



GST Reforms in MSME

Fuelling growth and employment across India

Introduction

Key Takeaways

- **Automobiles & Transport:** Lower GST boosts demand; GST on tractors at 5%; trucks and buses at 18%, reducing logistics costs.
- **Food & Dairy:** GST mostly cut to 5%/NIL; dairy and diabetic foods GST lowered, aiding farmers and women.
- **Textiles & Leather:** GST on man-made fibres and leather cut to 5%; garment slab raised to ₹2,500, supporting women workers.
- **Housing Materials:** Cement GST at 18%, bricks at 5%, plus cuts on particle boards, marble, and wood products boost affordability and jobs.
- **Handicrafts & Toys:** GST reduced to 5%, encouraging local production and employment.
- **Packaging & Sustainability:** GST on packing materials and biodegradable bags cut to 5%.
- **Tourism:** GST on budget hotels cut to 5%, boosting domestic tourism.

The recent GST rationalisation is strategically aligned with current government schemes such as Make in India, PM Gati Shakti, and Pradhan Mantri Awas Yojana, supporting MSMEs and labour-intensive sectors through reduced compliance costs and expanded market access. Under the vision of PM Modi, by lowering GST rates across automobiles, food processing, apparel, logistics, and handicrafts, the reforms strengthen supply chains, promote local manufacturing, and boost employment, especially for women, rural entrepreneurs, and informal sector workers. Multiple sectors such as garments, toys, handicrafts, leather, and MSMEs see enhanced employment opportunities, with a notable impact on women's employment in textiles, tailoring, and dairy. Together, these reforms advance the vision of a self-reliant, globally competitive, and inclusive Viksit Bharat.

Automobiles and Transport

- Lower GST on two-wheelers, cars, buses, and tractors increases demand, benefiting MSMEs in tyres, batteries, glass, plastics, and electronics.
- Affordable bikes support gig workers, farmers, and rural traders; cheaper cars aid MSMEs and dealerships in small towns.
- GST reduction to 5% on tractors (<1800 cc) strengthens India's global tractor manufacturing leadership and assists ancillary MSMEs.

GST Reductions

in Automobiles and Transport



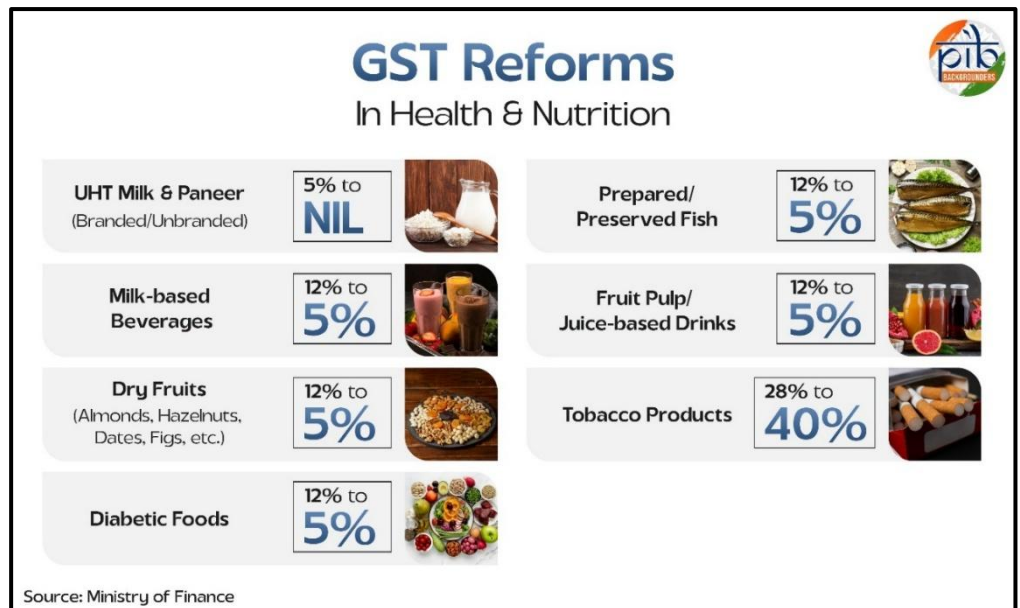
Two-Wheelers (up to 350cc including 350cc)	28% to 18%		Tractors (<1800 cc down from)	12% to 5%	
Small Cars	28% to 18%		Road Tractors for Semi-Trailers (Engine Capacity more than 1800 cc down from)	28% to 18%	
Large Cars	flat 40% with no cess		Tractor Parts Reduced to	5%	
Auto Components	Reduced to 18%		Commercial Goods Vehicles (Trucks, delivery vans, etc)	28% to 18%	
Buses	28% to 18%		Third-party insurance of goods carriage	12% to 5%	

