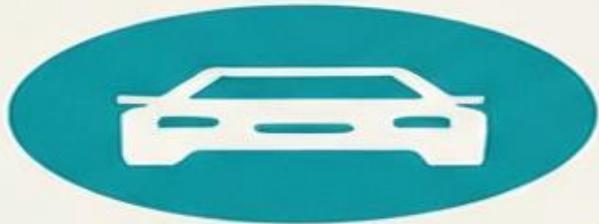


# GST deep dive to assess macro and sectoral impact

# GST 2.0



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"We are moving forward by following the mantra of 'Nagrik Devo Bhava' and we can see its reflection in the next generation's GST reforms. If we combine the income tax exemption and the GST exemption, the decisions made in one year will save the people of the country more than Rs 2.5 lakh crore and that's why I say, this is a savings festival"

These reforms will accelerate India's growth story, simplify business operations, make investments more attractive and ensure that every state becomes an equal partner in the race for development.

Excerpts from PM address to nation on 21<sup>st</sup> Sept 2025

As India initiated path-breaking GST reforms from 22<sup>nd</sup> Sep'25, the Chief Economic Adviser, GOI, commented that it would contribute to +30 bps towards annual GDP growth there by softening tariff blow of (-)60 bps.

The implications of GST reforms are as follows:

- **Macro impact:** The reforms simplify the GST structure to two slabs (5% and 18%), easing compliance, reducing tax burden on essentials, and boosting consumption and manufacturing. Overall impact is expected to be est. 10-20 bps in short term on FY26 GDP growth while medium term impact may be way higher at 70-80 bps.
- **Inflationary Impact** - c.60 bps impact seen assuming partial pass through of full estimated impact of c.130bps.
- **Fiscal impact:** Government estimate is c. ₹ 48000 Cr (annual basis, 0.15% of GDP) by focusing on rationalisation of tax slabs by placing luxurious /sin goods at higher slabs.
- **Sectoral impact:** FMCG, textiles, electronics, automobiles, healthcare and construction seen as key winners.
- **Inverted duty structure:** Resolution of the long-awaited inverted duty structure problem, especially giving relief to sectors like textiles, agriculture etc.
- The boost to consumption led growth due to GST reforms ("GST booster shot") is to be watched out for, in coming quarters amid given macroeconomic uncertainty on tariff wars and cap on extent of benefit passthrough of to end users.

**Bottom line:** *GST reform along with income tax cuts likely to be a medium-term positive for the Indian economy, given it archives multiple goals of ease of doing business, improved affordability, inflation control for the common man there by pushing consumption led growth.*

# Navratri Day 1 Sales- GST 2.0 Sparks Record-Breaking Car Sales For Maruti Suzuki, Hyundai And Tata Motors

## More enquiries than buys as GST 2.0 kicks off festive season

**SLOW START.** Retailers and industry expect the pent-up demand to play out in the coming days of Navratri as buyers weigh purchase options

Meenakshi Verma Ambwani  
New Delhi

It was a slow start at popular markets and showrooms on day 1 of GST 2.0 and Navratri though brands and retailers said they expect pent-up demand to translate into sales. While rain played spoilsport in Mumbai and Hyderabad, the response was tepid in other metros including Bengaluru, Chennai and Delhi for a variety of reasons — start of a busy week day, GST rate cuts not being time-sensitive so no urgency to rush to buy, weigh different offers and discounts



**ALL SET.** FMCG firms said they are witnessing an uptick in primary sales as distributors and retailers are stocking up on the GST rate reduction is expected to lead to a shift from the unorganised to the organised retail sector.

**Mumbai:** "Footfalls have been slow since the rain, and most people are checking online because Amazon and Flipkart have already given out discounts," said a representative of Shivraj Supermarket. Consumers were disappointed that GST rates had not been reduced on all items at many stores. "The rates are the same. They haven't been updated," a customer argued with a manager of a Ratnadeep retail showroom.

**Chennai:** There was no surge in footfalls while retailers expect a pick-up in the coming days. BK Shankar, Hyderabad, the response remained muted with the day resembling any previous season. "On the first day of Nav-

## Strong demand for cars, 2Ws

# 'New GST reforms to boost savings, benefit all sections of society'

Modi pens letter calling for citizens to celebrate 'GST savings festival', says it marks era of lower taxes-higher savings for households and businesses

# GST rate cut draws shoppers to electronics stores, sales stir slowly

# Amazon, Flipkart showcase GST deals as festival shopping begins

## 'Term insurance demand sharply rise post GST rate cut'

Industry expects a sharp rise in term insurance demand post GST rate cut. The GST rate cut on term insurance is expected to lead to a significant increase in sales. Industry analysts predict a double-digit jump in sales in the coming days. Echoing the sentiment, Shibashish Roy, Mumbai, said that the GST rate cut will lead to a significant increase in sales. The GST rate cut on term insurance is expected to lead to a significant increase in sales. Industry analysts predict a double-digit jump in sales in the coming days. Echoing the sentiment, Shibashish Roy, Mumbai, said that the GST rate cut will lead to a significant increase in sales.

DAY 1 OF GST 2.0

# Festive season auto sales likely to double this year

Industry expects a sharp rise in auto sales post GST rate cut. The GST rate cut on auto is expected to lead to a significant increase in sales. Industry analysts predict a double-digit jump in sales in the coming days. Echoing the sentiment, Shibashish Roy, Mumbai, said that the GST rate cut will lead to a significant increase in sales.

## Foundational reforms

- **Two main slabs introduced:** 5% and 18%. This simplifies classification and filing.
- **40% slab created:** It is for sin and luxury goods (tobacco, pan masala, luxury SUVs etc).
- **Abolition of old 12% and 28% slabs** to eliminate confusion.
- **State Compensation Cess extension:** till March 2026 to support state finances.
- **Digital GST 2.0:** AI-driven invoice matching, pre-filled returns, automated refunds.
- **Sector clarifications:** e-commerce, drones, online gaming, medical devices & insurance products given uniform rules.
- **Inverted duty correction:** especially in textiles, footwear, and fertilizers sectors.

