



GST 2.0: A New Era of Simplified Taxation and Economic Formalization in India

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ABSTRACT

Since the implementation of the Goods and Services Tax (GST) in 2017, India's indirect tax system has experienced continuous reforms aimed at improving transparency, compliance, and economic efficiency. In September 2025, the introduction of GST 2.0 marked a major transformation in the country's taxation framework. GST 2.0 focuses on rate rationalisation, simplification of tax slabs, modernization of compliance procedures, and strengthening of anti-evasion mechanisms. One of the key reforms includes the restructuring of the earlier multi-tier slab system of 5%, 12%, 18%, and 28% into a simplified framework primarily based on 5% and 18% slabs, along with a 40% demerit rate for luxury and harmful goods. The reform also aims to resolve issues related to the Inverted Duty Structure, reduce cascading effects of taxation, and improve the efficiency of refund processing. This paper adopts a descriptive and analytical approach to compare GST 1.0 and GST 2.0 in terms of policy structure, compliance mechanisms, and expected economic outcomes. The study is based on secondary data collected from government reports, policy notifications, academic journals, and recent news sources. It examines the impact of GST 2.0 on consumer prices, tax compliance, business operations, and revenue generation. The findings suggest that GST 2.0 is likely to enhance ease of doing business, increase consumption, simplify tax

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administration, and improve overall economic efficiency. However, the success of the reform depends on effective implementation, technological support, and continuous monitoring to maintain revenue neutrality and fiscal stability.

Introduction

The introduction of the Goods and Services Tax (GST) on 1 July 2017 marked a historic transformation in India's indirect taxation system by replacing multiple central and state taxes with a unified, destination-based tax structure. The reform aimed to create a common national market, reduce cascading taxation, improve tax transparency, and strengthen economic integration across the country. During its initial years, GST contributed significantly to the formalization of the economy, expansion of the taxpayer base, and enhancement of input tax credit mechanisms. However, despite these achievements, several challenges continued to affect the efficiency of the system, including the complexity of multiple tax slabs, compliance burden on businesses, delayed refunds, technical difficulties in return filing, and the persistence of tax evasion in certain sectors. These challenges created the need for a more simplified and technologically advanced tax framework.

In response, the Government of India introduced the next phase of reform popularly known as GST 2.0 in 2025. The new reform framework focuses on structural rationalisation, simplification of tax slabs, modernization of compliance procedures, and strengthening digital tax administration through e-invoicing, automated reconciliation, and improved refund systems. The GST Council, under the leadership of Union Finance Minister Nirmala Sitharaman, approved major reforms aimed at promoting "Ease of Living" and "Ease of Doing Business." GST 2.0 also emphasizes reducing the tax burden on common consumers by lowering rates on essential goods and services while maintaining revenue stability. This paper attempts to examine the transition from GST 1.0 to GST 2.0 through a comparative analysis of policy changes, compliance reforms, and their expected impact on economic growth, consumer welfare, business operations, and tax administration in India.

Objectives of the Study

- To examine the evolution of India's GST system from GST 1.0 to GST 2.0 and analyze the major structural reforms introduced in 2025.
- To compare the tax slab structure, compliance procedures, and administrative mechanisms under GST 1.0 and GST 2.0.

- To study the impact of GST 2.0 on ease of doing business, taxpayer compliance, and digital tax administration.
- To analyze the effect of tax slab rationalisation on manufacturers, traders, and consumers in India.
- To evaluate the influence of GST 2.0 reforms on consumer prices, consumption patterns, and the Consumer Price Index (CPI).

Review of Literature

Gunjan Sharma and Dr. Shweta Bansal, in their study on GST 2.0, observed that the 2025 reforms simplified India's tax structure by reducing multiple slabs into a streamlined system, thereby improving compliance and addressing the inverted duty structure

Ruchi Gupta, Bhavyashree BM, and Jayashree Tambad highlighted that GST 2.0 focuses on technology-enabled compliance, structural rationalisation, and improved tax governance to reduce administrative inefficiencies in the indirect tax system.

