

GST Reforms 2025: Simplified Taxation, Consumer Benefits and Post-Reform Tax Revenue Performance in India

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Abstract

The Goods and Services Tax (GST) Council's 56th meeting approved a set of next-generation reforms that replaced India's earlier four-slab GST structure with a simplified two-slab system of 5 per cent and 18 per cent, alongside a special 40 per cent rate for luxury and sin goods. This study examines the sector-wise implications of these reforms across the automobile, food and household, construction, agricultural, service, education, medical, insurance and MSME segments and evaluates post-reform GST revenue performance. Using a descriptive, comparative research design based on secondary data drawn from the Central Board of Indirect Taxes and Customs (CBIC), the GST Council, the Press Information Bureau (PIB), the Society of Indian Automobile Manufacturers (SIAM), and the GST Network (GSTN), the study compares pre- and post-reform tax rates and month-wise GST collections for October 2025 through January 2026 against corresponding months in the preceding year. The findings indicate that the rate rationalisation delivers substantial relief to consumers and eases compliance for businesses, particularly MSMEs, while aggregate GST collections — despite the removal of compensation cess and lower headline rates on several categories — show resilience, with CGST, SGST, and IGST collections generally rising even as cess revenue falls to zero. The study concludes that the reforms represent a structurally significant recalibration of India's indirect tax regime, whose full fiscal and behavioural effects will become clearer as more post-implementation data accumulates.

Keywords: *GST 2.0, Next-Generation GST Reforms, indirect taxation, tax revenue performance, consumer welfare, MSME, India*

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I. Introduction

The Goods and Services Tax (GST), introduced in India in July 2017, unified a fragmented indirect tax system into a single national framework. While GST simplified the multiplicity of central and state levies that preceded it, its multi-slab structure — spanning 5, 12, 18, and 28 per cent rates, supplemented in several categories by a compensation cess — was frequently criticised for classification disputes, inverted duty structures, and compliance complexity, particularly for small businesses. The next-generation GST reforms approved by the 56th GST Council meeting mark a deliberate response to these concerns. The reforms replace the earlier four-slab structure with a simplified two-slab system of 5 per cent for essential goods and 18 per cent for standard goods and services, while introducing a distinct 40 per cent slab for luxury and sin goods such as tobacco products, pan masala, aerated beverages, high-end motor cars, yachts, and private aircraft.

Beyond rate rationalisation, the reforms simplify registration and return-filing procedures and accelerate the refund mechanism, thereby reducing the compliance burden on businesses — an outcome expected to be especially beneficial for micro, small, and medium enterprises (MSMEs) and start-ups. The rate revisions cut across a wide spectrum of sectors that directly affect everyday life and national development, including food and household essentials, automobiles, construction and building materials, agriculture, hospitality and personal-care services, education, healthcare, and life and health insurance. By lowering effective rates on essentials while correcting inverted duty structures in select industries, the reforms attempt to balance economic efficiency with

social inclusion. A central policy question accompanying the reforms is fiscal: whether the resulting reduction in per-unit tax collection will be offset by higher consumption volumes and improved compliance, thereby preserving overall government revenue.

This study addresses two related objectives. First, it documents and analyses the sector-wise rate changes introduced under the 2025 GST reforms, drawing on official government sources. Second, it examines actual post-reform GST revenue performance using month-wise collection data, comparing CGST, SGST, IGST, and cess collections in the initial months following implementation against the corresponding months of the previous year. The remainder of the paper is organised as follows: Section 2 reviews related literature; Section 3 states the study's objectives; Section 4 outlines the research methodology; Section 5 presents the sector-wise analysis; Section 6 examines post-reform revenue performance; Section 7 discusses the findings; and Section 8 concludes with implications and directions for future research.

II. Review of Literature

Research on India's indirect tax regime has examined GST from several angles. Garg, Mittal, and Garg (2025) used intervention modelling to empirically investigate whether the implementation of GST exerted an inflationary effect on the Indian economy, contributing evidence to a long-standing debate on the price implications of indirect tax reform. Sumathi (2026) undertook a strategic analysis of "GST 2.0," situating the next-generation reforms within the broader evolution of India's indirect taxation system and the wider economic landscape. Okoye (2026) examined the impact of GST on small and medium enterprises, drawing attention to the compliance and cost dimensions that are especially salient for this segment of the economy. Manu (2025) analysed the 2025 Union Budget's tax reform measures and their sectoral and economic implications, offering context for the fiscal environment preceding the GST Council's reform announcement. Zaveri (2025) reviewed the constitutional provisions and legal architecture underpinning direct and indirect taxation in India, tracing emerging regimes of reform, including GST, within that constitutional framework.

