

GST IN INDIA AND NEXT-GEN GST REFORM (2025)**Dr.N.Ratna Kishor**

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Email: triparnapalli.amulya@gmail.com**Abstract**

The Goods and Services Tax (GST) represents the most transformative indirect tax reform in the history of independent India. Introduced in July 2017, GST sought to replace a complex web of central and state-level indirect taxes with a single, unified tax framework. Its primary objective was to eliminate the cascading effects of taxation, increase efficiency in tax collection, and strengthen the vision of 'One Nation, One Tax, One Market'. Since its inception, GST has gone through multiple rounds of reforms, including compliance simplification, digital tax administration, and rate rationalisation. The Next-Gen GST Reform (2025) marks the most comprehensive overhaul of the system, focusing on reducing rate multiplicity, enhancing affordability, boosting ease of doing business, and strengthening India's economic competitiveness. This paper provides an in-depth discussion on the evolution of GST in India, core concepts, types, reforms, sector-wise impacts, economic implications, challenges, and future prospects. It also compares India's GST regime with international experiences to highlight strengths and opportunities for improvement.

Key words: GST, CGST, SGST, Reforms, Sector wise Implications.

Introduction

Before the introduction of GST, India's indirect taxation system was fragmented, with both central and state governments levying separate taxes. At the central level, excise duty, service tax, and customs duty were applicable, while states imposed value-added tax (VAT), entry tax, luxury tax, and entertainment tax, among others. This created a situation of 'tax on tax', popularly known as the cascading effect of taxation. Businesses often faced higher operational costs, increased compliance burden, and lack of uniformity across states.

The GST was introduced under the 101st Constitutional Amendment and is based on a dual GST model where both the Centre and States have the power to levy tax. This transformation aligned India with over 160 countries that have already adopted some form of GST or VAT. However, India's GST is unique due to its federal structure, requiring constant negotiation and consensus-building within the GST Council.

The Goods and Services Tax (GST), launched on **July 1, 2017**, unified India's indirect tax system under the principle of *One Nation, One Tax*. It subsumed excise duty, VAT, service tax, and multiple state-level levies. GST is a **multi-stage, destination-based tax**, ensuring tax is collected where goods/services are consumed, not produced.

Over the years, GST's multiple rate slabs (0%, 5%, 12%, 18%, 28%) created compliance complexity. To address these, the GST Council introduced the **Next-Gen GST Reform (September 2025)**, reducing slab multiplicity, lowering rates on essentials, and enhancing affordability.

Core Concept and Objectives of GST

1. **Multi-stage Taxation:** GST is levied at every stage of the supply chain, from manufacturing to final consumption. The Input Tax Credit (ITC) mechanism ensures that taxes paid at earlier stages are available as credit, thus preventing double taxation.
2. **Destination-based Tax:** Unlike earlier origin-based taxes, GST ensures that revenue accrues to the state where goods or services are consumed, not where they are produced. This principle strengthens consumption-driven economies within the federal framework.

3. Subsumption of Multiple Taxes: GST subsumed more than 15 central and state taxes, such as excise duty, service tax, VAT, and entry tax, into one harmonised framework.

4. Objectives: The primary objectives include simplifying the tax system, eliminating cascading effects, improving efficiency of tax collection, broadening the tax base, and fostering a unified national market.

Types of GST

GST in India operates under a dual model, meaning both the Centre and the States simultaneously levy tax on a common base. The main types are:

<u>Type of GST</u>	<u>Full Form</u>	<u>Levied By</u>	<u>Applicability</u>	<u>How it Works</u>
CGST	Central Goods and Services Tax	Central Government	Intra-state (within the same state or UT) supply of goods/services.	Revenue goes to the Central Government. Levied along with SGST/UTGST.
SGST	State Goods and Services Tax	State Government	Intra-state supply of goods/services.	Revenue goes to the respective State Government. Levied along with CGST.
UTGST	Union Territory Goods and Services Tax	Union Territory Administration	Intra-Union Territory supply in UTs without a legislature (e.g., Chandigarh, Lakshadweep).	Replaces SGST in those UTs. Levied along with CGST.
IGST	Integrated Goods and Services Tax	Central Government	Inter-state (between two states/UTs), Imports, and Exports of goods/services.	Collected by the Central Government, which later apportions the State's share to the destination state.

- ❖ **Central GST (CGST):** Levied by the Centre on intra-state supply of goods and services. For example, if a manufacturer in Maharashtra sells goods worth ₹1,00,000 to a retailer within Maharashtra, CGST is levied along with SGST.
- ❖ **State GST (SGST):** Levied by State governments on intra-state supplies. In the above example, SGST is collected by the Maharashtra government in addition to CGST.
- ❖ **Union Territory GST (UTGST):** Applicable in Union Territories without legislatures, such as Chandigarh, Lakshadweep, and Andaman & Nicobar Islands.
- ❖ **Integrated GST (IGST):** Levied by the Centre on inter-state transactions and imports. For instance, if a trader in Delhi sells goods to a buyer in Karnataka, IGST is applied, and revenue is shared between Centre and States.
 - **CGST (Central GST):** Levied by Centre on intra-state supply.
 - **SGST (State GST):** Levied by State on intra-state supply.
 - **UTGST (Union Territory GST):** Levied in UTs without legislatures.
 - **IGST (Integrated GST):** Levied by Centre on inter-state supply and imports.