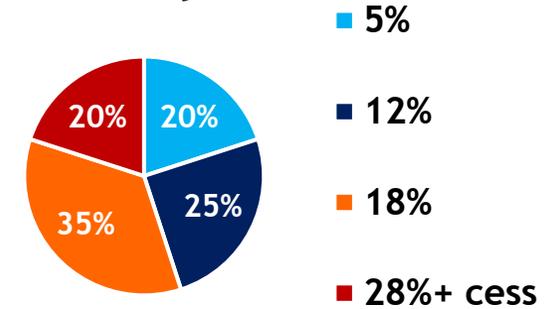
## Key shift of GST rates

- ✓ Changes on about 440 items.
- ✓ The major shift, 255 items moved from 12% to 5%,
- ✓ 54 items from 18% to 5%,
- ✓ 38 items from 12% to zero tax,
- ✓ 29 items from 28% to 18% .

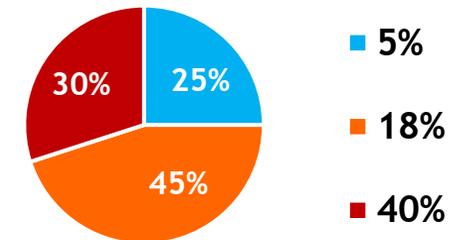
- ✓ 0% slab: ~10% of consumption basket (essentials, insurance, lifesaving drugs).
- ✓ 5% slab: ~55-60% of volume across FMCG, textiles, healthcare, mid-range hotels.
- ✓ 18% slab: ~25-30% of volume/value (autos, electronics, premium FMCG, infra).
- ✓ 40% slab: <5% of volume, but critical for revenue (luxury cars, tobacco, gaming).

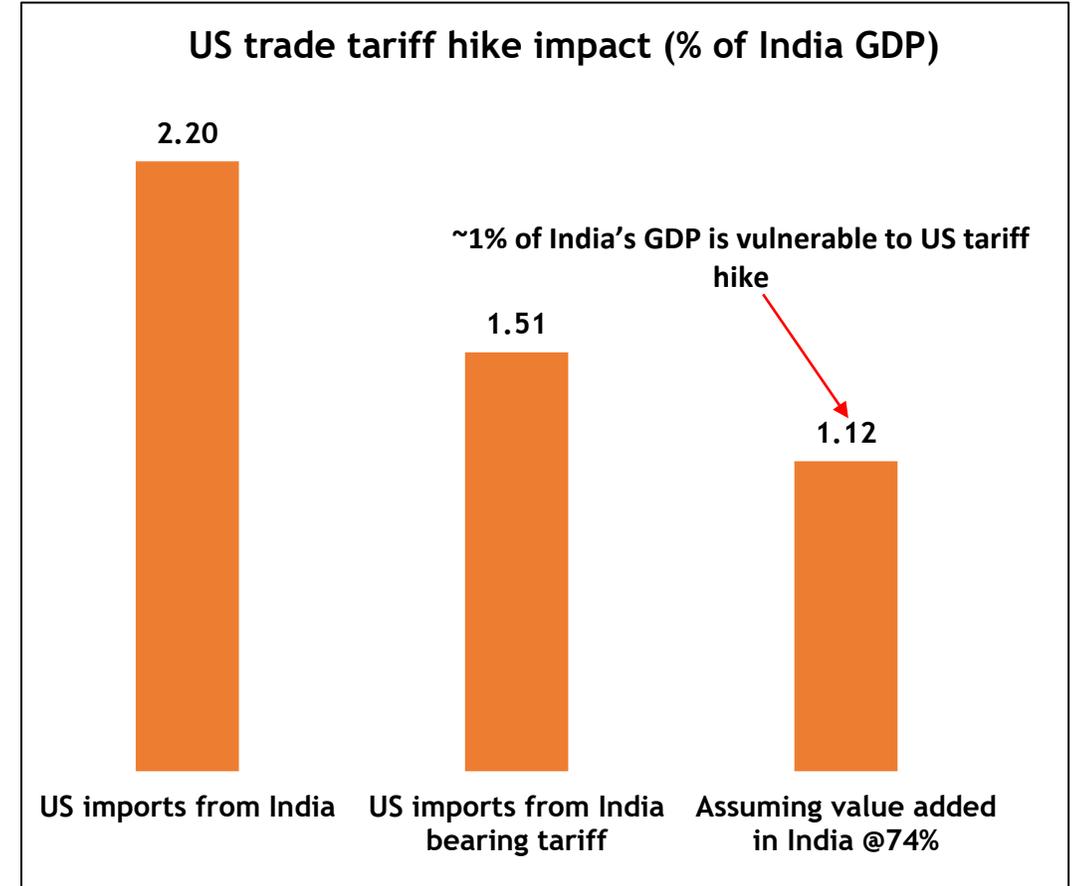
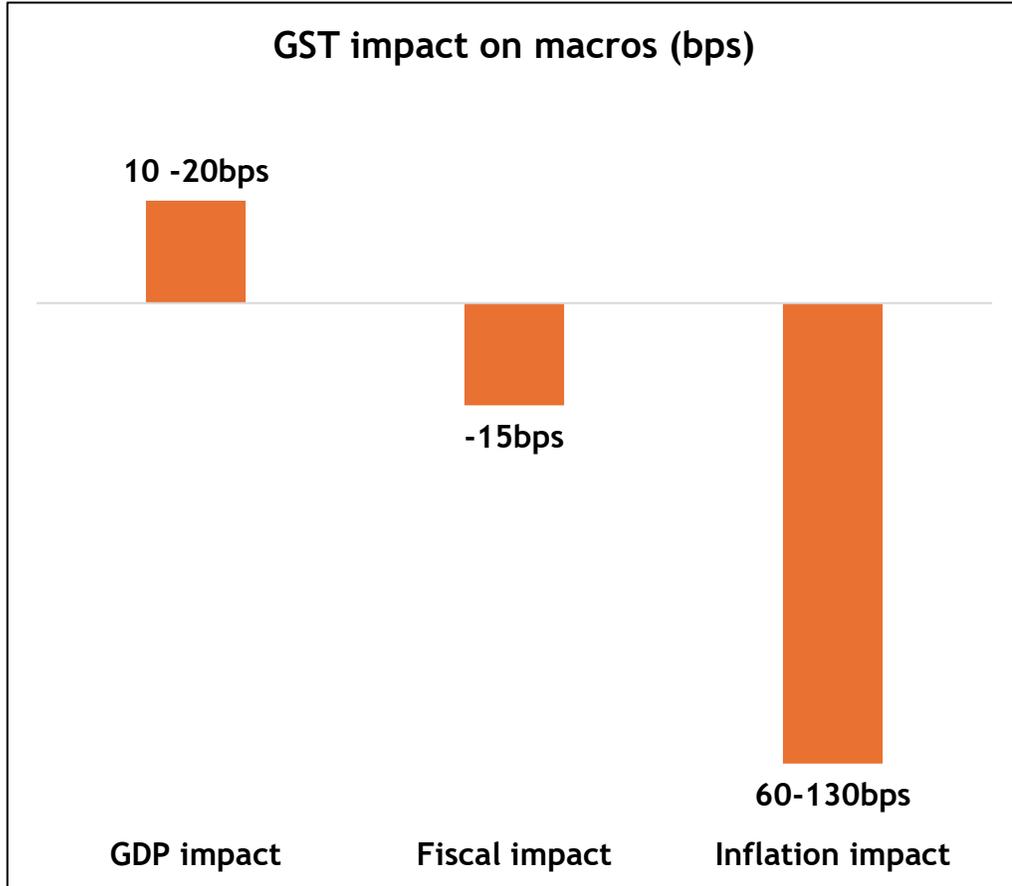
## GST Slab Distribution estimated

