



THE FINANCE SOCIETY

GST REFORMS

THE NEXT GEN GST - *BETTER & SIMPLER*





Major Highlights



Sector-wise Impact

(FMCG, Automobile, Insurance & others)



Stock Market Reaction



Short-Term Revenue Loss



Fiscal Strain & Borrowing



Future-Oriented Revenue Outlook



States & Tax Hikes to Offset GST Cuts



Macroeconomic and Digital Impact



Case Studies from Overseas

(Canada, UK, Japan, Australia)

5% ▶ **NIL** Ultra-High Temperature (**UHT**) milk and **prepackaged** and **labelled** chena or paneer and all the **Indian breads**

28% ▶ **18%** Air-Conditioning Machines, TVs ~ 32 inches , and Dishwashing Machines
Bidi

40%
SIN
GOODS

Pan masala, Unmanufactured tobacco; tobacco refuse, Cigars, cheroots, cigarillos and **cigarettes**, of **tobacco** or of tobacco substitutes, Other manufactured tobacco and its substitutes; “homogenized” or “reconstituted” tobacco; tobacco extracts and essences, Products containing tobacco or reconstituted tobacco, tobacco or nicotine substitutes and intended for inhalation without combustion

12% ▶ **5%** **Agricultural Goods**, such as tractors, machinery for soil preparation or cultivation, harvesting or threshing machinery, including straw or fodder balers, grass or hay mowers, composting machines

18% ▶ **5%** Sulphuric acid, Nitric acid and Ammonia
Bidi wrapper leaves (tendu), **Indian katha**

12% ▶ **5%** **Labor-Intensive Goods** such as Handicrafts, Marble and travertine blocks, granite blocks, & Intermediate leather goods

**18%
OR
12%**

5%

Common Man Items such as, hair oil, toilet soap bars, shampoos, tooth brushes, tooth paste, Bicycles, Tableware, kitchenware, other household articles, etc.
Food Items, such as packaged namkeens, Sauces, Pasta, Instant Noodles, Chocolates, Coffee, Preserved Meat, Cornflakes, Butter, Ghee, etc.

IMPACT



Reduced tax burden on food and personal care products lowers end-prices for consumers



Higher **disposable income** leads to greater consumption of branded and packaged goods



Market penetration increases for FMCG majors in **Tier-2 and Tier-3** towns



Volume growth helps companies **offset** lower per-unit margins



“This GST cut is a timely and transformative move... a growth enabler for the FMCG sector... it will act as a powerful catalyst for demand, especially in rural and semi-urban markets.”

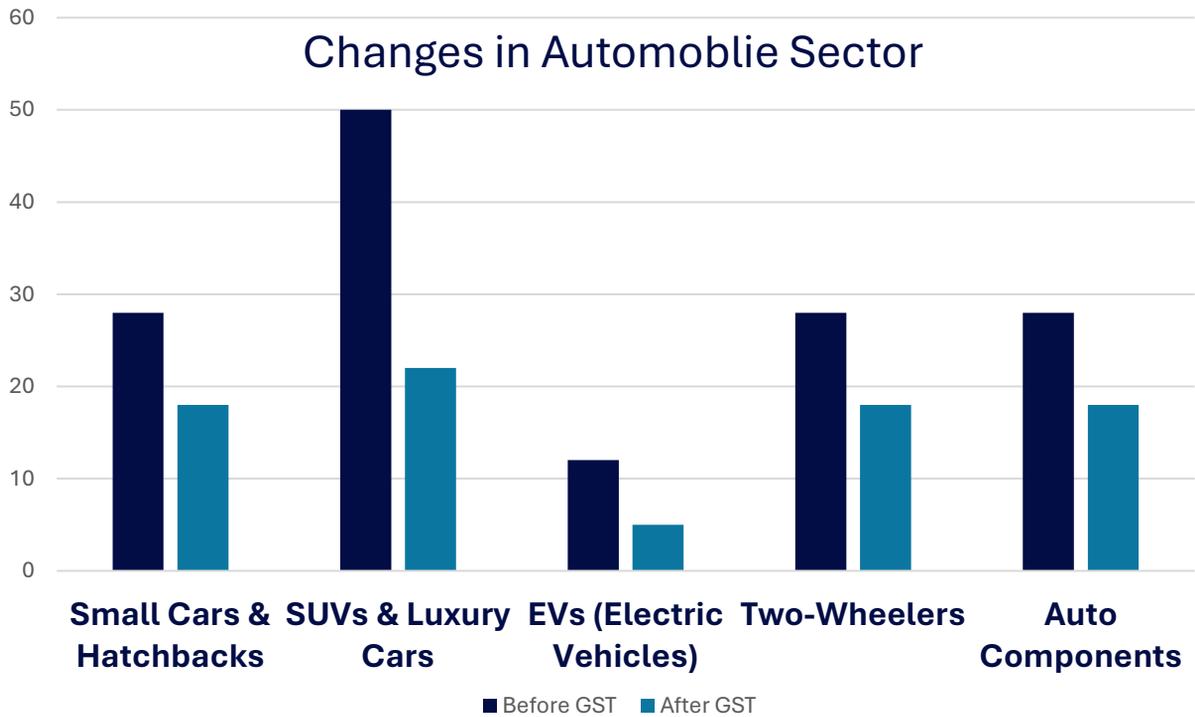
-Mohit Malhotra (Dabur CEO)