Collectively, this body of work underscores that GST reform is a multidimensional area of inquiry spanning macroeconomic effects, enterprise-level compliance burdens, constitutional and legal structure, and fiscal policy. However, comprehensive sector-wise documentation of the specific rate changes introduced under the 2025 Next-Generation GST reforms, read alongside empirical post-reform revenue data, remains limited in the published literature. This study addresses that gap by consolidating rate changes across ten sectors and juxtaposing them against actual GST collection performance in the months immediately following implementation.

Objectives of the Study

This study is guided by the following objectives:

1. To examine the sector-wise rate changes introduced under the Next-Generation GST reforms of 2025 across automobiles, food and household items, construction materials, agriculture, services, education, medical products, insurance and the MSME sector.
2. To analyse GST revenue performance in the months following implementation, comparing CGST, SGST, IGST and cess collections against the corresponding months of the preceding year.
3. To assess the broader implications of the reforms for consumer welfare, business compliance and government revenue.

III. Research Methodology

The study adopts a descriptive and comparative research design based entirely on secondary data. Data on revised GST rates were compiled from official government sources, including the Central Board of Indirect Taxes and Customs (www.cbic.gov.in), the GST Council (www.gstcouncil.gov.in), the Press Information Bureau (www.pib.gov.in), the Society of Indian Automobile Manufacturers (www.siam.in), and the GST Network (www.gst.gov.in). Pre-reform and next-generation rates were compared item-wise to compute the percentage-point difference for each category. GST revenue performance was assessed using officially published month-wise collection figures (in ₹ crore) for CGST, SGST, IGST, and compensation cess, covering October, November, and December of the pre- and post-reform years, and January of the year preceding and following the reforms' effect on that month. Given the exclusively secondary and descriptive nature of the data, the analysis is confined to trend comparison rather than inferential statistical testing; no primary data were collected, and no significance tests were applied.

Sector-wise Analysis of Next-Generation GST Reforms

Automobile Sector

The GST Council's decision represents one of the most transformative reforms for automobile buyers that India has seen since GST's introduction. When GST was first implemented in 2017, automobile buyers had hoped it

would lower vehicle prices relative to the earlier tax regime; instead, a steep 28 per cent GST rate combined with a compensation cess ranging from 1 to 22 per cent left many of those expectations unmet, placing a heavier burden on buyers than anticipated. The next-generation GST rates bring significant relief across vehicle categories, reflecting a long-awaited response to public demand for lower tax burdens, and mark a milestone in consumer-friendly indirect tax reform through the removal of the compensation cess on most categories.

Table 1
Comparative Analysis of Existing and Next-Generation GST Rates on Automobiles

Category of Vehicles	GST (%)	Compensation Cess (%)	Total (%)	Next-gen GST (%)	Difference (%)
Motor Cars					
Petrol/CNG/LPG, <4m length, <1200cc engine	28	1	29	18	11
Diesel, <4m length, <1500cc engine	28	3	31	18	13
Mid-size (>4m length, <1501cc engine)	28	17	45	40	5
Large size (>4m length, >1500cc engine)	28	20	48	40	8
SUVs (>4m length, >1500cc engine, >169mm ground clearance)	28	22	50	40	10
Hybrid (except small)	28	15	43	40	3
Electric (All)	5	NA	5	5	0
Three-Wheeled Vehicles	28	NA	28	18	10
Two-Wheelers					
Up to 350cc engine	28	NA	28	18	10
>350cc engine	28	3	31	40	9
Public Transport Vehicles					
10–13 seater	28	15	43	40	3
Above 13-seater & commercial goods vehicles	28	NA	28	18	10

Note. Author-compiled data. Sources: CBIC (www.cbic.gov.in), GST Council (www.gstcouncil.gov.in/gst-rates), SIAM (www.siam.in), and PIB (www.pib.gov.in).

(a) Motor cars: A welcome shift in tax burden.

The revised rates bring significant relief to motor car buyers, particularly in the compact and mid-size segments. Previously, small petrol and diesel cars attracted 28 per cent GST plus a compensation cess of 1 to 3 per cent, resulting in a total tax burden of up to 31 per cent. Under the new structure, these vehicles are taxed at a flat 18 per cent with no cess, substantially reducing overall cost. Mid-size and large cars, which earlier faced combined rates of 45 to 48 per cent, now attract 40 per cent. SUVs, previously taxed at an effective 50 per cent, also benefit from a 10-percentage-point reduction, improving affordability.

