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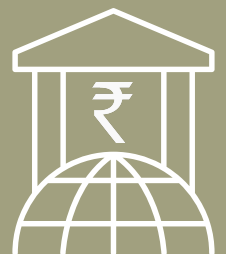
GST 2.0 – India's Great Tax Reset to spur growth



PART II OF III

Demand vs. Deficit:

The fiscal math of GST 2.0, trading near-term revenues for growth.





PART II OF III

The Gamble

Trading near-term revenues for growth — consumption lift, CPI glide-path, and risks if pass-through stalls.

Building on Part I's "what changed," this chapter keeps your quantitative framing intact: official estimates vs. street scepticism, buffers, and the conditions for the stimulus to actually transmit.

01 Centre's Great Growth Gamble

The hallmark of GST 2.0 is the drastic simplification of tax slabs. Effective September 22, 2025, most goods and services fall under just two rates – 5% for essentials and 18% for standard items – in lieu of the previous 12% and 28% brackets. A new 40% "sin tax" slab targets ultra-luxury and demerit goods, absorbing what were previously additional cesses on items like luxury automobiles, sugary drinks, and tobacco products. The vast majority of everyday products now carry a lower GST burden, fulfilling a long-standing demand for a more mass-friendly tax system.

Reduced tax rates usually bring big smiles all around, but behind the smiles of the people, stands the great growth gamble of the Indian government (estimated to be at a net loss in revenue of ₹48,000 crore due to the GST rate cuts). Lowering corporate tax rates, stepping up government spending on infrastructure and other incentive schemes have not triggered private investment in India in the past few years, endangering the fiscal health of the budget. In fact, the budget numbers assume personal income tax revenues to grow by a little over ₹1.81 lakh crore in this financial year. This means a real growth of ₹2.81 lakh crore if we take into account the ₹1 lakh crore lost in tax breaks given. That is an ambitious target for the current year.

This means that, if its calculations on triggering growth go wrong, India might have to borrow to make up for the tax-cut related revenues lost, derailing the fiscal consolidation journey. In a global environment that is so fraught with risk, aggression, and escalating, unpredictable geopolitical actions, India's best bet is to do what is needed to trigger domestic growth.

02 Unambiguous Benefit

Union Finance Minister Smt. Nirmala Sitharaman has probably cemented her legacy as one of the most tax-cutting FMs in Indian history. However, behind the enthusiasm for cheaper goods lies the government's biggest gamble – the impact on public finances. This is estimated to be roughly at a 4.5% dip relative to the ₹10.6 trillion gross GST collected last fiscal, or about 0.15% of India's GDP. The Finance Ministry has framed this as a calculated trade-off, arguing that the revenue loss is “modest” and will be gradually offset by gains from stronger consumption and better compliance in a simpler tax regime. The hope is that this sizable stimulus to demand will spur higher production, job creation, and thus enlarge the tax base over time, compensating for the initial shortfall.

Indicator	Impact of GST 2.0
Revenue Foregone (Govt Estimate)	₹48,000 crore short-term GST revenue loss (~ 4.5% of FY24 GST collection). Government deems it modest and expects to recover it via higher consumption and compliance.
Number of Items with Tax Cuts	~ 375 items have become cheaper as of Sept 22, 2025. Essentially 99% of goods in the 12% slab moved to 5%, and ~ 90% of 28% slab items moved to 18%. Everyday food, medicines, daily-use products now mostly at 5% or exempt.
Consumer Savings & Demand Boost	₹2 lakh crore (₹2 trillion) estimated cash freed for consumers. FMCG prices down ~ 8–10%; small cars and two-wheelers prices down 6–9%. Expected to spur ~ 2–3% additional consumption growth in near term (industry estimates).
GDP Growth Impact	+0.1 to 0.2 percentage point increase in GDP growth (next 1 year), as per analysts. Nominal GDP could get a 100–120 bps uplift from higher consumption demand. This could help counter external headwinds and support India's ~ 7% growth trajectory.
Inflation (CPI) Impact	Slight easing expected. Headline consumer inflation may be ~ 0.3% lower in FY26 due to GST cuts, particularly moderating food and goods prices. By boosting supply and competition (firms vie to pass on cuts), the reform is seen as “disinflationary” in the short term.

Indicator	Impact of GST 2.0
Effective Tax Rate (Overall)	Down to ~ 11% average effective GST rate (post-cut) from ~ 14% earlier. The continued downward trend (initial GST launched at ~ 15% effective rate) shows a pro-consumer tilt. While good for spending, this raises concerns on long-run revenue buoyancy if growth doesn't accelerate proportionally.
Fiscal Deficit Outlook	Fiscal deficit target of 4.4% of GDP in 2025-26 may overshoot slightly to ~ 4.8–5.0%. If revenue gap persists, govt may rely on higher RBI dividend and one-off revenues (e.g. asset sales). States' GST share remains protected in % terms (they now get a share of the 40% slab too), but in absolute terms states fear revenue strain without a new compensation mechanism.