“[The GST] rate cut is ‘game changing’... by making essential consumer products more affordable... [it] will stimulate economic momentum and build long-term growth in the FMCG sector.”

-Saugata Gupta (Marico MD & CEO)

28% ▶ **18%** **Small Cars and Motorcycles** equal to or below 350 cc
Buses, trucks, ambulances, etc.
Three-Wheelers



Demand boost for mass-market vehicles; consumer price cuts up to **₹1,55,000.**



Higher tax burden on premium/luxury bikes; may dampen sales and investment in this segment.



“We welcome the GST Council’s decision... For the automobile sector, the move is transformative... make personal mobility significantly more affordable...”

-Venkatram Mamillapalle (MD, Renault India)



“This landmark decision will make vehicles more affordable, boost consumer sentiment, and strengthen India’s automotive sector globally... [and] provide us impetus to innovate...”

-Ravi Mehra (MD, Uno Minda)

All individual life insurance policies, whether term life, ULIP, or endowment policies, **and reinsurance**
All individual health insurance policies (including family floater policies and policies for senior citizens) **and reinsurance**

Exempt



Affordability-Broader Retail Demand: Lower visible premium burden will reduce psychological barriers to buying retail policies



Higher insurance penetration & market expansion: Affordability can accelerate penetration in semi-urban and price sensitive segments



Retail policyholders: Better affordability and clearer take-home premium, benefit immediate for renewals after the effective date.



“A visionary initiative... removal of GST on individual life insurance will make life insurance more affordable to all citizens... helping to meet the objective of insurance for all by 2047.”

~R. Doraiswamy, CEO & MD, LIC



“At a time when medical inflation is rising steeply, this step directly benefits citizens and eases the financial burden on families... it will accelerate insurance penetration and strengthen the nation’s health security.”

~Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance

28% ▶ 18%

Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, **whether coloured or in the form of clinkers**

12% ▶ 5%

Sand lime bricks or **Stone inlay work**

IMPACT

With GST slabs being rationalized, developers and contractors will face **less compliance complexity**.

By reducing the overall construction cost burden, GST reforms directly **improve** affordability for first-time buyers.

PROBLEM

For homebuyers, a visible reduction in input costs creates the **perception** that buying a home will get cheaper

Lower tax rates on cement and basic inputs make formal players **more competitive** against unorganized contractors and material suppliers



"Reducing GST [on tiles and sanitaryware] would support MSMEs ... as well as bolster the housing, construction... sectors."

-MCMA President Haresh Bopaliya (Morbi Ceramics)



"Some of the key sectors that stand to benefit from this are ... cement, consumer durables, apparel, footwear, QSR, and retail," highlighting the construction link indirectly."

-Pranav Haridasan (MD & CEO, Axis Securities)

18%  **5%**

Correction of long-pending inverted duty structure on **manmade fiber**

12%  **5%**

Correction of long-pending inverted duty structure on **manmade yarn**

IMPACT ANALYSIS



By reducing GST on **man-made fibers and yarn**, the reforms align input costs with finished goods taxation, **supporting domestic value addition** and reducing reliance on imports



Affordable **clothing, footwear and handlooms now taxed at 5%** offer direct relief to consumers and strengthen traditional and MSME-driven production clusters.



Traditional sectors such as **carpets and handicrafts** become more competitive in exports. **Premium apparel** and high-value fashion face **higher taxation**, pushing up prices.