Source: Ministry of Micro, Small and Medium Enterprises

- GST on commercial goods vehicles (trucks, delivery vans) cut from 28% to 18%, lowering freight, logistics costs, inflationary pressures, and benefiting MSME truck owners.
- GST on buses (10+ seats) reduced from 28% to 18%, reducing costs for fleet operators, schools, and improving fare affordability for labourers.

Food and Dairy

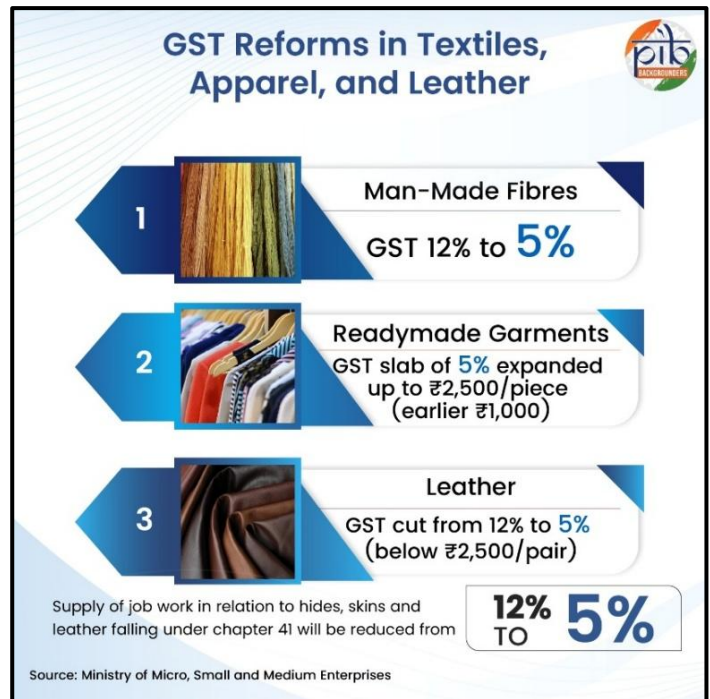
- GST on most food items reduced from 12%/18% to 5% or NIL, supporting MSMEs in food processing, small-scale processors, regional brands, dairy cooperatives, packaging, and cold storage.
- Lower GST on chocolates, cakes, and confectionery will boost sales for small sweet makers.



- Dairy sector benefits from NIL GST on milk and paneer, reduction from 12% to 5% on butter and ghee; supporting farmers, SHGs, women-led enterprises, and promoting nutrition security.
- GST on milk cans lowered from 12% to 5%.
- **Diabetic foods (12% to 5% GST):** Lower prices for special dietary products, reducing burden on diabetic patients.
- **GST brought to 5% from 12% on Dried fruits** such as Almonds, hazelnuts, dates, figs, etc. This will promote health-conscious diets. It will encourage consumption of healthy food and snack alternatives, improving household nutrition.
- **Prepared or preserved fish (12% to 5%);** Fruit pulp or fruit juice based drinks (12% to 5%) and Beverages containing milk will also be cheaper (12% to 5%).

