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GST 2.0 REFORMS FOR A NEW GENERATION: LIGHTER ON THE POCKET, BRIGHTER FOR THE FUTURE

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ABSTRACT
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India's Goods and Services Tax (GST) 2.0 reforms, introduced in 2025, represent a watershed in indirect taxation, aiming to simplify the regime, enhance affordability, and promote inclusive economic growth. By rationalizing tax rates across multiple sectors—ranging from agriculture and MSMEs to education, healthcare, and technology—the reforms shift India's fiscal architecture toward a pro-consumer, pro-youth model. This article evaluates GST 2.0 from an applied economic perspective, analysing its structural, sectoral, and welfare impacts. It situates the reform within the broader macroeconomic goals of fiscal consolidation, growth stimulation, and the "Swarna Andhra 2047" vision, emphasizing how a simplified tax structure can catalyse household welfare, entrepreneurial dynamism, and sustainable development.

KEYWORDS: ***GST 2.0, Rural Economy, MSMEs, Manufacturing, Human Capital Development, Sectoral Impact***

1. INTRODUCTION

India's GST 2.0 reform, implemented in September 2025, marks a generational shift in indirect taxation. It aims to make the tax regime simpler, lighter, and fairer—aligned with the aspirations of a youthful and digitally empowered India. The reform replaces the complex four-tier system with a streamlined two- or three-rate structure (5%, 18%, and 40%), simplifying compliance while reducing the tax burden across more than 90% of goods and services.

2. STRUCTURAL TRANSFORMATION UNDER GST 2.0

The GST 2.0 initiative replaces twelve earlier slabs with a simplified three-tier structure—5%, 18%, and 40%. Nearly 83 essential items of daily use, including food, healthcare, and education materials, have seen tax reductions or exemptions. This consolidation enhances transparency, reduces classification disputes, and improves business ease.

Figure 1 Old and New GST Slabs



Source: https://static.pib.gov.in

3. SECTORAL ANALYSIS

Agriculture and Rural Economy

Agriculture stands at the forefront of GST 2.0's redistributive logic. Farm inputs such as tractors, irrigation systems, and fertilizers now attract just 5% GST, significantly reducing costs. Dairy, aquaculture, and organic farming also benefit from lower input taxation. This has a dual effect: lowering consumer food prices and enhancing farmer profitability.

MSMEs, Startups, and Industrial Competitiveness

MSMEs—employing over 110 million people—benefit through expedited refunds, reduced logistics costs, and automatic registration. Simplified compliance and rationalised rates for sectors such as leather, textiles, handicrafts, and wood manufacturing encourage entrepreneurship and "Vocal for Local" innovation among youth.

Manufacturing, Construction, and Housing

Cement, bricks, and eco-friendly construction materials have seen rate cuts from 28% to 18% or 5%, reducing housing and infrastructure costs by up to 20%. This reform supports flagship schemes such as Pradhan Mantri Awas Yojana and encourages sustainable materials.

Healthcare and Welfare

Healthcare reforms under GST 2.0 adopt a progressive taxation model—life-saving drugs and health insurance are now exempt or taxed at 5%. By making essential medicines affordable and discouraging harmful consumption, the system integrates preventive health economics.

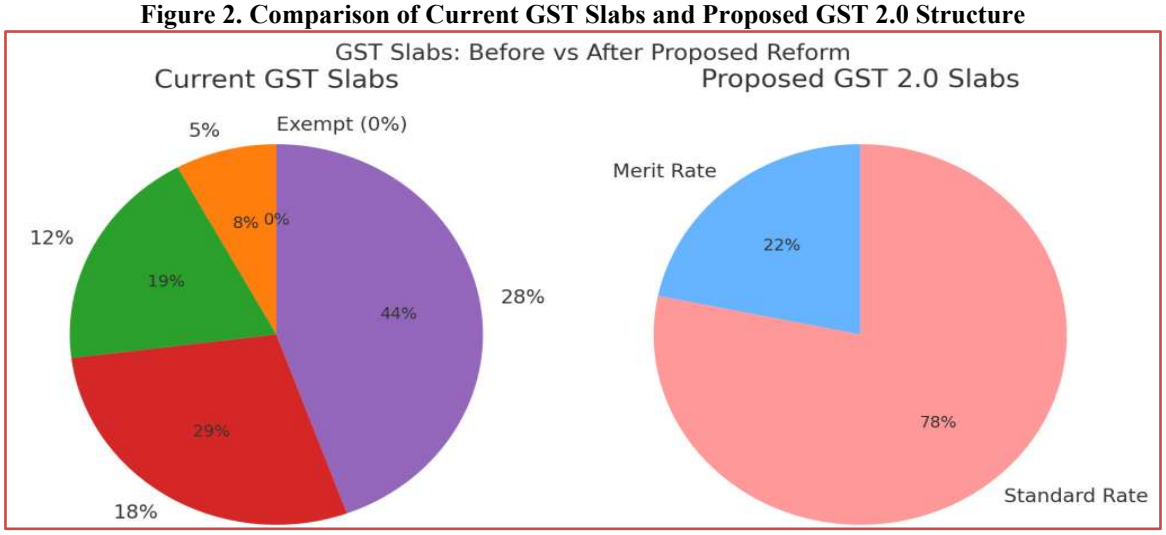
Education and Human Capital Development

GST exemptions on formal education and Nil GST on learning materials signify a strategic investment in India's demographic dividend. The 5% rate on bicycles and toys reduces costs for rural students and supports MSME-based toy manufacturers.

