A COMPARTIVE STUDY OF PREVIOUS AND CURRENT GST RATES ACROSS KEY SECTORS IN INDIA

Potturi Vijayalakshmi

Sims Group of Institutions

vijayalakshmiprv35@gmail.com

ABSTRACT

This paper examines the impact of changes in GST rates across sectors such as consumer goods, banking, services, automobiles, and textiles. By comparing the previous and present GST structure, it highlights sector-wise benefits, challenges, and implications for businesses and consumers.

Keywords: GST, Taxation, Comparative Analysis, Indian Economy, Sectoral Impact

INTRODUCTION

Introduction

The Goods and Services Tax (GST) was introduced in India on **1st July 2017** through the **101st Constitutional Amendment Act, 2016**. It replaced a complex system of indirect taxes levied by both the Central and State Governments, such as excise duty, service tax, VAT, octroi, luxury tax, and entry tax.

The primary objective of this reform was to create a unified, transparent, and simplified tax structure that would eliminate the inefficiencies of the previous multi-layered system. GST was envisioned as a “One Nation, One Tax” initiative to streamline taxation and enhance ease of doing business.

Statement of the Problem

Since its introduction in 2017, GST has undergone several revisions across different sectors. While these changes were meant to simplify taxation and promote growth, the varying rates have created uncertainty about their actual impact on industries, consumers, and government revenue.

A clear sector-wise comparison of previous and present GST rates is lacking, making it difficult to evaluate whether GST has truly achieved its intended objectives.

Literature Review

Several scholars and policymakers have examined the Goods and Services Tax (GST) since its inception in India. Existing literature broadly focuses on its objectives, implementation challenges, sectoral implications, and the broader impact on the Indian economy.

1. GST as a Reform Measure: According to Kumar (2018), GST was designed to replace multiple indirect taxes with a unified tax system, thereby reducing tax cascading and improving compliance. The reform aimed to create a transparent taxation environment and encourage interstate trade by eliminating entry tax barriers.

2. Sectoral Implications of GST: Studies by Sharma & Gupta (2019) highlight that consumer goods and the automobile sector experienced mixed impacts. While small cars and essential goods saw lower tax incidence, luxury cars and certain FMCG products faced higher rates initially. Similarly, Banerjee (2020) noted that the textile sector benefitted from greater formalization but also faced compliance burdens due to frequent rate revisions.

3. Services Sector and Banking: Research by Rani (2020) observed that the services sector, particularly banking, insurance, and telecom, witnessed an increase in tax liability with GST being fixed at 18%, compared to the earlier service tax rate of 15%. This created a marginal burden on consumers but enhanced revenue collection for the government.

4. Economic Impact of GST: Bhatia (2021) emphasized that GST positively contributed to formalizing the economy, improving efficiency in supply chains, and increasing government tax revenue. However, multiple rate slabs (0%, 5%, 12%, 18%, and 28%) were found to complicate the “One Nation, One Tax” vision.

5. Challenges and Policy Gaps: As noted by Mehta & Singh (2022), frequent revisions in GST rates have caused uncertainty for businesses, particularly MSMEs, which struggle with compliance and working capital constraints. The absence of a stable rate structure has limited long-term investment planning.

Summary of Literature: The reviewed literature suggests that GST has largely achieved its purpose of unifying the tax system and formalizing the economy. However, challenges persist in terms of multiple tax slabs, sector-specific disparities, and compliance complexity. The need for a stable and rationalized rate structure is widely emphasized.

Research Objectives

1. To differentiate the previous GST rates with present GST rates across key sectors.
2. To analyze the sector-wise impact of GST rate changes.
3. To identify the benefits and challenges of GST reforms.
4. To provide policy recommendations for rationalizing GST rates.
5. To evaluate whether the changes in GST rates have achieved the intended objectives.

COMPARIOSN BETWEEN PREVIOUS AND PRESENT GST RATES IN INDIA 2025

I. PREVIOUS GST RATES IN INDIA

When GST was Rolled Out on 1st July 2017, the Indian Government Adopted a Multi-slab Structure to Accommodate the Country's Diverse Economy. Instead of a Single Rate, Goods and Services were Classified into 5 major Tax Slabs (0%, 5%, 12%, 18%, and 28%) with an Additional Cess on Certain Luxury and Sin Goods.

Key GST Rate Slabs:

1. **5% GST:** Applicable to Essential Goods and Services.
2. **12% GST:** Applied to Standard Goods and Services that are not Considered Luxury Items but are also not Essential.
3. **18% GST:** This is the Most Common Slab and Applies to a Wide Range of Goods and Services.
4. **28% GST:** Reserved for Luxury Items and Non-essential Goods, Such as Automobiles, Luxury watches and Premium Products.

