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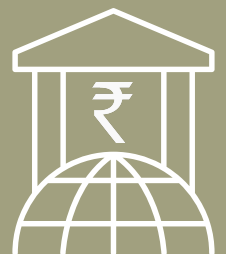
GST 2.0 – India's Great Tax Reset to spur growth



PART III OF III

Beyond the Tax Cut:

Credits, compliance and the required reforms that lock in 7%+ growth.





PART III OF III

Making It Work

ITC design choices, audit harmonisation, and the land-power-logistics reforms that lock in 7%+ growth.

With the reset (Part I) and the macro gamble (Part II) set, this closing chapter keeps your counsel's perspective intact—what must be fixed in law, process, and factor markets so the reset actually raises India's growth ceiling.

01 Deep Structural Reforms

required to make our markets efficient, improve the business environment & ensure India's global competitiveness.

The 50% tariff imposed by the US government on Indian merchandise exports goes beyond just trade economics and represents complex geopolitical issues that, hopefully, will get resolved over time. This is an opportunity for the industry and the government to work together to accelerate economic reforms and make India truly competitive and make the country an economic superpower.

Deep structural reforms are now needed:

1. To increase the availability of land, easier and speedier transfer, and clearer titles are now urgently necessary. Surplus land with the government and public sector undertakings can also be unlocked to increase the supply and make land acquisition costs affordable. Reforms that help in automatic change in land use subject to safeguards can propel investments and reduce costs for both MSMEs and large businesses.
2. Reliable, affordable, and sustainable energy supply is absolutely necessary for industry's competitiveness. Reforms to help distribution companies become financially self-sustaining,

including privatising distribution, eliminating cross-subsidies in tariffs in many sectors, and creating transmission capacity, are imperative.

3. Standardisation of audit procedures to be followed by states, accountability for notices issued, and creation of a Central Appellate Tribunal are required.

4. Recent challenges with respect to rare earth minerals illustrate the risk embedded in our current supply chains. Schemes such as the Production Linked Incentive (PLI) scheme and, if required, joint ventures with global businesses — including those from China — that have the technology and know-how need to be considered.

5. Strength in the mining sector not only adds to economic activity but also strengthens the manufacturing sector. The exploration of mineral reserves in the country needs to be accelerated. Single-window approval for various clearances, including forest and environmental, can result in faster implementation of mining operations after a lease is awarded.

6. The government should consider undertaking disinvestment and asset monetisation. This would facilitate the flow of private capital, act as a buffer for foreign direct investment (FDI), strengthen government finances, and improve business sentiment.

There are significant opportunities for big, and pragmatic reforms in many sectors, and this is the right time for the country and its governance module to pursue them.

02 Will GST 2.0 revive the Indian Economy? The Chartered Accountant's Perspective

Procedurally, the changes were made through the GST Council's recommendations followed by notifications – which is the proper legal route for modifying GST rates. The unanimity in the Council's decision lends it strong legitimacy. However, some tax professionals have pondered whether the spirit of “cooperative federalism” was fully honoured, triggering a constitutional nuance: under the GST framework, the Centre cannot unilaterally change rates – it must be a Council decision. In this case it was, but the sequencing (PM's announcement first, formal Council vote later) raised eyebrows. Legally it's not a violation, but it does indicate the Centre's dominant influence given its political mandate.

Another legal aspect is the alignment of GST law with these rate changes. Most rate tweaks

can be handled via notifications under the CGST/ IGST Acts and do not require parliamentary amendments. However, one structural change – merging cesses into the base rate for luxury goods (creating the 40% slab) – effectively alters how the Compensation Cess Act operates. The cess was originally earmarked for states' compensation; now that certain cesses are “folded” into the GST rate, that revenue becomes shareable with states. This is a significant shift as it changes the distribution of tax proceeds. It benefits states in the short term (they get a piece of the 40% GST that they earlier wouldn't from a 28%+cess structure), but it also means the Centre has given up an exclusive revenue source (cess) that was funding compensation pay-outs and loan servicing. Any extension of the cess beyond 2026 (if needed to keep compensating states) might then require new legislation or amendments, since the original five-year compensation period has lapsed.

