

# Tax Update

## Prime Minister announces GST 2.0 reforms: Streamlined tax structure and broader relief on the horizon ahead of Diwali

On 15 August 2025, while addressing the nation, Prime Minister Narendra Modi announced that next-generation GST reforms will be introduced ahead of Diwali. Positioned as a 'double bonus', the reforms seek to enhance affordability, simplifying compliance, and stimulating economic activity. The measures are expected to deliver targeted relief to the common man, farmers, the middle class, women, students, and MSMEs, thereby advancing the government's vision of 'Atmanirbhar Bharat'.

### Highlights of core reforms:

The central government has submitted its proposal on GST rate rationalisation and reforms to the group of ministers constituted by the GST Council, for examination and deliberation. The proposed reforms are anchored around three foundational pillars:

#### 1. Structural reforms:

- Rectification of inverted duty structures to achieve better alignment of input and output tax rates and reduce the accumulation of input tax credit, thereby supporting domestic value addition.
- Resolution of classification disputes to harmonise rate structures, ease compliance, reduce litigation, and ensure fairness and uniformity across sectors.
- Stability and predictability through long-term clarity on rates and policy, enhancing industry confidence and aiding business planning.

#### 2. Rate rationalisation:

- Simplification of the tax structure by reducing the number of slabs moving toward a two-slab system (standard and merit), with special rates reserved only for select items.
- Lower taxes on essentials and aspirational goods to boost affordability and expand access for a wider population.
- Utilisation of fiscal space created by the phasing out of the compensation cess to rationalise and align tax rates sustainably within the GST framework.

#### 3. Ease of living:

- Streamlining of the registration process to make it seamless, technology-driven, and time-bound, especially focused on easing the processes for small businesses and start-ups.
- The introduction of pre-filled returns to reduce manual intervention and eliminate mismatches.
- The implementation of faster and automated refunds for exporters and entities affected by inverted duty structures.

These GST reforms are expected to strengthen key economic sectors, stimulate broader economic activity, and enable sectoral expansion across the country.

### **Our comments**

The proposal to move from four GST slabs to a streamlined two-slab structure marks the most significant reform since the GST rollout in 2017. Rationalisation is expected to simplify rate structures, reduce classification disputes, and create a more predictable tax environment — all of which have been long-standing demands of the industry.

From a sectoral lens, the impact will be wide-ranging. While daily essentials are likely to be placed in the lower 5% merit slab, most other goods, including automobiles, FMCG and consumer durables are expected to fall within the standard 18% tax bracket. While petroleum products are expected to be excluded from GST as of now, the government's calibrated approach is to balance revenue considerations with growth, positioning GST 2.0 as a growth catalyst.

With the GST Council expected to deliberate in late August or September, industry sentiment is broadly positive. If consensus is reached and reforms are implemented by Diwali, it could deliver dual benefits of easing compliance for corporates while boosting consumer sentiment during the peak festive season.

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