Old GST System



New GST System





# India's GST overhaul to provide some relief amid US tariff issues



Sector	Tariff Impact	GST rate cut impact
<b>Textiles</b> <i>Total exports (US FY 25) ≈ \$11 bn</i>	Negative - Higher tariffs to impact sub segments like- Home textile-\$2.5bn, Knitwear-\$2bn, Cotton yarn- \$1 to 1.5bn, Artisanal/handloom/fashion-\$0.5 to 1bn, 	Positive - To boost domestic demand marginally but premium apparel segment @18% may not compensate the export volume
<b>Automobiles components</b> <i>Total exports (US) ≈ \$2.5 bn</i>	Negative - Higher tariffs to shift- Auto components exports to other countries mainly Mexico. 	Positive - Very positive in the short term with festive demand effects as seen record vehicle sales on first of implementation
<b>Electronics</b> <i>Total exports (US) ≈ \$8.7 bn fy25</i>	Neutral with negative bias- Key product Semiconductor & Mobile phones segment is exempt but other electronics to attract Higher tariff. 	Positive - The items like ACs, dishwashers, and TVs to see demand boost.
<b>Healthcare/ Pharma</b> <i>Medical equipment-\$288 mn fy24</i> <i>Pharma - \$10.51 bn,</i>	Neutral - As exempted from tariffs currently (with future possibility of higher tariff) provide big relief to the sector. 	Positive - Volume impact may be restricted marginal but health Insurance with zero GST to see demand boost requiring medical equipment and facilities.
<b>FMCG</b> <i>Total exports (US) ≈ \$ 2-3 bn fy25</i>	Neutral - India's FMCG companies are primarily domestically focused. 	Positive - Volume impact may be restricted marginal shift towards premiumization may accelerate.
<b>Chemicals/Fertilizers</b> <i>Total exports (US) ≈ \$ 5.7 bn fy25</i>	Negative - Major category like dyes, Argo chemicals, Speciality chemicals etc to loose export competitiveness. (dumping worry as well). 	Positive - Fertilizer, bio-pesticides to boosts cost efficiency
<b>Construction Material</b>	Neutral 	Positive - Difficult to decipher quantum of impact but lower construction costs to boost demand and improve project viability.

The ongoing tariff issue currently @ 50% (US) to impact various export oriented sectors (~60bps -ve GDP growth), but steps like revamping of GST with simplified tax structures and reduced compliance burdens to boost competitiveness in global markets along and domestic demand leading to growth (Impact ~30bps +ve GDP growth). Although GST revamp may not support all the sectors significantly.

# Sectoral growth impact - Post GST Reforms 2025

Sector	Key products	Old GST rates	New GST rates	Volume growth change (bps)	FY26 volume growth	Impact
Airlines	Business and premium economy	12%	18%	0 bps	7-9%	Neutral
Automobiles	Two-wheelers <350cc	28%	18%	100-200 bps	7-9%	Positive
	Tractors	12%	5%	150-200 bps	8-10%	Positive
	Farm equipment	12%	5%	200-250 bps	16-18%	Positive
	Passenger vehicles (petrol, CNG, LPG) up to 4m length and up to 1200cc engine	29%	18%	200 bps	4-6%	Positive
	Passenger vehicles (diesel) up to 4m length and up to 1500cc engine	31%	18%	200 bps	4-6%	Positive
	Passenger vehicles (up to 1500cc engine)	45%	40%	200 bps	4-6%	Positive
	Passenger vehicles (above 1500cc engine)	48%	40%	200 bps	4-6%	Positive
	Passenger vehicles SUVs (above 4m, >1500cc engine, >170mm clearance)	50%	40%	200 bps	4-6%	Positive
	Commercial vehicles	28%	18%	50-100 bps	4-6%	Positive
Biopesticides	12%	5%	200-300 bps	13-14%	Positive	
Cement	Cement	28%	18%	0 bps	6.5-7.5%	Neutral
Consumer durables	Air conditioners	28%	18%	100-200 bps	4-6%	Positive
	TV (>32 inch)	28%	18%	100-200 bps	5-7%	Positive
FMCG	Packaged foods	18%	5%	100-200 bps	13-14%	Positive
	Personal care (hair oil, shampoo, toothpaste, soaps)	18%	5%	100-200 bps	5-8%	Positive
Healthcare	Life-saving medicines	5%	0%	0 bps	7-9%	Neutral
	Other drugs and medicines	12%	0%	0 bps	7-9%	Neutral
	Other medicines	12%	5%	0 bps	7-9%	Neutral
Textile	Polyester staple fibre	18%	5%	0 bps	2-4%	Neutral
	Polyester spun yarn (5509)	12%	5%	0 bps	3-5%	Neutral

