RESHAPING THE INDIRECT TAX REGIME TO STRIDE TOWARDS VIKSIT BHARAT 2047

Abstract

The recent rationalisation of GST rates, with tax slabs streamlined to two principal brackets 5% and 18% alongside 40% rate for sin goods, marks a significant policy shift. Effective from September 22, these changes are expected to make a wide range of goods more affordable, though luxury or sin items may see price increases. This article examines the likely effects of this rate rationalisation along with other procedural reforms endorsed at the 56th meeting of the GST Council on consumers, businesses, and the economy, while also looking ahead to how a simpler GST structure could encourage compliance, boost economic efficiency, and shape India's growth story in the years to come. This article also highlights role of CMAs in translating these reforms into real ease of doing business, especially for small businesses; while ensuring fiscal prudence.

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56th GST Council Meeting on Wednesday (03.09.2025) discussed the long-pending issue of rate rationalisation to approve the transit from a four-tier GST system (5%, 12%, 18%, 28%) to a two-slab structure 5% and 18% apart from a 40% "sin/luxury" category for selected products. The 0% tax rate (called zero-rated supplies) was earlier, as well as now, also there.

Items like hair oil, soaps, homeware, bicycles, and packaged food have been moved to the 5% slab. Ultra-high-temperature milk, paneer, and Indian breads (e.g. roti, parotta) are now GST-exempt (0%). Agricultural machinery, renewable energy tools, and handicrafts enjoy reduced GST (mostly lowered to 5%). Products like cigarettes, pan masala, sugar-laden drinks, and luxury vehicles now attract a steep 40% GST to disincentivize consumption. Let's look at major changes.

Daily Essentials Items	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, Nappkins for Babies & Clinical Diapers	12%	5%
Sewing Machines & Parts	12%	5%

Farmers & Agriculture Items	From	To
Tractor Tyres & Parts	18%	5%
Tractors	12%	5%
Specified Bio-Pesticides, Micro-Nutrients	12%	5%
Drip Irrigation Systems & Sprinklers	12%	5%
Agricultural, Horticultural or Forestry Machines for Soil Preparation, Cultivation, Harvesting & Threshing	12%	5%

Healthcare Items	From	To
Individual Health & Life Insurance	18%	Nil
Thermometer	12%	5%
Medical Grade Oxygen	12%	5%
All Diagnostic Kits & Reagents	12%	5%
Glucometer & Test Strips	12%	5%
Corrective Spectacles	12%	5%

Automobile Items	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%

Education and Stationary Items	From	To
Maps, Charts & Globes	12%	Nil
Pencils, Sharpeners, Crayons & Pastels	12%	Nil
Exercise Books & Notebooks	12%	Nil
Eraser	5%	Nil

Electronics Items	From	To
Air Conditioners	28%	18%
Television (above 32") including LED & LCD TVs	28%	18%
Monitors & Projectors	28%	18%
Dish Washing Machines	28%	18%

Rate rationalisation expected to results in followings among others outcomes

a. Augmenting economic efficiency by simplification of tax slab structure, which will also reduce litigation and compliance costs. Earlier too many slabs were creating classification disputes. Such as 'is a parotta bread, and taxable at 5% or 18%?'

b. Positive consumer psychology, because simpler rate structure improves tax transparency, and eliminates feeling of being charged with 'hidden tax', hence higher acceptance level among consumers is expected.

c. Policy Trade-off because with reduced tax slab, the GST will lose fine-tuned progressivity which earlier it had. Earlier the essentials were taxed at 5% whereas semi-luxury taxed at 12% therefore GST had gradation; now many mid-tier goods benefit disproportionately. Moreover, over-generosity in the 5% slab leads to revenue erosion.

The council also discussed more streamlined GST registration and automated refund systems to aid small businesses. The likely Economic Impacts of this rate rationalisation and reforms are;

1. Boost to Consumption and Household Savings - Lower rates on everyday goods mean consumers pay less GST on essentials, ranging from food and hygiene items to household appliances. This increases disposable income, especially for low and middle-income households, potentially stimulating demand across sectors like FMCG, retail, and autos.

Tax regressivity reduces with bringing essentials under lower slabs. The poor spend a larger share of income on essentials, so lowering the GST makes the tax system fairer.

Essentials usually have inelastic demand, hence see small consumption jump, but the real effect is higher disposable income, hence they will spend elsewhere (FMCG, services).

2. Stimulus for Growth and GDP – Multiple effect is favourable, because rupee saved at the bottom pyramid has a higher marginal propensity to consume (MPC) therefore boosting short-term GDP growth.

According to industry analysts and prior estimates, reductions in GST slabs could boost GDP growth by up to 0.6 percentage points, a significant effect through increased consumption and economic efficiency.

3. Impact on Government Revenue - While positive for consumers, the reforms will shrink GST revenue to the treasury. Essentials are high-volume and larger contributors to GDP and tax revenue; therefore, this rate cut is expensive for the exchequer, straining fiscal balances. Policymakers estimate an annual shortfall of around ₹48,000 crore, or roughly 0.4% of GDP.

4. Fiscal Equity Between Centre and States - States may have fear of budgetary disruption, therefore may seek compensation. It is worth noting that GST compensation cess (to compensate states, for the loss of revenue, if any; on account of implementation of GST for first 5 years from roll out date considering annual revenue growth rate of 14%) ended in 2022.

