-wise reforms and their impact on business and consumers.

SCOPE OF THE RESEARCH

The present study is confined to an in-depth examination of two major phases of the Goods and Services Tax (GST) regime in India i. e. GST 1.0 and GST 2.0. These two versions have been selected as they represent the crucial stages in India's indirect taxation system and have a significant implication for Indian economy. GST 1.0 simplified the taxation process and promoted the concept of "One Nation, One Tax" while GST 2.0 upgraded several structural and procedural reforms to improve efficiency, compliance, and transparency through digital advancements and policy modifications.

The scope of this study encompasses a comparative evaluation of GST 1.0 and GST 2.0 in terms of their implementation mechanisms, tax administration, compliance requirements, input tax credit systems, and revenue collection patterns. The research further explores how the transition from GST 1.0 to GST 2.0 has impacted various stakeholders, including businesses, consumers, and government authorities. Further, the study is limited to the Indian context only.

DATA ANALYSIS AND INTERPRETATION

The secondary data for this research study were collected from various sources, like journals, articles, publications, press releases, previous study reports, working papers, and the internet. The secondary data was also collected from websites of the Goods and Services Tax (GST), Government of India(GoI), and many other relevant sources.

Table 1.1: Comparison between GST 1.0 and GST 2.0:

Feature	GST 1.0 (pre-Sept 22, 2025)	GST 2.0 (post-Sept 22, 2025)
Tax Slab Structure	Four main slabs: 5%, 12%, 18%, and 28%, which caused frequent classification issues.	Simplified to two core slabs: 5% (for essentials) and 18% (standard rate). 12% and 28% slabs removed.
Compliance & Filing	Involved multiple return forms (GSTR-1, 3B, 9), manual input credit matching, and refund delays—especially tough for MSMEs.	Unified return system with automation, AI-driven input credit matching, and faster refunds—greatly easing MSME compliance.
Input Tax Credit	Complicated reconciliation; prone to errors and fraud	Automated credit matching reduces fraud and ensures faster claims
Refunds & Working Capital	Delays in refunds; liquidity crunch for businesses	Faster refunds and e-invoicing improve working capital flow
Dispute Resolution	No regional tribunals; the appeals process was time-consuming and costly.	GST Appellate Tribunal (GSTAT) is being set up with regional benches to speed up dispute resolution.

Table 1.1 depicts that the Tax Slab Structure of GST 1.0 had a multi-tiered tax structure with four primary slabs 5%, 12%, 18%, and 28%. This complicated classification leads to confusion and frequent disputes over which products/services should fall under which slab. GST 2.0 streamlined the system to just two main slabs 5% for essential goods and 18% as the standard rate. The removal of the 12% and 28% slabs made the tax system more predictable and easier for businesses to follow. Thus, it led to simplified decision-making for businesses and tax officials and reduced misclassification and legal disputes. Further, compliance & filing of GST 1.0 required multiple return forms (like GSTR-1, 3B, and 9), and businesses had to do manual matching of input tax credits (ITC). Refunds were often delayed, and the process was especially burdensome for small businesses and MSMEs, whereas GST 2.0 introduced a unified return

filing system, reduced the number of forms, and simplified the process. It results in making compliance easier and reduces administrative costs and delays. Dispute Resolution was also facilitated by GST 2.0 as in GST 1.0, there were no dedicated regional GST tribunals, meaning appeals had to go through regular legal channels, which were slow and expensive. In GST 2.0, a new Goods and Services Tax Appellate Tribunal (GSTAT) with regional benches was introduced, providing a faster and more accessible mechanism for resolving GST-related disputes. As a consequence, there will be quicker resolution of tax issues and less legal burden on taxpayers.

SECTOR-WISE IMPACT: GST 1.0 VS GST 2.0

One of the most notable distinctions between the original GST and the updated **GST 2.0** lies in how different industries are affected. The government's restructured tax slabs under GST 2.0 had a direct impact on sectors such as consumer goods, automobiles, electronics, travel, and services. By adjusting tax brackets, GST 2.0 offers cost relief for essential goods and services, while increasing revenue collection from luxury segments.