II. PRESENT GST RATES IN INDIA

The Biggest Overhaul of the GST Since 2017 has Finally Taken Place. A Simplified 2 Tier Tax Structure has been Implemented Nation Wide on

September 22, 2025. Most Products and Services will be Subject to 5% and 18% Taxes Ultra-Luxury Goods will be Subject to a 40% Tax.

The Overhaul which Eliminates the 12% Rate, Aims to Boots Consumption, Reduce Compliance Complexity, and Create a more Transparent Business Environment.

Key GST Rate Slabs:

1. **5% (Merit Rate)–** Expanded Coverage for Essential Goods and Services Used in Daily Life.
2. **18% (Standard Rate) –** Becomes the Uniform Rate for Majority of Goods and services.
3. **40% (De-Merit Rate) –** Selective Application to Sin Goods and Luxury Items.

GST RATES PREVIOUS AND PRESENT ON VARIOUS SECTORS

GST RATES ON HEALTHCARE SECTOR

Commodities	Previous	Present
Individual Health & Life Insurance	18%	Nil
Thermometer	18%	5%
Medical Grade Oxygen	12%	5%
All Diagnostic Kits & Reagents	12%	5%
Glucometer & Test Strips	12%	5%
Corrective Spectacles	12%	5%
33Drugs and Medicines	12%	Nil
Specific Recombinant Therapeutic Drugs	5%	Nil
Advanced Biotech Medicines	12%	Nil

IMPACT: All Health and Life Insurance Premiums are now Fully Exempt from GST this makes Health Insurance Approximately 18% Cheaper, Promoting Greater Affordability and Accessibility for policy Holders.

GST RATES ON EDUCATION SECTOR

Commodities	Previous	Present
Maps, Charts & Globes	12%	Nil
Pencils, Sharpeners, Crayons & Pastels	12%	Nil
Exercise Books & Note Books	12%	Nil
Eraser	5%	Nil
Mathematical Geometry, and Color Boxes	12%	5%

IMPACT: The Recent GST Reforms 2.0 have Brought Welcome Relief by Removing Tax on many Educational Supplies, Easing the Financial Board on Students and Parents, but 18% GST Rate on- Online Education services in India.

GST RATES ON FARMING AND AGRICULTURE SECTOR

Commodities	Previous	Present
Tractor Tyres & Parts	18%	5%
Tractors	12%	5%
Specified 12 Bio-Pesticides and Micro Nutrients	12%	5%
Drip Irrigation System & Sprinklers	12%	5%

Agricultural, Horticultural & Forestry Machines (Soil, Preparation, Cultivation etc.)	12%	5%

IMPACT: Latest GST Rates has Reduced Cost far from Machinery, Fertilizers, and Dairy Products making Agriculture more Affordable and Profitable through Small Farmers may need Extra Support to Benefit Fully.

GST RATES ON AUTOMOBILES SECTOR

Commodities	Previous	Present
Petrol and Petrol Hybrid, LPG, CNG Cars (Not exceeding-1200cc and 4000mm)	28%	18%
Diesel and Diesel Hybrid Cars (not exceeding-1500cc and 4000mm)	28%	18%
3-Wheeled Vehicles	28%	18%
Motor Cycles (350cc and below)	28%	18%
Motor Vehicles for the Transport of Goods	28%	18%

IMPACT: The GST Reform is Positive for Consumers and Auto Companies through Luxury Vehicles may Face Higher Taxes and the Government may see Some Short-Term Revenue Loss.

GST RATES ON ELECTRONIC ITEMS

Commodities	Previous	Present

Air Conditioners	28%	18%
Television (above 32 Inches including LED and LCD TVs	28%	18%
Monitors & Projects	28%	18%
Dish washing Machines	28%	18%

IMPACT: The GST Reforms for Electronics make may Households Appliances and Electronics Items more Afforable via Tax Cuts from 28% to 18% it is Beneficial to Middle Income Consumers Buying Items like TVs, AC, Refrigerators etc.

GST RATES ON FMCG SECTOR (DAILY ESSENTIALS)

Commodities	Previous	Present
Hair Oil, Shampoo, Tooth Paste, 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, Napkins for Babies & Clinical Diapers	12%	5%
Sewing Machines & Parts	12%	5%

IMPACT: GST has Overall Benefited the FMCG Sector by Simplifying Tax Structure, Reducing Logistics Costs, and making Essential Goods Cheaper.

