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Analysing the Economic Benefits of GST Reforms (GST2.0) and their Impact on FMCG Sectors

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ABSTRACT

Amendments and rationalization of GST (GST 2.0- effective from September 22, 2025) in India's tax structure, has increased many economic benefits to the industries like many FMCG commodities tax rate burden has shifted from 12% and 18% to 5% GST and some daily consumable moving essentials now attracts nil tax rate. This change has however simplified the compliance and applicability of tax for many items in order to avoid the confusion in practicality. Because of these changes, economic benefits like lowering prices, increased profit through shifting the tax benefits to customer by its lower price of the product and also increase the revenues to the government as well would be more impactful to the Small-Scale units.

Reduction of tax slabs for various mass-consumables are the need of the hour and the master key to bring about any possible change in Fast Moving Consumer Products such as packaged consumables in the likes of snacks, dry fruits, and dairy spreads from the previous 12% or 18% slabs to a current 5% rate. Moreover, basic essentials such as milk, paneer, paratha, and bread have been down-sized from the 5% slab to 0% or NIL rate GST. Rationalization of this rate has been projected to reduce retail prices for many items by an estimated 8% -10% thereby we can forecast consumer demand volumes by around 20%-30%, The aftermath as a consequence of reduced rates create a positive pressure and simplify compliance for companies with similar product and to take immediate action against operational challenges that includes the cost, price of product to maintain stable income from the business operations. Effective inventory management, rapid repricing, and clear communication are critical for businesses to leverage the new tax benefits and maintain a competitive sustenance in the market.

Key words: Rationalization, GST2.0, Compliance, AI integration, Mass consumables, Down-sized rates.

INTRODUCTION

A Land mark transformation in indirect tax system in India has been taken in 56th of the GST council meeting to unveil next-generation reforms GST 2.0 for simplifying tax slabs to 5%, 18% and 40%. This tax regime has taken Effective from September 22, 2025, primarily aims to making ease the tax compliance, increase the consumption, and fuel economic growth by reducing tax slabs burden on various stakeholders. This transformation has brought down into affordable rate on daily essentials, agricultural products and lifesaving drugs. The primary objective of this reformation was to simplify the complex four-tier tax structure into a more streamlined system, significantly benefiting the Fast-Moving Consumer Goods (FMCG) sector and Small-Scale Industries (SSIs).

Major Reforms in tax policy (GST 2.0)

Simplified the compliance

The rationalization of GST rate (5% and 18%) has significantly reduced confusion in product classification. By re-classifying most of the FMCG products under 5% category, the government has minimized

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classification-related disputes that earlier affected small-scale manufacturers, thereby ensuring a smoother and more efficient compliance process.

Encouraging Small-Scale Units-(MSMEs)

Small-scale industries generally operate with some limited constraints therefore small scale enterprises typically operate with limited profit margins. The reduction in taxes on raw materials has helped ease their financial burden, while also addressing the issue of inverted tax system. Thus ultimately improving their overall feasibility and competitiveness by lowering tax rates allow small units shift the benefits into their products to offer competitively against large or giant company.

Sales volume and Revenue would be increased

Even though tax rates have been lowered, the government anticipates a substantial rise in overall tax revenue. This expectation is based on a projected 20%–30% increase in demand. With prices expected to drop by around 10%, more consumers, especially in rural and semi-urban areas, will be able to afford branded packaged goods. This, in turn, broadens the taxpayer base and enhances the circulation of money within the economy.

Basic essentials and middle-class requirements impact

consumable product such as paneer and staple foods like milk, parathas and others that come under the NIL rate tax category, it is a strategic move focused at controlling food rate fluctuation. By incorporating a tax-free regime, the government can facilitate direct relief to the lower- and middle-class groups from our society, thus ensuring that basic food items will remain even after global effect of economy.GST 2.0 (during September2025) transforms India's tax regime through rationalizing tax slabs, lowering tax rate on daily essentials, automobiles, and services, boosts MSME operation invariably, easing compliance, reduces costs by upto 10-15%.and also making “sin goods” into 40%.

