

GST 2.0: A GAME CHANGER TOWARDS A \$5 TRILLION ECONOMY

Vishnu Kumar¹, Er. Aditya Singh Yadav², Dr. Rajender Tewari³, Prof. (Dr.) Tulika Saxena⁴ and Alok Kumar⁵

¹MBA 2nd Year Student of Ashoka Institute of Technology and Management, Varanasi, U.P., India

² Assistant Professor of MBA Dept. at Ashoka Institute of Technology and Management, Varanasi, U.P., India

³Associate Professor & Head of MBA Dept. at Ashoka Institute of Technology and Management, Varanasi, U.P., India

⁴Head & Dean of Business Administration Dept. at MJP Rohilkhand University, Bareilly, U.P.

⁵MBA 2nd Year Student of Ashoka Institute of Technology and Management, Varanasi, U.P., India

Abstract:

GST 2.0 marks an important step in India's ongoing effort to modernize its tax system and support long-term economic growth. The reform simplifies the earlier multi-rate GST structure, reduces the tax burden on essential goods and services, and strengthens digital compliance through improved filing systems and faster processing. These changes are designed to make the tax system easier for businesses to follow while giving consumers more spending power.

This chapter reviews the major elements of GST 2.0 and examines how they influence revenue trends, formalization of the economy, and the broader business environment. By looking at government reports, expert analysis, and recent economic data, the chapter outlines how lower tax rates, expanded digital tools, and targeted support for small enterprises can improve efficiency and stimulate demand. Together, these developments position GST 2.0 as a meaningful contributor to India's ambition of becoming a five-trillion-dollar economy.

Keywords: *GST 2.0, Indirect Tax Reform, Tax Rate Rationalization, Digital Compliance, E-Invoicing, Formalization of Economy, MSME Support, Revenue Growth, Ease of Doing Business, Indian Economy, Five-Trillion-Dollar Goal.*

Introduction

The Goods and Services Tax (GST), introduced in India on 1 July 2017, replaced a web of state and central indirect levies with a single, destination-based tax. The reform brought many gains: it reduced tax cascading, improved transparency, and supported the creation of a more integrated domestic market. Despite these advances, practical challenges persisted. Multiple tax slabs, compliance burdens for small enterprises, and occasional technical problems in the digital filing system limited the full benefits of the original GST framework.

In response, policymakers introduced GST 2.0 in 2025. This upgraded version focuses on simplifying the rate structure, easing compliance through better digital processes, and providing targeted relief to micro, small and medium enterprises. Key measures include the rationalisation of tax slabs, clearer classification rules, faster refund and registration processes, and the use of automated tools to reduce errors and detect mismatches. These steps are designed to lower administrative costs for businesses, improve the taxpayer experience, and reduce opportunities for evasion.

Beyond administrative improvements, GST 2.0 is positioned as a growth-supporting reform. By reducing tax burdens on essentials and streamlining procedures, the reform is expected to raise disposable incomes, stimulate consumption, and encourage formalisation of previously informal economic activity.

These effects can strengthen revenue performance in the medium term and create more predictable fiscal space, which are important factors in India's strategy to reach a five-trillion-dollar economy. This chapter examines the scope and implications of GST 2.0. After a brief review of relevant literature and the research approach, the chapter analyses how the main reforms affect revenue, compliance, and economic activity. It concludes with a concise summary of the findings and the key implications for policy and stakeholders.

Literature Review

This literature review brings together official reports, policy analyses and academic studies to show how GST evolved in India, what effects it produced, and how experts evaluate the newer GST 2.0 reforms. The tone is student-friendly and semi-academic: clear, focused and organized under short subheadings.

