BACKGROUNDERS
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Government of India

GST Reforms 2025: Relief for Common Man, Boost for Businesses

Relief, Simplification, and Growth for All

04 September, 2025

Key Takeaways

- GST simplified to a **two-slab structure (5% & 18%)**
- GST reforms cut taxes on **household essentials** (soaps, toothpaste, Indian breads) to **5% or Nil** boosting affordability
- **Life-saving drugs, medicines** reduced from **12% to Nil or 5%** making healthcare affordable
- **Two-wheelers, small cars, TVs, ACs, cement** cut from **28% to 18%** bringing relief to middle-class.
- **Farm machinery, irrigation equipment** cut from **12% to 5%**, reducing farming costs
- **Tobacco, pan masala, aerated drinks, and luxury goods** taxed at **40%**.

Introduction

The **Goods and Services Tax (GST)**, introduced on **1st July 2017**, is India's most significant indirect tax reform since Independence. By bringing together multiple central and state taxes into a single, unified system, GST created a **common national market**, reduced the cascading of taxes, simplified compliance, and improved transparency. Over eight years, GST has steadily evolved through rate rationalisation and digitalization, becoming the **backbone of India's indirect tax framework**.

The **56th meeting of the GST Council**, chaired by Union Finance Minister **Smt. Nirmala Sitharaman** has now approved Next-Gen GST reforms, with focus on improving the lives of the common man and ensuring ease of doing business for all, including small traders and businessmen. In his Independence Day address, Prime Minister **Narendra Modi** had announced-"*The government will bring Next-Generation GST reforms, which will bring down tax burden on the common man. It will be a Diwali gift for you*." The reforms, he said, would directly benefit the **common man, farmers, MSMEs, women, youth, and middle-class families**, while strengthening India's long-term growth.

In line with the PM's vision the GST Council has recommended a comprehensive reform package that includes **rate rationalization** with a **simplified two-slab structure (5% and 18%)**, sweeping rate reductions across sectors, with focus on common-man, labour-intensive Industries, farmers and agriculture, health, key drivers of the economy. These recommendations are based on **consensus among all members of the GST Council** to make GST simpler, fairer, and more growth-oriented. The revised rates and exemptions will come into effect from **22nd September 2025**, ensuring timely relief for the common man, households, farmers, and businesses. Only exception will be specified goods namely, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and beedi, for which the existing rates of GST and compensation cess will continue to apply and the new rates will be implemented at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess.

7 Pillars of Next-Gen GST Reforms

Next-Gen GST reforms build on GST's success with a simplified 2-tier structure, fairer taxation, and digital filing for ease and faster refunds. They prioritize consumers by lowering rates on essentials and high-value items, empower MSMEs and manufacturers with smoother cash flows, strengthen state revenues, and boost demand driving consumption and manufacturing growth across India.

7 PILLARS OF NEXT-GEN GST REFORMS

Pillar 1

Building on the success of GST.

One Nation, One Tax

Expanded the taxpayer base

Simpler 2-tier system (5% & 18%)

Pillar 2

Rationalising rates for fairer taxation.

Smoother duty structures

Faster processing of refunds

Pillar 3

Simplifying filing through technology.

Easy registration for small & low-risk businesses

90% upfront provisional refunds for exporters

Digital compliance with e-invoicing

AI-driven risk detection

Pillar 4

Putting consumers first.

Essential goods in the 0–5% bracket

High-value items like cars down from 28% > 18%

Pillar 5

Empowering MSMEs & manufacturers.

Fixed inverted duty structures

Simpler rates to support Make in India

Pillar 6

Stronger states, stronger Bharat.

Sustainable revenue growth for all states

Rationalised rates will increase demand

Pillar 7

Lower taxes = Higher spending.

Families buy more, demand rises, industries grow.

Cheaper appliances, electronics will increase demand

Source- Ministry of Finance

Simplified Structure, Sectoral Relief

The latest reforms mark a major simplification of the GST structure. The shift to a **two-slab system** of **5% and 18%,** removing the earlier 12% and 28% rates, will make taxation more transparent and easier to follow. At the same time, a **40%** on **luxury** and **sin goods** such as pan masala, tobacco, aerated drinks, high-end cars, yachts, and private aircraft ensures fairness and revenue balance. Alongside, registration and **return filing** have been **simplified**, refunds made faster, and compliance costs reduced, easing the burden on businesses, especially MSMEs and startups.

Here is a sector-wise follow-up of the reforms and their expected impact.

Food and Household Sector

Reforms bring direct savings to households by reducing taxes on everyday essentials and packaged foods. GST rate cut on AC, Dishwashers and TVs (LCD, LED) is a dual win. It increases affordability for consumers while strengthening India's electronics manufacturing ecosystem.