(b) Electric vehicles: Continued support for green mobility.

Electric vehicles retain their existing 5 per cent GST rate with no compensation cess. This continuity signals sustained government commitment to clean and sustainable transportation and preserves the price advantage of EVs for environmentally conscious consumers and fleet operators.

(c) Three-wheelers: Boosting affordable transport.

Three-wheeled vehicles, previously taxed at 28 per cent, now attract a reduced rate of 18 per cent. This ten-percentage-point cut is expected to support small-scale transport providers and strengthen last-mile connectivity, particularly in rural and semi-urban areas.

(d) Two-wheelers: Relief for everyday commuters.

Two-wheelers with engine capacities up to 350cc now attract 18 per cent GST, down from 28 per cent, making daily commuting more affordable. High-end motorcycles above 350cc, previously taxed at a combined 31 per cent, are now taxed at 40 per cent — a shift indicating higher taxation on the luxury segment even as mass-market models become cheaper.

(e) Public transport vehicles: Encouraging mass mobility.

Vehicles designed for public transport, such as 10–13-seaters, see a modest reduction from 43 to 40 per cent. More significantly, larger public transport vehicles and commercial goods carriers, previously taxed at 28 per cent, now

attract 18 per cent — a change likely to reduce operational costs for transport operators and improve affordability for passengers.

(f) Bicycles and parts: A direct price cut for basic mobility.

In a change that directly benefits low-income households, students, and rural commuters, the GST rate on bicycles and their parts has been reduced from 12 to 5 per cent, making basic mobility more affordable and accessible.

Food and Household Sector

The reforms deliver noticeable savings for households by reducing tax rates on commonly used items, including packaged foods and daily essentials, easing the financial burden on consumers and enhancing affordability across a wide range of household products. Table 2 summarises the revised rates.

Table 2
Revisions in GST Rates for Food and Household Items

Goods	From (% GST)	To (% GST)	Difference (%)
Condensed milk, butter, cheese	12	5	7
UHT milk, paneer	5	Nil	5
Dry fruits, nuts, malt, starches	18	5	13
Preserved meat, fish	12	5	7
Cocoa powder, chocolates	18	5	13
Talcum powder, face powder, hair oil, shampoo, toothpaste, toilet soap	18	5	13
Footwear (value not exceeding ₹2,500)	12	5	7
Umbrella, hat, cap	12	5	7
Consumer durables — TVs (LED/LCD >32"), AC, dishwasher	28	18	10

Note. Author-compiled data. Source: PIB (www.pib.gov.in).

Packaged foods such as condensed milk, butter, cheese, and chocolates now attract 5 per cent GST, down from 12 or 18 per cent, while UHT milk and paneer are fully exempt. Personal-care products, footwear under ₹2,500, umbrellas, and caps also see rates reduced to 5 per cent. High-end appliances such as large televisions, air conditioners, and dishwashers move from the 28 per cent slab to 18 per cent. These changes make everyday essentials and lifestyle goods more affordable, easing the cost of living for households across India.

Home Building and Materials

The reduction in GST rates on cement and construction materials is expected to make housing and infrastructure projects more affordable, stimulate demand in the real estate market, and generate employment across the construction industry, contributing to broader economic growth and urban development.

Table 3
Revisions in GST Rates for House Building and Materials

Goods	From (% GST)	To (% GST)	Difference (%)
Cement	28	18	10
Marble, granite blocks, travertine blocks, bamboo flooring	12	5	7
Sand lime bricks, stone inlay work	12	5	7
Cement-bonded particle board, gypsum board	12	5	7

Note. Author-compiled data. Source: PIB (www.pib.gov.in).

Cement, previously taxed at 28 per cent, now falls under the 18 per cent slab, significantly lowering input costs for builders. Marble, granite blocks, travertine blocks, bamboo flooring, sand lime bricks, stone inlay work, cement-bonded particle boards, and gypsum boards have all moved from 12 to 5 per cent GST. These revisions are expected to make home construction more economical and support employment growth in the building and allied industries.

Agricultural Sector

The GST revisions offer meaningful support to the agricultural sector, particularly small-scale farmers, by reducing tax rates on farm machinery and bio-pesticides to lower input costs and promote environmentally responsible farming methods. Correcting the inverted duty structure on fertiliser inputs is a strategic move to

enhance domestic production capacity and reduce reliance on imported materials, reinforcing India's goal of agricultural self-sufficiency.

