# Inputs on Next-Generation GST

**Introduction:**

1. **Problem with VAT (pre-GST era):** There were no uniform tax rates, and States imposed additional levies like entry tax, undermining harmonisation. There was no consistency in tax returns, audits, or penalties across states, causing compliance burdens. Weak input tax credit provisions enabled misuse, while a lack of central oversight allowed evasion. Double taxation with service tax, frequent rate changes, and differential structures created distortions. Therefore, GST was brought in 2017, after convincing the States.
2. **Eight Years of GST** – GST marked its 8th anniversary on 1st July 2025, achieving its vision of *'One Nation, One Tax'*. It unified India into a single market, streamlined interstate trade, and removed multiple layers of cascading taxes.
3. **Deloitte's survey** concluded that 85% of respondents including MSMEs are happy with the GST implementation.
4. **Core Objectives Fulfilled** – The system simplified tax structures, made industry more competitive, and directly benefited citizens through uniform rates across the nation and unified procedures for compliance and enforcement.

**Performance so far**

- **Expansion of Tax Base** – The GST taxpayer base grew from 66.5 lakh in 2017 to 1.51 crore in 2025, indicating greater formalisation of the economy.
- **Record Revenue Growth** – FY 2024–25 saw gross GST collections of ₹22.08 lakh crore, doubling in just four years and growing at a CAGR of over 18%.
- **Economic Confidence** – Rising collections and active taxpayers reflect growing compliance, improved systems, and the strength of India's economy. Average revenue in this fiscal year is ₹2,04,500 crore compared to ₹82,000 crore in FY 2017-18.

**Vision Going Forward**

- **Next Phase of GST** – GOI is proposing a broad-based GST rate rationalisation to ensure long-term effectiveness and inclusivity.
- **Focus Areas** – Reforms will prioritise easing the life of citizens, supporting economic growth sectors, and simplifying structures for businesses.

**3 Key Pillars of Reform**

**Pillar 1: Structural Reforms**

- **Inverted Duty Structure Correction** – Aligning input and output tax rates will improve liquidity, especially for MSMEs, by reducing working capital blockage.
- **Resolving Classification Issues** – Similar goods and services will be placed in the same rate slab, cutting disputes and lowering litigation costs.
- **Stability & Predictability** – A stable tax environment will help businesses plan long-term investments, encourage compliance, and drive economic growth.

**Pillar 2: Rate Rationalisation**

- **Simpler Rate Structure** – Move from 4 rates to 2 main rates (5% & 18%) with a special rate (lower and higher for identified goods).
- **Relief for Citizens** – Lower rates on essentials like food and medicines, and reduced tax on certain aspirational goods to improve affordability.
- **End of Compensation Cess** – With loan repayments ending sometime soon this year, the cess will be phased out, maintaining the same level of overall tax incidence.

**Pillar 3: Ease of Living (Registration, Returns and Refund)**

- **Simplified Registration** – Technology-driven, time-bound registration processes to make it easier for small businesses and startups.
- **Faster Refunds** – Quicker processing, especially for exporters and those facing inverted duty structures, to improve liquidity.

**Sectoral Impact of Next-generation GST Reforms– Reinvigorating key economic sectors:**

- **Agriculture** – Cheaper machinery and promotion of bio-pesticides will help small farmers and encourage sustainable practices.
- **Fertiliser** – Correcting inverted duty will boost domestic production and reduce import dependence.
- **Textiles** – Fixing the duty structure for man-made fibres will improve competitiveness, especially for exports.
- **Handicrafts** – Lower rates will support artisan livelihoods, preserve heritage, and promote rural economic growth.
- **Health** – Reduced rates on medicines and devices will improve access to healthcare and support domestic manufacturing.
- **Automotive** – Clearer classification will reduce disputes and support growth in manufacturing and exports.
- **Renewable Energy** – Incentives will align with India's COP climate targets and boost local production.
- **Insurance** – Lower rates will support "Mission Insurance for All by 2047," improving social security coverage.

**Conclusion**

**Kick starting virtuous cycle:**

We have taken a number of measures, including the income tax rate cut in this year's budget, to boost consumption. GST Rate Rationalisation adds further weight to those efforts. In our view, this means kick-starting a fresh virtuous cycle of stimulating growth and reinvigorating key economic sectors, which will ultimately result in lower prices for consumers and higher revenue for the government.

- **Lower Prices, Higher Demand:** Reduced GST rates make goods more affordable, boosting consumption.

  **Wider Benefits of GST Reforms:**

- **Wider Tax Net:** Simpler rates encourage more businesses and individuals to comply, expanding the tax base.

- **Ease of Living:** Fewer rates mean fewer disputes, quicker decisions, and lower compliance costs.
- **Support for Manufacturing:** Correcting inverted duty structures boosts domestic value addition and exports.
- **Revenue Growth:** Broader base and better compliance raise collections, as seen in past GST and income tax reforms.
- **Economic Momentum:** Higher consumption → larger tax base → with ease of living → stronger revenues → sustainable growth.