“The GST reforms will streamline taxation across the textile value chain, reducing input costs and making Indian textiles more competitive globally.”

-Ravi Kapoor, President, Confederation of Indian Textile Industry



“This is a timely and forward-looking decision. The reduction in GST and correction of the MMF value chain will ease industry costs, boost demand, and make Indian textiles more competitive globally.”

-Dr. Mukesh Kansal, Chairman of CTA Apparels

12%



5%

Renewable energy **devices and parts** for their manufacture

Lower Capital Costs

Solar modules, inverters, wind turbines, and batteries are highly capital-intensive. A reduction in GST lowers procurement costs, which directly **reduces the overall project cost.**

EPC (Engineering, Procurement & Construction) players **benefit** from reduced working capital pressure, improving margins.

For developers, lower GST means better project viability and **faster** Return on Investment (**ROI**).

Boost in Consumer Adoption

For households, rooftop solar becomes **more affordable**, encouraging middle-class and rural adoption. It leads to **Wider adoption** across residential, rural, and industrial sectors.

Commercial and industrial (C&I) players, who are sensitive to energy costs, get a **bigger push** to shift from grid electricity to renewables.

Policies aligning GST exemptions with subsidies could create a **multiplier effect** in adoption.



“The GST rationalization on solar modules and wind components will significantly reduce project costs, making renewable energy more competitive with conventional sources.”

~Sumant Sinha, Chairman & MD, ReNew Power



“By easing the tax burden on critical renewable infrastructure, the reforms will accelerate India’s transition toward clean energy and enhance investor confidence in large-scale projects.”

~Tulsi Tanti, Founder, Suzlon Energy

12% OR 5%

▶ **NIL**

Lifesaving drugs & medicines for treatment of cancer, rare diseases, and other severe chronic diseases

18% ▶ 5%

Various **medical apparatus and devices** used for medical, surgical, dental, veterinary usage, physical or chemical analysis

12% ▶ 5%

All **other drugs and medicines along with various medical equipment and supplies devices** such as wadding gauze, bandages, diagnostic kits and reagents, blood glucose monitoring systems, medical devices, etc.



Stronger Public Health Outcomes

With essential medicines and devices becoming cheaper, **preventive and critical care will see higher adoption**, strengthening India's public health framework



Boost to Domestic Manufacturing

Amore balanced tax structure **reduces inefficiencies**, encouraging companies to **expand local production** of formulations, APIs, and medical devices.



Global Competitiveness

Lower cost structures make Indian pharma **exports more competitive**, helping India maintain its position as the "pharma of the world"

18%

5%

Beauty and physical well-being **services** used by common man, including gyms, salons, barbers, yoga centers, etc.

12%

5%

“Hotel Accommodation” services having value **less than or equal to ₹7,500** per unit per day or equivalent

Formalization of the Sector: Reduced tax disparity encourages **unorganized gyms and wellness centers** to enter **the formal economy**.

Lower Cost of Services: With exemptions on wellness-related services like yoga & ayurvedic treatments, consumers find **wellness more affordable**.

Accessibility Boost: Middle-income households now view **wellness services not as luxury but as an essential**, leading to wider adoption.

FDI Attraction: Lower tax burden and streamlined compliance **attract foreign wellness brands** and fitness chains to **expand operations in India**.



“The reduction of GST on nutraceuticals and herbal supplements will encourage wider adoption of preventive healthcare and boost the wellness economy.”

-Ramesh Kumar, President, Nutraceuticals & Health Foods Association of India (NHFAI)



“By rationalizing GST on fitness services, yoga, and spas, the government has made wellness more accessible and helped integrate it into mainstream healthcare.”

-Vishal Gondal, Founder & CEO, GOQii



“The GST reforms are a game-changer for India’s wellness industry, reducing costs for consumers while creating opportunities for organised players to expand in Tier-2 and Tier-3 cities.”

