



Review Paper

Next-Generation GST Reforms in India: A Study on Tax Rationalization and its Socio-Economic Impact

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Abstract

Goods and Services Tax (GST) in India was a historic reform that was introduced in 2017 to establish a single and simplified system of indirect taxes. With time, the necessity to refine it further resulted in Next-Generation GST reforms, which revolve around tax rationalization and improved socio-economic outcomes. This paper will discuss the effects of these reforms, especially as regards to sectoral tax cuts, and procedural reforms. The study examines how low GST on basic commodities, farm inputs, health services, learning materials, cars, and electrical appliances has led to better affordability and consumption. Particular attention is given to rural and agricultural sectors, where input costs have been reduced, which increased productivity and profitability. The study also assesses how the GST reforms contribute to the achievement of inclusive growth through alleviating the financial strain on households and facilitating the growth of small and medium enterprises. Procedural reforms, including simplified registration procedures, accelerated refund systems, which have increased ease of doing business and enhanced liquidity to business entities, are also highlighted in this paper. All these transformations help in making the economy more competitive, more investment and creation of jobs. Nevertheless, the research also recognizes such issues as the changes in rates frequently, digital barrier to compliance and gaps in the implementation, especially in the rural settings. The results are that although Next-Generation GST reforms have been very effective in enhancing the efficiency of the economy and social welfare, there is a need to sustain these policy reforms over time, create awareness, and develop infrastructure to maximize the effects of the reforms in the long-run.

Keywords: Next-Generation, GST reforms, tax, rationalization, socio-economic.

Introduction

The Goods and Services Tax (GST) introduced in India in 2017 was meant to establish a common taxation framework based on the motto One Nation, One Tax¹. The system has experienced a number of changes over the years to deal with structural inefficiencies and sector specific issues². Recent reforms of Next-Generation GST are a step towards more citizen-focused and growth-oriented taxation³. These reforms are aimed at lowering the rate of taxes on basic goods and services thus making them affordable and enhancing consumption⁴. The reforms will focus on improving the ease of living by focusing on the development in key areas, including agriculture, healthcare, and education, and advancing the vision of self-reliance, also known as the self-reliant nation or Atmanirbhar Bharat⁵. The initiative is an indicator of a policy change towards inclusive growth, whereby both consumers and producers are enjoying less taxation⁶.

Objectives of the Study: This research article aims to: I. Review the Next-Gen reforms of the sector-wise GST rate reductions. I. Examine the sector-wise GST rate reductions under Next-Gen reforms II. Examine their effects to

affordability and consumption. III. Assess rural and agricultural implications. IV. Evaluate more general economic and social results.

GST Rate Rationalization: Sectoral Analysis

Daily Essentials and Household Consumption: One of the most noticeable changes of the reform is the reduction of the GST rates of household necessities. Taxation on products like hair oil, toothpaste, shampoo and soaps have been reduced by 18 to 5 percent. Likewise, food products such as butter, cheese and dairy spreads have been slashed down to 5 percent as opposed to 12 percent. This has been the scenario in other products like ready-made snacks, cutlery, and baby-care products. The immediate effect of such changes is that the cost of living is going to go down to the households⁷. GST rates will be reduced to half and therefore the disposable income would tend to increase and thus the living standards would improve as the essential goods will constitute a high percentage of the household expenditure especially in rural areas. Economically, the low prices will most probably cause demand triggering a rise in production and jobs in the FMCG industry⁸.

Table-1: GST Rate Changes on Daily Essentials³³.

Items	Previous Rate	Revised Rate
Hair oil, shampoo, toothpaste, toilet soap, toothbrushes, shaving cream	18%	5%
Butter, ghee, cheese, and dairy spreads	12%	5%
Pre-packaged namkeens, bhujia, and mixtures	12%	5%
Utensils	12%	5%
Baby feeding bottles, napkins, and clinical diapers	12%	5%
Sewing machines and parts	12%	5%

Agriculture and Rural Economy: The agricultural industry is among the major beneficiaries of the reforms as the GST rates on major inputs and machinery are cut down⁹. Tax on items like tractor tyres, tractors, bio-pesticides and drip irrigation systems has been reduced by 12-18 percent to 5 percent. Similar tax rationalization has also been enjoyed by the agricultural machinery used in the preparation of soil, harvesting and cultivation¹⁰. These will make farming operations less expensive, hence more profitable to farmers. Reduced costs of inputs could be used to promote the installation of modern farming methods, which enhance sustainability and productivity¹¹. This is in line with the greater goal of empowering rural economy and food security.

Table-2: GST Rate Changes Supporting Agriculture³⁴.

Items	Previous Rate	Revised Rate
Tractor tyres and parts	18%	5%
Tractors	12%	5%
Bio-pesticides and micro-nutrients	12%	5%
Drip irrigation systems and sprinklers	12%	5%
Agricultural, horticultural, and forestry machinery	12%	5%

Healthcare Sector: The reforms have put much emphasis on healthcare affordability. Individual health and life insurance are subject to GST which has been cut down to zero, thus making insurance accessible to the general population¹². Taxes on medical equipment including thermometers, diagnostic kits and glucometers have been reduced by 12-18 percent to 5 percent. Corrective spectacles have also been included in this category¹³. Such changes will decrease the cost of healthcare services and medical devices, rendering them more affordable to low- and middle-income groups¹⁴. Lower costs may result in greater healthcare access, resulting in better population health¹⁵.