- Products like Ultra-High Temperature (UHT) **milk**, Pre-packaged and labelled chena or paneer, all the **Indian Breads** will see **NIL** rates
- Household goods like soaps, shampoos, toothbrushes, toothpaste, tableware, bicycles now at **5%**.
- Food items such as packaged namkeens, Bhujia, Sauces, Pasta, Chocolates, Coffee, Preserved Meat etc. reduced from **12% OR 18% to 5%**
- **Consumer durables:** TVs (LCD/LED) (> 32'), ACs, dishwashers: **28% → 18%.**

Home Building & Materials

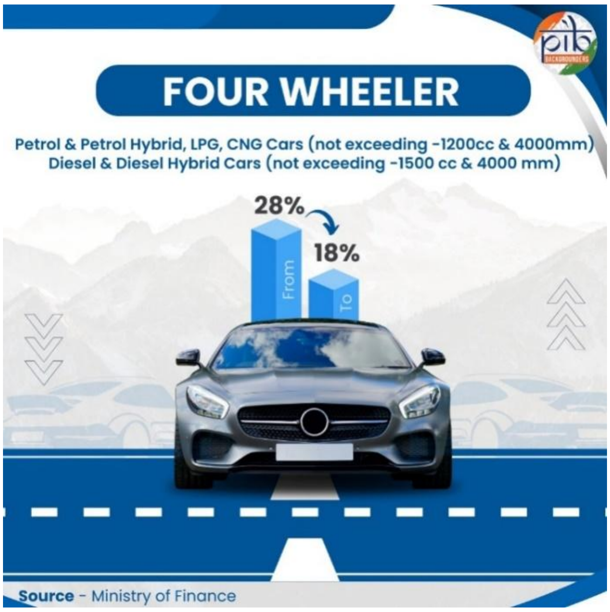
The cut in GST on cement and construction materials will give a big boost to the housing sector. This will lower the cost of homes and infrastructure projects, making ownership of houses more affordable. The move is also expected to spur demand in real estate and create new jobs in construction.

- Cement: **28% → 18%**.
- Marble/travertineblocks, Granite blocks, Sand-lime bricks: **12% → 5%**
- Bamboo flooring / joinery, Packing cases & pallets (wood): **12% → 5%**

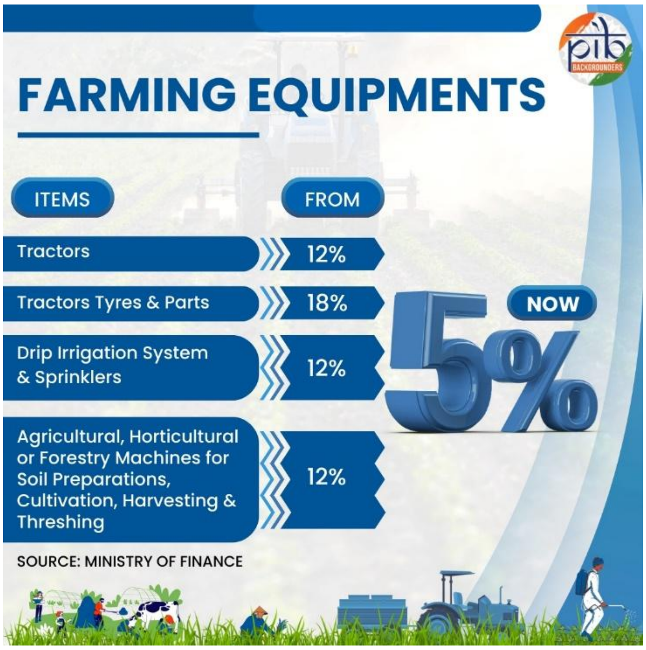
Automobile Sector

Clearer classification of vehicles and auto parts will cut down disputes, improve compliance, and **support** growth in India's **automotive manufacturing** and exports.

- Small cars, two-wheelers ≤350cc: **28% → 18%**.
- Buses, trucks, three-wheelers, all auto parts: **28% → 18%**.



Agriculture sector



Cheaper machinery and lower rates on bio-pesticides will help small farmers **reduce costs** and encourage **sustainable farming practices**. Correcting the inverted duty structure on Fertilizer inputs will boost domestic fertilizer production and **reduce dependence** on **imports**, strengthening self-reliance in agriculture.

- Tractors: **12% → 5%**; tires and parts: **18% → 5%**.
- Harvesters, threshers, sprinklers, drip irrigation, poultry & bee-keeping machines: **12% → 5%**.
- Bio-pesticides and natural menthol: **12% → 5%**.