-Shahnaz Husain, Chairperson, Shahnaz Herbals

Buffer Against External Shocks	"Make in India" Catalyst	Impact on MSMEs and Startups
<p>GST reforms address global protectionism, including 50 % US tariffs.</p> <p>Domestic consumption 61% of GDP (₹330 lakh crore in 2024).</p> <p>Reforms enhance household purchasing power for local goods.</p> <p>GDP growth projected at 6 to 6.5% in FY2025.</p>	<p>GST replaced 17+ indirect taxes with a single framework.</p> <p>Logistics costs cut by 5–8 percent; small businesses save ₹50,000–₹1 lakh annually.</p> <p>Internal consumption ~₹240 lakh crore annually.</p> <p>Supports Make in India with a stable domestic market.</p>	<p>MSMEs ~30% of GDP; 1.2 crore employed; startups valued ₹8 lakh crore.</p> <p>GST refunds speed up working capital by 10–15 days.</p> <p>E-invoicing threshold ₹1 crore; ERP upgrade ₹50,000–₹2 lakh.</p> <p>Credit access ↑15–20%, aiding MSME & startup growth.</p>



“Joint industry representation to GST Council: “Refunds of Input Tax Credit (ITC) under inverted duty structures often take more than six months. Automatic refunds with interest on delays are necessary to ease liquidity pressure on manufacturers.”

-Gujarat Industries Associations



“The GST amendment on refunds, granting 90% of claim amount upfront, will greatly boost the export competitiveness of micro and small enterprises.”

-Vinod Kumar, President, India SME Forum



“Rationalization of GST to correct inverted duty structures is a much-awaited relief for MSMEs.”

-Anil Bhardwaj, Secretary-General, FISME



The **Sensex** jumped nearly **900 points**, while the **Nifty** gained **1%**, immediately after the reforms announcement.

The rally reflected **strong investor optimism**, largely driven by **expectations of a robust consumption revival**.



Sector-wise Assessment



AUTOMOBILE

Auto stocks surged as GST cuts on two-wheelers and small cars are expected to boost sales; **Maruti, M&M, and Hero MotoCorp** were among the top gainers.



CEMENT

The cement industry saw a GST cut from 28% to 18%, **boosting demand** and enabling **price hikes**, which is expected to **lift cement stocks**.

ELECTRONICS

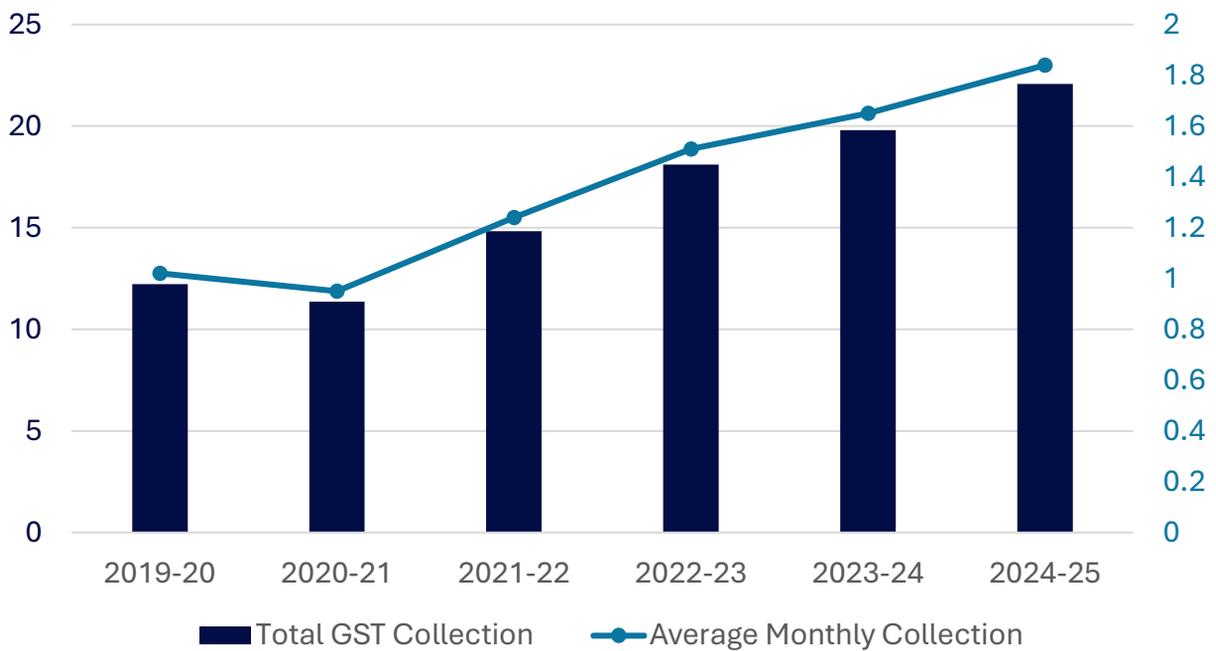
Stocks of Voltas, Dixon, and Havells gained on expectations of higher festive sales after appliance GST cuts.