CPI Segment	Impact
Total impact	~130*
of which	
<i>Food</i>	-54
<i>Fuel</i>	0
<i>Tobacco</i>	0
<i>Housing</i>	0
<i>Clothing &amp; footwear</i>	-18
<i>Miscellaneous</i>	-58

- Direct impact of GST on inflation estimated at least ~60bps assuming partial passthrough of estimated inflation impact of ~130 bps;
- **Anti profiteering:** India currently does not have any active anti-profiteering law that mandates companies to fully pass on the benefits of GST rate cuts to the end consumers. The government is instead relying on market competition and industry cooperation to ensure that businesses pass the GST benefits to consumers. This absence of a binding legal framework means that companies are not legally compelled to reduce prices in line with GST rate cuts.
- The government has nudged corporates to actively publicise the savings that consumers will gain from the recent GST rate cuts. This includes urging companies to use media platforms and other communication channels to widely disseminate information on price reductions, so that the benefits of the tax reforms reach a broader audience.

GST Rate Slab (%, old)	Share in Revenue# (%; under old regime)	Revenue Amt (Rs. lakh cr)^	GST Rate Slab (%, new)	Revenue (Rs. lakh cr)	Gain /Loss (Rs. lakh cr)
0	0	0	5		<b>-0.93</b>
5	6	1.2	5	1.3	
12	5	1.0			
18	74	15.2	18	18.2	
28	15	3.1			
40	0	0.0	40	0.5	0.45
<b>Total</b>		<b>20.6</b>		<b>20.0</b>	<b>-0.48</b>

# as per parliament reply to question no. 1012 replied by MoF Shri Pankaj Chaudhary

^ exclusive of compensation cess

While the Finance Ministry signaled an annual fiscal impact of Rs 48,000 cr of GST rate rationalization based on FY24 consumption basket, the media reports also carried a bifurcation, in terms of the Rs 93,000 cr of fiscal hit on shift from 28% and 12% to lower slabs while the switch from 28% to 40% for sin goods is likely to be fiscally positive to the tune of Rs 45,000 cr.

# GST compensation cess realignment to absorb the fund's outstanding loan & interest obligations

Compensation Cess Collection	Rs. In Cr	Growth (%)
FY2017-18	62,614	-
FY2018-19	97,369	56%
FY2019-20	98,749	1%
FY2020-21	88,342	-11%
FY2021-22	1,07,667	22%
FY2022-23	1,28,286	19%
FY2023-24	1,44,554	13%
FY2024-25	1,53,303	6%
FY2025-26 (BE)	1,67,110	9%

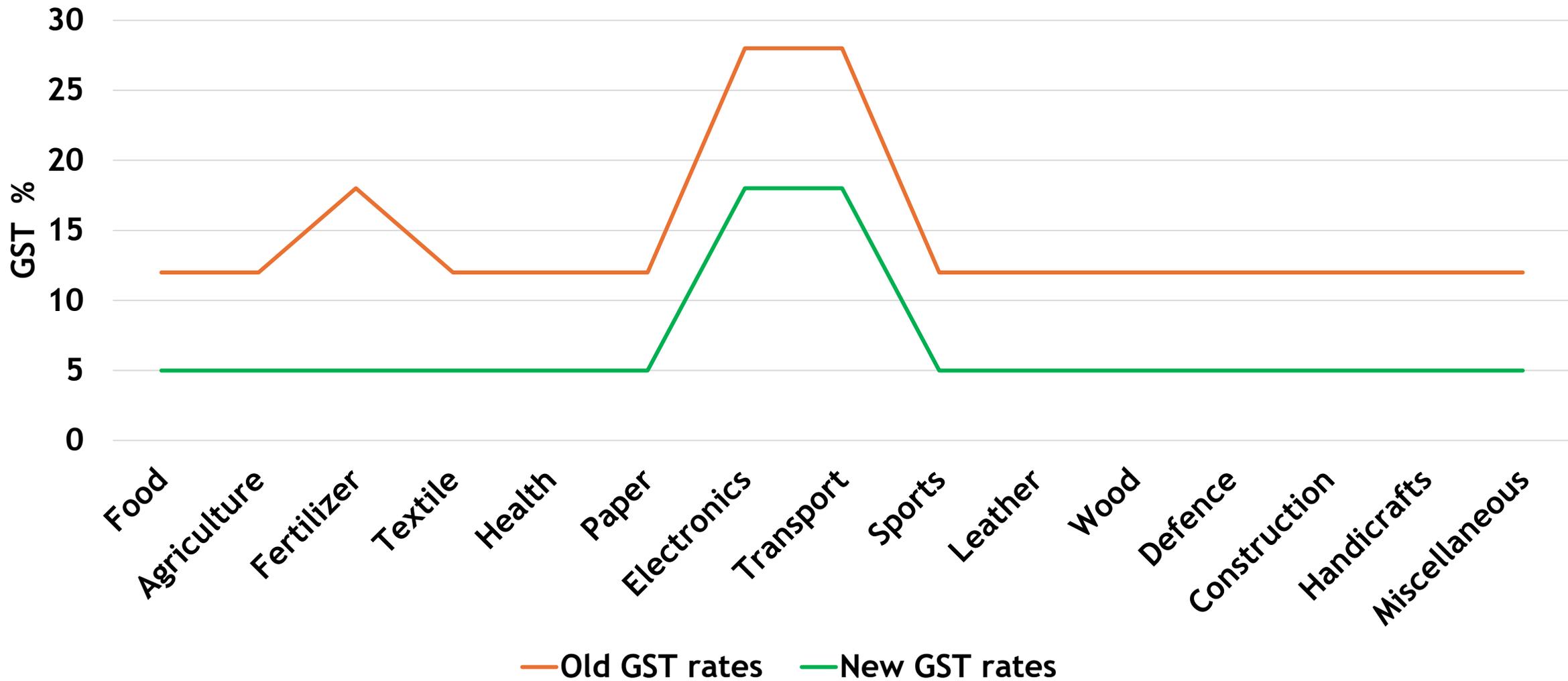
Compensation Cess Project Collection up to March 2025	In Rs Crore
2017-18 (from July 2017)	62,612
2018-19	95,081
2019-20	95,551
2020-21	85,191
2021-22	1,04,609
2022-23	1,25,863
2023-24	1,41,809
2024-25	1,53,303
FY2025-26 (BE)	1,67,110
Collection from July '17 to March '26	10,31,129
Compensation Paid till 05 <sup>o</sup> September 2024	-6,64,203
Back-to-Back Loan Repayable	-2,69,208*
Estimated Compensation payable	-13,000
Interest on B2B Loan (projected)	-51,561
Excess compensation to be recovered	213
<b>Expected Surplus in Compensation Account as of March 31, 2026</b>	<b>33,370</b>