Samuel Lalthanliana examined the impact of GST 2.0 on businesses and found that simplified return filing, improved input tax credit systems, and digital compliance mechanisms reduced operational burdens for SMEs and industries.

Dr. N. Sumathi stated that the reforms introduced after the 56th GST Council meeting strengthened revenue buoyancy, reduced administrative friction, and improved affordability in sectors such as automobiles and infrastructure.

Recent government and media reports suggest that GST 2.0 reforms improved tax collections, increased e-commerce activity, and strengthened digital compliance through AI-driven auditing and automated reconciliation systems.

Methodology

The present study is based on a descriptive and analytical research design to examine the transition from GST 1.0 to GST 2.0 in India. The study mainly focuses on understanding the structural reforms, tax slab rationalisation, compliance mechanisms, and their impact on the economy, businesses, and consumers. Both qualitative and comparative approaches have been used to analyze the policy changes introduced under GST 2.0.

The research is entirely based on secondary data collected from reliable sources such as government reports, GST Council notifications, publications of the Central Board of Indirect Taxes and Customs (CBIC), Ministry of Finance reports, research journals, newspapers, policy papers, and online databases. The study compares GST 1.0 (2017–2024) and GST 2.0 (2025 onwards) using indicators such as tax structure, compliance burden, digitalization, refund systems, consumer prices, and revenue collection. The collected data has been interpreted through tables, comparative analysis, and review of literature to identify the economic and administrative impact of GST 2.0 reforms in India.

Seven Pillars of GST 2.0

1. Slab Rationalisation

GST 2.0 simplifies the earlier multi-rate tax structure into a streamlined system with fewer slabs, reducing classification disputes, litigation, and compliance complexity for businesses and consumers.

2. Digital Tax Administration

The reform strengthens digital governance through e-invoicing, automated return filing, AI-based audits, and real-time reconciliation to improve transparency and efficiency in tax administration.

3. Consumer Welfare and Affordability

GST 2.0 focuses on reducing the tax burden on essential goods and services, improving affordability, increasing disposable income, and supporting household consumption.

4. Ease of Doing Business

Simplified compliance procedures, faster refunds, reduced paperwork, and technology-driven systems help businesses operate more efficiently and reduce administrative costs.

5. Formalization of the Economy

The integration of MSMEs and small traders into the digital tax network expands the formal economy, improves tax compliance, and strengthens financial inclusion.

6. Manufacturing and Export Competitiveness

By correcting inverted duty structures and reducing cascading taxation, GST 2.0 supports domestic manufacturing, encourages exports, and strengthens the “Make in India” initiative.

7. Revenue Stability and Fiscal Growth

GST 2.0 aims to maintain strong revenue collection through wider tax coverage, improved compliance, and anti-evasion measures while supporting sustainable economic growth.

Qualitative Impacts of GST 2.0 on Selected Stakeholders

1. Rural Consumers

GST 2.0 is expected to improve the welfare of rural consumers by making essential goods more affordable through rationalized tax structures. The reduction in hidden indirect taxes on daily-use products can lower the overall cost of living and increase purchasing power. Greater transparency in taxation also enhances consumer awareness, while affordable pricing is likely to stimulate consumption and strengthen rural markets.

2. Startups and New Businesses

GST 2.0 creates a more supportive environment for startups and new businesses by simplifying business registration and promoting digital onboarding. Reduced compliance requirements lower the administrative burden on emerging enterprises, allowing them to focus on growth and innovation. A simplified tax framework also improves cash flow management and encourages entrepreneurship across various sectors.

3. Women Entrepreneurs

The proposed reforms under GST 2.0 are likely to encourage greater participation of women in formal business activities. Simplified digital compliance procedures make it easier for home-based and small-scale enterprises to operate within the formal economy. Improved financial inclusion, better access to institutional credit, and expanded opportunities through e-commerce platforms further empower women entrepreneurs and support business expansion.

4. Banking and Financial Sector

GST 2.0 strengthens the banking and financial sector by enhancing transparency in financial transactions and reporting systems. Better integration between GST data and financial records enables more accurate credit assessment and risk evaluation. The reforms also support the growth of the digital payment ecosystem, contributing to a more efficient and accountable financial environment.