Our objective has been to create a GST system that is simpler, fairer, and growth-oriented, keeping citizens at the centre while driving India's global economic ambitions. This rate rationalisation is yet another attempt in that direction.

## Annexure A: List of Items

The changes in GST rates on services will be implemented **with effect from 22nd September 2025.**

| S.N. | Item | Old GST Rate | New GST Rate |
|---|---|---|---|
| **Food & Kitchen** | | | |
| 1. | Paneer/Chena (packed) | 5% | **0%** |
| 2. | UHT Milk *(tetra-pack milk)* | 5% | **0%** |
| 3. | Paratha/Parotta & Indian breads (all names) | 18% | **0%** |
| 4. | Roti/Chapati/Khakhra, Pizza bread | 5% | **0%** |
| 5. | Butter / Ghee / Dairy spreads | 12% | **5%** |
| 6. | Cheese | 12% | **5%** |
| 7. | Dry Fruits *(almonds, pistachio, hazelnut, dates, anjeer etc.)* | 12% | **5%** |
| 8. | Chocolates, Pastry, Cakes, Biscuits, Jams | 18% | **5%** |
| 9. | Namkeen/Bhujia/Mixture/Chabena *(packed)* | 12% | **5%** |
| 10. | Pasta/Spaghetti/Macaroni/Noodles | 12% | **5%** |
| 11. | Corn Flakes & other cereal flakes | 18% | **5%** |
| 12. | Pickles *(achar)* | 12% | **5%** |
| 13. | Fruit & Veg Juices | 12% | **5%** |
| 14. | Tender Coconut Water *(packed)* | 12% | **5%** |
| 15. | Refined Sugar & Sugar Cubes | 12% | **5%** |
| 16. | Coffee | 18% | **5%** |
| 17. | Curry paste, Mayonnaise, Salad dressings | 12% | **5%** |
| 18. | Soups & Broths (ready/pre-mix) | 18% | **5%** |
| 19. | Yeast & Baking powder | 12% | **5%** |
| 20. | Preserved Fish/Meat *(canned/ready)* | 12% | **5%** |
| **Beverages (non-alcoholic)** | | | |
| 21. | 20-litre Drinking Water jars | 12% | **5%** |
| 22. | Plant-based milk drinks *(coconut milk, almond milk, cashew milk, flax milk, rice milk, and oat milk)* | 18% | **5%** |
| 23. | Fruit-pulp/fruit-juice based drinks *(non-carbonated)* | 12% | **5%** |
| 24. | Beverages containing milk *(milk-based drinks)* | 12% | **5%** |

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| **Personal Care (daily-use)** | | | |
| 25. | Toilet Soaps (bars/cakes), Toothpaste, Dental floss, Toothbrushes | 18% | **5%** |
| 26. | Tooth powder | 12% | **5%** |
| 27. | Hair oil & Shampoo, Talcum/Face powder, Shaving cream/aftershave/lotion | 18% | **5%** |
| 28. | Combs, hairpins, curlers (non-electric) | 12% | **5%** |
| **Household Items** | | | |
| 29. | Feeding bottles & nipples, Baby napkins & diapers *(all types)* | 12% | **5%** |
| 30. | Safety matches | 12% | **5%** |
| 31. | Candles/handcrafted candles | 12% | **5%** |
| 32. | Kitchen utensils (Steel/Aluminium/Copper/Brass/Wood) | 12% | **5%** |
| 33. | Kerosene/wood stoves *(non-electric)* | 12% | **5%** |
| 34. | Sewing machines & parts | 12% | **5%** |
| 35. | Rubber bands | 12% | **5%** |
| **Students & Education** | | | |
| 36. | Exercise/Graph/Lab notebooks | 12% | **0%** |
| 37. | Erasers | 5% | **0%** |
| 38. | Textbook/Notebook paper *(uncoated)* | 12% | **0%** |
| 39. | Maps/Atlases/Globes (printed) | 12% | **0%** |
| 40. | Pencils, crayons, pastels, charcoal | 12% | **0%** |
| 41. | Pencil sharpeners | 12% | **0%** |
| 42. | Geometry/Colour boxes | 12% | **5%** |
| 43. | Paper cartons/boxes (corrugated/others) | 12% | **5%** |
| 44. | Paper moulded trays | 12% | **5%** |
| **Medicines & Medical Devices** | | | |
| 45. | Many rare-disease & cancer drugs | 5–12% | **0%** |
| 46. | All (other) drugs & medicines (incl. ayurveda, unani, siddha, homeopathy) | 12% | **5%** |
| 47. | Medical oxygen | 12% | **5%** |
| 48. | Diagnostic kits & Diagnostic reagents (Chemicals), Glucometer & Test strips | 12% | **5%** |
| 49. | Thermometers (medical) | 18% | **5%** |
| 50. | Medical/surgical instruments, Surgical rubber gloves | 12% | **5%** |
| **Farmers & Irrigation** | | | |
| 51. | Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc) | 12% | **5%** |