Table-3: GST Rate Changes in Healthcare Sector³⁵.

Items	Previous Rate	Revised Rate
Individual health and life insurance	18%	Nil
Thermometers	18%	5%
Medical grade oxygen	12%	5%
Diagnostic kits and reagents	12%	5%
Glucometers and test strips	12%	5%
Corrective spectacles	12%	5%

Education Sector: Other reforms that will be put in place are to make education cheaper by abolishing GST on basic educational resources. Maps, charts, globes, pencils, notebooks, and erasers are some of the things that have been included in the nil tax bracket¹⁶. This project saves the students and families the cost burden, especially in rural settings where affordable education is still a problem¹⁷. The reforms reduce the cost of educational supplies thereby leading to the development of human capital and economic growth in the long run¹⁸.

Table-4: GST Rate Changes in Education Sector³⁶.

Items	Previous Rate	Revised Rate
Maps, charts, and globes	12%	Nil
Pencils, sharpeners, crayons, and pastels	12%	Nil
Exercise books and notebooks	12%	Nil
Erasers	5%	Nil

Automobile Sector: GST cuts have brought a big boost to the auto industry. The tax on petrol, diesel and hybrid vehicles, as well as, two-wheelers have been lowered by 28 to 18 percent¹⁹. This decrease causes vehicles to be cheaper which stimulates the demand among consumers. The effect of higher sales in the automobile industry on the economy may be multiplied through the creation of jobs in the manufacturing sector, logistics and other related sectors²⁰. Nevertheless, affordability and environmental issues need to be reconciled, and the growth of vehicle use can lead to ecological consequences²¹.

Electronic Appliances: The GST on electronic appliances like air conditioners, televisions, monitors and dishwashing machines have also been lowered by 28% to 18%. These goods, which used to be luxuries, become more and more household needs²². Tax cuts increase their affordability to middle-income consumers thus increasing market demand. This sectoral expansion would be able to stimulate domestic production

through projects such as the Make in India, thus helping to develop the economy²³.

Table-5: GST Rate Changes in Automobile Sector³⁷.

Items	Previous Rate	Revised Rate
Petrol, LPG, and CNG cars (≤1200cc & ≤4000mm)	28%	18%
Diesel cars (≤1500cc & ≤4000mm)	28%	18%
Three-wheeler vehicles	28%	18%
Motorcycles (≤350cc)	28%	18%
Goods transport vehicles	28%	18%

Table-6: GST Rate Changes on Electronic Appliances³⁸.

Items	Previous Rate	Revised Rate
Air conditioners	28%	18%
Televisions (above 32 inches, including LED/LCD TVs)	28%	18%
Monitors and projectors	28%	18%
Dishwashing machines	28%	18%

Process Reforms under GST

Along with the tax rate cuts, the reforms also have procedural enhancements, which have the effect of simplifying compliance²⁴. Registration is now simplified and automatic approval is done in three working days by analyzing data. This is helpful in small businesses and startups as it lowers the barriers to entry²⁵. Mechanisms regarding refunds have also been enhanced, especially on the zero rated supplies and where cases of inverted duty structure are in play. Accelerated payment reduces business liquidity levels, particularly MSMEs, facilitating smooth business²⁶. These process redesigns minimize bureaucratic slackness and enhance the effectiveness of the GST system in general²⁷.

Impact on Competitiveness and Economic Growth

The Next-Gen GST reforms affect competitiveness positively as it lowers costs of production and enhances efficiency in the market²⁸. The reduction in tax rates can increase the price competitiveness allowing companies to increase their market share²⁹. In the case of small and rural-based enterprises, less input costs and easier compliance can enhance profitability. Demand is further boosted by more goods and services and this also supports economic growth³⁰. These reforms at the macro-level lead to increased consumption, more investment and creation of jobs. The GST reforms enhance the economic

system of India by fostering convenience in living and convenience in doing business³¹.

Challenges and Limitations

Although there are positive sides, there are some problems. The alteration in GST rates frequently can be a source of uncertainty among businesses³². Also, the success of reforms is determined by the right implementation and understanding of stakeholders. Rural businesses with low technological penetration still have issues with digital compliance needs³³. The solutions to these problems are important towards inclusive growth.

Conclusion

Next-Generation GST reforms are an important move towards ensuring that the Indian tax system is more inclusive, efficient, and growth-oriented. The reforms help to increase the standard of living by cutting taxes on basic goods and services, making them affordable. The emphasis on rural development, agriculture, education, and healthcare underscores the inclusion aspect of growth by the government. Business operations are also facilitated by process reforms which make compliance easier. To a great extent, these reforms enhance the economic competitiveness, as well as social welfare. Nonetheless, implementation, awareness, and infrastructure development require long-term efforts to be maximized.

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