Impacts of GST 2.0 on Categorical / Sectoral Analysis

- **Industries like automobiles:** Reduced GST on electric vehicles (EVs) and two-wheelers has increased demand and improved affordability.
- **Agriculture and Textiles, Handicrafts, & Footwear**:
- Due to reduced rate of tax farm irrigation equipments costs has been impacted positively for farmers. And a shift from 12% to 5% rate for many products in these segments has boosted manufacturing and exports products which is under labour intensive.
- **Healthcare and Insurance**: factual effect can now be seen in healthcare products by lowering tax rates on medical devices and tax exemptions for key life-saving.
- **FMCG & Consumer Durables:** Daily-use items, ghee, and butter saw rate cuts from 12% to 5% would be reduced the infrastructure construction costs like Cement is expected to drop from 28% to 18%,
- **Services & Hospitality:** Hotel stays under ₹7,500 and services like gyms/salons dropped from 18% to 5%, driving up consumption.
- **Logistics & E-Commerce**: Simplified compliance and faster refunds have increased supply chain efficiency, aiding the quick commerce sector.
- ***Luxury & "Sin" Goods**: A higher "sin tax" of 40% is applied to items like tobacco and luxury cars, with revenue used to subsidize essential goods.

Impacted Points on Fmcg After Gst 2.0

GST 2.0 transformation sweep out the confusion and also cleared the burden of cost on some essential items by introducing new slab rate which is greatly influenced on product prices to meet the middle-class requirements.

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Furthermore, due to these changes in tax rate many items shifted from higher slab rate (12%) into lower slab rate (5%) except some luxuries item and sin goods.

It is major measures taken by Govt. for boosting the economy by increasing production consumption level indirectly. Thus, even though some shorts of challenges need be faced by the manufacturer in relabeling price details on products ultimately, they will get gain benefits from it.

- Price Reductions: Leading firms like HUL, Nestle, Dabur, and ITC reduced prices on essentials (e.g., biscuits, toiletries) by slashing them from higher slabs to the 5% category.
- Rate Restructuring: The 12% slab was largely removed, shifting many items to 5%, while select luxuries remain at 28%.
- Consumption Boost: Aimed at stimulating demand in rural and urban markets by lowering prices for consumers.
- Operational Challenges: Companies faced short-term disruption in re-labeling inventory and managing old stock.
- Small Pack Focus: Companies and distributors faced disputes regarding the swift application of rate cuts to low-cost, small unit price (Rs 1, Rs 5, Rs 10) packs.
- Direct Benefits: Some brands opted to increase product grammage instead of slashing prices directly on smaller SKUs to handle the tax transition, despite some legal ambiguity over anti-profiteering.

Source: Bajaj fin Serve

LITERATURE REVIEW

Shridevi, Munde (2026): In these articles, the author is focused on the level of impact of rate rationalization in existing GST which has been impacted on various sector and enhanced the competitiveness or manufacturers and others. They note that through the reforms of GST2.0 Govt. revenue stability has been improved and the cascading effects again reviewed once again. Prompting that the new system supports economic growth by balancing the interest of business, consumer and the govt.

Noholie Bonnergee (2026): in these articles the researcher tries to analyze comprehensively the GST 2.0 within India's complex taxation framework, the researcher examines the economic impact, spanning consumer inflation moderation, industrial competitiveness, and the formalization of the economic policy while confronting policy challenges and recommendations. And further more author reviewed that the model of GST 2.0 is sustainable to all the stakeholder for mitigates prior judicial issues.

Shalini Agrawal (2024): Provide the benefits of implementing AI technology simultaneously key draw backs such as Implementation cost, Retraining of the workforce, and Data theft. Furthermore, the author specifies the use of AI in tax systems is gradually accelerating, especially among developed countries where there are favourable laws and infrastructure adoption. Finally, the author concluded that the integration of AI in the taxation system is expected to revolutionize the taxation system through improved efficiency, security, and transparency and new frontiers of the technologies of AI will enhance the coming up of new or more methods and mechanisms through which Tax gap can be reduced and improves fiscal efficiency.