Textiles, Apparel, and Leather

- GST on Man-Made Fibres cut from 12% to 5%, correcting inverted duty structure, increasing competitiveness for MSME textile manufacturers and exporters.
- Readymade garments GST slab expanded to 5% for items up to ₹2,500 (earlier ₹1,000), stimulating demand in Tier-2/3 towns and supporting labour-intensive garment units, especially women.
- GST on leather products reduced from 12% to 5% (below ₹2,500 per pair); benefitting MSMEs in hides, tanneries, and footwear manufacturing.



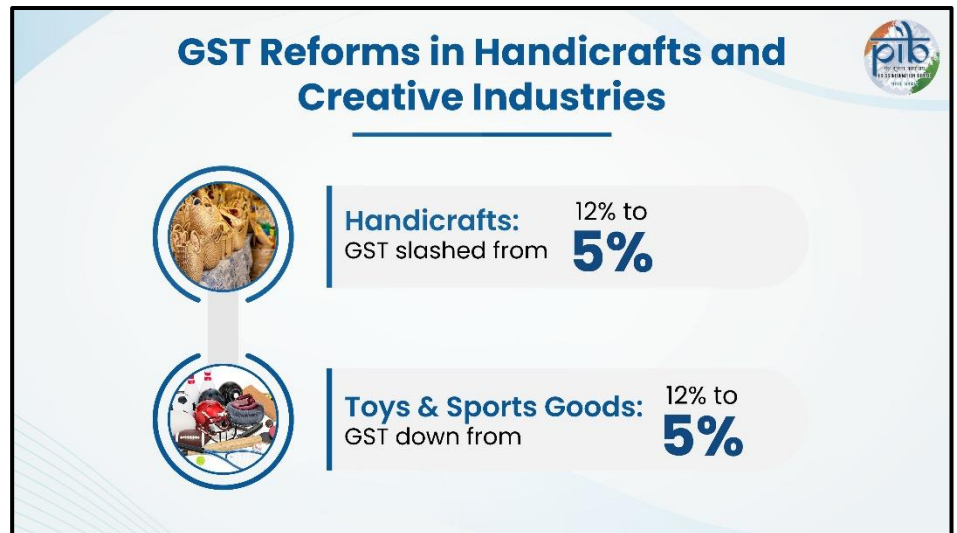
Housing and Construction Materials

- **Cement** GST decreased from 28% to 18%, lowering housing costs and supporting PMAY; will boost jobs in mining, manufacturing, and logistics.
- GST on **job work for bricks** cut from 12% to 5%, easing rural housing costs and supporting MSME running brick kilns.
- **Cement-bonded and jute particle boards** GST lowered from 12% to 5%, reducing prefab and housing construction costs.
- GST on **marble and granite** lowered from 12% to 5%, improving competitiveness of domestic stones and supporting stone processing jobs.
- GST on **agro-based wood products** (rice husk board, bamboo flooring, etc.) reduced from 12% to 5%, aiding MSME wood product units.