\*includes ~Rs.86,000 Cr bonds due for redemption in April 2026

- As per budgeted numbers, the fund was tracking to end March 2026 with ~Rs 30,000 - 40,000 cr closing balance even after adjusting for the pending interest payment and redemption of ~Rs 86,000 cr of cess bond maturity due in April '26.
- Compensation cess is being discontinued, except for in case of Pan Masala, tobacco etc. where cess would prevail till the loan & interest payment obligations under compensation cess account are completely discharged.
- The Finance Minister asserted in the press conference that this maybe completed in CY2025 itself, post which decision would be taken for rates in this segment. We think effective rate for pan; tobacco is unlikely to come down and compensation cess may be replaced with a health cess (which would be fiscally +ve as well).

- **Simplified Tax Structure:** Rationalization from four slabs (5%, 12%, 18%, 28%) to primarily two slabs (5% and 18%) plus a 40% slab for sin and luxury goods. This reduces classification disputes and complexity for businesses.
- **Inverted Duty Structure Correction:** Addressed anomalies by reducing GST on intermediate goods (such as man-made fibers and fertilizers) to ensure smoother input tax credit flow and reduce cascading tax effects.
- **GST Appellate Tribunal (GSTAT):** Establishing GSTAT by December 2025 to expedite dispute resolution, reduce litigation, and enhance predictability for businesses.
- **Faster Refunds and Automated Processes:** Introduction of streamlined procedures and technology-driven automation to reduce delays and errors in GST refunds, registration, and compliance.
- **Exemption Expansion:** GST exemption on all individual life insurance and health insurance policies to make insurance affordable and increase coverage.
- **Ease of Doing Business:** Simplification of return filing, enhanced clarity on classification, and better taxpayer support to encourage voluntary compliance, especially among MSMEs and small traders.
- **Encouragement of Green and Sustainable Products:** Reduced GST rates on renewable energy products and environment-friendly inputs to promote sustainability.
- **Trade Facilitation:** Measures to boost exports and reduce compliance burden on exporters.

## GST Rate Changes



Sector	Previous Rate (%)	New Rate (%)	Key Items Impacted
Food	12	5	Packaged foods, dairy, bakery, condiments
Agriculture	12	5	Tractors, farm machinery, handpumps
Fertilizer	18	5	Sulphuric acid, nitric acid, ammonia
Textile	12	5	Man-made yarn, carpets, apparel (<₹2500)
Health	12	5	Drugs, medical devices, diagnostic kits
Paper	12	5	Paper products, stationery, pulp
Electronics	28	18	TVs, ACs, dishwashers, appliances
Transport	28	18	Cars (<1200cc), motorcycles, auto parts
Sports	12	5	Toys, sporting goods, fishing tackle
Leather	12	5	Handbags, gloves, processed leather
Wood	12	5	Boards, flooring, wooden kitchenware
Defence	12	5	Walkie talkies, vehicles, equipment
Construction	12	5	Particle boards, sand lime bricks
Handicrafts	12	5	Decorative items, statues, frames
Miscellaneous	12	5	Live horses, menthol, feeding bottles

## ➤ GST threshold modifications :

- ✓ Synthetic Yarn, Unwoven Fabric, Sewing Thread, Staple Fiber 12% & 18% to 5%
- ✓ Garment, Ready-made, not exceeding ₹2,500 12% to 5%
- ✓ Garment/Ready-made, Above ₹2,500 (earlier ₹1,000). 12% to 18%

## ➤ MMF value chain rectified:

- ✓ MMF fibre: reduced from 18% → 5%
- ✓ MMF yarn: reduced from 12% → 5%
- ✓ Cotton already at 5% → now fibre-neutral policy.

## ➤ Inverted duty structure removed: It will easing working capital blockages for spinners & weavers. The Packaging GST cut from 12% to 5% will reducing costs further.

## ➤ MSME boost: India has 2.72 million textile & apparel MSMEs. 70-80% of the industry (MSMEs), are direct beneficiaries with easier liquidity, healthier cash flow and improved competitiveness.

## ➤ Export & Market Context

- ✓ US market: ~28% of India's textile & apparel exports go to the US.(~ \$11 bn, FY 2024-25).
- ✓ GST relief helps firms shift focus back to domestic demand after tariff shocks.

## ➤ Overall Impact

- ✓ **Winners:** MSMEs, spinners, weavers, everyday consumers.
- ✓ **Losers:** Middle-class consumers buying garments above ₹2,500 is more expensive by 6%.
- ✓ **Net effect:** Higher disposable income, demand revival, stronger MSMEs.

## ➤ Industry appeal: Clothing Manufacturers Association requests uniform 5% GST across all garments as middle-class will be hit hardest.

➤ 0% - Raw cotton, jute, khadi fabrics (low volume but symbolic).

