

# From Multiple Slabs to Simplification: Rethinking GST in India

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## Introduction

Taxation is a fundamental instrument through which governments mobilize resources, regulate economic activity, and promote social welfare. Prior to the introduction of GST, India’s indirect tax system was highly fragmented, involving multiple taxes such as Value Added Tax (VAT), excise duty, service tax, entry tax, and octroi, imposed by both central and state governments. This multi-layered structure not only created administrative complexity but also led to inefficiencies in the form of cascading taxation; commonly referred to as “tax on tax” (Ahmad & Poddar, 2009).

For instance, a manufacturer had to pay excise duty at the production stage and VAT at the sale stage, without full credit for taxes already paid. This increased the final price of goods, reduced competitiveness, and distorted supply chains. Moreover, variations in tax rates across states created barriers to interstate trade, limiting the idea of a unified national market. The launch of GST on July 1, 2017, was therefore a landmark reform. It sought to unify the tax structure under a single umbrella, enabling seamless credit flow through the mechanism of input tax credit (ITC) (Government of India, 2017). By allowing businesses to offset taxes paid on inputs against output tax liability, GST reduced cascading effects and improved cost efficiency.

Like any large-scale reform, GST 1.0 faced implementation challenges. While it simplified the structure conceptually, operational realities such as multiple tax slabs, compliance burdens, and technological glitches created friction. These challenges gradually led to the emergence of the idea of GST 2.0, which emphasizes simplification, rationalization, and improved governance.

## Comparative Assessment of GST 1.0 and GST 2.0

GST 1.0 was designed with a dual objective: ensuring equity in taxation while maintaining adequate revenue generation for the government. To achieve this balance, a multi-tier tax slab system was introduced. Essential goods such as food items and basic necessities were either exempt or taxed at very low rates to protect lower-income households. Goods of mass consumption were taxed at 5 per cent, while

processed goods and services were categorized under 12 per cent and 18 per cent slabs. Luxury and demerit goods, including automobiles and tobacco, were placed in the highest 28 per cent slab to discourage consumption and generate higher revenue. This structure reflected a welfare-oriented approach, attempting to align taxation with social priorities. However, in practice, this system turned out to be quite complex (Deloitte India, 2022).

One of the major issues was classification ambiguity. Businesses often struggled to determine the correct tax rate for their products. For example, slight differences in product characteristics could shift an item from one slab to another, leading to disputes and litigation. This increased uncertainty and compliance costs.

Another challenge was the compliance burden, particularly for small businesses. Frequent return filings, invoice matching requirements, and evolving regulations made it difficult for them to adapt (Ernst & Young India, 2023). Many small enterprises lacked the technological and financial capacity to comply efficiently, which affected their participation in the formal economy. Despite these limitations, GST 1.0 delivered notable benefits. It improved tax transparency, broadened the tax base, and enhanced revenue collection efficiency. It also facilitated better integration of markets by reducing interstate trade barriers (Rao, 2019; Central Board of Indirect Taxes and Customs, 2022).

Table 1: GST 1.0 Tax Structure

Tax Slab	Type of Goods/Services	Examples
0%	Essential goods	Fresh fruits, vegetables, milk, books
5%	Mass consumption items	Sugar, tea, edible oil
12%	Processed goods	Butter, cheese, mobile phones
18%	Standard category	Electronics, restaurants, services
28%	Luxury goods	Cars, air conditioners, tobacco

### GST 2.0 and the Need for Change

The concept of GST 2.0 represents an evolutionary phase rather than a complete overhaul of the system. It seeks to address the shortcomings of GST 1.0 while preserving its core strengths. A key driver behind GST 2.0 is the need for simplicity. A simpler tax structure reduces ambiguity, enhances compliance, and lowers administrative costs. By minimizing the number of tax slabs, the system becomes easier to understand for both taxpayers and administrators.

Another important aspect is the use of technology. Advanced data analytics, real-time invoice matching, and AI-based monitoring systems can improve compliance and reduce tax evasion. This shift toward digital governance not only enhances efficiency but also builds trust in the system. GST 2.0 also emphasizes predictability and stability. Frequent changes in tax rates and rules under GST 1.0 created uncertainty for businesses. A more stable framework allows firms to plan investments and operations more effectively. GST 2.0 can be seen as the next stage in India's tax reform journey (Ernst & Young India, 2023).