Service sector

Lower GST on hotel stays, gyms, salons, and yoga services will reduce costs for citizens, improve access to wellness, and give a fillip to the hospitality and service industries.

- Hotel stays up to ₹7,500/day from **12% to 5%.**
- Gyms, salons, barbers, yoga GST cut from **18% to 5%.**

Toys, Sports & Handicrafts

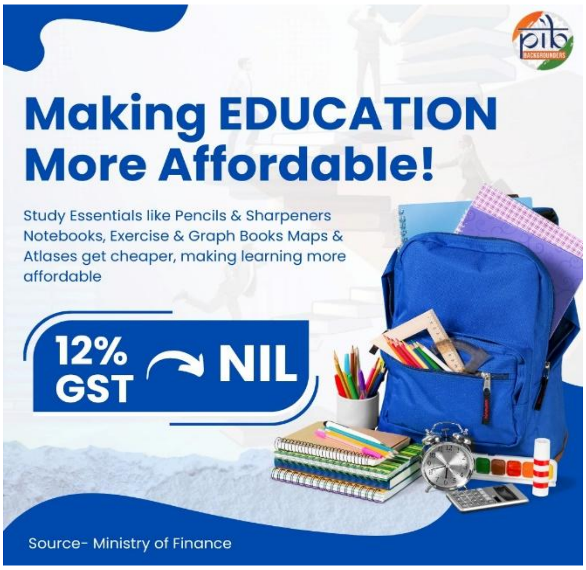
Fixing duty structures for man-made fibres will improve the **competitiveness** of the **textile industry**, especially in exports. The inverted duty structure in the sector has been corrected with reduction of GST rate on manmade fibre from 18% to 5% and manmade yarn from 12% to 5%.

Further, lower GST rates on handicrafts will support artisan livelihoods, preserve India's cultural heritage, and **promote rural economic growth**.

- Handicraft idols & statues: **12% → 5%**.
- Paintings, sculptures: **12% → 5%**.
- Wooden/metal/textile dolls & toys: **12% → 5%**.

> ***Dileep Baid, Trade expert*** *said "For my sector, handicraft sector, this might become a lifeline because, as we all know, tariffs have disrupted the entire handicraft sector and has put a question mark on employment of lakhs of people in this sector. As we were thinking of looking for alternative markets, India is the best alternative for this and now with these reduced GST rates on handicrafts, we will grow our Indian market. In return, it will save the employment of artisans and craftsmen."*

Education sector



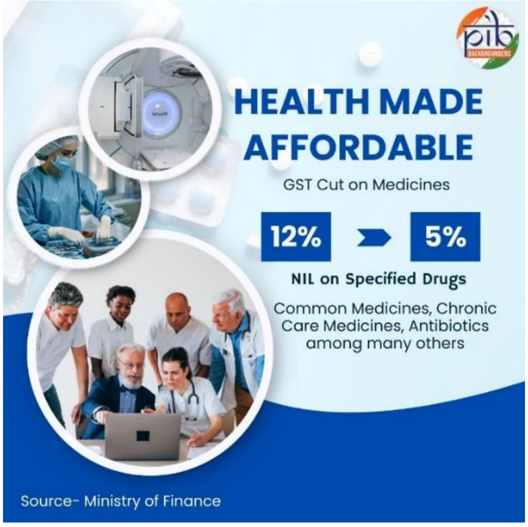
Education has become more **affordable** with exercise books, erasers, pencils, crayons and sharpeners moving to 0% GST. This directly supports families and students, ensuring lower costs of learning materials.

Geometry boxes, school cartons, trays: **12% → 5%**.

Medical sector

Reduced rates on medicines and medical devices will improve access to healthcare and support domestic manufacturing in the pharma and medical equipment sectors.

- 33 **life-saving drugs**, diagnostic kits: **12% → 0%**.
- Other medicines including Ayurveda, Unani, Homoeopathy: **12% → 5%**.
- Spectacles and corrective goggles: **28% → 5%**.
- Medical oxygen, thermometers, surgical instruments: **12–18% → 5%.**
- Medical, dental, and veterinary devices cut from **18% to 5%.**



Health and life Insurance

GST exemptions on life and health insurance premiums will expand financial protection and support the vision of *Mission Insurance for All by 2047*.

- **GST exemption** on premiums for individual life insurance, health insurance, floater plans, and senior citizen policies.