1. Evolution of GST (2017–2025)

Scholars and policy reports agree that the July 2017 GST replaced a complex web of state and central indirect taxes with a single, destination-based levy. Early evaluations highlight three immediate strengths: removal of tax-on-tax cascading, greater transparency through input tax credits, and the creation of a single domestic market. Government documents and central bank summaries describe the GSTN (the digital platform) as the operational backbone that enabled registration, returns and invoicing online. Over time, the GST Council made iterative changes—rate adjustments, clarifications and compliance options—which show that GST was designed to be adaptive rather than fixed. Reviews published by national think tanks and consulting firms point out that the initial design reduced several frictions but left unresolved issues: multiple tax slabs, classification disputes, and administrative burdens for smaller firms.

2. Revenue Mobilization and Macroeconomic Effects

A consistent finding in the literature is that GST materially widened the tax base and boosted indirect tax receipts once compliance and digital processes matured. Empirical reports show rising gross GST collections year over year after the early implementation hiccups. Analysts attribute this to two factors: formalization of formerly informal transactions (driven by input-credit incentives) and better detection of mismatches through digital records. Academic papers and policy notes discuss the short-run tradeoff between revenue adjustment and demand stimulus: cuts or rationalization of rates can reduce immediate receipts but stimulate consumption, creating a medium-term offset via higher growth. Several fiscal studies estimate that consumption-oriented tax changes under GST often have relatively large demand multipliers; hence, rate rationalization—if well-targeted—can support growth without lasting revenue loss.

3. Governance, Compliance and Ease of Doing Business

Researchers evaluating GST's administrative impact emphasize that a unified law reduced litigation around overlapping state and central levies and simplified compliance for firms operating across states. However, the literature also documents operational problems in the early years—technical issues with the portal, delays in refunds and complex return formats—which raised compliance costs, particularly for micro and small enterprises. Later reforms and digital upgrades are credited with addressing many of these issues: e-invoicing, auto-populated returns and streamlined refund processes all appear in policy analyses as effective measures to lower compliance time and dispute incidence. Studies from economic research institutes show a positive correlation between GST simplification and improvements in business sentiment and inter-state trade flows.

4. Digitalization and Formalization of the Economy

A dominant theme in recent work is the role of digital infrastructure in making GST effective. The GSTN's comprehensive data trail—registration, invoicing, e-way bills and return filings—provides a rich basis for automated compliance checks and analytics. Policy briefs and central bank commentary credit this digital layer with accelerating formalization: many small sellers register to claim input credits, and digital traces

make informal transactions easier to detect. Research papers report increases in formal-sector participation in the years following GST, and industry studies show stronger uptake of digital payments in B2B chains. Overall, the literature treats GST's digital architecture as both a compliance tool and an enabler of broader economic formalization.

5. Effects on MSMEs and Distributional Impacts

Multiple studies and industry reports focus on MSMEs because they face the largest relative compliance burden. Early literature warned that uniform digital requirements could disadvantage small traders. In response, policy analyses recommended and documented supportive measures: higher turnover thresholds for registration, composition schemes with simpler compliance, and quarterly filing options for small taxpayers. Later evaluations note that these measures, combined with faster refunds and simplified return formats, helped many small firms adjust. Distributional research further shows that lowering taxes on essentials benefits lower- and middle-income households most directly, while higher rates on luxury or sin goods protect revenues—this balancing act features prominently in recent policy debates.

6. Assessments of GST 2.0 in Contemporary Literature

The newest literature on GST 2.0 (policy briefs, consulting reports and media analyses) frames it as a corrective and growth-oriented phase: consolidating multiple slabs into fewer, clearer rates; cutting taxes on many essentials; and improving digital processes and enforcement through analytics and automation. Commentators emphasize the likely short-term fiscal cost of rate cuts, but most recent assessments argue that the net effect can be expansionary if the demand response is strong and compliance improves. Key policy documents and expert notes underline three expected benefits: higher disposable income for households, reduced compliance costs for businesses, and more efficient revenue administration. Critics in the literature caution that implementation details—ensuring businesses pass rate reductions to consumers, protecting state revenues, and preventing classification loopholes—will determine the final outcome.