➤ 5% - Entire fibre chain (cotton, MMF, yarn, fabrics, garments up to ₹2,500, home textiles, packaging).

( ~70-75% of sector volume is here (MSME-driven, everyday wear, exports).

➤ 18%- Garments above ₹2,500, premium / woollens/ designer wear. (~20-25% of value, <10% of volume).

## ➤ GST threshold modifications :

- ✓ Buses, trucks, three-wheelers, all auto parts: 28% to 18%
- ✓ Tires 28% to 18%
- ✓ Motor vehicles (small cars-  $\leq$  1200cc, three-wheelers, ambulances, motorcycles  $\leq$  350cc, commercial vehicles) 28% to 18%
- ✓ Motorcycles larger than 350cc 28% to 40%
- ✓ Large SUVs, Luxury/Premium Cars/Racing Cars 28% to 40%
- ✓ Rowing Boats/Canoes 28% to 18%
- ✓ Bicycles & Non-Motor 3-wheelers 12% to 5%

➤ **Structural relief** :Clearer classification of vehicles and auto parts to cut down disputes and improve compliance and support growth of automotive manufacturing & exports.

## ➤ Price Cuts:

- ✓ Compact cars cheaper by ₹1.5-2.5 lakh.
- ✓ Two-wheelers cheaper by ₹8,000-15,000. Rural sales surge expected in 2026.
- ✓ Spare parts & repairs ~8-12% cheaper.
- ✓ MSME suppliers save ~₹6,000 crore annually in working capital.

➤ **Demand** : Cars & bikes dropping from 28% to 18% → immediate consumer demand ↑ 12-15%. Ancillary industries like tyres, batteries, and steel benefit.

## ➤ Impact:

- ✓ Reduces cost of ownership.
- ✓ Supports auto demand recovery.
- ✓ Helps logistics and mobility sector.

- 5% - EV batteries, some green mobility inputs (small volume, growing fast).
- 18%- Two-wheelers  $\leq$ 350cc, small/compact cars  $\leq$ 1200cc, buses, ambulances, auto parts.  
( ~70% of auto industry volume (bulk of sales in India).
- 40% - SUVs, large luxury cars, imported CBU vehicles. ~10-12% of value, <5% of volume.

**Policy Intent: Strengthen MSMEs & auto supply chain, Affordable mobility with continue taxing luxury**

Sub-segment	Old GST Slab	New GST Slab	Key Items Affected	Estimated consumer benefit	Impact on Demand / Industry
<b>White Goods / Large Appliances</b>	✓ Mostly <b>28%</b>	✓ <b>18%</b>	✓ ACs, refrigerators, washing machines, dishwashers, large-screen TVs, monitors, etc	✓ ~8-9% drop in retail price; depending on model.	✓ Higher demand ahead of festival season; ✓ Better affordability in Tier II/III markets;
<b>Small/Household Electronics / Kitchen Appliances</b>	✓ Some items were in 28%, others in 12 or 18% (depending on product)	✓ Moved mostly to <b>18%</b> (from 28%) or <b>5%</b> (if previously under 12%)	✓ Mixers, grinders, induction hobs, electric irons, fans, microwave ovens, lighting fixtures etc.	✓ Depending on product, savings likely smaller (₹500-₹2,000) for mid-priced items;	✓ Improved affordability; incremental volumes; competitive pressure to pass on benefit.
<b>Entry-level / Smaller Screens / Compact Models</b>	✓ TVs >32 inches- 28%; smaller ones at 12/18% depending on screen size/feature.	✓ Unified to <b>18%</b> for most; smaller/less feature models may benefit more.	✓ TVs (various screen sizes), basic refrigerator / AC models	✓ More savings on large-screen / premium models; smaller ones less impacted	✓ Boost in premium upgrades , ✓ Brands may offer promotional pricing.
<b>Overall Price &amp; Volume Impacts</b>	✓ Many durables taxed harshly so lesser affordability	✓ Lower GST to points reduce tax component, reduce shelf prices, lead to demand pull	✓ Broad reduction across major durables	✓ Estimated 8-9% drop for major items ✓ Volume growth expected in double digits for ACs, TVs, etc if benefit fully passed on.	✓ Adjusted production / inventory & competition likely, ✓ Demand in Tier II/III cities may grow faster.

## ➤ GST threshold modifications

Healthcare & Pharma	Old GST Rate (%)	New GST Rate (%)	Notes
Lifesaving Drugs (33 specified)	12	Nil	Drugs for cancer, rare diseases, and severe chronic conditions exempted from GST.
Other Lifesaving Drugs (3 specified)	5	Nil	Additional lifesaving drugs exempted for affordability.
All Other Drugs & Medicines	12	5	General reduction to improve affordability.
Medical Devices & Apparatus (surgical, dental, veterinary)	18	5	Significant cut to reduce costs for healthcare providers and patients.
Medical Equipment & Supplies (e.g., gauze, bandages, diagnostic kits, glucometers)	12	5	Rate cut to lower operational costs in hospitals and diagnostics.
Job Work Services related to pharma products	12	5	Facilitates better input tax credit flow and cost reduction.

## ➤ Healthcare & Pharma

- ✓ 0% - 33 lifesaving drugs, cancer/rare disease drugs, insurance policies.  
**< 10% of sector value but critical socially.**
- ✓ 5% - Medical devices, diagnostic kits, common medicines.  
**~60-65% of volume.**
- ✓ 18% - Hospital services, PVT diagnostic packages, imported equipment.  
**~30% of value.**

### Impact

- ✓ ₹2,000-₹6,000 annual savings per policyholder, Insurance penetration expected to grow from 4% to ~8% by 2030.
- ✓ Financial inclusion & affordable healthcare.
- ✓ Major relief for hospitals & patients, boosts domestic pharma & medical device industry.