HEALTHCARE

Hospital and diagnostic **stocks rose modestly** on affordability gains, though **pharma manufacturers saw limited stock impact**.



GST Collection (in ₹ Lakh Crore)



The GST 2.0 reform is projected to cause a **short-term gross revenue loss of approximately ₹48,000 crore** (around \$5.5 billion) due to significant rate cuts on various essential and standard goods.

The **State Bank of India (SBI)** reports a more **modest estimate of ₹3,700 crore revenue loss** for the Centre in FY26, factoring in buoyant consumption and improved compliance.

Previously, the GST collection has steadily grown, achieving an **average monthly collection of ₹1.65 lakh crore** in FY 2023-24 and an **expected ₹1.84 lakh crore** in FY 2024-25 before reforms.



Fiscal deficit is targeted at 4.4% of GDP in FY 2025-26, stable despite GST 2.0 revenue losses.



Compensation cess (₹45,000 crore) helps offset shortfalls for states.



Fiscal discipline will also be supported by higher dividends from PSUs/RBI and possible excise hikes.

Impact on Fiscal Deficit and Government Borrowing

States are raising non-GST taxes (property, alcohol) to manage their budgets.

The net impact on fiscal deficit will be minimal due to higher consumption and economic growth.

Temporary rise in borrowing may occur, but stimulus like higher consumption will balance this.





Expansion of GST Taxpayer Base

GST taxpayers rose from **66.5 lakh (2017) to 1.51 crore (2025)**, reflecting formalization, better compliance, and digitization-strengthening revenue prospects.

Projected State Revenue & Compliance Gains

States are expected to earn **₹14.1 lakh crore in FY 2025-26**; simplified compliance and reduced disputes could add ₹52,000 crore, with **major gains in UP, Bihar, WB, and Maharashtra**.



Revenue Trends and Recovery

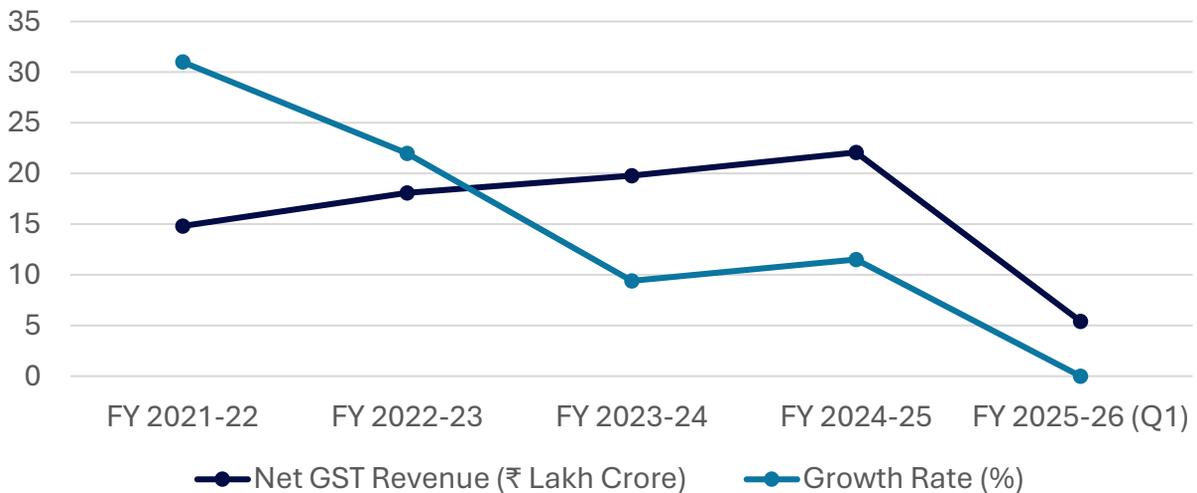
GST rate cuts cause a **brief 3-4% dip**, but revenues rebound with **5-6% monthly growth**, adding ₹1 trillion annually and turning **short-term losses into long-term gains**.

Economic Impact & Policy Outlook

A **1% GST rate cut can lift GDP by 1.08%**. Reforms easing MSME and middle-class tax burdens and inclusion of petroleum, electricity, and ATF under GST aim to **broaden the base and sustain revenues**.