Table 1.2: Sector-wise comparison of GST 1.0 and GST 2.0

Category	GST 1.0 (2017)	GST 2.0 (2025)
Consumer Goods & Essentials	Essentials taxed at 5–18% (e.g., soaps, food items)	Essentials moved to 0% or 5% (e.g., milk, paneer, notebooks, soaps, kitchenware)
Electronics & Appliances	Many taxed at 28% (e.g., TVs, ACs, dishwashers)	Shifted to 18% slab, reducing consumer cost and increasing affordability
Automobiles	28% GST plus cess on most vehicles	18% GST for two-wheelers under 350cc, small hybrids, and auto components
Travel & Hospitality	Hotel rooms taxed at 12%, economy airfares varied	Hotel rooms under ₹7,500/night at 5%; economy flights also at 5%
Service Sector (e.g., Wellness)	Services like salons, gyms taxed at 18%	Reduced to 5%, boosting wellness industry and affordability
Impact on MSMEs	High compliance burden; dependency on consultants	Digital tools reduce compliance hassle; easier for MSMEs to operate
Consumer Impact	Higher prices for daily-use goods; tax complexity	More affordable goods & services; stable pricing; simplified tax burden
Business Environment	Complexity caused disputes, delays, and confusion	Promotes ease of doing business; aligns with global best practices
Economic Outlook	Limited formalization; slower MSME growth	Boosts compliance, formalization, and sectoral growth (auto, e-com, healthcare)

From table 1.2, it was observed that in GST 1.0, essential goods like packaged foods and household items were taxed between 5% and 18%, placing a financial strain on average consumers. GST 2.0 eased this burden by lowering rates on several commonly used products, including daily-use items such as milk, paneer, roti/chapati, soaps, shampoos, and notebooks are now taxed at either 5% or 0%. Essential household goods like kitchenware, umbrellas, and bicycles have also seen lower tax rates. These changes are a clear win for middle-class families, making everyday goods more affordable and promoting increased consumption. The contrast with GST 1.0 is evident; GST 2.0 is significantly more consumer-friendly. Under the older regime, sectors like automobiles and electronics bore one of the heaviest tax loads—some

items were taxed at 28%, with additional cess. GST 2.0 provides relief for two-wheelers under 350cc, small hybrid vehicles, and auto components are now taxed at 18% instead of 28%. Appliances such as TVs, dishwashers, and air conditioners also moved from the 28% to the 18% slab.

These adjustments reduced costs for consumers and eased the operational burden on MSMEs in manufacturing and retail. The streamlined structure promotes demand and simplifies tax compliance, especially for small and medium businesses.

The hospitality and travel sectors also benefit from a more organized tax structure under GST 2.0. Hotel stays priced up to ₹7,500 per night now fall under the 5% tax bracket, down from 12%. Economy airfares are consolidated into the 5% slab. Services like salons, gyms, and yoga centers have been moved from 18% to 5%, boosting the wellness sector.

These changes reduce operational complexities and bring down prices for end-users, while making it easier for small service providers to comply with tax norms.

CONCLUSION:

In summary, GST 2.0 is more than a tax revision. It is a structural upgrade designed to correct the flaws of GST 1.0. In essence, GST 2.0 improves transparency, efficiency, and fairness, making tax compliance easier for businesses and providing quicker dispute resolution for taxpayers.

Through rate rationalization, technological integration, and targeted relief across sectors, it supports both ease of doing business and consumer affordability, marking a critical step toward a modern, efficient taxation system.

One of the major reforms is the streamlining of slab rates. The removal of the 12% category and the introduction of a 40% slab for luxury and sin goods has eliminated overlap and confusion, resulting in better clarity for businesses, fewer classification disputes, and simplified rate application.

GST 1.0 was known for its complicated filing procedures, especially for small businesses. GST 2.0 addressed this by introducing unified return formats with fewer forms, AI-powered automation for input tax credit reconciliation, minimizing fraud risks, and sector-specific updates to help MSMEs and online sellers to adjust quickly. This significantly reduces the compliance burden and enhances transparency across the system.

Further, GST 2.0 delivers tangible economic benefits, such as consumers saving on essentials, services, and electronic goods. Businesses, especially in the MSME segment, benefit from lower tax rates and reduced compliance expenses. High-impact sectors like auto, healthcare, and e-commerce are expected to grow faster due to improved affordability and tax simplicity.

These changes directly contribute to better tax compliance, increased demand, and a more growth-oriented economy. In a nutshell, GST 2.0 is a smarter and fairer tax system that simplifies compliance and boosts economic efficiency.

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