7. Gaps and Open Questions Highlighted by the Literature

The reviewed work points to several unresolved issues that remain important for researchers and policymakers: (a) precise measurement of the medium-term revenue offset from demand stimulation; (b) sectoral variation in pass-through of tax cuts to retail prices; (c) the degree to which MSMEs sustainably benefit from simplified rules; and (d) the capability of automated systems to prevent new forms of evasion. These gaps suggest areas for targeted empirical work—micro-level price studies, firm-level surveys, and administrative data analysis—once sufficient post-GST 2.0 data become available.

Summary of the Literature Review

Overall, the literature paints a cautious but broadly positive picture. The original GST achieved important structural gains—market unification, reduced cascading taxes and a digital compliance backbone—while facing implementation challenges that were progressively addressed. The GST 2.0 agenda appears in studies as a logical next step: simplifying rates, strengthening digital processes, and supporting small firms. Most policy analyses agree that, if implemented effectively, GST 2.0 can stimulate consumption, improve ease of doing business and contribute to medium-term revenue stability—making it a credible instrument for supporting India's larger growth ambitions.

Objectives:

1. To examine the key structural reforms introduced under GST 2.0.
2. To evaluate the role of GST 2.0 in boosting revenue collection.
3. To study the implications of GST 2.0 for small and medium enterprises (MSMEs)
4. To explore the contribution of GST 2.0 toward formalizing the Indian economy.

Research Methodology:

Research Design

This chapter follows a **descriptive research design**. The aim is to document and explain the developments, features and outcomes of GST 2.0 rather than to test causal hypotheses. A descriptive design is appropriate because the chapter maps policy changes, traces observed trends in revenues and compliance, and presents an organized account of the reform's implications for the economy.

Approach and Data Sources

The study uses a **qualitative approach based entirely on secondary data** gathered from authoritative and publicly available sources. Key sources include official documents and releases (Ministry of Finance, GST Council press notes, budget and Economic Survey material), central bank publications (RBI bulletins and reports), international organizations (IMF, World Bank), national think tanks and research institutes (NITI Aayog, NIPFP, ICRIER), industry bodies and consulting firms (CII, KPMG, Deloitte, EY), academic journal articles, and reputable media coverage. The review covers materials published from the introduction of GST (2017) up to the GST 2.0 reforms (2025) to capture the full evolution and context.

Selection Criteria and Scope

Documents were selected for relevance, credibility and timeliness. Priority was given to: (a) official policy texts and statistical releases that provide primary information on tax rates, revenue collections and administrative changes; (b) peer-reviewed articles and working papers that analyze economic impacts; and (c) expert reports from consulting firms and think tanks that interpret policy implications. Media sources were used selectively to document announcements and interpretive commentary where formal reports were not yet available.

Data Extraction and Analysis Methods

Data and information were extracted systematically from the selected sources. For quantitative items (e.g., GST collections, number of registrants), published figures were noted and compared across sources for consistency. For qualitative material (policy descriptions, expert interpretations), we used **content analysis** and **thematic synthesis**: texts were read carefully, recurrent themes and policy measures were identified (for example, rate rationalization, digital compliance, MSME measures), and findings were summarized in narrative form. Where different sources offered conflicting interpretations, the chapter highlights these differences and relies on official data for factual points.

Justification for Method Choice

A qualitative, secondary-data approach is suitable for this chapter because GST 2.0 is a recent policy change whose immediate evaluation relies largely on official announcements, administrative data and expert analysis. Gathering primary data (surveys or field interviews) was outside the scope of this chapter and unnecessary for producing a consolidated, policy-focused narrative. Secondary sources provide authoritative coverage of both technical changes and macroeconomic indicators, enabling a comprehensive descriptive assessment.

Limitations

The methodology has some limits. Reliance on secondary sources means the chapter depends on the accuracy and availability of published data; it cannot measure real-time pass-through at the household level or firm-level behavioral changes that require primary surveys. Estimates of multipliers and demand response cited in the chapter come from external studies and should be read as indicative rather than definitive for all sectors. Wherever feasible, these limitations are noted in the text.