Mobility, Energy, and Transport

Two-wheelers, small cars, and buses now fall under the 18% slab (reduced from 28%), enhancing affordability and promoting rural and youth mobility.

Figure 2. Comparison of Current GST Slabs and Proposed GST 2.0 Structure

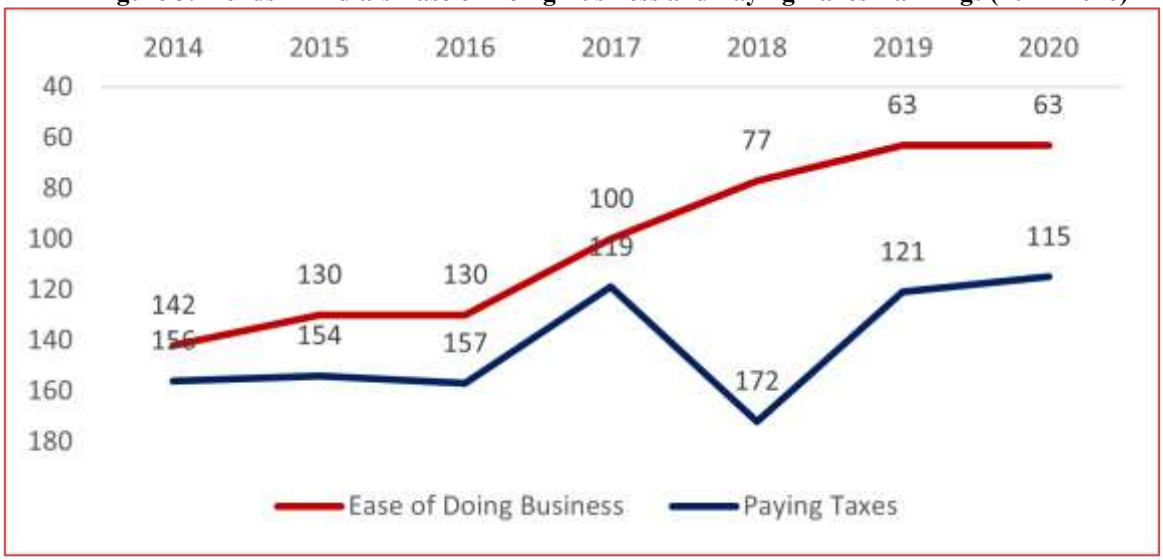


From Four Slabs to Two: The Big Rate Overhaul

For consumers: Lower tax rates on essential and aspirational goods may make them more affordable.

For businesses: A leaner structure means fewer classification disputes and simpler billing.

Figure 3.Trends in India's Ease of Doing Business and Paying Taxes Rankings (2014–2020)



Ease of Doing Business: India's ranking in the World Bank's Ease of Doing Business Index improved significantly from 130 in 2017, before the introduction of GST, to 63 in 2020, reflecting a jump of 67 places within three years.

Figure 4. GST 2.0 – Diwali Tax Gift for the Common Man



GST 2.0: A New Era of Simplified Tax and Growth for Retailers

4. WELFARE ECONOMICS AND HOUSEHOLD AFFORDABILITY

GST 2.0 operationalises a pro-consumer fiscal model. Essential food items like milk, paneer, ghee, paratha, and UHT milk are now either tax-free or taxed at 5%, leading to an estimated ₹1,200–₹2,500 monthly savings per household. By redistributing consumption savings, the reform broadens the disposable income base, encouraging higher aggregate demand.

5. GST 2.0 IN THE FEDERAL AND REGIONAL CONTEXT: THE CASE OF ANDHRA PRADESH

Andhra Pradesh serves as a model for GST 2.0's implementation. With an expected GSDP growth rate of 12–15% and 20 lakh youth job opportunities by 2047, the state aligns its economic trajectory with the Swarna Andhra Vision of a 'Healthy, Wealthy, and Happy Society.

6. MACROECONOMIC IMPLICATIONS

From a macroeconomic lens, GST 2.0 enhances fiscal buoyancy while promoting consumption-led growth. Increased compliance, a widened taxpayer base, and higher gross collections suggest a positive correlation between simplification and revenue performance.

7. POLICY SYNTHESIS AND FUTURE OUTLOOK

GST 2.0 illustrates how tax reforms can function as instruments of social equity. Its design reduces regressivity in indirect taxation, redistributes welfare through affordability, and spurs productivity via investment-friendly measures.

8. CONCLUSION

GST 2.0 is not merely a tax adjustment—it is a socio-economic transformation strategy for a youthful, aspirational India. By making essentials affordable, simplifying compliance, and fostering entrepreneurship, it recalibrates the fiscal system toward inclusive growth.

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