03 Scepticism & Buffers

Not all analysts are convinced by the official arithmetic. Some economists caution that the actual fiscal cost could be significantly higher than ₹48,000 crore once the new structure fully plays out. The government's figure reportedly accounts for certain offsets – for example, about ₹45,000 crore of additional revenue as some goods move from 28% to 40% slab – and assumes consumption patterns remain static. However, independent estimates (from Emkay Global, HSBC, Bernstein, among others) suggest the net revenue loss could range from ₹1.0–1.5 lakh crore annually under GST 2.0.

These higher estimates factor in dynamic responses and the full year effect: once consumers get used to lower prices, even with some demand boost, the foregone tax on each unit might add up more than anticipated. In essence, sceptics believe the government's projection might be overly conservative, and that India's tax-to-GDP ratio could slip notably unless growth dramatically picks up.

Policymakers are aware of this, of course, and have contingency plans. They could lean on non-tax revenues and other measures to cushion the impact – for instance, a one-time higher dividend transfer from the RBI, hikes in excise duties for sectors outside GST (like petroleum fuels), or accelerating asset divestments and privatisations. Some of these buffers are already in play (the RBI delivered a robust surplus to the government this year, and stakes in state-run firms like IDBI Bank are on the auction block). Ratings agency CRISIL also opined that in context, a ₹48k crore hit is not a “significant burden” given the overall GST collection

size, and that buoyancy from formalisation could partly refill the gap over the medium term. For support of States, an approach floated by experts is a temporary, targeted fund – akin to a disaster relief fund – to support states or sectors hit by the reforms. The central government, so far, has not committed to a new compensation scheme, but as the data on GST collections in coming months comes in, this will be a space to watch.

Ultimately, the GST 2.0 gamble rests on the premise of the Keynesian multiplier – that ₹1 of tax cut will yield more than ₹1 of economic activity, which in turn generates some incremental tax revenue elsewhere. It is indeed a bold growth gamble – one that will be judged by how effectively the economy responds in the coming months.

04 Ensuring the Gamble Pays-Off

The public messaging and expectation management around GST 2.0 will shape its perceived success. The government has positioned it as a win for the common man – and indeed it is, in the immediate sense of lower prices for everyday needs. The world saw the rise in profit margins post-Covid as firms indulged in what was called ‘more-the-merrier’-flation. Private firms will do what they can to boost profits; the government will have to ensure that the GST reduction is passed on to the consumer if the great growth gamble has to pay off. The government has urged businesses to not pocket the tax savings as extra margin, but to translate them into lower prices on shelves. The true stimulus effect will only kick in if households perceive genuine savings and are encouraged to spend the freed-up money.

Further, the monetary policy and broader economic context will influence outcomes. The RBI's stance can either complement or dilute the fiscal stimulus. RBI was too slow to cut rates in the past year, and the 100 basis point rate cut in 2025 should have begun in 2024. Fortunately, inflation in India has been on a downward trend through 2025 (with CPI inflation around ~2-3% recently), giving the RBI room to adopt a growth-supportive stance. Economists argue that a timely interest rate cut by the RBI, in tandem with the GST cuts, could amplify the boost to consumption and investment.

The Centre will have to ensure that GST 2.0 doesn't inadvertently reintroduce complexity or distortions. While slabs are fewer, some complexity remains – for example, certain services are now taxed at 5% but without input credit (salons, gyms), effectively creating a new conditional rate. Also, luxury/ sin goods at 40% still involve items staying in 28% + cess in some cases (like tobacco for now), which means the system hasn't completely simplified to just three flat rates everywhere. Such distinctions can invite interpretation issues or even evasion (e.g., splitting a product or service into parts to qualify for lower rate). Therefore, tax authorities will need to issue clear guidelines and be nimble in resolving classification doubts.

The challenge is to ensure “simplification” doesn’t end up as a patchwork – the direction is right, and a few complementary moves: factor market reforms (land, labour), improving ease of doing business, and policy stability will reassure the investors and truly energize private investment by improving ease of compliance, reducing litigation, and enhancing the ease of doing business – creating a more efficient and growth-friendly tax ecosystem.

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PART II OF III

The bet can work, volumes rise, and buffers hold. In **Part III**, we turn to execution: ITC discipline, audit simplification, and reforms that convert policy into productivity.

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