### The 2025 GST Reforms: A Step Toward Simplification

The 2025 GST reforms mark a significant milestone in India's tax reform journey. One of the most notable changes is the rationalization of tax slabs. By eliminating the 12 per cent and 28 per cent categories, the government has reduced the number of tax rates, making the system more streamlined (Press Information Bureau, 2023).

Under the revised structure, essential goods and services remain tax-free, ensuring affordability for basic needs. A 5 per cent slab covers essential consumption goods such as packaged food and medicines. The majority of goods and services now fall under a single standard rate of 18 per cent. A new feature of the reform is the introduction of a 40 per cent slab for luxury and sin goods. This higher rate serves a dual purpose: it generates additional revenue and discourages the consumption of harmful products such as tobacco and aerated beverages (Organization for Economic Co-operation and Development [OECD], 2020).

Table 2: GST 2.0 Tax Structure

Tax Slab	Category	Examples
0%	Essential goods & services	Fresh food, healthcare, education
5%	Basic consumption goods	Packaged food, medicines
18%	Standard goods & services	Electronics, appliances, services
40%	Luxury & sin goods	Tobacco, aerated drinks, high-end cars

### Implications of the 2025 Reforms

The simplification of tax slabs has several important implications for the Indian economy.

**1. Improved Ease of Doing Business:** A simplified tax structure reduces compliance complexity, making it easier for businesses to operate. This is particularly beneficial for small and medium enterprises (SMEs), which often face resource constraints. Lower compliance costs can improve profitability and encourage formalization.

**2. Reduction in Classification Disputes:** With fewer tax slabs, the chances of misclassification are significantly reduced. This minimizes disputes between taxpayers and authorities, leading to a more efficient legal and administrative system.

**3. Enhanced Tax Compliance:** Simplification encourages voluntary compliance. When the system is easy to understand and follow, taxpayers are more likely to comply, leading to improved revenue collection.

**4. Impact on Prices and Consumption:** Changes in tax rates may lead to short-term price adjustments. Some goods previously taxed at 12 per cent may now fall under the 18 per cent slab, potentially increasing prices. However, the overall impact depends on how businesses pass on these changes to consumers.

**5. Equity Considerations:** While simplification improves efficiency, maintaining equity remains crucial. Ensuring that essential goods remain tax-free or lightly taxed is important to protect lower-income households. The challenge lies in balancing simplicity with social welfare.

### Challenges in Transitioning to GST 2.0

The transition to GST 2.0 is not without challenges. One major concern is the short-term disruption caused by rate changes. Businesses may need to adjust pricing, accounting systems, and supply chains. This transition period can create uncertainty. Another challenge is ensuring revenue neutrality. Reducing tax slabs may affect government revenue in the short run. Policymakers must carefully design the system to maintain fiscal stability. There is also a need for capacity building, especially among small businesses. Providing training, improving digital infrastructure, and offering support mechanisms can help them adapt to the new system.

### The Way Forward

The evolution from GST 1.0 to GST 2.0 reflects a broader shift in policy thinking from the evolution from GST 1.0 to GST 2.0 reflects a broader shift in policy priorities toward simplicity, efficiency, and adaptability. However, the success of GST 2.0 will depend on continuous refinement

and effective implementation. Strengthening technological infrastructure, improving coordination between central and state governments, and enhancing taxpayer awareness are essential for achieving the desired outcomes. In addition, a robust dispute resolution mechanism is necessary to address conflicts and build trust in the system.

**Conclusion**

GST has fundamentally transformed India’s indirect tax landscape by replacing a fragmented system with a unified framework. While GST 1.0 achieved significant milestones in improving transparency and reducing cascading taxes, its complexity highlighted the need for reform. GST 2.0, particularly through the 2025 reforms, represents a decisive step toward simplification and efficiency. By rationalizing tax slabs and improving clarity, it addresses many of the challenges faced under the earlier system.

The journey of GST reform is ongoing. The ultimate success of the system will depend on its ability to strike a balance between simplicity, fairness, and revenue generation. With continuous improvements and adaptive policymaking, GST has the potential to become a robust pillar of India’s economic development.

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