Nidhi Bhatt (2024): This article provides the intersection of artificial intelligence (AI) and tax presents both opportunities and challenges for tax authorities, taxpayers, and policymakers, the authos is concluded by stating that integration of AI technologies into tax systems has the potential to streamline tax compliance processes, improve efficiency, reduce administrative burdens, and enhance revenue collection. AI-powered tools can automate repetitive tasks, analyze vast amounts of data, detect tax fraud and evasion, and provide valuable insights for decision-making to the tax authority.

Meng die Wang (2024): This paper explains the recent development in AI application and its advancement in monitoring and safety measures for data protection and privacy which makes tax authority and tax payers to

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implement the policy in the existing tax processing frame work through AI enabled system. The paper also synthesized the data processing machine learning, language processing, integration of AI technology for supporting needs of economy.

Dr. R.Vennila (2024): the articles reviewed that in pursuing digital transformation, India restructuring the policy and digital infrastructure which influence the nation's future tax management and compliance to create a more reliable and equitable tax system, Effective collaboration and strategic planning are essential to ensure that AI's potential is realized in a way that enhances the fairness and efficiency of the tax system.

Statement of Problems

The main Research GAP is that amendment of GST- GST 2.0 and its economic benefits are significantly impacting on many stakeholders such as entrepreneurs, small business units, customer. The changes mainly concern with the revenue improvement, product's price, offers, customer satisfaction. These changes are crucial for especially new entrepreneurs in many sectors who operates with limited financial resources. Therefore, this study is conducted to understand the how GST 2.0 impacts on various stake holders' interest including entrepreneurs, small business units, and customers. The changes primarily concern revenue growth, price reduction, product offers, and sales volume etc.,

Objectives of the study:

- To understand the level of awareness of GST 2.0 amongst the various beneficiaries.
- To analyze the transition of GST 2.0 from earlier rate of GST To current rates of GST on various products.
- To analyze the impact of GST 2.0 on product price, business and users.

Hypothesis test statement

H_0: there are no significant differences between pre and post GST reforms in existing system of tax

H_1: there is a significant difference between pre and post GST reforms in existing system of tax

METHODOLOGY

The present study is conceptual in nature. This study is conducted based on various participants in GST system like tax payer, consumer, intermediaries, consultants and tax professionals etc., stratified sampling technique was used. Under this study the methodology of data was collected from various group of large population based on primary and secondary sources (based on bulletins and recent updates from govt. departments as well as participants in GST system). The various respondents were: -

- Entrepreneurs
- Tax Professionals
- Registered supplier, Agencies and dealers,
- working professionals,
- Customers
- Industry specific interest holders etc.

Data Sources: Under this study both primary data (collected through interview, questionnaires) and secondary data (obtained from previous research and literature reviews).

Sampling Technique: The collection of samples is based on stratified sampling techniques was employed by researcher for the data collection and statistical analysis

Data Collected data was purely based upon questionnaires which consists direct questions, close-ended questions, and multiple-choice questions.

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DATA ANALYSIS

The following tables, graphs represent the interpretations and numerical data about rationalization of GST2.0.

Comparative Analysis of GST Rate Revisions,

This table highlights the shift in tax slabs for daily essentials and packaged goods.