## ➤ GST reforms for food Items

FMCG Category	Old GST Rate (%)	New GST Rate (%)	Notes
Packaged Foods & Staples	5	Mostly 5	Important staples like paneer, pizza bread, khakhra, chapati now at Nil/5%, boosting affordability.
Personal Care Products	18	5	Hair oil, shampoo, soaps, oral care products moved to reduced 5% slab.
Chocolates & Biscuits	18	5	GST cut to encourage consumption and reduce prices.
Mineral Water	18	5	Tax lowered to boost consumption.
Footwear (> ₹12500 per pair)	18	5	Rate reduced to encourage higher value sales in organized sector.
Some Beauty/Wellness Services	18	5	Several services moved to lower GST slab improving consumer access.
Others	18	18	Items not moved to 5% continue at 18%.
Dairy & Milk Products	12	5	Butter, Ghee, Cheese, Paneer
Packaged snacks	12	5	Namkeens, Bhujia, Mixture (pre-packaged & labelled, ready to consume)
Dry fruits and nuts	12	5	Almonds, Pistachios, etc.
Some dairy spreads, processed dairy edible packaging	12	5	Butter, cheese, etc.

## ➤ GST reforms for food Items

- ✓ Vegetable fats/oils 12% to 5%
- ✓ Meat, fish, food products in 12% to 5%
- ✓ Dairy products (butter, ghee, paneer, thickener/paneer) in 12% to 5%
- ✓ Soya milk in 12% to 5%
- ✓ Jam, jelly, marmalade, nuts/fruit paste, dried fruits, nuts, Fruit juice, coconut water in 12% to 5%
- ✓ Pre-packaged pizza bread, khakhra, chapati, roti 5% to Nil

## ➤ FMCG (Fast-Moving Consumer Goods)

- ✓ **0%** - Essential food staples (milk, paneer, curd, fresh fruits/ vegetables).  
**~25-30% of FMCG volume (but lower value share)**
- ✓ **5%** - Packaged food, biscuits, soaps, personal care (like- shampoos, hair oils, toothpaste).  
**~50-55% of FMCG volume, ~40-45% of value**
- ✓ **18%** - Processed foods, cosmetics, packaged beverages, premium personal care.  
**~25% of value, ~15% of volume**
- ✓ **40%** - Aerated drinks, tobacco, pan masala.  
**Small volume (~3-5%) but high revenue share**

## Impact

- ✓ Mass FMCG shifts down to 5% slab , (price cuts to boost volume.
- ✓ FMCG companies pass on ~4-6% price cuts.
- ✓ Daily-use items cheaper, boosting rural demand.
- ✓ Packaged food exports more competitive.
- ✓ Food security, rural demand push.

## ➤ GST threshold modifications

Service Sector	Previous GST Rate	New GST Rate	Rate Change/Notes
Hotel accommodation (< ₹7,500/day)	12% with ITC	5% without ITC	-7%, but no ITC now
Air travel (other than economy)	12% with ITC	18% with ITC	6%
Goods transport by multimodal (no air leg)	12% with ITC	5% with limited ITC	-7%, limited ITC
Job work: pharma, printing, leather, others	12% with ITC	5% with ITC	-7% lower cost across major services
Admission to films (<₹100 ticket)	12% with ITC	5% with ITC	-7% for affordable film tickets
Beauty & physical well-being services	18% with ITC	5% without ITC	-13%, but no ITC now
Third-party goods carriage insurance	12% with ITC	5% with ITC	-7% more affordable for logistics
Biomedical waste/effluent treatment	12% with ITC	5% with ITC	-7% cost relief to healthcare facilities
Insurance: individual health/life policies	18% with ITC	Exemption	Now GST exempt, reducing premiums
Construction (earthwork/Govt)/offshore oil	12% with ITC	18% with ITC	+6%, costlier for some government, infra
Goods transport: GTA, some rental/rail	5%-12%, ITC varies	5%-18%, ITC as per slab	Rate rationalisation and option changes
Casino, betting, gambling, high-value lease	28% with ITC	40% with ITC	+12% for sin/luxury services

### ➤ Hospitality & Tourism

✓ 5% - Hotels up to ₹7,500/day.

**~70% of domestic tourist bookings.**

✓ 18% - Premium hotels, air tickets (non-economy).

**~25-30% of value.**

✓ 40% - Casinos, betting, online gaming.

**<5% volume but high taxation.**

### Impact

- ✓ Boost to Consumption: Travel, hospitality, insurance, and education become more affordable.
- ✓ MSME Advantage: Logistics & IT/ITES rationalisation reduces costs for small businesses.
- ✓ Social Equity: Relief targeted at mass services like healthcare, education, insurance.

Service Sector	Earlier GST Rate	Revised GST Rate (2025)	Relief/Change	Expected Impact
Hospitality & Tourism (Hotels, Lodging, Restaurants)	12%-18%	5% (budget hotels up to ₹7,500/night) 12% (mid-range) 18% luxury	Lower slab extended to higher room tariff & food in standalone restaurants- 5% without ITC	Boosts domestic & inbound tourism; improves occupancy; helps MSME hotels & restaurants
Transport & Logistics (Passenger & Goods)	12% (passenger) 18% (goods)	5%-12% (rationalised)	Uniform lower GST on buses, metro, goods transport agencies	Reduces logistics costs, improves competitiveness of MSMEs/exporters
Education & Skill Development	Mostly exempt	Continued exemption on schools/universities; 5% on commercial training, ed-tech	Ed-tech, online skill providers now uniformly at 5%	Promotes affordability of digital learning; private ed-tech ecosystem gains clarity
IT & ITES (Software, SaaS, BPO, KPO)	18%	12% (domestic SaaS & software licences) 18% export-oriented	Rationalised for startups/MSMEs	Boosts domestic SaaS demand; startups reduce compliance cost
Financial Services (Insurance, Banking, Mutual funds)	18%	12% (life & health insurance premiums) 18% others	Lower GST on essential insurance products	Expands insurance penetration; lowers out-of-pocket cost
Entertainment & Media (Cinema, OTT, Gaming)	18%	12% (cinema tickets up to ₹300) 18% OTT, online gaming	Differential slabs retained; relief on cinema	Revives multiplex/cinema demand; OTT continues at higher rate
Real Estate Services	18% (under-construction)	5% affordable housing 12% others	Continued with ITC restriction	Keeps housing affordable; maintains compliance clarity

- **Old Rate:** 28% + cess (15-25%).
- **New Rate:** Uniform 40% on:
  - ✓ Tobacco, cigarettes, cigars
  - ✓ Aerated drinks
  - ✓ Luxury SUVs, imported alcohol
- **Impact:**
  - ✓ Prices rise 10-15% in luxury segment.
  - ✓ Govt revenue cushion to offset other tax cuts.
- **Policy Intent:** Discourage harmful consumption & protect exchequer.

