Govt seeks to revamp entire tax system with GST reform, I-T Bill

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New Delhi, 17 August

In the offing

- Centre doesn't expect any significant political resistance from states
- GoM on rate rationalisation to meet on August 20-21 to review and approve the proposal
- Govt will adhere to its fiscal deficit target of 4.4% of GDP for FY26
- Input tax credit system to be simplified; GST tribunals to be strengthened
- Cement and automobiles likely to move from 28% to 18% GST

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The central government's proposal for a structural overhaul of the goods and services tax (GST), along with the Income-Tax Bill recently passed by Parliament, will lead to a complete revamp of both the direct and indirect tax system in the country, said a senior government official.

"This is a complete revamp of the direct and indirect tax system. It will take the GST Council at least two meetings to go through all the item-wise changes in slabs. The inclusion of petrol and diesel under GST has been deferred for the time being in view of the prevailing energy sector uncertainties. It may be taken up in the next round of GST reforms," the official said, requesting anonymity.

The Centre has proposed a two-tier GST with 5 per cent and 18 per cent slabs, along with a 40 per cent slab for a few items in the sin goods category. The removal of the compensation cess will coincide with the rationalised and reduced rates. Further simplification of the input tax credit system will be undertaken as part of this round of GST reform. Capacity building by way of strengthening GST tribunals is also in the works.

If endorsed by all states, the proposal—being examined by the Group of Ministers (GoM) for rate rationalisation headed by Bihar Deputy Chief Minister Samrat Choudhary—will lead to the abolition of the existing 12 per cent and 28 per cent slabs in the GST.

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services companies and insurers (BFSI), combined net sales increased just 5.3 per cent over the past year, compared with 6.5 per cent growth in Q1FY25 and 6.7 per cent in Q4FY25. The 2,474 non-BFSI companies in the sample reported combined net sales of ₹29.72 trillion, up from ₹28.02 trillion a year earlier but down 3.9 per cent from ₹30.91 trillion in Q4FY25. Their adjusted net profit rose 10.2 per cent year-on-year to ₹2.51 trillion, but fell 6.6 per cent from ₹2.69 trillion in Q4FY25. Core profit before tax for this group was up 7.4 per cent to ₹2.7 trillion from ₹2.51 trillion in Q1FY25. The figure was ₹2.78 trillion in Q4FY25.

Excluding both BFSI and oil and gas — including Reliance Industries — the picture was even more subdued. Combined net sales of this group grew 7.3 per cent year-on-year to ₹21.8 trillion, the slowest in three quarters, marking a ninth successive period of single-digit expansion.

Analysts warn of further headwinds. "The June 2025 quarter was the first to reflect the impact of the initial round of tariffs announced by US President Donald Trump," said Dhananjay Sinha, co-head of research and equity strategy at Systematix Institutional Equity. "The pressure is likely to intensify in coming quarters as the US president expands his trade war."

Govt seeks to revamp entire tax system

While inaugurating two major national highway projects worth ₹11,000 crore on Sunday, Prime Minister Narendra Modi said the Centre had circulated the draft of the next-generation GST reforms among states and sought their cooperation to implement the proposal before Diwali. "For us, reform means the expansion of good governance," Modi said, adding that several major reforms would be introduced in the coming days to make both life and business easier. The proposed GST reforms are being perceived within the government as a move to reduce the burden on the common man, and as such the states will also gain from their people benefiting from a duty cut and rationalisation. Government sources were not expecting to encounter any significant political resistance from the states.

The central government reviewed each and every item under GST in the past eight months before finalising its recommendations to the GoM on rate rationalisation. In the meantime, five revenue secretaries changed hands at the finance ministry.

As part of its submission, the finance ministry has proposed to slash GST rates for cement and most automobiles and auto parts from 28 per cent to 18 per cent, which may significantly contribute to the anticipated revenue loss in the short run but boost consumption demand. "We are using the opportunity of the proposed revamp of GST to reduce rates on cement and automobiles, which have been long overdue and considered many times by the GST Council. The GoM on rate rationalisation will meet on August 20-21. We are hoping that the GoM and later the GST Council will endorse this proposal," a second official said.

After the 31st meeting of the GST Council, held in December 2018, then finance minister Arun Jaitley had said GST on cement generated a revenue of around ₹13,000 crore and auto parts around ₹20,000 crore. "So if we bring down these items from 28 per cent to 18 per cent, there will be an impact of ₹33,000 crore. The Council felt that this was too steep at the moment.... That obviously will be our next target as and when the affordability improves," he had said.

When asked whether the government is concerned about the potential revenue loss from this decision, the second official added that there might be a temporary decline in collections for a couple of weeks only, as the plan is to implement the changes at the earliest, latest by the first week of October.

The first official said the central government would adhere to its fiscal deficit target of 4.4 per cent of GDP for FY26, even if revenues fall marginally in this financial year.

Experts said there had been a long-awaited demand to reduce the GST rate on cement. The lower tax on cement will ease construction costs, improve real estate affordability, and provide a catalytic push to the government's housing and infrastructure targets. "In the case of cement, since input tax credit of GST paid on cement is generally not available, the benefit would not only be to end customers but would also be available for industrial, infrastructure and commercial projects," said Abhishek Jain, partner with KPMG.

At present, automobiles such as small petrol cars, sedans, and SUVs attract 28 per cent GST along with a compensation cess of 1-22 per cent, pushing the effective tax burden from 29 per cent on small cars to nearly 50 per cent on SUVs. Under the Centre's proposed rate rejig, the base rate for automobiles is expected to come down to 18 per cent for most cars. However, ultra-luxury cars may still face a higher incidence of indirect taxes. Auto parts that could see a rate cut include gearboxes and transmission components, drive axles, suspension systems, radiators, silencers, clutches and related parts, all of which currently attract 28 per cent GST.

"These parts are widely used across passenger vehicles, two-wheelers, commercial trucks and buses, and the replacement market, meaning the rate cut could lower both manufacturing costs and after-sales repair expenses. This should in turn result in better affordability for consumers if price benefit is passed on," said Krishan Arora, partner and leader, India Investment Advisory with Grant Thornton Bharat LLP.

According to Shivam Mehta, executive partner at Lakshmikumaran & Sridharan Attorneys, noted that although the rate rationalisation is an attempt to benefit the end customers, how far the same will be passed on to the consumer with the anti-profiteering provisions being put to rest will have to be seen.