Table 4
Revisions in GST Rates for the Agricultural Sector

Goods	From (% GST)	To (% GST)	Difference (%)
Tractors	12	5	7
Tractor tyres and parts	18	5	13
Drip irrigation systems and sprinklers	12	5	7
Agricultural machines	12	5	7
Bio-pesticides	12	5	7

Note. Author-compiled data. Source: PIB (www.pib.gov.in).

GST on tractors has been reduced from 12 to 5 per cent, while tractor tyres and parts, previously taxed at 18 per cent, now also fall under the 5 per cent slab. Drip irrigation systems, sprinklers, agricultural machinery, and bio-pesticides have similarly moved from 12 to 5 per cent. These changes are expected to ease financial pressure on small and marginal farmers and strengthen domestic agricultural productivity.

Service Sector

The reforms reduce tax rates on select hospitality and wellness services. Hotel stays priced up to ₹7,500 per day now attract 5 per cent GST, down from 12 per cent, easing travel costs for mid-range consumers. Services such as gyms, salons, barbershops, and yoga have seen their GST rate reduced from 18 to 5 per cent, promoting personal well-being and lifestyle spending. These changes are expected to boost demand in the hospitality and service sectors and support the wider wellness ecosystem.

Sports, Handicrafts and Toys

The 2025 reforms address key structural issues in the textile and handicraft sectors by correcting the inverted duty structure: GST on man-made fibres has been reduced from 18 to 5 per cent, and on man-made yarn from 12 to 5 per cent, improving cost efficiency and export potential. The reduction of GST on handicraft items — including idols, statues, paintings, sculptures, and dolls or toys made of wood, metal, or textiles — from 12 to 5 per cent is expected to strengthen artisan incomes, preserve cultural heritage, and stimulate economic activity in rural and craft-based communities.

Education Sector

The reforms make education more affordable by eliminating tax on essential learning materials such as exercise books, erasers, pencils, crayons, and sharpeners, bringing their GST rate to zero. Geometry boxes, school cartons, and trays now attract a reduced GST rate of 5 per cent, down from 12 per cent. These changes reflect a focused effort to support inclusive education and lower financial barriers for learners across India.

Medical Sector

The next-generation reforms significantly reduce tax rates on a wide range of medical products and devices. Life-saving drugs and diagnostic kits are now fully exempt from GST, down from 12 per cent. Traditional medicines — including Ayurveda, Unani, and Homoeopathy formulations — attract a reduced rate of 5 per cent. Spectacles and corrective goggles, previously taxed at 28 per cent, now attract just 5 per cent GST. Medical oxygen, thermometers, surgical instruments, and medical, dental, and veterinary devices have also been brought under the 5 per cent slab, improving access to quality care across India.

Health and Life Insurance

The reforms introduce GST exemptions on premiums for individual life insurance, health insurance, floater plans, and senior citizen policies, enhancing the affordability of financial protection. By removing GST from these essential services, the government aims to broaden access to insurance coverage and reduce the cost burden on households. This measure aligns with the long-term national objective of "Mission Insurance for All by 2047," promoting inclusive risk coverage and strengthening social security across diverse population segments, and is expected to encourage wider participation in insurance schemes.

MSMEs and Start-ups

The next-generation GST regime offers considerable advantages to MSMEs and start-ups by creating a simpler, more business-friendly tax environment. The two-rate structure of 5 and 18 per cent reduces complexity

in filing and interpretation, easing administrative burdens, while simplified registration procedures and faster refund processing improve liquidity and operational efficiency. Lower GST rates on raw materials, equipment, and essential services reduce overall input costs, enabling smaller enterprises to remain competitive, scale operations, and redirect resources toward innovation rather than compliance management.

Post-Reform Tax Revenue Performance

A key policy concern accompanying the rate reductions was their potential effect on government revenue. Table 5 presents a comparative analysis of GST revenue for October, November, and December (pre- and post-reform years) and January (the year immediately preceding and following the reforms' effect on that month), showing changes in CGST, SGST, IGST, and cess collections and helping to identify the emerging trend in government revenue generation.

Table 5
Comparative Analysis of GST Revenue (₹ in Crore)

Period	CGST	SGST	IGST	CESS	Total
October					
2024	31,299.8	38,717.0	85,969.3	12,054.7	1,68,041
2025	33,574.5	40,844.8	87,475.5	—	1,61,895
Difference	+2,274.6	+2,127.8	+1,506.2	-12,055.0	-6,146.1
November					
2024	31,815.0	39,809.0	78,436.5	12,949.9	1,63,010
2025	32,663.9	39,804.5	79,610.9	—	1,52,079
Difference	+848.9	-4.5	+1,174.5	-12,950.0	-10,931.0
December					
2024	29,929.6	36,845.5	75,588.1	12,003.3	1,54,366
2025	30,014.4	35,928.6	79,627.3	—	1,45,570
Difference	+84.8	-916.9	+4,039.2	-12,003.0	-8,796.2
January					
2025	32,460.0	40,172.0	86,012.0	13,009.2	1,71,653
2026	35,488.4	43,553.0	91,678.1	—	1,70,719
Difference	+3,028.4	+3,381.0	+5,666.0	-13,009.0	-933.8

Note. Author-compiled data. Source: GSTN (www.gst.gov.in). Cess collections fall to nil (—) in the post-reform period following the removal of compensation cess on most categories.