Item Category	Previous GST Rate (%)	New GST Rate (%)	Notes
Tobacco, Cigarettes, Pan Masala	28	40	Sin goods with luxury tax slab
Aerated and Sugary Beverages	28	40	Includes caffeinated and carbonated drinks
Luxury Cars and High-end Vehicles	28 + Cess	40	Includes premium and large vehicles
Motorcycles Above 350cc	28 + Cess	40	Luxury/high capacity bikes
Aircraft for Personal Use	28 + Cess	40	Includes private jets
Yachts and Pleasure Vessels	28 + Cess	40	High-end recreational boats
Revolvers and Pistols	28 + Cess	40	Firearms
Casino and Gambling Services	28 (with ITC)	40 (with ITC)	Admission and licensing fees

✓ 40% slab: <5% of volume, but critical for revenue (luxury cars, tobacco, gaming).

- **FMCG**
  - ✓ Inputs like advertising, logistics, and rentals attract 18% GST, but refunds of unutilized input tax credit accumulated due to the inverted duty structure are allowed only for input goods—not for input services tying up working capital.
- **Auto Industry**
  - ✓ With the transition to GST 2.0, the compensation cess on automobiles is being abolished. As these cess payments had been used to build up input tax credit/compensation cess credit balances, once the cess is gone, there is no mechanism currently clear to use (or adjust) these credits under the new regime.
  - ✓ This means many of those credits may become useless / non-redeemable / irrecoverable causing an estimated loss of Rs 2,500 Cr to Auto Industry.
- **Tobacco products**
  - ✓ Cigarettes attract a high GST of 28% plus a compensation cess (~40% effective tax). Bidis have a lower GST rate of 18% without cess. Tendu leaves (used as bidi wrappers) attract only 5% GST.
  - ✓ The differential creates tax inequity between tobacco products despite health impacts. Bidis, possibly more harmful than cigarettes, are taxed lower due to socio-economic considerations.
- **Electric Vehicles (EV)**
  - ✓ EVs attract 5% GST while services such as battery swapping and charging attract 18% GST. Misaligned GST rates across related EV ecosystem components cause pricing and policy distortions.
- **Fertilizers vs Pesticide**
  - ✓ Fertilizers enjoy 5% GST while Pesticides attract 18% GST. The divergence between GST on fertilizers (5%) and pesticides (18%) leads to uneven farming costs.
  - ✓ Fertilizers, which are essential for crop nutrition, are taxed at a concessional rate, while pesticides, required for crop protection, attract a higher standard GST rate, increasing their expense disproportionately.

# Inverted Duty Structure (IDS) - Post GST Reforms 2025

Sector	Output GST Rate (Post-Reform)	Key Inputs & GST Rate	IDS Impact	Impact / Notes
Textiles (MMF, garments up to ₹2,500)	5%	Inputs (fibres, yarn, chemicals, packaging) now @ 5%	Low	✓ Major inversion fixed. MSMEs relieved. ✓ Issue with textile machinery & polyester intermediates (still 18%).
Premium Garments (₹2,500+)	18%	Inputs @ 5%	Low	✓ Reverse of IDS: higher output than inputs- no inversion, but consumer prices rise.
Bicycles	5%	Steel, plastics, paints, parts @18%	High	✓ ~13% duty gap, MSMEs in Punjab hit; working capital stuck.
Medical Devices	5%	Inputs (PVC, plastics, steel, electronics) @18%	High	✓ Input > output, big IDS; industry urging relief.
Edible Oils	5%	Processing inputs, packaging, services @12-18%	Medium-High	✓ IDS persists; edible oil processors demand rationalisation.
FMCG (packaged foods, essentials)	5% (most items)	Packaging, preservatives, logistics @12-18%	Medium	✓ Cost pressure for smaller brands; refund delays add stress.
Electronics & Consumer Durables	18% (down from 28%)	Components, semiconductors, metals @18%	Low-Medium	✓ Better aligned; some issues in accessories/components import.
Chemicals & Plastics (Intermediate goods)	18%	Crude oil derivatives outside GST; imported inputs varied	Medium	✓ Complexity remains, though not consumer-facing.
Automobiles	28% + cess (luxury); 18% EVs	Inputs ~18%	Low	✓ Generally aligned, no major inversion.
Pan Masala / Tobacco	28% + cess	Inputs ~ 18%	Low	✓ No inversion; higher output tax.
Solar / Renewables	5-12% (modules, equipment)	Inputs (inverters, batteries, raw materials) @ 18%	Medium	✓ IDS issue partly remains; refunds required for EPC firms.

- De-stocking & trade channel stress: As companies move to lower GST rates, distributors holding higher-cost inventory may demand compensation, causing near-term revenue and margin pressure (as noted for 2QFY26 in the report)
- System & compliance adjustments: Businesses, especially SMEs, often face challenges in updating billing systems, ERP, and compliance procedures each time rates are revised.
- In categories like toothpaste where input tax is higher than the new output tax (5%), companies face unutilised input credit.
- This creates a competitive disadvantage for single-category firms versus diversified peers, as they cannot offset excess credits against other higher-tax categories
- The absence of a clear anti-profiteering mechanism leaves scope for companies not to pass through the entire benefit of GST rate cut to end consumers.

**The GST reform is structurally positive for consumption and formalization, but its disadvantages lie in transition frictions, uneven benefits, and fiscal trade-offs. Over time, the real test will be whether higher consumption offsets the fiscal cost of lower GST collections or not.**

# Thank You !

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