Timeline of GST

The path to GST was neither short nor simple. It evolved through several key milestones:

- ❖ **Pre-2000:** Indirect taxes included excise, VAT, service tax, and octroi, causing inefficiency and double taxation.
- ❖ **2000:** The Vajpayee government mooted the idea of a unified GST and set up a committee to draft the framework.
- ❖ **2005:** VAT replaced sales tax in most states, laying the foundation for GST.
- ❖ **2017:** GST 1.0 was launched on July 1, subsuming 17 central and state taxes.
- ❖ **2017–2024:** Continuous reforms included e-way bills, e-invoicing, and rationalisation of rates.
- ❖ **September 2025:** GST 2.0 or Next-Gen Reform was introduced, marking the biggest rate restructuring since its launch.
 - **2017:** GST 1.0 rollout under 101st Constitutional Amendment.
 - **2017–2024:** Compliance simplification (e-invoicing, e-way bills), reduced rates on many items.

- **September 2025:** GST 2.0 (Next-Gen Reform) — major rate rationalisation.

Major Reforms

GST 1.0 (2017–2024)

GST 1.0 (2017–2024) brought about a radical shift in India’s taxation system. It eliminated the cascading effect, introduced the dual GST structure, and created a technology-driven compliance framework via the GSTN portal. E-invoicing, e-way bills, and online return filing were rolled out in phases.

- Subsumed multiple taxes into one system.
- Adopted dual GST structure (CGST + SGST / IGST).
- Eliminated cascading effect with seamless ITC.
- Destination-based tax collection.
- Online compliance via GSTN (e-filing, e-payment, e-invoicing).

GST 2.0 (2025)

GST 2.0 (2025), or the Next-Gen GST Reform, focused on rate simplification, affordability, and equity. Several essential goods and services were moved from higher slabs (18%/28%) to lower ones (5% or Nil). The reform also prioritised automation, AI-driven verification for registrations, and faster refunds.

- Focus on **rate simplification**.
- Several goods shifted from higher slabs (18%/28%) to 5%/Nil.
- Introduction of a more uniform structure across sectors.

Sector-Wise Reforms (2025)

Sector	Item Examples	Old Rate	New Rate	Impact
Daily Essentials	Hair oil, shampoo, toothpaste, soap, shaving cream	18%	5%	Lower household expenditure

	Butter, ghee, cheese, dairy spreads	12%	5%	Affordable dairy products
	Pre-packaged namkeens, mixtures	12%	5%	Relief to middle-class consumers
	Utensils, baby feeding bottles, diapers, sewing machines	12%	5%	Household affordability
Agriculture & Farmers	Tractor tyres & parts	18%	5%	Reduced input cost
	Tractors	12%	5%	Affordable machinery
	Bio-pesticides, micro-nutrients	12%	5%	Boost to productivity
	Irrigation systems & forestry machines	12%	5%	Rural development
Healthcare	Health & life insurance	18%	Nil	Accessible insurance
	Thermometers, oxygen, diagnostic kits	12%	5%	Affordable healthcare
	Glucometer, spectacles	12%	5%	Strengthened preventive care
Education	Maps, charts, globes	12%	Nil	Reduced learning costs
	Pencils, crayons, exercise books, erasers	5–12%	Nil	Boost to literacy
Automobiles	Small petrol & CNG cars (<1200 cc & <4000 mm)	28%	18%	Affordable mobility

	Diesel cars (<1500 cc & <4000 mm)	28%	18%	Sales boost
	Three-wheelers, motorcycles (≤350 cc), goods vehicles	28%	18%	Increased demand
Electronics & Appliances	Air conditioners, TVs (>32"), monitors, projectors, dishwashers	28%	18%	Cheaper consumer durables

Source: GST

1. Daily Essentials: Items such as soaps, shampoos, toothpaste, and dairy products shifted from 12–18% to 5%, reducing household expenditure. This has made essential commodities more affordable, especially for middle-income households.
2. Agriculture & Farmers: Reduction of GST on tractors, parts, and irrigation systems has lowered farming costs, making mechanisation more affordable. This is expected to enhance agricultural productivity and rural growth.
3. Healthcare: GST exemption on life and health insurance, along with lower tax on medical kits and devices, has improved affordability of healthcare. This step aligns with India's goal of universal health coverage.
4. Education: Learning materials like books, maps, and stationery have been exempted from GST. This promotes literacy and reduces education costs, especially benefiting school-going children in rural areas.
5. Automobiles: Small cars, motorcycles, and three-wheelers saw a reduction from 28% to 18%, making mobility more affordable. This reform is expected to boost demand in the auto sector and encourage greater adoption of eco-friendly vehicles.
6. Electronics & Appliances: Reduction from 28% to 18% on TVs, ACs, and dishwashers has made consumer durables more accessible. This is likely to stimulate demand in urban and semi-urban markets.