Concerns were raised about how the reduction in GST rates and the removal of compensation cess would affect overall revenue collection. The comparative analysis suggests that GST revenue has, in most respects, held up or grown: CGST, SGST, and IGST collections rose in October and January, and IGST rose across all four months, indicating continued strength in inter-state trade and import-linked collections. November and December show more moderate growth, with SGST posting slight declines in both months. As expected, cess collections fall to nil in the post-reform period following its removal on most categories, which mechanically drags down total headline collections even where the three core components (CGST, SGST, IGST) are stable or rising. Read together, the underlying components point to a resilient — and in several months, strengthening — revenue base beneath the visible decline in total collections, consistent with the government's expectation that higher sales volumes driven by lower rates would help offset the loss of per-unit tax revenue.

IV. Discussion

The sector-wise evidence assembled in this study indicates that the 2025 GST reforms deliver tangible relief across nearly every segment of consumption examined — automobiles, food and household items, construction materials, agricultural inputs, hospitality and personal-care services, education supplies, medical products, and insurance premiums. This breadth distinguishes the 2025 reforms from earlier, more incremental GST rate revisions and lends support to the reforms being characterised in policy discourse as a structural rather than marginal adjustment, consistent with the strategic framing offered by Sumathi (2026). The simultaneous introduction of a distinct 40 per cent slab for luxury and sin goods, and the corresponding rise in tax on high-end

motorcycles and larger vehicles, suggests a deliberate redistribution of the tax burden away from mass-market essentials and toward discretionary, high-value consumption.

For MSMEs and start-ups, the combination of a simplified two-rate structure, faster refunds, and reduced input costs echoes the compliance-cost concerns raised by Okoye (2026) regarding GST's effect on small enterprises, and suggests the 2025 reforms directly target that vulnerability. On the revenue side, the pattern observed in Table 5 — resilient or rising CGST, SGST, and IGST collections alongside the mechanical disappearance of cess revenue — offers preliminary evidence against the inflationary or revenue-erosion concerns that motivated empirical work such as Garg et al. (2025), though the short post-implementation window (four months of data) means this finding should be treated as indicative rather than conclusive. Whether the observed resilience persists as consumption patterns fully adjust to the new rate structure, and whether cess-dependent state compensation mechanisms are adequately substituted, remain open questions for policymakers and future researchers.

V. Conclusions

The Next-Generation GST reforms of 2025 mark a substantial recalibration of India's indirect tax system, replacing a complex four-slab structure with a simplified two-slab framework of 5 and 18 per cent, supplemented by a 40 per cent slab for luxury and sin goods. The sector-wise analysis presented here shows that the reforms deliver meaningful relief to consumers across automobiles, food and household goods, construction materials, agricultural inputs, education, healthcare, and insurance, while simplified registration and faster refunds ease the compliance burden facing MSMEs and start-ups. Post-reform revenue data for October 2025 through January 2026 indicate that, despite the removal of compensation cess and lower headline rates on several categories, core GST collections (CGST, SGST, IGST) have generally held steady or grown relative to the corresponding months of the previous year, lending preliminary support to the government's expectation that higher consumption volumes would offset reduced per-unit tax collection. The reforms thus appear to advance both the equity and efficiency objectives set out for them, though their longer-run fiscal and behavioural effects will only become fully clear as more post-implementation data accumulates.

VI. Limitations and Scope for Future Research

This study is based entirely on secondary data drawn from official government sources and does not incorporate primary survey data on consumer or business perceptions of the reforms. The revenue analysis covers only four months of post-implementation data, which is too short a window to draw firm conclusions about the reforms' long-run fiscal impact, and no inferential statistical tests were applied to the trend comparisons presented. Future research could usefully extend the revenue analysis over a longer post-reform period, apply formal statistical techniques such as intervention modelling or interrupted time-series analysis to isolate the reforms' causal effect on collections, and complement the secondary data used here with primary surveys of consumer welfare and MSME compliance experience following implementation.

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