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| 52. | Tractor tyres/tubes | 18% | **5%** |
| 53. | Tractor parts *(brakes, gearbox, clutch, wheels, steering, radiator, silencer, hydraulics, fenders/hood etc.)* | 18% | **5%** |
| 54. | Harvesters/Threshers & parts | 12% | **5%** |
| 55. | Soil-prep & cultivation machinery | 12% | **5%** |
| 56. | Poultry/bee-keeping machinery | 12% | **5%** |
| 57. | Sprinklers/Drip irrigation & nozzles | 12% | **5%** |
| 58. | Hand pumps (others) | 12% | **5%** |
| 59. | Composting machines | 12% | **5%** |
| **Vehicles & Mobility** | | | |
| 60. | Two-wheelers *(bikes/scooty ≤350cc)* | 28% | **18%** |
| 61. | Small cars *(≤1200cc petrol / ≤1500cc diesel; ≤4m)* | 28% | **18%** |
| 62. | Three-wheelers (autos) | 28% | **18%** |
| 63. | Passenger vehicles (10+ seats) | 28% | **18%** |
| 64. | Engine parts, ignition, pumps (vehicle) | 28% | **18%** |
| 65. | Bicycles & bicycle parts | 12% | **5%** |
| 66. | Auto Components | 28% | **18%** |
| **Home Building & Materials** | | | |
| 67. | Cement | 28% | **18%** |
| 68. | Marble/Travertine blocks, Granite blocks, Sand-lime bricks | 12% | **5%** |
| 69. | Particle boards from agri-waste *(bagasse, rice husk, jute, sisal etc.)* | 12% | **5%** |
| 70. | Bamboo flooring / joinery | 12% | **5%** |
| 71. | Packing cases & pallets (wood) | 12% | **5%** |
| **Consumer Electronics & Appliances** | | | |
| 72. | Television sets (LCD/LED) (> 32’) | 28% | **18%** |
| 73. | Monitors & Projectors (non-TV) | 28% | **18%** |
| 74. | Air-conditioners | 28% | **18%** |
| 75. | Dishwashers | 28% | **18%** |
| 76. | Solar water heater & systems, Solar cookers | 12% | **5%** |
| **Toys, Sports & Handicrafts** | | | |
| 77. | Toys like tricycles, scooters, pedal cars etc. (including parts and accessories thereof) [other than electronic toys] | 12% | **5%** |
| 78. | Wooden/metal/textile dolls & toys *(Channapatna, Thanjavur, Sawantwadi etc.)* | 12% | **5%** |
| 79. | Board games *(Ludo/Carrom/Chess/Playing cards)* | 12% | **5%** |

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| 80. | Sports goods other than articles and equipment for general physical exercise | 12% | **5%** |
| 81. | Handicraft idols & statues *(wood/stone/metal) and* lamps *(incl. panchloga)* | 12% | **5%** |
| 82. | Brass/Copper/Aluminium artware | 12% | **5%** |
| 83. | Paintings, sculptures | 12% | **5%** |

## Annexure B: Background on GST

- **The idea** of adopting Goods and Services Tax (GST) was first suggested by the NDA Govt led by **Shri Atal Bihari Vajpayee in 2000.**
    - **An Empowered Committee of State Finance Ministers (EC) was established by the Vajpayee Government in the year 2000** to recommend reforms for the then prevalent Sales Tax regime in the country.
    - **However, sincere efforts were not made subsequently to genuinely implement this much-needed indirect tax reform.**
- **It was the Hon'ble PM Narendra Modi-led Government that set the ball rolling again for the implementation of the GST. Driven by the belief of 'Reforms by Conviction', intense consensus building was done with the States.**
    - **Within 2 years of its introduction in the Parliament** (December 2014), the GST-related 101$^{st}$ Constitutional Amendment Act was passed & ratified by more than 50% of the States w.e.f 8$^{th}$ September 2016.
- Goods and Services Tax (GST) is "a path-breaking legislation for New India". This **revolutionary taxation system was rolled out at midnight of 1st July 2017**, **by Hon'ble Prime Minister Shri Narendra Modi.**
- It is not merely a tax reform but a milestone in realizing **Sardar Vallabhbhai Patel's dream of building a unified India. It brought 'Economic Integration' in India from the 'Economic Fragmentation'. GST is the embroidery that stitches the diversity of Indian markets into the fabric of economic progress.**
- **GST aimed to make India a common market with common tax rates and procedures and remove the economic barriers** thus paving the way for an integrated economy at the national level.
- **GST subsumed more than 17 taxes and 13 cesses levied by the Centre and State into a single tax.** <u>It has bridged States and enabled Trade.</u>
- Before GST was introduced, **India's indirect tax system was fragmented where every State was effectively a distinct market** for the industry as well as consumer.
    - The **existence of multiple tax rates, laws, and procedures led to a substantial compliance burden on taxpayers**.
    - Additionally, the **tax-on-tax effect**, or the cascading of taxes, was a notable issue - for instance, **VAT was imposed on a value inclusive of the central excise** duty. This increased the tax burden on the common people.