Category.	Specific Items.	Previous Rate.	Current Rate (GST 2.0)	Impact Status.
Basic Essentials	Milk (UHT), Paneer, Khakra, Chapati, Paratha, Bread	5%	0% (NIL)	Exempted
Dairy & Fats	Butter, Ghee, Condensed Milk, Cheese	12%	5%	Reduced
Packaged Snacks	Namkeens, Bhujia, Fruit Jam, Biscuits, Cereal	12% or 18%	5%	Reduced
Personal Care	Soaps, Hair Oil, Toothpaste, Shampoo	18%	5%	Reduced
Stationery	Notebooks, Pencils, Erasers	12% or 5%	0% (NIL)	Exempted

Interpretation of the Data

Based on rationalization many experts are believing that there will be huge economic benefits can be expected here onward such as consumer demand, product consumption, strengthen their brand name in the market, opportunity in earning, etc., and Small scale units can enjoy more revenue and profit by lowering tax burden by passing tax rate benefits to the customer.

Descriptive statistics and its Correlation analysis of variables.

var1: amendments, var2: impact level

Variables	N	Minimum	Maximum	Mean	Std. Devation
How much would you rate the impact on scale of 1–5	95	1	5	3.37	1.149
AMMENDMENT	95	1	5	2.67	1.046
Valid N (listwise)	95				

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Variables	Pearson Correlation	Sig. (2-tailed)	N
1.000		—	95
How much would you rate the impact on a scale of 1–5	0.030	0.771	95

FINDINGS

- GST 2.0 has substantially reduced tax rates on several FMCG products, with many items shifting from 12% or 18% to 5%. This has reduced the overall tax burden on FMCG products.
- The reduction in GST rates is expected to lower the prices of essential FMCG products. This provides direct economic relief and improves the affordability of products for consumers.
- Lower prices are expected to increase consumer demand for FMCG products. The study projects an increase in demand of around 20%–30%, particularly in rural and semi-urban markets.
- GST 2.0 has provided greater benefits to small-scale FMCG units by reducing their tax and financial burden. This enables them to offer products at competitive prices and improve their market position.
- The rationalization of GST rates has simplified tax compliance for FMCG businesses. Reduced tax slabs have also minimized confusion related to product classification and applicable tax rates.
- Lower GST rates are expected to increase sales volume through higher consumer consumption. Increased demand and a broader taxpayer base may also contribute to improvement in government revenue.
- GST 2.0 has strengthened the competitiveness of FMCG businesses by creating opportunities to reduce prices and improve product offerings. Small and medium units can compete more effectively with larger FMCG companies.
- FMCG companies have faced short-term challenges such as inventory management, repricing and relabelling during the GST transition. However, these operational challenges are expected to be outweighed by the long-term benefits of GST 2.0.

SUGGESTIONS

- FMCG companies should promptly pass the benefits of GST rate reductions to consumers through appropriate price reductions. This can improve customer satisfaction, affordability and demand for FMCG products.
- Small-scale FMCG units should utilize the reduced tax burden to improve their competitiveness in the market. They should focus on cost efficiency, product quality and attractive pricing.
- FMCG businesses should strengthen their inventory management systems to handle GST-related changes effectively. Proper planning can minimize losses arising from old stock, relabelling and repricing.
- The government should continue simplifying GST rates and product classifications to reduce compliance difficulties. Clear guidelines can help businesses avoid confusion and tax-related disputes.
- FMCG companies should increase their focus on rural and semi-urban markets by offering affordable products. Lower GST rates provide an opportunity to expand their customer base in these regions.
- Businesses should clearly communicate GST-related price reductions and benefits to consumers. Transparent pricing can improve consumer trust and ensure that the benefits of tax rationalization reach the final customer.
- The government should monitor the implementation of GST 2.0 to ensure that tax benefits are properly transferred to consumers. Effective monitoring can help prevent unnecessary price increases and protect consumer interests.
- FMCG companies should adopt digital technologies and efficient tax-compliance systems to manage GST requirements. Better digital practices can reduce administrative burdens and improve operational

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CONCLUSION

The Amendment of GST Next Generation (GST 2.0) achieved its aim in the view of economic benefit, revenue growth by balancing rate cuts with stronger consumption and simplified compliances, further it led to stimulated higher sales volumes by lowering the taxes on essentials while a 40% levy on luxury and sin goods which set to face revenue losses.

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