GST Revenue

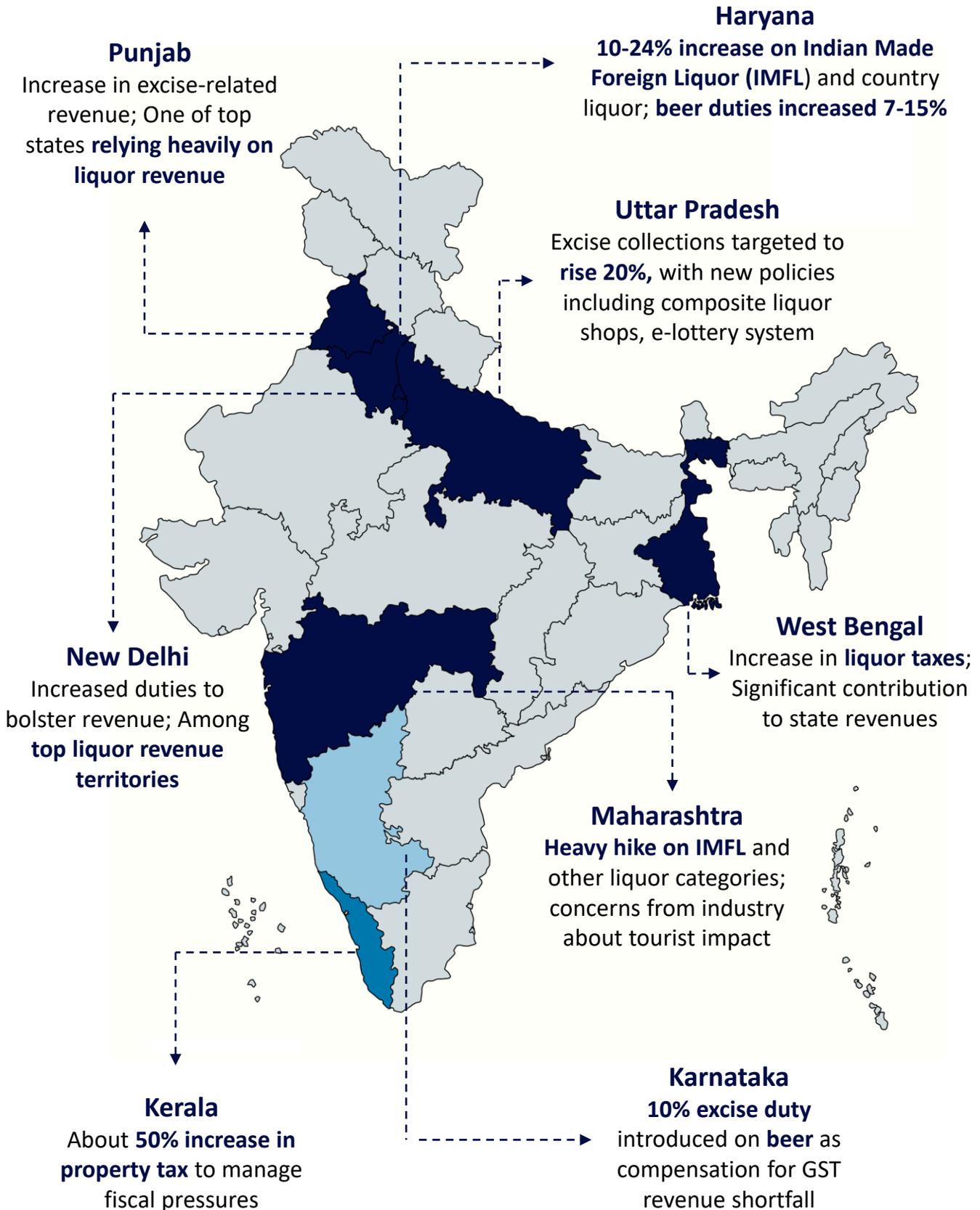


GST collections have grown at a strong **11.3% CAGR** since FY2020, consistently outpacing GDP growth (5.8%),

States & Tax Hikes to Offset GST Cuts



- Increase in Duty on Liquor
- Increase in Property Tax
- Increase in Duty on Beer





GST 2.0 could **cut inflation by 1.1 points** through **lower rates on essentials, boosting purchasing power**, and supporting stronger consumer demand.



Festive-timed reforms raise disposable incomes, fueling stronger private consumption and corporate revenues, though **margins may face pressure from rising competition**.