However Premium and Luxury FMCG Items Under Higher Tax Slabs become Costlier, Slightly Reducing their Demand.

GST RATE HIKES:

Sector	**Items/Services**	**Previous GST Rate**	**Current GST Rate**
Mining	Coal, Lignite, Peat	5%	18%
Sin Goods	Tobacco / Pan Masala	28%	40%
	Aerated Waters	28%	40%
	Caffeinated Beverages	28%	40%
	Carbonated Beverages of Fruit Drinks / with Fruit Juice	28%	40%
	Other Non-Alcoholic Beverages	18%	40%
Automobiles	Motor Cars and Larger Hybrids (beyond small car thresholds)	28%	40%
	Motorcycles Exceeding 3500cc	28%	40%
Luxury Goods	Aircraft for Personal Use	28%	40%
	Yachts and Vessels for Pleasure / Sports	28%	40%
Other Items	Smoking Pipes and Cigarette/Cigar Holders	28%	40%
	Revolvers & Pistols	28%	40%
Entertainment & Gambling	Admission to Casinos, Race Clubs, and Sporting Events (e.g., IPL)	28% with ITC	40% with ITC

	Licensing of Bookmakers by Race Clubs	28% with ITC	40% with ITC
	Specified Actionable Claims (Betting, Casinos, Gambling, Horse Racing, Lottery, Online Gaming)	28% with ITC	40% with ITC
Leasing	Leasing / Rental without Operator of Goods Attracting 40% GST	28% with ITC	40% with ITC

Impact of GST Rate Changes across Sectors

1. Mining Sector (Coal, Lignite, Peat – 5% → 18%)

- **Impact on Businesses:** Mining companies face higher input costs, leading to increased electricity and steel production costs.
- **Impact on Consumers:** Power tariffs may rise, indirectly affecting households and industries.
- **Policy Concern:** Could affect competitiveness of domestic coal against imports.

2. Sin Goods (Tobacco, Pan Masala, Aerated & Caffeinated Beverages – 28% → 40%)

- **Impact on Businesses:** Companies in tobacco, beverage, and FMCG sectors face higher tax incidence, reducing margins.
- **Impact on Consumers:** Sharp rise in final product prices, discouraging consumption of harmful/luxury goods.
- **Policy Concern:** Acts as a **health-driven disincentive tax**, but risks growth of black markets and illicit trade.

3. Automobiles (Motor Cars, Hybrids, Motorcycles above 3500cc – 28% → 40%)

- **Impact on Businesses:** Luxury vehicle manufacturers see demand suppression due to higher prices.

- **Impact on Consumers:** Affordability of premium vehicles declines; middle-class demand shifts toward smaller/affordable cars.
- **Policy Concern:** May hurt automobile sector recovery, but aligns with luxury taxation principles.

4. Luxury Goods (Aircraft for Personal Use, Yachts, Vessels – 28% → 40%)

- **Impact on Businesses:** Demand for ultra-luxury goods shrinks; limited effect since consumer base is very small.
- **Impact on Consumers:** Wealthy individuals face higher tax burden on luxury assets.
- **Policy Concern:** Helps government revenue mobilization and promotes equity in taxation.

5. Other Items (Smoking Pipes, Revolvers & Pistols – 28% → 40%)

- **Impact on Businesses:** Niche industries face reduced demand due to higher taxes.
- **Impact on Consumers:** Higher cost discourages consumption of non-essential/luxury items.
- **Policy Concern:** Supports “sin tax” framework, but impact is marginal due to limited consumer base.

6. Entertainment & Gambling (Casinos, Betting, IPL, Online Gaming – 28% → 40% with ITC)

- **Impact on Businesses:** Gaming and entertainment operators face heavy taxation, reducing profitability.
- **Impact on Consumers:** Increased entry fees, betting charges, and online gaming costs.
- **Policy Concern:** Tax increase may push consumers toward unregulated/illegal platforms.

7. Leasing & Rentals (28% → 40% with ITC)

- **Impact on Businesses:** Increases operating costs for companies leasing luxury goods.
- **Impact on Consumers:** Higher rentals for premium services, affecting demand.
- **Policy Concern:** May discourage investment in high-value leasing markets.

Overall Implications

- **Positive:**
  - Increased government revenue from high-value and sin goods.
  - Supports public health and equity by discouraging harmful/luxury consumption.
  - Reinforces GST as a tool for both revenue and regulation.
- **Negative:**
  - Higher costs for industries like mining and automobiles could slow down growth.
  - Risk of tax evasion and black-market activity in sin goods and gambling.
  - Reduced affordability of premium consumer products, possibly affecting FDI in luxury segments.

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