One positive nuance in GST 2.0 is the attempt to reduce litigation through clarity. With broad slabs of 5% and 18%, those borderline calls reduce administrative burden both for businesses and tax officers. The government has also indicated that a simpler structure will facilitate easier compliance – potentially fewer entries in GST returns to track different rates, and simpler auditing since fewer rate-specific rules apply. Some experts advocate going further: for example, “one company, one audit” regardless of how many states it operates in, by enhancing coordination between Central and State GST authorities (this is more of an administrative reform, but tied to legal process). Another suggestion is standardising audit and enforcement procedures across states to ensure uniformity and avoid multiple interpretations of the same law. These are areas outside the direct scope of the rate cuts, but if implemented in tandem, they would greatly enhance the “ease of doing business” under GST.

A crucial caveat is the treatment of input tax credit (ITC) in the new regime. As highlighted, some services have become cheaper by forgoing ITC (tax credit on inputs). From a tax design perspective, this is a step backward into the realm of cascading taxes (tax on tax), which the GST was meant to eliminate. The decision to exempt or lower the rate without ITC (as in insurance, or 5% without ITC for salon services) creates what we call blocked credits – businesses in these sectors will build up GST on their inputs (rent, equipment, advertising) that they cannot recover, effectively turning into a cost. **This might lead to disputes or demands for relief. Firms like ours will be advising clients in affected industries on how to restructure their expense flows to minimise credit leakage.**

03 Cautious & Optimistic Close

The tax cut will certainly spur the economy. Precisely how much depends on the magnitude of the cut, about which there is some confusion, the degree to which it's passed on to consumers, and the extent to which consumers spend the gain, rather than save. But whatever the magnitude, it will surely be modest compared to the size of India's \$4 trillion

economy.

The more important question is whether GST's simplification will boost long-run growth. Our reading is that it will do little to solve the fundamental problems of the Indian economy: risks of doing business in India and Trump tariffs, which have undermined private investment, domestic and foreign. Unless these problems are addressed by complementary moves earlier discussed – such as reducing harassment by central and state tax authorities, levelling the business playing field, and abandoning arbitrary import and export controls – the long-run growth consequences will be negligible.

Tax and interest rate cuts will go some distance in a dhakka (push)-start move to nudge the economy to over 7% GDP growth. But, to sustain it we need process reforms, removal of “inspector raj” and a better urban experience to encourage people to leave the free-food freebies to migrate to urban centres for jobs and livelihoods.

Seven years after India introduced the Goods and Services Tax, the country is once again at the cusp of a reset. GST, billed as the “one nation, one tax” reform, simplified indirect taxation.

The GST 2.0 reform of 2025 is a bold stroke in India’s economic policy, embodying a high-stakes bet on the power of consumption. By dramatically lowering the tax burden on a vast range of goods and services, the government has unequivocally tilted policy in favour of the consumer and businesses that thrive on consumer spending. The move arrives at a critical juncture – global uncertainties (from geopolitical tensions to trade wars) are casting shadows on exports and investments, so India is looking inward to its domestic market for growth.

The symbolism of the reform – launched on the first day of the Navratri festive season – wasn’t lost on anyone, packaging it as a “Navratri/ Diwali gift” to the people and a timely boost to festive sentiment. In this context, reigniting the latent spending power of over a billion consumers could indeed be the engine that pulls the economy through potential downturns.

However, as with any gamble, there are risks and unknowns. The coming months will test several hypotheses:

1. Will consumer spending actually surge or will some of the tax savings be quietly saved (especially by higher-income groups)?
2. Will companies dutifully transmit the tax cuts, or will competitive pressures prove insufficient in certain oligopolistic markets?

3. How will the reduced revenues reflect in state and central budgets, and could that prompt any policy reversals or compensatory taxes elsewhere?

4. What is the strategy behind sustaining higher growth requires continuous improvements in income and sentiment?

Thus, GST 2.0 should be seen as the first step of a broader strategy. To keep up momentum, the government might need to follow through with other reforms that put money in people's hands and measures that reduce cost of living (like easing fuel prices or housing costs). On the supply side, nurturing investments via ease-of-doing-business and policy stability, as discussed, will determine if the capacity exists to meet the increased demand without inflation flaring up.