Simpler compliance and **faster refunds aid MSMEs, expand the tax base further**, and promote **economic formalization** and deeper financial inclusion.



Two-slab GST **enhances predictability**, lowers disputes, **reduces compliance costs**, and **improves India's investment appeal** within global supply chains.

Boosting Tax Revenues through Digitalization

1

Improved Compliance:

AI-driven analytics and automated returns **curb evasion, expanding the tax base** and boosting genuine revenue collection.

2

Less Litigation:

Automate assessments and the GST Tribunal **cut errors, speed resolutions**, and **lower litigation costs** for timely revenue realization.

3

Real-Time Data Integration:

Seamless **integration of e-invoicing & e-bills**, and GST returns creates a **real-time monitoring** environment.

Prime Minister Stephen Harper stated it would save the average family **hundreds of dollars** annually on daily purchases, new cars, and homes, **benefiting** all Canadians, including low-income individuals not paying income tax.

2
Stage
Execution

7% → 6%
July 1,
2006

6% → 5%
January 1,
2008

Key Challenges and Impacts of Bill C-28 and GST/HST Holiday



Established clear rules for complex cases (leases, completed supplies, holdbacks) ensuring **smooth transitions and predictability**.

~~TAX~~

The GST/HST holiday under the "**Tax Break for All Canadians Act**" intended to boost seasonal spending **caused administrative burdens**. Savings to consumers remained **minimal, without meaningful sales increase**.



CFIB called it an "administrative nightmare" with **\$1,000 extra costs per small business** due to inventory marking, system reprogramming, and mixed government messaging.



Canadian Tire Corp reported a **\$24.7 million** "GST/HST-related charge" in **Q3 2024** prior year, affecting profitability. The **absence** of this charge contributed to **improved income** before taxes in the current year.

Key Insight

- Permanent, broad tax cuts are more effective than temporary, targeted exemptions.
- Complex short-term exemptions can harm the private sector despite good intentions.

UK's Temporary VAT Cut (2020-2022)



Standard VAT rate reduced from **20% to 5%** for **hospitality and tourism** in direct response to **COVID-19** economic disruption. Aimed to support the hard-hit sector where **1.4 million of the 2 million employees** were furloughed, designed to "boost job creation" & provide a lifeline to struggling businesses.

5%

July 15, 2020 – September 30, 2021

12.5%

October 1, 2021 – March 31, 2022

20%

Reverted to standard from April 1, 2022



54%

Firms faced the option to pass savings to consumers or retain them to improve financial stability. A survey showed 54% **passed on reduced VAT as lower prices**, while the rest retained savings to recover pandemic losses.

21.8%

Despite this measure, consumer spending in these areas declined sharply due to lockdowns and restrictions, resulting in decline of over **£17 billion lower VAT receipts** compared to 2019/20.

The VAT rate increase contributed ~**1.4% points** to the **National Consumer Price Index** between October 2021 and September 2022.

Directly linked to inflation pressures and Bank of England's monetary policy adjustments, **reducing disposable incomes**.

Macroeconomic Consequence

Ongoing Debate

Industry groups (e.g., **UKHospitality**) push for a permanent reduced VAT rate (**average in Europe: 10–13%**) to remain competitive.



Government consistently opposes permanent change, citing affordability concerns and preference for limited exceptions.

Japan's Tax Hikes (1997 & 2014)



Japan increased its **consumption tax** from **3% to 5% in April 1997**, and later from **5% to 8% in April 2014**, as a strategic measure aimed at **fiscal consolidation** in response to rising public debt and the challenges of an **aging population**.