Process Reforms

- **Automatic Registration:** Completed within 3 days using AI-driven verification.
- **Refunds:** Faster, system-based refunds for exports and inverted duty.
- **MSME Support:** Reduced compliance burden, enabling growth.

Economic Implications of Next-Gen GST

The economic effects of GST reform are multi-dimensional. On the one hand, households benefit from lower costs, while on the other, businesses, especially MSMEs, gain from reduced compliance and a more level playing field. Increased affordability of essential goods and services fuels consumption demand, stimulating GDP growth.

However, short-term revenue challenges for states cannot be ignored. Although lower rates may temporarily reduce collections, in the medium term, higher compliance, increased demand, and improved efficiency are expected to offset the losses.

FMCG and automobile sectors are poised for significant expansion, while education and healthcare reforms promote inclusivity. Overall, GST 2.0 strengthens the vision of Aatmanirbhar Bharat by making India's tax system more efficient, equitable, and growth-oriented.

Challenges and Concerns

Despite its advantages, GST implementation has faced challenges. States have expressed concerns over revenue loss due to rate reductions. A smooth transition requires proper mapping of Harmonised System of Nomenclature (HSN) codes and adaptation of ERP/invoicing systems by businesses.

Monitoring inflation is another challenge, as lower tax rates must translate into actual consumer benefits. Effective enforcement and anti-profiteering measures are critical to ensure that industries pass on the benefits of lower taxes to end-users.

Future Prospects of GST in India

Looking ahead, GST is expected to evolve with greater technological integration. Artificial Intelligence and blockchain can be leveraged for fraud detection, real-time invoice matching, and enhancing transparency.

The possibility of converging multiple slabs into just two or three rates is being debated, which could simplify compliance further. International benchmarking with GST systems in Singapore, Canada, and Australia offers valuable lessons for India.

The integration of GST with the broader Digital India mission, including UPI and Aadhaar-linked services, may further enhance efficiency.

Conclusion

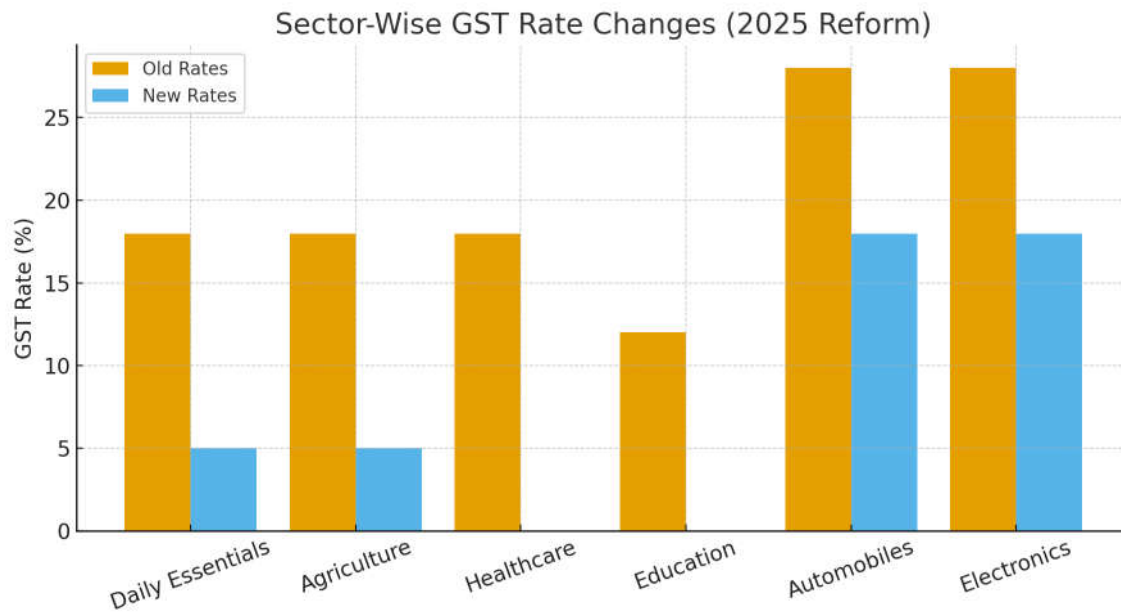
The **Next-Gen GST Reform (2025)** represents a landmark shift in India's taxation system. By reducing multiple slabs, cutting rates on essentials, and simplifying compliance, it balances consumer welfare with economic growth. Despite transitional challenges, it strengthens the vision of *Aatmanirbhar Bharat* and promises a more efficient, equitable tax structure.

Appendix: Visual Data Representations

Figure 1: GST Revenue Trends (2017–2025)



Figure 2: Sector-Wise GST Rate Reductions (2025)



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