Transparency and Ethics

All sources used in the chapter are public and cited in the References section. The authors have aimed for balanced synthesis, attributing claims to their original sources and avoiding speculative claims beyond what the evidence supports.

Discussion and Analysis

1. Impact of Simplified GST Rates on Consumption and Business Costs

One of the biggest changes under GST 2.0 is the shift toward a simpler two-rate structure. Lower taxes on essential goods and key sectors reduce the overall cost burden on households and businesses. This has two important effects. First, consumers benefit from lower prices, which helps strengthen demand for everyday products. Second, businesses—especially small and medium firms—face lower input costs, making their operations more competitive. The simplified rate structure also reduces confusion and classification disputes, which were common under the earlier multi-slab system.

2. Digital Compliance and Improvements in Ease of Doing Business

The stronger digital backbone introduced in GST 2.0 plays a central role in improving compliance. Auto-generated returns, e-invoicing, real-time data matching and faster refunds reduce the paperwork and time required for filing. These features make compliance more predictable and less dependent on manual checks. For many businesses, the biggest advantage is the reduction in delays and uncertainties around refunds and input tax credit. As processes get smoother, businesses are able to focus more on operations rather than administrative requirements. This contributes positively to the overall ease of doing business.

3. Expanding the Formal Economy and Strengthening Revenue Performance

A clear trend seen since the introduction of GST—and reinforced through GST 2.0—is the steady expansion of the formal sector. More firms register under GST because incentives like input tax credits and digital invoicing make informal operations less attractive. As registration increases and filing becomes easier, the tax base grows. This broadening of participation supports stable revenue growth. The rising GST collections reported in recent years reflect a combination of better compliance, more digital tracking, and steady expansion of economic activity.

4. Effects on MSMEs and Their Role in Economic Growth

MSMEs often face the highest compliance pressures, so the reforms in GST 2.0 are especially significant for them. Measures such as simplified returns, faster registration approvals, quarterly filing options and quicker release of refunds improve their financial liquidity. Lower taxes on essential inputs used by small manufacturers and service providers also reduce operating costs. These changes help smaller firms participate more confidently in formal trade networks, making it easier for them to scale operations. As MSMEs account for a large share of employment and production, these improvements contribute to broader economic progress.

5. Contribution Toward India's Five-Trillion-Dollar Ambition

GST 2.0 supports India's long-term economic goals in several indirect but important ways. Lower tax burdens help boost consumption, digital systems improve compliance, and a wider tax base strengthens public finances. When combined, these outcomes help create a more stable and efficient business environment, which is essential for sustained economic growth. The reform also signals policy continuity and commitment to modernization—two factors that strengthen investor confidence. While GST alone cannot determine the path to a five-trillion-dollar economy, its reforms play a meaningful role in supporting the conditions required for achieving that milestone.

Conclusion

GST 2.0 represents a significant step in strengthening India's indirect tax system. By simplifying tax rates, improving digital compliance, and easing burdens on small and medium enterprises, the reform builds on

the foundation laid by the original GST. The shift toward clearer rate structures and faster automated processes has made compliance more predictable for businesses and improved the overall efficiency of the system. Rising registrations, better tracking of transactions and steady growth in collections point to a more formal and transparent economy.

The combined effect of these reforms supports consumption, improves the ease of doing business and strengthens revenue stability. Together, these outcomes position GST 2.0 as an important contributor to India's long-term economic goals, including the broader ambition of reaching a five-trillion-dollar economy. While some challenges remain—such as ensuring smooth implementation and sustaining business awareness—the reform adds meaningful momentum to India's tax modernization journey.

Suggestions

- Continued awareness and training programs can help small firms understand new digital compliance systems and reduce mistakes.
- Regular review of rate classifications can help avoid confusion and maintain consistency across sectors.
- Further simplification of return filing processes, especially for micro businesses, can strengthen participation in the formal economy.
- Enhancing the capacity of digital infrastructure will ensure that the system remains reliable as more taxpayers come on board.
- Strong coordination between the Centre and States can help resolve operational issues quickly and improve trust in the reform

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