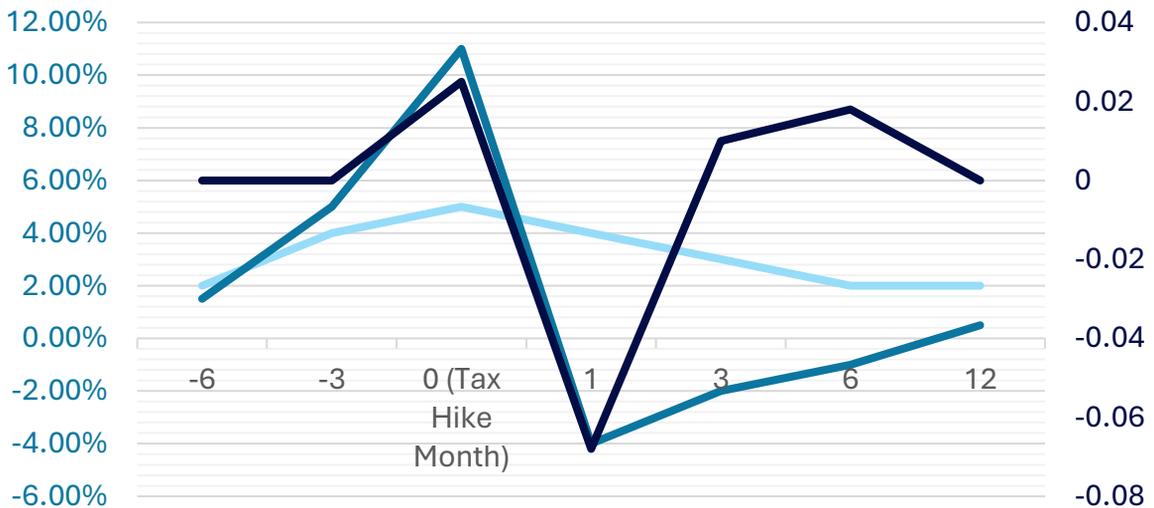


The hikes were implemented to address the "**substantial build-up in net public debt**," which had reached **160% of GDP by 2013**, and to strengthen the nation's long-term fiscal health, despite the politically difficult nature of these measures.

% Change in Consumption and GDP Before and After Japan's 1997 & 2014 Tax Hikes

- **Pre-Hike Surge:** Spending spike, especially durable goods.
- **1997:** Private consumption grew → then flat for 2 years.
- **2014:** Retail sales +11% (Mar) → -4% (Apr).
- **2014 GDP:** -6.8% Q2 contraction larger than many forecasts, including those from IMF

— Private Consumption Index (1997) — Retail Sales Growth (2014, % YoY)
 — GDP Growth (2014, % Annualized)



Automotive Sector



1997: Motor vehicle sales +10% pre-hike → -20% post-hike.



2014: New auto sales -5.5% in April, fell to 3-year low by August.



Toyota: Japan was only major market with declining vehicle sales.

Countermeasures

- **Measures:** Tax breaks, Public works
- **Purpose:** Cushion recession
- **Insight:** Well-timed, strong fiscal support essential to offset negative economic impacts of tax hikes and stabilize growth.

¥5.5 T
 (~1.1% GDP)
 STIMULUS
 AMOUNT



Future-oriented reforms outlined in the "**Progressive GST**" report, which advocates for substantial changes to the system rather than examining past adjustments.

Reform Proposals

Key Proposed Changes

Options include increasing GST from **10% to 15%** and/or **broadening the tax base** to include currently exempt goods and services, such as fresh food, education, healthcare, and childcare.

Reforms could fund **reductions in less efficient taxes** like payroll tax and stamp duty, creating a more stable revenue base and potentially improving overall living standards.

Economic Rationale



Projected Fiscal Impact (PBO Estimates)

Option 1 (GST increase only) :
Improves fiscal balance by **\$154.6 billion by 2028-29.**

Option 2 (GST increase + base broadening) : Raises fiscal balance by **\$286.0 billion by 2028-29**, showing the strong revenue potential of comprehensive reform.



Social Equity Concerns: GST is regressive. **Bottom 20%** of income earners pay **5.4%** of income in consumption taxes, **more than double the top 20%**. Including essentials could raise this to **7.9%**, highlighting the trade-off between efficiency and fairness.



Equity Policy Response (Option 3): A **\$20,000** annual "GST-free threshold" for adults reduces regressivity but costs **\$44.0 billion by 2028-29**, showing the tension between fairness and revenue generation.



Business and Sector Impact: While GDP may rise, not all sectors benefit. Education and Health would face higher costs under base broadening, illustrating that **positive macro outcomes don't guarantee uniform business gains.**

Key Contributors



KRITEE
President



YASH JAIN
Vice President



AVNI DAGAR
General Secretary



KARAN KUMAR
Joint Secretary



PARISHI JAIN
*Director of
Public Relations*

For More
Insights,
Follow Our
Official
Channels!



www.finsdduc.com



[finsdduc](https://www.instagram.com/finsdduc)



[Fin-S, The
Finance
Society](https://www.linkedin.com/company/fin-s-the-finance-society)