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GST Rate Rationalisation: Implications for Key Sectors

The Goods and Services Tax (GST), introduced in July 2017, was envisioned as a single indirect tax regime to unify India's fragmented goods and services taxation system. While GST has indeed simplified compliance , it currently operates with a complex multi-tier structure of rates i.e. 5%, 12%, 18%, and 28% . This has often led to disputes, classification issues, and sectoral lobbying, undermining the goal of simplicity and uniformity.

Recognising these challenges, the Government has set in motion a significant rate rationalisation exercise, often referred to as "GST 2.0", aimed at reducing complexity, easing administrative bottlenecks and ensuring simplification of compliances.

Current GST Rate Structure

- 5% slab – Essential goods and services such as food items, medicines, and public transport.
- 12% slab – A mid-tier for certain processed foods, fertilizers, and capital goods.
- 18% slab – The most widely applied rate, covering consumer durables, industrial inputs, telecom, financial services, etc.
- 28% slab – "Luxury and de-merit goods," including premium cars, tobacco, aerated drinks, and high-end appliances.

This four-slab system has been criticised for creating interpretational issues and administrative complexity.

Recommendations of the GST Council – New GST rates

The reforms aim to streamline GST into two principal slabs: 5% and 18%, with some essential goods continuing at nil/ exempt rates and a 40% rate for de-merit goods.

Revisions by Category

1. **Everyday Essentials & Personal Care Products**

   Items like toothpaste, soaps, and shampoos move from 18% to 5%, making them more affordable for households.

2. **Electronics & Consumer Durables**

   - White Goods such as TVs, dish washing machines, refrigerators, and air-conditioners shift from 28% to 18%, boosting middle-class consumption.
   - **Automobiles**
     Small hybrid cars: from 28% to 18%, to promote greener mobility.
   - Electric vehicles (EVs) to continue at 5%, supporting the government's EV adoption push.

3. **Cement and Construction Materials**

   - some cement brands drop from 28% to 18%, reducing input costs in infrastructure and housing.

4. **Agriculture and Rural Economy**

   - Fertiliser sector, farm machinery, see reduced rates of 5% to ease the burden on farmers and rural households.

Sector-wise Impact

This table captures at-a-glance the transition from multi-slab complexity to a simplified two-slab regime (5% and 18%), along with sectoral implications.

Summary - Old vs. New GST Rates by Category

Category / Product Type	Current GST Rate	New GST Rate (effective September 22, 2025)	Likely Impact
Consumer Goods Personal care (toothpaste, soaps, shampoos, talcum, etc.)	18%	5%	Makes household essentials cheaper; boosts purchasing power and consumption. FMCG sector will see increase in volumes
Electronics & consumer durables (TVs, refrigerators, washing machines, ACs, etc.)	28%	18%	Encourages middle-class consumption; supports e-commerce and retail. Good for 'Make in India'
Automobiles Small hybrid cars	28%	18%	Narrows gap with conventional cars; boosts demand for small cars and eco-friendly vehicles. Rate for car parts also aligned.
Electric vehicles (EVs)	5% (concessional)	5% (unchanged)	Continues policy support for EV adoption
Cement and real estate	28%	18%	Reduces construction cost; supports housing & infrastructure
Agriculture and rural economy Fertilisers and farm machinery including tractors	18% / 12% (varies)	5%	Lowers agricultural input costs, benefits farmers
Two-wheeler industry Entry-level two-wheelers	28%	18%	Improves rural affordability; supports mobility & demand
Luxury / de-merit goods (tobacco, aerated drinks, premium cars)	28% + cess	40%	Maintains higher taxation for revenue and deterrence

E-commerce

While e-commerce could benefit from increased demand across categories, platforms face operational challenges in recalibrating prices, tax invoices, and compliance systems during peak festive sales.

Conclusion

The GST rate rationalisation marks the most significant reform since GST's rollout in 2017. By reducing the number of slabs and cutting rates on essential and aspirational goods, the government seeks to stimulate consumption, ease compliance, and boost investor confidence.

While businesses will face short-term transition challenges, the long-term benefits—simplified taxation, lower costs, and a more consumption-driven economy—are substantial. If implemented effectively, GST 2.0 could finally deliver on the promise of "One Nation, One Tax" in its truest spirit.

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