For now, the outlook remains cautiously optimistic. This reform has come when inflation is low, offering a window for stimulus without macroeconomic overheating. Consumers and businesses are slowly coming out of a period of subdued growth, and GST 2.0 could be the nudge that lifts confidence. **As one industry CEO aptly put it, GST 2.0 is “not just another tax tweak, but an attempt to reboot India’s consumption engine”. It is a reaffirmation that the GST system will continue evolving – becoming simpler, more transparent, and aligned with India’s growth priorities.**

Authored by:

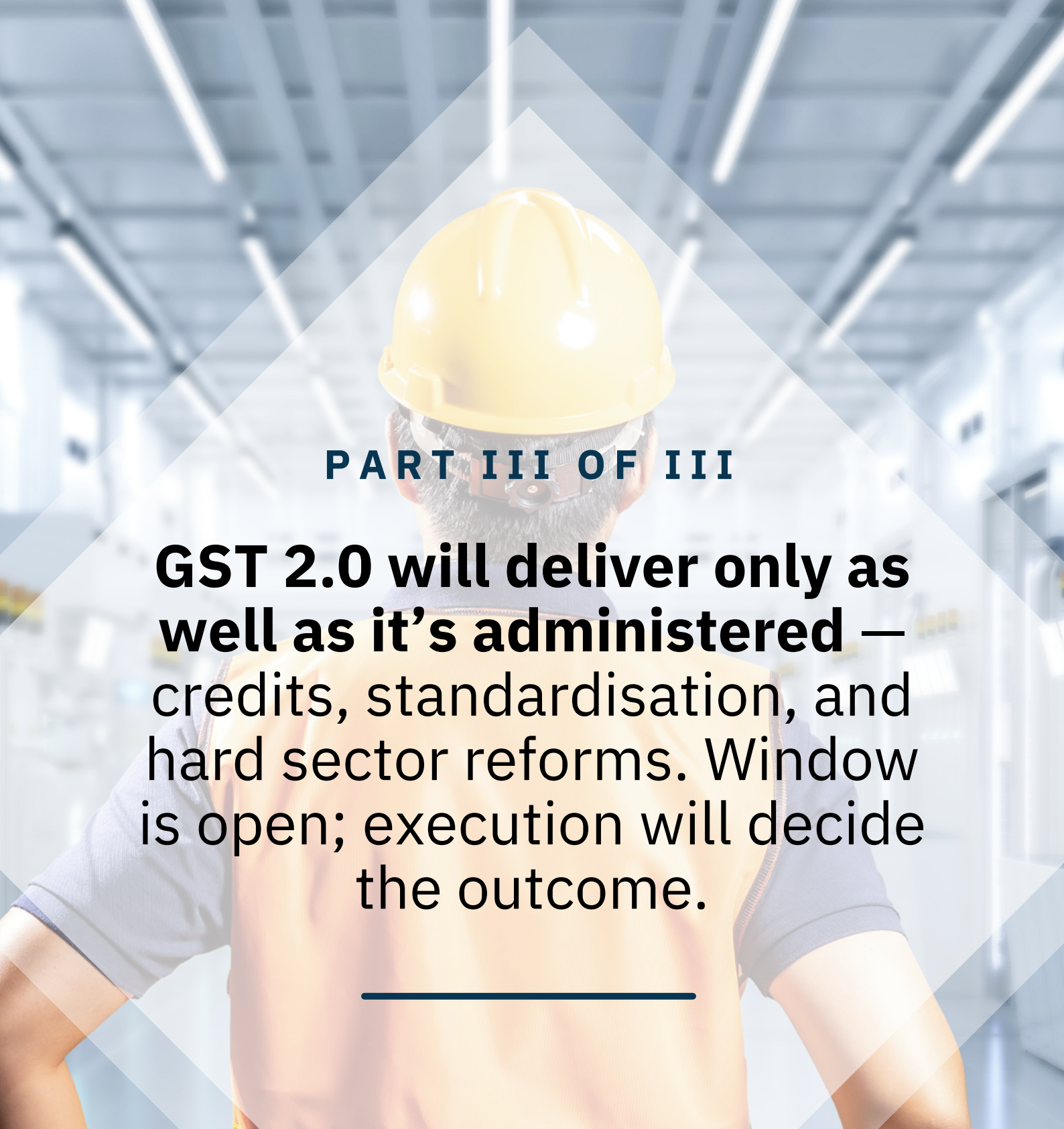


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GST 2.0 will deliver only as well as it's administered — credits, standardisation, and hard sector reforms. Window is open; execution will decide the outcome.

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