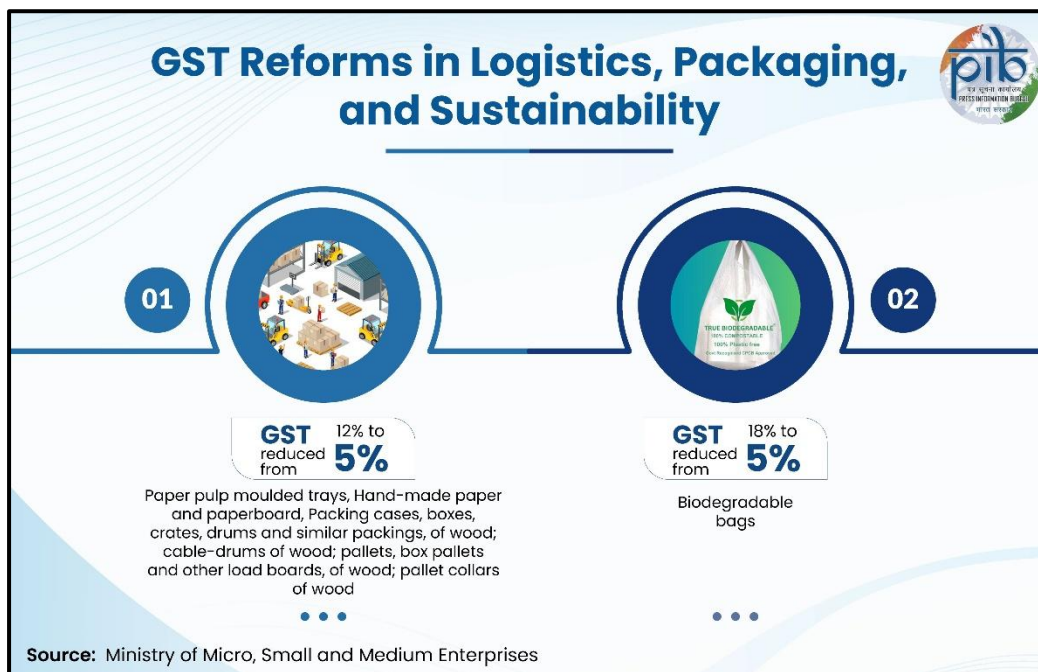
Handicrafts and Creative Industries

- **Handicrafts:** GST slashed from 12% to 5%. Covers idols, paintings, inlay work, terracotta, handbags, artware, tableware—huge relief for artisans and craftspeople.
- **Toys & sports goods:** GST down from 12% to 5%. Encourages indigenous production under *Vocal for Local*, reduces dependence on imports, creates jobs in toy manufacturing.



Logistics, Packaging, and Sustainability

- Packing paper, cartons, crates GST reduced to 5%. Helps cut logistics/packaging costs, supports small MSME packaging units, and reduces e-commerce costs.
- Biodegradable bags GST reduced from 18% to 5%. Encourages eco-friendly alternatives, boosts start-ups and MSMEs in compostable materials.



India's ranking in World Bank's Logistics Performance Index (LPI) has improved by sixteen places from 54 (out of 160 countries) in 2014 to 38 (out of 139 countries) in 2023. The World Bank has acknowledged India's efforts in LPI 2023 report, including investment in soft and hard infrastructure to connect ports on both coasts to economic poles in the hinterland, and supply chain digitization. The new GST rate cuts will further highlight India's efforts in reducing Logistics Cost.

Tourism and Hospitality

- Hotels below ₹7,500/day: GST reduced from 12% to 5% (without ITC). Encourages domestic tourism, boosts budget/mid-segment hotels, and creates employment in hospitality.
- The contribution of tourism sector to the country's Gross Domestic Product (GDP) for 2020-21 to 2023-24 is given below:



Year	Total Share in GDP (in %)
2020-21	1.50
2023-24 (P)	5.22

(P): Provisional estimates

The GST reduction is expected to encourage increased tourism in the country, thereby further boosting its contribution to the GDP.

Conclusion

The comprehensive GST rationalisation undertaken by the government closely aligns with the objectives of flagship schemes such as Make in India, Aatmanirbhar Bharat, PM Gati Shakti, and Pradhan Mantri Awas Yojana by directly strengthening MSMEs, expanding job opportunities, and fortifying local supply chains in critical sectors like automobiles, textiles, food processing, logistics, and handicrafts. Lower GST rates have made essential goods, raw materials, and services more affordable, motivating small and medium enterprises and start-ups to scale up operations, invest in innovation, and compete both domestically and globally. The reforms support women-led and labour-intensive industries by making manufactured goods, processed foods, apparel, and even eco-friendly products accessible at lower costs, fostering economic inclusion of rural, semi-urban, and informal sector workers alongside urban manufacturers. By correcting inverted duty structures, reducing input costs, and simplifying compliance, the government is laying the foundation for a robust, resilient, and self-reliant industrial ecosystem, therefore accelerating the nation's journey towards Viksit Bharat, a developed and globally competitive India by 2047.

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