Co-operative federalism is a larger concern due to vertical imbalance, because centre captures more buoyant taxes (income tax, customs) while states largely depend on GST and devolution from centre, out of common pool of taxes.

Horizontal Inequity may be widened further, because consumption-heavy states (such as UP, Bihar) may lose more than manufacturing-heavy states.

Therefore, this move could sharpen centre–state tussle over co-operative federalism, especially with opposition-led states claiming fiscal space is squeezed.

5. Sectoral Benefits and Investment Impetus – Rate of GST reduced to 5% on agricultural equipment, renewable energy kits, handicrafts; whereas insurance premiums have gone zero-rated. Cost-sensitive industries such as automobiles, appliances, healthcare, agriculture, insurance, handicrafts stand to benefit via increased affordability and potential demand shifts.

Farmer incomes could rise as key agricultural inputs become more affordable. Lower input cost will boost farmer profitability which will in turn result in rural demand push.

The Green Energy sector will get a boost, because tax incentives are aligned with India's climate goals (net zero by 2070). Making solar kits, wind turbines, EV parts cheaper will crowd in investment.

Insurance cover will penetrate to a larger mass as lower GST makes life/health insurance affordable. In turn, expanded coverage will reduce the government's long-term healthcare liability.

Handicrafts segment will also witness ease as rate rationalisation will help informal artisans compete and fosters cultural exports.

6. Taxing Sin Goods at higher rate and Public Health Gains - The hefty 40% GST on sin goods (such as cigarettes, pan masala, and bidi) can serve as a deterrent to their consumption and acts as a public health measure, potentially reducing lifestyle-linked healthcare burdens over time.

Pigouvian Tax Rationale is relied upon by Indian tax authorities while levying hefty taxes on negative externalities to correct market failure/inefficiencies and reduce harmful behaviour.

But a counter argument may also be advanced that demand for addictive goods (such as cigarettes, pan masala) is inelastic to price, therefore with rise in rate, the tax revenue may rise but public health gain will be limited to an extent only. While public health gain will be higher in case of taxing sugary drinks at 40%.

Another threat that has been paused is illicit trade/ smuggling of these goods especially of tobacco, due to high differential rates of taxes.

7. Taxing luxury goods at higher rate of 40% makes GST progressive

Disproportionately will hit the rich, for example those who buy luxury cars, etc, have to pay 40% of the value of supply as tax. This makes GST mildly progressive. For sugary drinks and luxury cars, demand is elastic, hence actual consumption may decline.

8. Administrative Simplification (GST 2.0) - Reducing slabs, improving automation, and clarity in tax structure may lower compliance costs, help small firms, and improve tax administration.

Reducing compliance costs for SMEs will expand the formal economy with a larger tax base over time. Although short-term revenue drops, better compliance could partially offset fiscal loss. Further, simplification strengthens India's "ease of doing business" brand which in turn attracts FDI.

Role of CMAs

Role of CMAs is crucial in translating these rate rationalisation among other reforms into real ease of doing business, especially for small businesses; while ensuring fiscal prudence

With rate rationalisation CMAs can help businesses **understand revised rates**, correctly classify products, and avoid misinterpretation. CMAs may assist SMEs in transitioning to automated GST return filing and refund systems, reducing errors and penalties. CMAs may provide Sector-Specific Guidance, while extending tailored GST advisory for those sectors where SMEs are major players.

In regards to **Revenue Assurance,** CMAs can ensure business especially SMEs claim ITC accurately, preventing revenue leakage for both firms and government. Further as management accountant may help businesses to adjust pricing strategies to reflect new GST slabs, ensuring competitiveness without eroding margins. CMAs may support policymakers and think-tanks by provide empirical data on revenue impact of rate cuts, particularly in high-volume essentials and agriculture, to assess fiscal trade-offs.

In context of **Fiscal Accountability**, CMAs as body of accounting professionals, can model the estimated revenue shortfall and recommend data-driven compensatory strategies (broadening tax base, curbing leakages), apart from providing analytical support to GST Council on vertical and horizontal imbalances, strengthening co-operative federalism; or publishing Public Accountability Reports to record sectoral impact (where GST cuts could drive inclusive growth) and highlighting how rate rationalisation benefits consumers, SMEs, and whether health/luxury sin taxes achieve desired outcomes.

Role includes **forward-looking contributions**. CMAs, through ICMAI, can act as a bridge to consolidating feedback of business (especially SME) and presenting it to policymakers for fine-tuning GST 2.0. ICMAI may organise training and certification programs for SME accountants/ managers on GST reforms, ensuring grassroots compliance.

Conclusion

The GST reforms from the 56th GST Council meeting mark a bold step toward a simpler, fairer tax regime with aim to reignite the economy. They promise economic stimulus, enhanced ease of living, and support to key sectors. However, they also require careful fiscal management to offset the reduced tax revenue and ensure that states remain financially stable.

CMAs can be the compliance navigators for SMEs and revenue guardians for policymakers. They are uniquely positioned to translate GST simplification into real ease of doing business for small firms, while also ensuring fiscal prudence and accountability at the policy level. MA

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