Mr Himanshu Baid, MD Poly Medicure& CoA Member EPCMD *"Even with all the health insurance, the GST has been reduced to zero from 18%. There is a big benefit to the consumer that is going to come in... For essential medical products, such as thermometers, glucometers, and diagnostic kits, the GST rate has been reduced to 5%. It's a great reform done by the govt., which is going to drive local consumption and also improve affordability and accessibility for many products that were out of reach for common people..."*

In addition to the above major reforms, several other items have also seen GST rate rationalisation. These include household utilities, smaller consumer products, and industrial inputs. A complete item-wise list is provided here.

Next-Gen GST: Benefits for All

The Next-Generation GST reforms are designed not just to reduce tax rates, but to create a **virtuous cycle of growth**.

- **Lower Prices, Higher Demand:** Cheaper goods and services increase household savings and stimulate consumption.
- **Support for MSMEs:** Reduced rates on inputs like cement, auto parts, and handicrafts lower costs and make small businesses more competitive.
- **Ease of Living:** A two-rate structure means fewer disputes, quicker decisions, and simpler compliance.
- **Wider Tax Net:** Simpler rates encourage compliance, expanding the tax base and improving revenues.
- **Support for Manufacturing:** Correcting inverted duty structures boosts domestic value addition and exports.
- **Revenue Growth:** As seen in past reforms, lower rates with better compliance increase collections.
- **Economic Momentum:** Lower costs → higher demand → larger tax base → stronger revenues → sustainable growth.
- **Social Protection:** Exemption of GST on insurance and essential medicines strengthens household security and access to healthcare.

Together, these reforms ensure that GST is **citizen-centric**, **business-friendly**, and aligned with India's global growth ambitions.

Ravi Patodia, Member, Bhadohi Carpet Export Promotion Council (CEPC) says, *"The rates of normal consumption items have been reduced from 12% and 18% to 5% and this is a very good thing. This will provide a lot of relief to the general public. The tax burden will be reduced and inflation will also be reduced... It is a good decision considering the current tariff crisis."*

For more details on GST processes and common queries, refer to the **GST FAQs**.

The Road to GST: Challenges and Milestones

Before the launch of the Goods and Services Tax (GST), India's indirect tax system was highly fragmented. Every state followed its own tax rates, levies, and procedures, making trade across India complicated and compliance-heavy. Businesses often faced overlapping taxes, inconsistent rules, and limited credit for inputs.

Problems with the Pre-GST Era (VAT system):

- No uniform tax rates across states; additional levies like entry tax raised costs.
- Different rules for returns, audits, and penalties created confusion.
- Weak input tax credit provisions allowed misuse and tax evasion.
- Double taxation (VAT plus service tax) increased the burden on both businesses and consumers.

To overcome these challenges, GST was conceived as a unified national tax system.

The idea of GST was first proposed in **2000** with an Empowered Committee of State Finance Ministers set up to study sales tax reforms. Taking this idea forward and with extensive consensus building among states, the **101st Constitutional Amendment Act** was passed and ratified in 2016, paving the way for GST. GST was formally rolled out at midnight on **1st July 2017**, hailed as a *"**path-breaking legislation for New India.**"*

Why GST is a Milestone:

- Subsumed **17 different taxes and 13 cesses** into one unified tax.
- Eliminated cascading of taxes (tax on tax).
- Created a **single national market** with common rates and procedures.
- Simplified compliance and improved transparency.
- Symbolized economic integration of the country.

> ***Hemant Jain, President of the PHD Chamber of Commerce and Industry (PHDCCI), says***, *"...This is a great incentive for the common man...This is a big step for the ease of doing business...The basic needs of the common man have been taken care of...This will give a huge boost to the economy..."*

Performance So Far

- **Expansion of Tax Base:** GST taxpayer base has grown from **66.5 lakh in 2017** to **1.51 crore in 2025**, reflecting greater formalization of the economy.
- **Record Revenue Growth:** FY 2024–25 saw **₹22.08 lakh crore in gross GST collections**, doubling in just four years with a CAGR of 18%.
- **Economic Confidence:** Rising collections and active taxpayers reflect stronger compliance, improved systems, and robust economic fundamentals. Average monthly collections have risen to **₹2.04 lakh crore** year from **₹82,000 crore in 2017–18**.

Conclusion

The adoption of a simplified GST structure and wide-ranging rate reductions marks a new chapter in India's tax journey. By focusing on affordability for citizens, competitiveness for businesses, and transparency in compliance, these reforms make GST not just a tax system, but a **catalyst for inclusive prosperity and economic transformation**.

Effective from **22nd September 2025**, the reforms reaffirm India's commitment to building a **simpler, fairer, and growth-oriented GST framework**, ensuring both ease of living for people and ease of doing business for enterprises.

References

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