5. Retail Sector

The retail sector is expected to benefit from GST 2.0 through greater uniformity in pricing across states, reducing market distortions and promoting fair competition. Simplified inventory management and billing processes improve operational efficiency for retailers. Increased tax transparency builds consumer confidence, while a less complex tax structure is likely to contribute to higher sales and business growth.

6. Informal Sector Businesses

GST 2.0 encourages the gradual formalization of informal sector businesses by simplifying compliance and registration processes. Formal GST registration improves business credibility and enables enterprises to access institutional finance and various government support schemes. Participation in organized supply chains also becomes easier, creating new opportunities for sustainable growth and long-term competitiveness.

Latest Policy Recommendations and Reforms by Central & State Governments (2025–26)

1. Next-Generation GST Reforms (GST 2.0)

The proposed GST 2.0 reforms aim to create a simpler and more efficient indirect tax system by rationalizing GST rate slabs into 5%, 18%, and higher demerit tax categories. The reforms also seek to reduce the tax burden on essential goods and selected services, making them more affordable for consumers. Faster refund processing through automated reconciliation systems and the expansion of e-invoicing supported by AI-driven compliance monitoring are expected to enhance transparency, improve tax administration, and reduce compliance costs for businesses.

2. Income Tax Relief for the Middle Class

The Union Government has proposed significant income tax relief by exempting annual income up to ₹12 lakh under the new tax regime. This measure is expected to increase disposable income, boost household consumption, and encourage savings. The simplified tax structure also reduces complexity for salaried taxpayers, making personal income tax compliance easier and more taxpayer-friendly.

3. MSME Support and Ease of Doing Business

To strengthen the MSME sector, the government has introduced measures aimed at simplifying GST return filing and reducing compliance burdens. Expansion of credit guarantee schemes improves access to finance for small businesses, while trust-based regulatory frameworks minimize unnecessary inspections and

procedural hurdles. Additional support for startups and digital enterprises is expected to encourage innovation, entrepreneurship, and employment generation.

4. Labour and Employment Reforms

Labour reforms focus on implementing the four unified Labour Codes, replacing 29 existing labour laws with a streamlined legal framework. These reforms extend social security benefits to gig workers and platform workers while ensuring mandatory appointment letters and stronger worker protection measures. The objective is to create a balanced labour market that safeguards employee rights while improving the ease of doing business.

5. Digital Economy and Financial Inclusion

The government continues to promote a digital economy by integrating GSTN with digital payment and compliance systems. Greater adoption of UPI and paperless governance initiatives enhances financial inclusion and improves the efficiency of government services. AI-based monitoring systems are also being introduced to strengthen transparency, detect tax evasion, and improve overall tax compliance.

6. Rural Employment and Welfare Policies

Recent policy proposals focus on strengthening rural employment and livelihood opportunities through the introduction of the Viksit Bharat–Rozgar and Aajeevika Mission. The proposed increase in guaranteed rural employment from 100 to 125 days aims to improve income security for rural households. These initiatives emphasize sustainable livelihood generation, rural infrastructure development, and inclusive economic growth, thereby supporting long-term rural development.

Conclusion

GST 2.0 represents a transformative phase in India's indirect taxation system by focusing on simplification, digitalization, transparency, and economic efficiency. The reforms introduced in 2025 aim to rationalize tax slabs, reduce compliance burdens, strengthen AI-driven tax administration, improve refund mechanisms, and promote ease of doing business. The study highlights that GST 2.0 has the potential to increase consumer welfare, support MSMEs, enhance manufacturing competitiveness, expand the formal economy, and strengthen revenue collection through technology-based governance. The review of literature and policy analysis further indicate that the reforms can contribute to higher consumption, improved investment climate, and long-term economic growth while maintaining fiscal stability. However, the success of GST 2.0 depends on effective implementation, continuous technological upgradation, taxpayer awareness, and

strong coordination between the Central and State Governments to ensure inclusive and sustainable economic development in India.

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